Water and Sewerage Services Cost and Performance Report for 2019-20

An assessment of NI Water's costs and performance

January 2022

About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.

Our vision

To ensure value and sustainability in energy and water.

Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

We regulate the revenue NI Water receives through periodic price controls. Our proposals set an overall revenue requirement and identify the levels of capital and operational expenditure. This report reflects our assessment of NI Water's performance during the 2019-20 financial year the fifth year of its third regulatory price control, PC15 which covers the period from April 2015 to March 2021.

Audience

Regulated utilities, regulatory community, industry, consumers and their representative bodies and statutory bodies.

Consumer impact

This assessment provides consumers with an assessment on NI Water's performance to the end of 2019-20 in delivering the requirements of our price control.

Contents page

Executive Summary

The assessment of NI Water's performance undertaken for our 2019-20 Cost and Performance Report shows that the company has broadly delivered on its performance targets in the first five years of the PC15 price control period amongst challenging circumstances. The company continued to deliver an improved overall level of service to consumers, but underperformed against its operational expenditure (opex) efficiency target. Key findings are summarised by below:

Operating expenditure

NI Water's operating expenditure was £224.4m in 2019-20. This is above our regulatory allowance of £205.3m (in 2019-20 prices), a difference of £19.1m.

Capital Investment

The company invested £172m of capital expenditure (capex) in 2019-20, contributing to a total investment of £793m in the first five years of the PC15 price control period. Capital investment in real terms has been constrained by the available public expenditure budget and we have worked with NI Water, DfI and other key stakeholders to ensure that the company delivers the best possible package of outputs within the funding available. We will continue to assess cumulative delivery over the medium term taking account of changes in budget, inflation and the delivery of capital efficiency.

Output Delivery

We use an Overall Performance Assessment (OPA) score to assess NI Water's overall delivery of service to customers. This is a composite score which includes a broad range of measures covering service delivery in the areas of water supply, sewerage service, customer service and environmental performance. NI Water met and exceeded our PC15 Overall Performance Assessment (OPA) target in 2019-20. NI Water's performance was the company's highest ever OPA score and sits above the OPA target set for the 2020-21 year.

Year-on-year improvements may not always be achievable due to the potential for the natural variability of some contributing data and environmental conditions to affect the overall score. Our final determination annual performance targets take account of potential variability and therefore the company's ability to meet or outperform these targets remain our benchmark for successful delivery in the period, rather than year on year improvements.

The company met or exceeded planned delivery in 35 of the 45 Outputs set in the PC15 final determination. This includes 12 out of 15 consumer service measures and all but one of the water and sewerage quality outputs. NI Water delivered the

majority of its nominated output targets and maintained stable serviceability in all service areas. There is a lag in delivery in some areas, primarily in the delivery of wastewater outputs.

PC21 Price Control

While NI Water has continued to deliver the planned outputs for PC15 this has not been sufficient to address existing capacity issues, particularly for wastewater services. The company has highlighted a growing issue of capacity constraints at wastewater treatment works and in the sewerage network which act as a constraint on current and future development.

The indicative capital budget used for investment planning purposes in PC15 was significantly less than the investment need identified by NI Water and has constrained necessary improvements to services.

NI Water submitted its Business Plan for the next water Price Control (PC21 covering the period 2021-2026) on the 31 January 2020. In this plan the company has identified the work it considers essential to meet established needs and is affordable from a tariff perspective. It has estimated that significantly more funding is needed to sustain existing services, meet its legal obligations and support economic and social development.

1. Introduction

Price Controls

1.1 Northern Ireland Water (NI Water) is responsible for providing water and sewerage services to consumers in Northern Ireland. Since NI Water is the sole provider of these services, the Utility Regulator (UR) regulates the amount of revenue the company receives. This ensures value for money for consumers. We therefore scrutinise the company's revenue requirements through periodic price controls.

1.2 NI Water is a government-owned provider of water and sewerage services. Financially, it is treated as a Non-Departmental Public Body (NDPB) since the majority of its income is from public funding. While domestic consumers do not directly pay for water charges, the cost of providing these services to commercial consumers is recovered through bills.

1.3 NI Water's third regulatory price control period of PC15 began on 1 April 2015 and will run for six years until 31 March 2021. It took account of a public expenditure capital budget provision of £990m, as indicated in the Department for Regional Development's (DRD's[1]) 2014 Social and Environmental Guidance, along with the UR's assessment of the efficient operational expenditure required.

1.4 Our PC15 Final Determination, published in December 2014, set out the Revenue and output requirements for NI Water for the PC15 period.

1.5 The next price control period (referred to as PC21) commenced in April 2021. Our approach to PC21 follows a similar model to that adopted for PC15 and delivers a six year price control covering the period April 2021 to March 2027.

Cost and Performance Reports

1.6 We use Annual Information Returns and Cost and Performance Reports to assess and report on actual delivery against the requirements we set for the company in our price control final determinations. As a minimum, our reports cover the key areas of costs and efficiency, operating expenditure, capital investment and delivery of KPIs (including our overall performance assessment score). However on occasions the reports may also be used to

[1] The CPR makes reference to the Department for Regional Development (DRD). Under the Departments Act (Northern Ireland) 2016 and The Departments (Transfer of Functions) Order (Northern Ireland) 2016, the functions of DRD transferred to the Department for Infrastructure (DfI) in May 2016.

explain material issues or developments that have occurred during the reporting period. We produce and publish Cost and Performance Reports annually.

1.7 This report provides an assessment of company performance at the end of the fifth year (2019-20) of the 6 year PC15 price control period.

1.8 Our conclusion is that NI Water broadly delivered against the PC15 final determination targets. The overall service provided to consumers continued to improve against a backdrop of budget reductions in nominal terms. Some aspects of delivery remain behind profile, mainly as a consequence of re-profiling expenditure to accommodate the budget reductions experienced in the first two years of PC15. Our PC15 mid-term review concluded that this should be recoverable if the budget and inflationary figures assumed for the remainder of the period remain correct.

2. Costs and Efficiency

Turnover

2.1 The UR determines price limits (referred to as K factors) to be applied over the price control period. The K factors are the annual percentage increase or decrease in charges above or below inflation. An annual approval process is then operated to ensure tariffs are in line with the determination. The UR found the 2019-20 tariffs to be lower than the permitted limit as NI Water limited increases to a maximum of RPI (3.19%)

2.2 Actual turnover will vary from determination forecasts over time as inflation, volumes and accounting adjustments impact on the final reported turnover within the annual accounts. Actual regulated turnover of £406.2m was slightly higher than the PC15 forecast. However when adjusted for inflation it was c£21m more than anticipated, due to additional customer numbers and volumes.

2.3 We considered over-recovery of revenue in our PC15 mid-term review and decided not to review tariffs. This is because we couldn't be certain that the higher levels of revenue recovery would continue throughout the remainder of the PC15 period. Within the PC21 final determination we adjusted for the PC15 over recovery based on 5 years of actual revenue and a forecast for the sixth and final year of PC15. This ensures that the PC15 over recovery will be largely dealt with in PC21 period.

Operating Profit

2.4 The operating profit of £142.7m was significantly higher than the PC15 forecast of £112.3m, however this is not on a like for like basis due the introduction of IFRS accounting**.**

Dividend

2.5 A dividend of £31.5m was paid to the company shareholder, the Department for Infrastructure, in respect of 2019-20.

Loan Profile

2.6 Department for Infrastructure (DfI) loans increased to £1186.6m from £1146.6m but are lower than the PC15 projection of £1285.8m. The difference can largely be explained by lower actual borrowings compared to forecast at the start of PC15 and lower capital expenditure during PC15 to date.

Regulatory Capital Value

2.7 The Regulatory Capital Value (RCV) is the value of the appointed business on which NI Water earns a return at the determined weighted average cost of capital. The RCV is increased each year by investment in new assets and reduced by the value of assets that have been depreciated or sold off in the year. NI Water's RCV has grown steadily from the start of its first price control (PC10) and stands at £2.672 billion at the end of 2019-20. This is lower than the PC15 projection of £2.802 billion due to lower inflation than forecast and lower capital expenditure.

2.8 More detail on NI Water's financial information is set out in the company's statutory and regulatory accounts. These can be found on NI Water's website[2].

Operational Expenditure

2.9 NI Water's operating costs (opex)[3] increased in nominal terms from £215.5m in 2018-19 to £224.4m in 2019-20. This £8.8m rise, translates into a 1.5% real terms increase in the day-to-day running costs of the business over the year, once inflation is taken into account.

2.10 NI Water experienced real terms opex increases in some expenditure items, for example, 'materials and consumables' and 'other expenses' which includes costs related to bad debt. There were also reductions in expenditure on wages and salaries and power costs for example. Overall, this resulted in a real terms increase in NI Water's opex over the year.

2.11 NI Water's £224.4m of opex spend in 2019-20 is above our regulatory allowance of £205.3m (in 2019-20 prices), a difference of some £19.1m in-

[2] https://www.niwater.com/publications/
[3] Operating costs also include PPP/PFI costs. PPP/PFI refers to Public Private Partnership / Private Finance Initiative schemes.

year[4]. This is in part due to a number of one-off cost pressures experienced in year, as well as other additional cost pressures explained in paragraph 2.10.

2.12 NI Water is currently underperforming against our regulatory allowance on opex for the PC15 period. At present the operational expenditure is also above the amount NI Water initially claimed for 2019/20. This is shown in the Figure 2.1 below.[5]

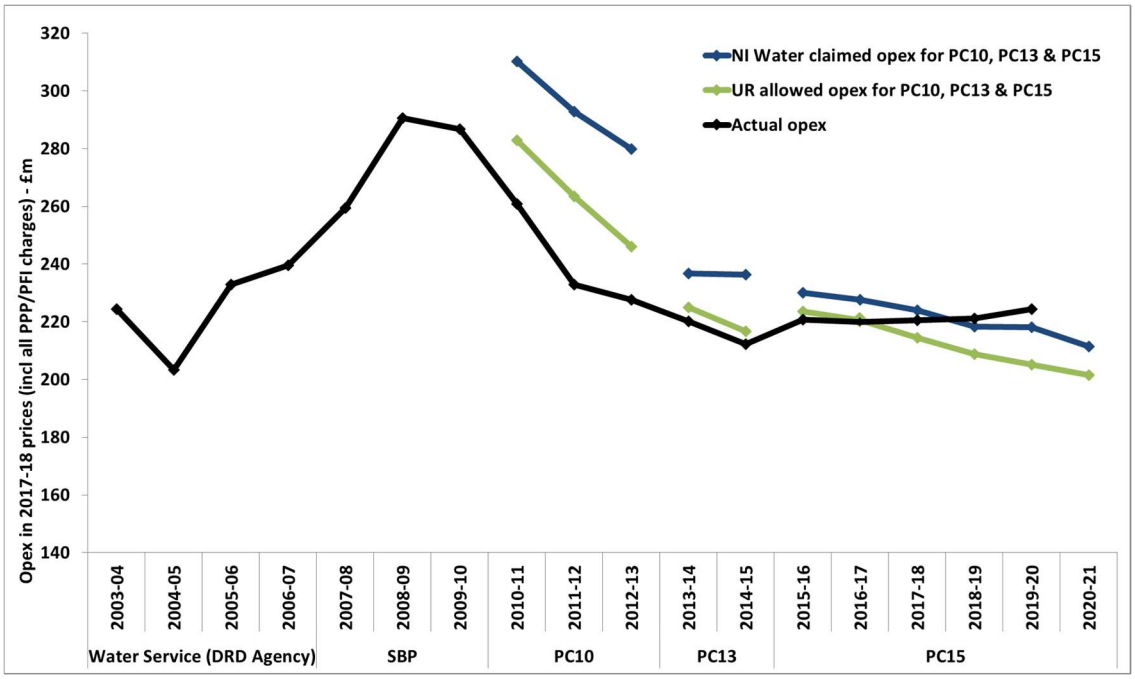

Figure 2.1: NI Water's opex profile in real terms (2019-20 prices)

Closing the Efficiency Gap

2.13 In previous Cost & Performance Reports, the UR compared NI Water's opex efficiency position with companies in England and Wales, on an annual basis. The estimates were derived using the UR's Corrected Ordinary Least Squares (COLS) econometric and unit cost models, as employed in the PC10, PC13 and PC15 determinations. These models were based on an Ofwat suite of models used for PR04 and PR09.

2.14 Over time our analysis showed a continuing improvement profile; however, a gap still remained to the best companies in England and Wales. According

[4] This -£19.1m figure reduces to -£18.9m if Voluntary Early Retirement/Voluntary Severance (VER/VS) costs of £0.2m is excluded from actual spend. Note, VER/VS was supported in principle by UR, but not funded through charges. Other expenditure items which NI Water consider as atypical in 2019-20 may impact on opex performance further.

[5] The rise in NI Water's opex in 2015-16 (first year of PC15) is primarily due to its rates bill increasing substantially over the year, driven by the LPS rating revaluation exercise.

to our analysis, NI Water had already closed their efficiency gap to the 'frontier', or best performing comparator company, from around 49% in 2007-08 to an estimated 13% in 2014-15.

2.15 We have developed a new methodology for the assessment of NI Water's operational efficiency gap. Comparator data from Ofwat has been utilised along with NI Water's performance data and we identified new water and wastewater variables to inform PC21 price control efficiencies. From this analysis we concluded that NI Water had continued to close the efficiency gap with companies in England and Wales. Based on the analysis of comparative data up to 2018-19, we estimated that the efficiency had further reduced to 5.7% compared to upper quartile performance by companies in England and Wales.

3. PC15 Performance

Performance against PC15 final determination targets

3.1 In our PC15 Mid-term Review we concluded that NI Water should have sufficient funding to deliver all of the outputs defined in the final determination if budget reductions over the remainder of the period were no more severe than they had been to date.

3.2 Tables 3.1 and 3.2 present our assessment of delivery to date against the PC15 final determination targets. To ensure comparison with delivery on a like for like basis, the PC15 targets have been adjusted to:

- Include outputs which were expected to be delivered in PC13 but carried over into PC15.
- Exclude outputs planned for PC15 which were delivered early in PC13.
- Account for movements between programmes.

3.3 Colour coding has been used to indicate whether NI Water has met or outperformed its target (green), is marginally behind target (amber) or is more significantly behind target (red). When categorising underperformance, we have considered the impact of cost delays, re-profiling of delivery undertaken by the company and the potential for 'catch-up' when coming to a marginal assessment. Where the company was required to deliver an annual target the shading is solid. Some targets are however set for PC15 as a whole and we report performance against these targets on a cumulative basis. In these cases the same colour coding has been used but the shading has been hatched.

3.4 Our conclusion based on reported performance to date is that NI Water is broadly delivering against the PC15 final determination targets in overall terms. Comments on exceptions are provided under Tables 3.1 and 3.2 below.

Water Services Targets

	Line description	2019-20 Target	2019-20 Actual	Comments
A	**Consumer Service Water**			
1	DG2 Properties at risk of low pressure removed from the risk register by company action	676	677	Target met
2	DG2 Properties receiving pressure below the reference level at end of year	456	626	Behind target
3	DG3 Supply interruptions > 12hrs (unplanned and unwarned)	0.15%	0.09%	Target met
4	DG3 Supply interruptions (overall performance score)	0.98	0.79	Target met
5	DG6 % billing contacts dealt with within 5 working days	99.90%	99.97%	Target met
6	DG7 % written complaints dealt with within 10 working days	99.50%	99.95%	Target met
7	DG8 % metered customers received bill based on a meter reading	99.00%	99.53%	Target met
8	Call Handling Satisfaction score (1-5)	4.65	N/A	Target dropped
9	DG9 % calls not abandoned	99.00%	99.50%	Target met
10	DG9 % calls not receiving the engaged tone	99.90%	99.98%	Target met
11	Overall Performance Assessment (OPA) score (11 Measures)	232	246	Target met
12	Total Leakage (Ml/d)	155	161	Behind target
13	Security of supply index	100	100	Target met
14	% NI Water's power usage derived from renewable sources	40.0%	44.3%	Target met
B	**Water Quality**			
15a	% overall compliance with drinking water regulations	99.79%	99.90%	Target met
15b	% compliance at consumers tap	99.69%	99.84%	Target met
16	% iron compliance at consumers tap	97.10%	98.89%	Target met
17	% Service Reservoirs with coliforms in >5% samples	0.00%	0.00%	Target met
C	**Water Outputs**			
18	Water mains activity - Length of new, renewed or relined mains (km)	717	731	On track
19	Completion of nominated trunk main schemes	3[6]	3	On track
20	Completion of nominated water treatment works schemes	2	2	On track
21	Completion of nominated improvements to increase the capacity of service reservoirs and clear water tanks	2	2	On track
D	**Serviceability**			
22	Water infrastructure serviceability	Stable	Stable	Target met
23	Water non-infrastructure serviceability	Stable	Stable	Target met
E	**New Output Measures**			
24	Number of Catchment Management Plans	15	15	On target
25	Number of lead communication pipes replaced under the proactive lead replacement programme	9220	9407	Target met
26	Number of school visits	880	1228	Target met
27	Number of other education events	285	400	Target met
28	% Service Reservoirs where sample taps have been assessed and are to required standard	100%	100%	Target met

Table 3.1: NI Water PC15 Key Outputs for Water Services

[6] Target amended for reasons described in 3.2 to ensure a like for like comparison with delivery.

3.5 NI Water met or outperformed almost all of the consumer service and water output objectives for 2019-20.

3.6 Use of the call handling satisfaction measure was discontinued in 2016-17 as agreed by the Consumer Engagement Oversight Group (CEOG), comprising of all key stakeholders. This is a consequence of the work undertaken by the group to develop more consumer focused metrics and 'actionable' measures of customer satisfaction during PC15, to inform and potentially set new KPIs for PC21.

3.7 The original survey is no longer used and has been replaced by a new unannounced survey of customers who have had need of contacting NI Water in the recent past. The new survey includes a new customer advocacy measure to compare NI Water to its peers both internationally and across other service providers as well as yearly Omnibus customer advocacy results from a representative sample of all NI Water consumers. Conducting the survey in PC15 allows consideration of whether any new targets ought to be introduced for PC21.

3.8 For the purposes of assessing overall performance in the remaining years of PC15, CEOG agreed that a score of 4.65 (equivalent to NI Water's best ever performance for the discontinued survey) should be used to calculate the company's OPA score.

3.9 The company fell below target in two water service areas:

- The number of properties receiving low pressure is significantly above the target levels set in the PC15 final determination. This is despite the company continuing to outperform its target for the number of properties removed by company action annually. This is due to a significant increase in the number of additions identified in 2018-19 (184). The total number of additions in 2019-20 fell back to a more typical level (32).

- Leakage was higher than the target figure for the fourth year in a row, with the gap widening to 6 Mld and the reported level of leakage increasing by 1 Mld since 2018-19. We are concerned that the gap between the target and actual leakage levels is increasing and that the overall leakage in Northern Ireland has not materially reduced since the first year of PC15. This is despite the efforts of NI Water and the addendum submitted in 2017-18 identifying the actions needed to ensure that the company meets its end of PC15 leakage target. We expect the company to continue to try to deliver on these commitments and to maintain its focus on reversing the trend and closing the gap to its leakage targets for the end of the PC15 period.

Sewerage Service Targets

Line description		2019-20 Target	2019-20 Actual	Comments
A	**Consumer Service Sewerage**			
1	DG5 Properties at risk of flooding - number removed from 2 in 10, 1 in 10 and 1 in 20 risk register by company action.	54	41	Behind target
2	DG5 Properties on the 2 in 10, 1 in 10 and 1 in 20 risk register at the end of the year	126	119	Target met
B	**Quality Sewerage**			
3	% of WwTWs discharges compliant with numeric consents	94.5%	94.9%	Target met
4	% of total p.e. served by WwTWs compliant with numeric consents excluding upper tier failures	99.16%	99.5%	Target met
5	Small WwTW compliance (works greater than or equal to 20p.e. but less than 250p.e.)	94.46%	89.29%	Target not met
6	Number of high and medium pollution incidents attributable to NI Water	24	13	Target met
C	**Sewerage Outputs**			
7	Sewerage activity - Length of sewers replaced or renovated (km)	60	71	On track
8	Delivery of improvements to nominated UIDs as part of a defined programme of work	75[7]	59	Behind target
9	Delivery of improvements to nominated WwTWs as part of a defined programme of work	14	14	On track
10	Small wastewater treatment works delivered as part of the rural wastewater investment programme	36	32[8]	Marginally behind
D	**Serviceability**			
11	Sewerage infrastructure serviceability	Stable	Stable	Target met
12	Sewerage non-infrastructure serviceability	Stable	Stable	Target met
E	**New Output Measures**			
13	CSO and EO discharges at which event and duration monitoring equipment has been installed	289	152	Behind target
14	WwTWs upgraded to comply with PPC Regulations	14	14	On track
15	Impermeable surface water collection area removed from the combined sewerage network	150,000	296,313	On track
16	Number of sustainable WwTW solutions delivered (p.e. ≥ 250)	2	4	On track
17	Number of sustainable WwTW solutions delivered (p.e. < 250)	2	1	Marginally behind

Table 3.2: NI Water PC15 Key Outputs for Sewerage Services

3.10 NI Water met or outperformed nine of the seventeen sewerage service output objectives for 2019-20.

3.11 The company fell below target in six sewerage service areas. Further details are provided below:

[7] Target amended for reasons described in 3.2 to ensure a like for like comparison with delivery.
[8] NI Water also completed construction of two other rural wastewater treatment works in 2018-19. Work necessary to validate compliance for these works continued into 2019-20. We will recognise the delivery of these outputs when this has occurred.

- The company did not meet its DG5 targets for the number of properties at risk of internal flooding removed by company action. This is a consequence of NI Water re-profiling the delivery of a major sewerage scheme, with nine DG5 outputs, to PC21. It therefore doesn't anticipate meeting its overall target for PC15.

- The small wastewater treatment works compliance percentage remains behind target, as it has been for the whole of PC15. We are encouraged by the fact that the compliance percentage has been steadily climbing throughout the price control and note that it has risen at a rate not too dissimilar to the target. However the overall gap has increased from c. 3% to c. 5% during PC15.

- The number of small wastewater treatment works delivered as part of the rural wastewater investment programme is now only marginally behind its target. An initial lag in delivery due to the deferral of 7 schemes pending the establishment of a new delivery framework has largely been addressed. The 2019-20 financial year was the first in which the company delivered above their annual target for this metric, with 9 works delivered against a target of 7. In order for the company to reach their cumulative target by the end of the price control it will have to deliver 12 works in the final year.

- NI Water is behind its cumulative target for the delivery of improvements to nominated UIDs in PC15. There has been some changes to outputs in the UID programme from that originally planned for PC15. It is our intention to assess the 'equivalence' of this overall programme of outputs delivered in PC15 from the perspective of cost and benefit.

- NI Water remains significantly behind its target for installing event and duration monitoring equipment at its combined sewer and emergency overflows. Having installed no relevant equipment in the first three years of PC15 NI Water made good progress in 2018-19 by completing the first 115 installations under this programme. Year five however only saw a further 37 installations. The completion of this work necessary for the company to plan investment for PC21 effectively.

- NIW did not deliver any sustainable solutions at WwTWs (p.e. < 250) in 2019-20 and consequently are now marginally behind on their cumulative target of 2 by this point in the price control. The company stated that this underperformance is due to difficulties in securing the land required for sustainable wastewater treatment.

Quality Compliance

3.12 Performance against some targets can be affected by things outside the company's control, such as the weather or sampling regimes. For PC15 we identified performance ranges for water and wastewater quality which reflected this inherent variability. The specific annual targets which were based on these ranges were all met in the 2019 calendar year as shown in Tables 3.1 and 3.2.

3.13 The PC15 water quality output targets were set just above the lower limits of the estimated performance ranges, with the company expected to outperform these consistently throughout the period. In 2019, performance for all these measures (overall water quality compliance, compliance at consumers' taps and iron compliance) lay above the top of the performance range as shown in the graphs below.

3.14 The overall compliance and customer tap measures have both recorded their best (or joint best) figures on record. The levelling off of performance for overall compliance results from the fact that the percentage iron compliance measure (which contributes the largest number of failures to the composite measures) has fallen slightly on the previous year, although it still remains around the range maximum.

3.15 Water quality is now being delivered at or above a reasonable estimate of the best levels of performance prior to PC15. We have taken account of the improvements delivered during PC15 when setting performance ranges and targets for PC21.

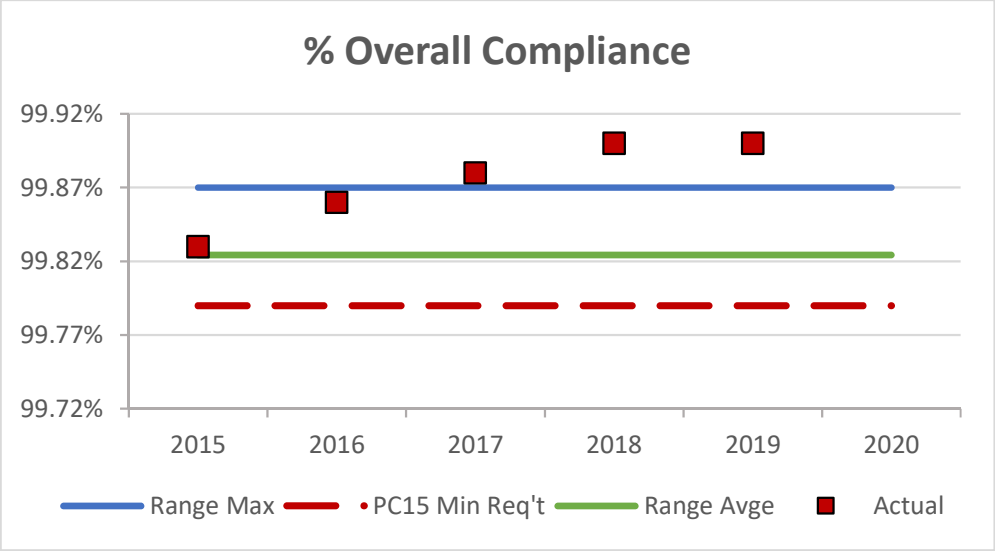

Figure 3.1: Overall water quality compliance

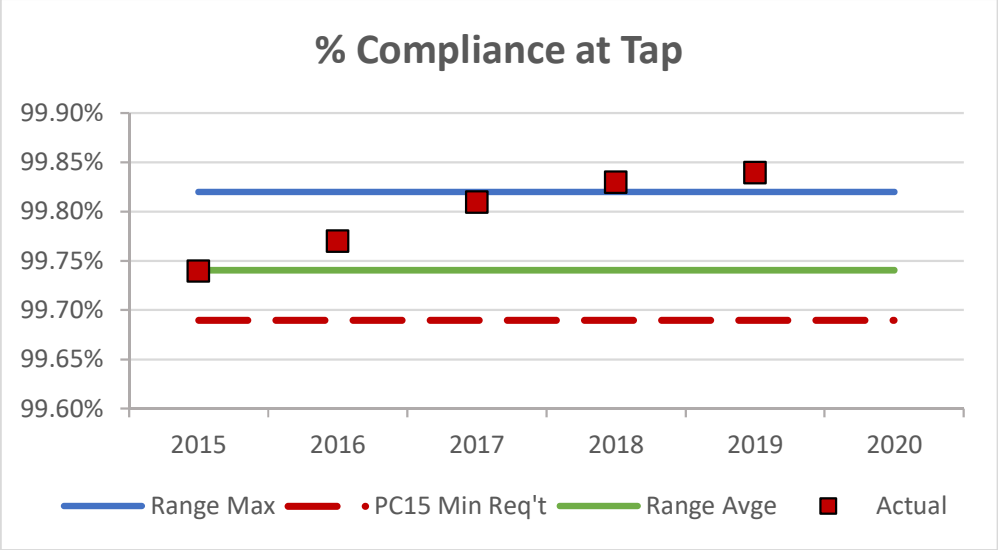

Figure 3.2: Water quality compliance at the tap

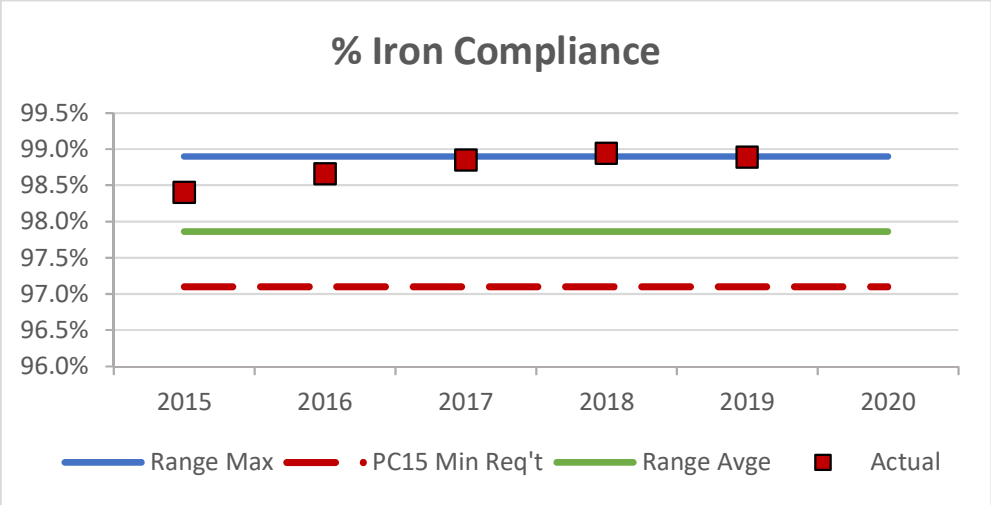

Figure 3.3: Water quality compliance at tap for iron

3.16 The PC15 targets for wastewater compliance, measured on the basis of the percentage of treatment works complying, were set at the lower end of our projected operating range. Although this was considered to represent a reasonable assessment of the operating risk, we noted in the final determination that we would expect the company to generally operate at or above this level during PC15. Performance in 2019 has remained consistent with that of the rest of PC15 and fallen slightly above the target, reflecting the fact that the cumulative delivery of nominated wastewater treatment works is broadly in line with the final determination profile. Given that the target for this measure is not static throughout the price control, we are pleased to see that NI Water is managing performance to ensure that it increases in step with the target line.

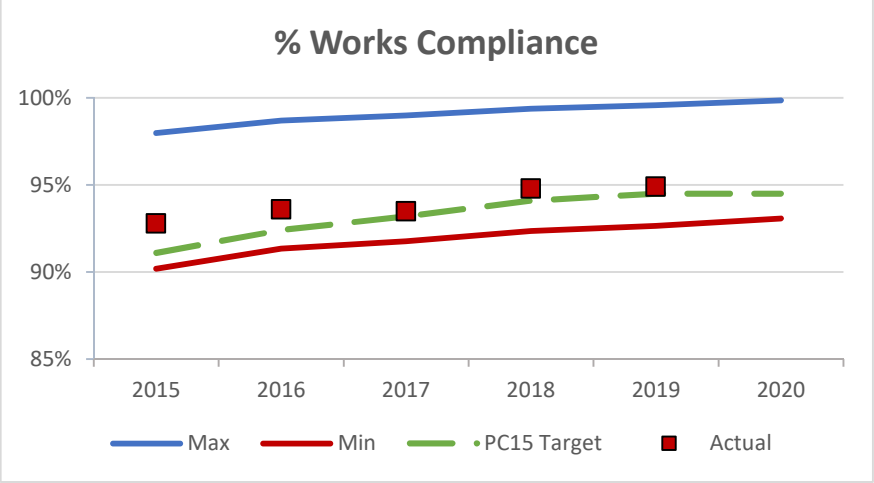

Figure 3.4: WwTW discharges compliant with numeric consents

3.17 The PC15 targets for wastewater compliance, measured on the basis of the population served, were set roughly at the mid-point of our projected operating range. Performance in 2019 again remains above target, in the top half of the range, as shown below. This is reflective of the fact that NI Water maintained compliance at its larger treatment works. Again we note the improving nature of the target for this measure and are pleased that the company is continuing to be compliant to the increasingly demanding targets.

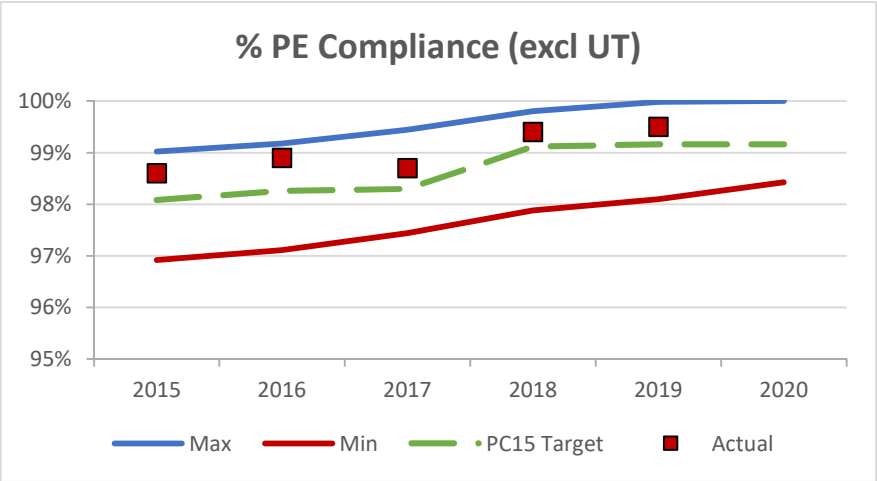

Figure 3.5: Population equivalent served by WwTWs compliant with numeric consents[9]

Serviceability

3.18 We use trends for a range of primary and secondary serviceability indicators

[9] The PC15 output measure for "*Population equivalent served by WwTWs compliance with numeric consents*" excludes upper tier failures.

to assess how the company is maintaining its assets.

3.19 We have updated our PC15 final determination serviceability assessment for each primary and secondary indicator to include outturn data for the first 5 years of PC15. The updated trends of the primary indicators in the four service areas are shown below. All four primary measures have been recorded as 'stable'. This results in an overall trend of 'stable'.

Service	Primary service indicator
Water Infra	Mains bursts per 1,000km
Water Non-infra	Percentage of regulatory samples taken for Turbidity at WTWs which exceed 0.8 NTU
Sewerage Infra	Sewer collapses per 1,000km
Sewerage Non-infra	Percentage of WwTW discharges not compliant with numeric consents

Table 3.3: Primary serviceability indicators

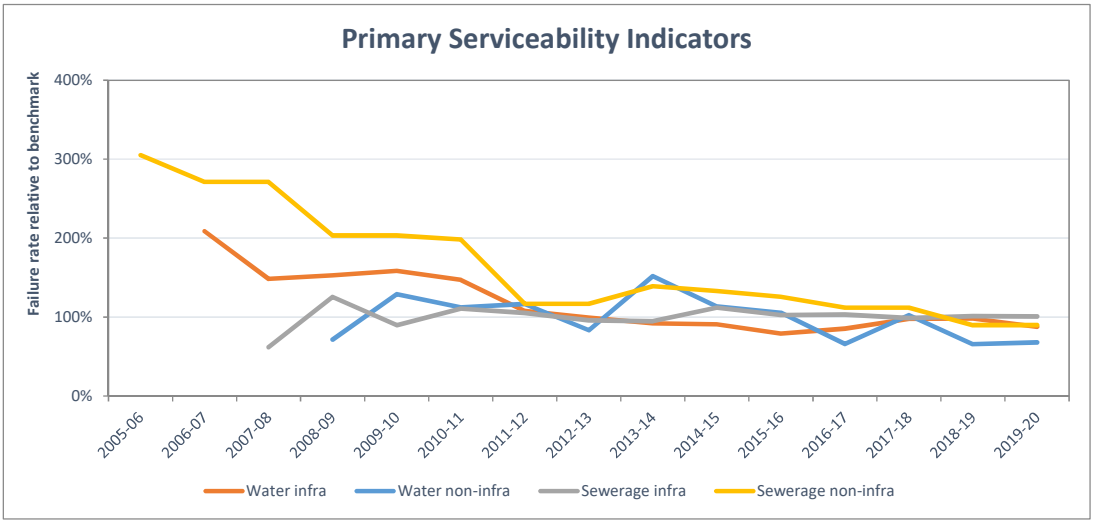

Figure 3.6: Primary serviceability indicator trends[10]

3.20 While our current assessment is that serviceability remains stable overall, some secondary serviceability indicators have shown improvement and have performance which is now better than predicted by the performance range. We are pleased to see that none of the primary or secondary serviceability measures are deteriorating.

[10] A score of 100% represents operation at the reference level benchmark and a horizontal trend around this benchmark is indicative of stable serviceability. A reducing trend indicates an improvement and an increasing trend indicates a deterioration.

Customer Service and Overall Performance Assessment

3.21 In order to fully assess how NI Water is performing, we have adopted the Overall Performance Assessment (OPA) framework. This monitors the overall level of service that NI Water provides to its customers.

3.22 Our OPA combines 11 individual service measures and scores them against a reasonable range. Scores are then weighted in order of importance and combined to give an overall picture of service level performance.

3.23 Figure 3.7 below details NI Water's OPA scores from 2007-08.

3.24 Key points for this reporting year are:

- With a score of 246, NI Water outperformed our PC15 OPA target (of 232) for 2019-20 by 14 points. Performance was up slightly on the previous year from a score of 245. This year's score again represents an achievement above the target set for the final year of the price control (2020-21).
- Over the 2019-20 year, service levels improved in the areas of risk of low pressure, hosepipe restrictions and both water and sewerage pollution incidents. Service levels declined for unplanned interruptions and drinking water quality compared to the previous year.
- There is still a service gap with England and Wales (E&W) companies (who achieved an average score of 290 in 2009-10). However NI Water continue to close the gap with the E&W comparator companies.

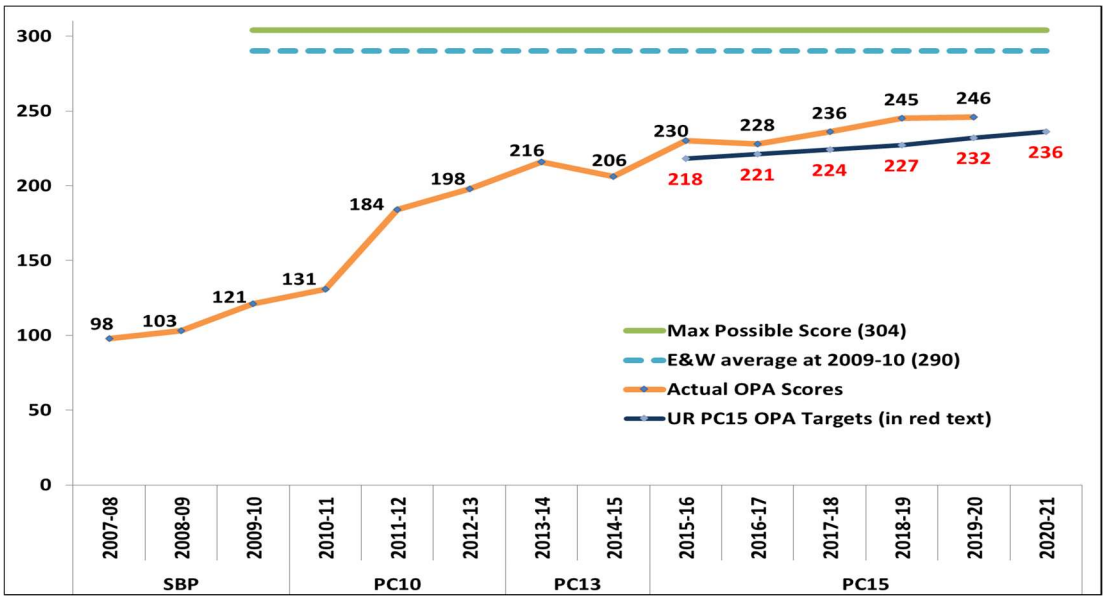

Figure 3.7: NI Water's OPA scores

4. Capital Expenditure

Expenditure to date

4.1 NI Water invested around £172m[11] in 2019-20 to:

- Maintain its existing assets;
- Meet more demanding quality obligations;
- Provide extra capacity for growth; and
- Improve the levels of service it currently provides.

4.2 Due to reductions in public expenditure budgets, investment in PC15 to date was £793m, £31m lower than the nominal figure of £824m included in the PC15 final determination. This has constrained NI Water's ability to deliver the PC15 outputs in real terms even after the benefits of lower than anticipated inflation is taken into account.

4.3 The reduction from the figures included in the PC15 final determination result from public expenditure capital budget allocations being lower than anticipated in three of the first four years of the price control period. In line with the approach set out in our PC15 final determination, we have worked with NI Water, DfI and other key stakeholders to ensure that the company continues to deliver the best possible package of outputs within the funding available.

4.4 When assessing the impact of budget reductions on output delivery, we have taken account of the fact that inflation has mainly been lower than we assumed in our final determination for PC15 and the capital efficiency challenge which forms an integral part of the final determination. Lower inflation and improved efficiency should allow the company to deliver more for less, and we expect the company to build these opportunities into its medium term plans.

4.5 We have previously noted that some of the sewerage projects which deliver

[11] This figure includes both Interreg and IFRS costs. The Interreg cost relates to projects where costs are shared with the Republic of Ireland and consequently the required regulatory standards and funding methods are subject to input from both countries. Therefore the Interreg costs do not form part of our price control determination and are funded separately. The Interreg cost in 2019-20 was c. £13m and represents the first time in PC15 that the Interreg cost has been a material value against the overall annual spend. The IFRS (International Financial Reporting Standards) cost relates to the accounting methods used to complete the annual returns. In previous years this cost has been dealt with separately to the main body of capital investment for the period, however moving forward we are including the IFRS cost as a distinct line in the main capital investment monitoring report. The IFRS cost in 19/20 was c. -£1m. Had these costs not been included in the analysis, the annual total would have been £12m lower, at £160m.

priority nominated outputs in PC15 continue to be subject to delay and we are concerned that those profiled for the last year in PC15 may not be delivered. This is still a concern. An update of our PC15 mid-term review analysis indicated that funding should have been sufficient to deliver the nominated outputs to date.

Expenditure by purpose

4.6 The allocation of investment by purpose in 2019-20 is shown in Figure 4.1 below. Investment to maintain existing assets (base maintenance expenditure) is 54%, a decrease of 2% from the previous year. The remaining 46% is allocated between improvements in quality, improved services to consumers and growth.

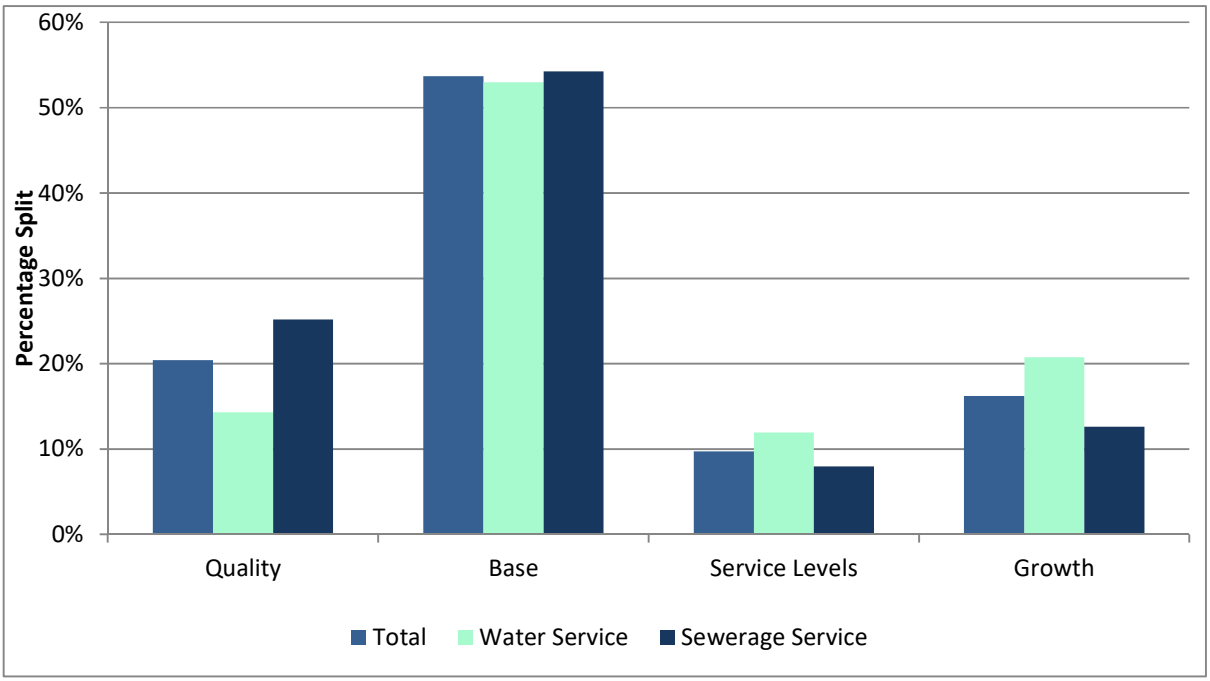

Figure 4.1: Allocation of investment in 2019-20 by service and purpose

4.7 The investment to maintain the company's existing assets and the service they deliver is the largest element of the company's capital programme by proportion. In 2019-20, the company invested £93m in base maintenance contributing to an overall investment of £464m in the price control period to date. Base maintenance spend to date is therefore approximately £11m higher than the allowance in the PC15 final determination in nominal terms.

4.8 However, because inflation has generally been lower than assumed in the final determination for PC15, we would have expected the company to have spent less maintaining serviceability. NI Water's ability to deliver the outputs defined for the PC15 period depends on it managing the balance between

'base' and 'enhancement' expenditure effectively over the period as a whole. This should take account of movements in inflation and be informed by associated performance, including serviceability trends.

Expenditure profile

4.9 In previous Cost and Performance Reports, we have highlighted a consistent annual cycle of expenditure. Peak levels of investment occur in the winter months and expenditure is at its lowest level in the first half of each year. Figure 4.2 shows that this trend has continued throughout PC15 although it has become less pronounced over time. This cycle of investment, driven by annual spending constraints, remains disruptive for the supply chain and detrimental to efficient delivery and could be further mitigated by longer term budget allocations and end of year flexibility.

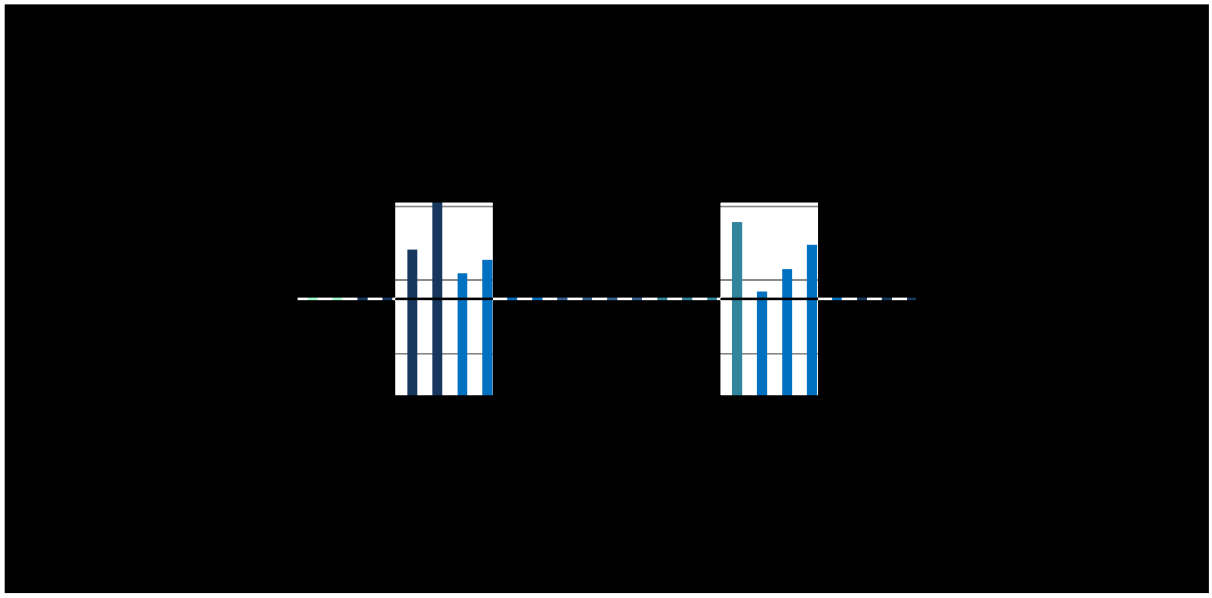

Figure 4.2: Capital investment from 2010-11 to 2020-21 Q1 by quarter[12]

[12] The 2019-20 capex figures in Figure 4.2 also include the Interreg and IFRS figures (see footnote 12 for details). The £11m has been spread evenly over the four quarters of 2019-20.

5. Development Objectives

5.1 The promotion of long term planning was a key component of our approach to PC15 and the development outputs specified for the price control are set out in Table 3.5 of the PC15 Final Determination main report. In previous PC15 cost and performance reports and our PC15 mid-term review we noted concerns over progress on a number of the key development objectives included in the PC15 final determination. These are funded and considered critical to improving NI Water's planning capability and better informing investment planning for PC21.

5.2 There were 18 development outputs identified in the final determination. Each development output has a number of associated project milestones which NI Water report against in their annual information return. Our interpretation of the reported status of each of these outputs can be seen below in figure 5.1. To date we have not challenged or investigated the status of these outputs and are simply interpreting and collating the submission from NI Water.

5.3 Where an output is designated as 'Complete', this means that all milestones have been completed. Where an output is designated as 'Complete (ongoing)', this indicates that the milestones are complete, however there is a continuation of the output in a business as usual capacity. Where the status reads 'Business as usual', the output has been fully incorporated to normal company activities and will be performed as regularly as the overarching company activity is done. An output is shown to be 'On Target' if it is not yet complete but is on schedule. Outputs that are behind target or that have elements delayed until PC21 are discussed in more detail below the table.

	Development Output	Status
1	Development Of New Consumer Measures	Complete
2	Plan For Asset Maintenance	Complete
3	Preservation Of Services And Civil Emergency Measures Direction (PSCEMD)	Complete (ongoing)
4	ICAT Strategy	Elements delayed until PC21
5	Water Resource Management Plan And Drought Plan	Complete
6	Sustainable Economic Level Of Leakage	Complete
7	Controlled Reservoir Safety	Elements delayed until PC21
8	Water Mains Prioritisation	Complete

		(ongoing)
9	Sustainable Catchment Management	Complete
10	Minimising The Water Quality Risk From Lead Pipes	Complete (ongoing)
11	Water Meter Renewal	On target
12	Targeting Sewerage 'Hotspots'	Business as usual
13	Polluted Storm Water Overflows	Complete (ongoing)
14	Storm Water Separation	Complete
15	Strategic Drainage Study	On target
16	Sewer Flooding Report	Behind target
17	Sustainable Urban Drainage Systems (SUDS)	Complete (ongoing)
18	Implementation Of The PPC Requirements For Odour Management	On Target

Table 5.1: Progress against PC15 Development Outputs

5.4 NI Water reports fifteen of the eighteen development outputs as either delivered or on track to be delivered within the designed timeframe reflecting progress as outlined in the NI Water AIR20 commentary.

- The ICAT strategy output stipulates that the company shall develop and report against an ICAT (Information, Control, Automation and Telemetry) strategy. The aim of this strategy is to enable NI Water to become more customer focussed, to improve compliance and become more resilient, whilst simultaneously reducing costs. The project was divided into six phases with a total of twenty nine project milestones to be delivered. Of these, eighteen are complete, seven are on target for completion and a further four have been paused until PC21.

- The Controlled Reservoir Safety output relates to the inspection and maintenance of controlled reservoirs under the proposed Reservoir Bill. The development output had five milestones which, when completed, would result in Camlough reservoir remedial works being complete, as well as further remedial works on other sites being identified and completed through an inspection and maintenance regime. The milestones relating to Camlough reservoir and the implementation of the inspection regime are completed, however the majority of the additional maintenance requirements that have been subsequently identified have been deferred until PC21. NI Water state that this deferral is due to the reduction of their PC15 funding

leaving insufficient resources to complete the works in the final years of PC15.

- The Sewer Flooding Report output was aimed at reducing sewer flooding incidents by collating an annual report on mitigation strategies and reporting on the identification and progress of solutions. The report contains details of the properties removed from the DG5 register (properties at risk of sewerage flooding). This DG5 removals targets were met for the first four years of PC15, however the 2019-20 target was not met (further details can be found in paragraph 3.11).

5.5 The overall progress and delivery of the PC15 development outputs is reported in the PC21 Final Determination published in May 2021. The determination also includes development outputs for the next price control period.