

## **NI'S WATER AND SEWERAGE NEEDS GREATER INVESTMENT – AND NEW FUNDING SOURCES WILL BE NEEDED TO DELIVER IT**

A new report by the NI Fiscal Council highlights a growing crisis in the provision of water and sewerage services in NI. Without greater and sustained investment, NI Water risks falling further behind its peers in service quality and environmental standards. This underinvestment is also constraining economic development, particularly in areas requiring commercial and residential growth. Resolving these issues will require new sources of funding, even though this appears politically unpalatable.

NI Water is a publicly-owned company and currently operates under a unique and increasingly unsustainable funding model. Unlike the rest of the UK, NI does not charge households directly for water services. Instead, NI Water receives a government subsidy in lieu of domestic charges. In effect this diverts more than £300 million annually from the Executive's Budget that could otherwise be directed toward other pressing public service needs.

Although NI Water has improved its efficiency and service performance relative to counterparts in England and Wales, the Regulator believes that a performance gap most likely still exists. What is more, Ofwat is not happy with the performance of the water companies in England and Wales and has sanctioned big increases in water charges over the next five years. This injection of funding is something NI Water cannot match under its current subsidy-based model, placing it at a growing disadvantage.

Another powerful argument for increased investment is that poor water and sewerage infrastructure impedes commercial and residential investment. The consequences of this underinvestment are already visible in development constraints at many sites in NI. Despite a recent step-up in capital spending, NI Water estimates that it would take 18 years of above-average real terms investment to deal with the infrastructure backlog.

This funding model restricts NI Water's ability to invest adequately in infrastructure. For as long as it remains in the public sector, under Treasury rules NI Water's spending is constrained by the budget cover it receives in the Executive's Budget (via the Department for Infrastructure) rather than the availability of cash. In recent years this budget cover has fallen short of the Regulator's recommendations.

If domestic charges were introduced at a rate sufficient to raise more than half its overall income from charges and sales, NI Water might well be reclassified as a Public Corporation rather than a Non-Departmental Public Body. This would reduce its call on budget cover for capital spending, but would increase it for resource.

To remove NI Water's dependence on budget cover, it would need to leave the public sector through privatization or mutualization. But this would remove it from the Executive's control and the current and previous Infrastructure Minister (the latter now Finance Minister) have ruled this out as it would require domestic charges. Mutualization has received some support, although it is noteworthy that Ofwat argues that the mutual Welsh water is a relatively poor performer by the standard of its privatized counterparts.

Given the current fiscal position, NI's recent budget crises and concern about relative fairness between the nations, it is unlikely that the UK Government would provide significant additional resources. Developers might contribute more, but domestic charges or an equivalent increase in Regional Rates (perhaps in the form of an Infrastructure Levy) look inescapable at some point to bring sufficient additional funding into the sector to meet current and future challenges.

It is sometimes argued that NI households pay for water through the Regional Rates, but this link was broken in 1998. The notional average household charge met by subsidy is around £590 this year. Introducing charging (or raising an equivalent sum elsewhere) would likely still leave the combined bill for water and the Regional Rates lower on average than water charges plus council tax elsewhere in the UK.

Sir Robert Chote, Chair of the Council, said:

"Water and sewerage services are essential to public health, environmental protection and economic development. The current funding model is not fit for purpose. Charging for water or increasing taxes would put a further squeeze on the household finances, but failing to do so has its own costs."

Notes to editors:

1. Further information on the NI Fiscal Council is available here [NI Fiscal Council](#): Follow us on Twitter: [@NIFiscalCouncil](#)  
And on Bluesky at: [Northern Ireland Fiscal Council \(@nifiscalcouncil.bsky.social\) — Bluesky](#)