



***Consultation: Department for Regional Development  
Draft Budget 2015 - 16***

***Date: 22 December 2014***

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***Our (PID) reference number: PD20010 2106***

## **Introduction**

The General Consumer Council for Northern Ireland (the Consumer Council) is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to *'make the consumer voice heard and make it count'*.

The Consumer Council campaigns for high standards of service and protection and a fair deal for all. It also carries out research, gives advice and publishes reports and other publications. It deals with individual complaints about buses, trains, planes, ferries, natural gas, electricity, coal and water.

## **DEPARTMENT FOR REGIONAL DEVELOPMENT DRAFT BUDGET 2015-16**

The Consumer Council welcomes the opportunity to respond to this consultation on the Department for Regional Development's (DRD) Draft Budget 2015-16.

The Consumer Council recognises the challenging environment in which DRD has to make difficult decisions. We have reviewed the spending and savings proposals outlined in the consultation document and would make the following observations.

### **1. Public Transport**

It is difficult to make informed comment on the potential impact on public transport services without further information on how the proposed budget reductions will impact on public transport service provision and fares in more detail.

The Consumer Council assumes that this information will be available to it as part of the corporate planning process, in which it has a recognised role, for the period 2015-16 once the final budget allocation is known. The Consumer Council is committed to working with DRD in

consideration of the corporate planning process and requests early engagement to review all available options.

### **1.1 Service Reductions**

Removal of £15 million from the public transport budget will inevitably have a huge negative impact on provision of services. The Consumer Council notes that the consultation document expects that service reductions will focus on the least profitable routes including the withdrawal of town services from a number of towns.

The document also states that the budget would require a reduction in grants for rural and community transport and transport for the disabled.

The Consumer Council is concerned that there could be a disproportionate impact on rural, older and disabled consumers given that the least profitable routes could potentially be some of the most socially necessary.

Where service availability and frequency is reduced, a potential alternative for those impacted could be community and rural transport services and transport for passengers with a disability.

Reducing the funding for these services at a time when town and rural services are also being reduced or removed could further isolate rural communities as well as older people and people with a disability.

The Consumer Council has always supported the current model of public transport delivery which allows for profitable routes to cross subsidise the less profitable but socially necessary routes.

Any budget that proposes that all non profitable routes be cut will call into question the model of public transport delivery in NI. If the future public transport network focuses on profitable routes then the rationale for *'most public passenger transport services continue to be provided by*

*the Holding Company and its subsidiaries'* as per Part 1 Section 3 of the Transport Act (Northern Ireland) 2011 must be called into question.

Before any final decision is made on how budget reductions for the provision of public transport services are implemented, a full impact assessment would be necessary to identify the extent of the potential impacts of fare increases and service reductions and how these can be best mitigated.

## **1.2 Efficiencies**

Paragraph 40 highlights that in 2014-15 the Minister has required Translink to operate at a loss of around £12 million to be funded from reserves presumably held by the Northern Ireland Transport Holding Company (NITHCO).

Paragraphs 41 and 42 state that Translink has been asked to consider measures it can take if budgets are reduced and has indicated that some further efficiency savings can be made with examples such as early reductions in senior and middle management levels and reorganising bus engineering fleets.

There have been a number of efficiency reviews of Translink over recent years including the Price Waterhouse Cooper Report published in 2010 which stated that for Translink to deliver revenue and capital projects expected for future years there would need to be a fundamental change in the operating model and consideration of radical options.

The most recent review of efficiency has been the work of the Performance and Efficiency Delivery Unit (PEDU) which was announced by the Minister in 2012.

In its meeting of 3 December 2014, the Committee for Regional Development received a briefing from Departmental officials who stated

that Translink would be taking 'significant money out of management costs in light of the TAS report'.

It would therefore be beneficial to be able to see the full extent of the recommendations made as a result of the work of PEDU and TAS together with any progress made against previous recommendations such as those made in the PwC report of 2010.

### **1.3 Fare Increases**

DRD announced on 11 December 2014 that fares for public transport would be increasing from 16 February 2015. This decision was taken with no engagement with key stakeholders so it is now unclear how this increase, which was announced after this consultation began, will impact on the overall financial position of Translink and how this will feed through to the need for a fare increase as part of any final budget settlement.

Paragraph 45 states *'an above inflation increase in fares cannot be ruled out and significant reductions in service delivery focused on loss making routes would be unavoidable.'*

Therefore, given that a fare increase that is three times the rate of inflation will be introduced from 16 February 2015, DRD must clearly outline what level of fare increase is likely to be needed, and justify this additional increase given that one is now scheduled for February 2015 which had not been notified before this consultation began.

### **1.4 Fare Comparisons with GB**

Paragraph 43 states *'it is generally accepted that fare levels in Northern Ireland are well below those in Great Britain and the Republic of Ireland'*. However, no consideration is given to the fact that income levels across the UK are very different.

The Office of National Statistics (ONS) Annual Survey of Hours and Earnings published in November 2014 shows that NI has the lowest weekly earnings across all of the UK regions.

ONS research also shows that NI consumers have a lower level of disposable income. According to ONS figures, the average disposable income in NI was £13,902 compared to a UK average of £16,791<sup>1</sup>.

The Centre for Economics and Business Research income tracker report for ASDA published in 2013 stated that households in NI have had the lowest levels of discretionary income of anywhere in the UK over the past five years. The report goes on to state that NI households have also faced some of the slowest income growth and fastest increase in the cost of living in the UK.

Therefore, any decision on fare levels must be based on a full consideration of the impact on consumers in NI not on how fare levels compare with other UK regions.

### **1.5 Concessionary Fares**

The consultation document makes a number of references to the level of funding for concessionary fares and confirms that the level will increase to £40.3 million in 2015-16. The Consumer Council understands that the provision of free transport via the concessionary fares scheme is an Executive priority.

However, given the level of budget cuts being proposed and the likely impact this level of reduction will have on all public transport users, the Consumer Council would welcome any information on whether DRD has recently reviewed the scope of the eligibility of the concessionary fares scheme.

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<sup>1</sup> Figures from ONS cover the year 2012 and measure gross disposable household income.

This would be with a view to establishing whether the scheme is directly targeting the most vulnerable consumers within NI. There will undoubtedly be low income consumers and rural, isolated consumers that will be disproportionately impacted by fare increases and services reductions.

The Consumer Council is supportive of the concessionary fares scheme but is also mindful that the public transport network needs to be preserved for those who need it most. Free travel for those who qualify for the current concessionary fares scheme will be of little benefit if the services passengers need to use have been removed.

### **1.6 Public Transport Conclusion**

The removal of this level of funding from the provision of publically funded transport services will mean DRD's vision of a public transport service, that is an attractive alternative to the private car, will be impossible to achieve in the near future.

It is accepted that with the level of budget reductions anticipated, DRD will have to make very challenging decisions in terms of how public transport services will be funded and delivered going forward.

The Consumer Council has continually called for a greater level of integration across all publically funded passenger transport services. We continue to support DRD's work on the Integrated Public Transport pilot project which has the potential to change the way public transport services are planned and delivered.

This draft budget shows that new ways of planning and co-ordinating publically funded transport services will be necessary if DRD is committed to its vision for public transport.

Therefore, the Consumer Council would make the following recommendations in terms of considerations to be made when deciding how budget reductions will be implemented:

- DRD must clearly outline what level of fare increase is needed and justify this additional increase given that one is now scheduled for February 2015 which had not been notified before this consultation began;
- DRD must outline what efficiencies are being sought from Translink and demonstrate how these efficiencies are the maximum achievable in the context of Translink being able to maintain the future viability of the company;
- The level of any fare increase must be based on the minimum required to be able to maintain an effective public transport network and not on bringing fares into line with other UK regions;
- Any decision to reduce or remove rural transport services together with a cut in grant provision for rural and community transport and transport for the disabled must be carefully considered against the likely impact on some of the most vulnerable and isolated consumers in NI;
- Information should be provided on whether a recent review of the concessionary fares scheme has been considered, in the context of these budget reductions, to establish whether this is an effective use of resources to provide free travel to those who need it most; and
- The final decision on fare increases and service reductions must be accompanied by a full impact assessment on how the decisions will affect consumers, together with any action planned to mitigate the potential impacts.

## **2. Water**

The draft DRD budget proposes that NI Water should manage for 2015/16 within its existing baseline of £99.2m.

While the consultation document contains limited information on the scale of the implications, the Consumer Council is gravely concerned that such a baseline would have significant retrograde impacts on the water and sewerage services provided to consumers.

### **2.1 Funding Baseline**

We feel that £99.2m presents an unrealistic and false baseline as it contains reductions made in 2014/15 the majority of which are one off in nature and does not account for inflation nor the increased rates bill payable by NI Water to Land & Property Services.

The £99.2m baseline also undermines and destabilises the established and robust regulatory Price Control process. Discussions between the water stakeholders began in early 2012 to develop and build a Price Control for 2015-21 (PC15) that would challenge NI Water to lower costs while continuing the clear progress made over Price Controls PC10 and PC13. PC15 has been a rigorous and independent process to determine the appropriate level of funding, efficiency and service delivery for NI Water. The six year PC15 period offers the stability and the long term strategic planning and investment decision making that is required in the provision of such a vital and essential public service. The gap in funding between the Utility Regulator's PC15 Final Determination (FD) and DRD's proposed 2014/15 baseline is substantial.

The indicative capital allocation for NI Water in 2015/16 is £131.8m. This is a £23.2m reduction on the £155m allocation in the Ministerial Social and Environmental Guidance and the FD. NI Water has outlined that a cut of this size to capital investment (15 per cent) will have

material consequences on the 2015/16 capital enhancement programme.

## **2.2 Impacts on consumers**

NI Water is delivering a primary and fundamental service to all across NI. While a full assessment has not been undertaken, it is clear that the consequential impacts of a c25 per cent reduction in proposed Public Expenditure funding are significant and widespread. As the draft DRD budget sets out, the reductions will 'have a devastating impact on water and waste water service provision to both domestic and non-domestic customers' and 'result in increased risk of fines from Europe and legal actions for failure to meet water and waste water standards' (paragraph 63).

The realities of these devastating impacts may not be immediately clear to the lay consumer. The nature of the services provided by NI Water means they are often only noticed when things go wrong. We worry this may result in an underrepresentation from non water stakeholders in response to the NI Water element of the DRD budget consultation.

To inform PC15, extensive consumer engagement was undertaken to understand consumers' views of the services they receive and their priorities for investment and improvement<sup>2</sup>. This found that the majority of consumers are satisfied with the services provided by NI Water most of the time. This is a reflection of the considerable and sustained progress made by NI Water in improving its services and putting the consumer first. The Consumer Council is supportive of the range of outputs and service commitments set out in the FD.

The research found that the strategic aims developed for the NI water sector reflect consumers' priorities. The consequential impacts of the

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<sup>2</sup> 'Connecting with Consumers' [www.consumerCouncil.org.uk](http://www.consumerCouncil.org.uk)

budget cuts would mean a failure or substantive delay and extra cost in delivering against these aims.

Our research did not ask consumers which aspects of NI Water's services they wanted to protect as stakeholders gave the assurance that as a minimum NI Water's services would be maintained at their current level. Our contributions to the consultative development of PC15 have been based on delivering this promise of no deterioration to services.

If full FD funding is not possible, any alteration to Government funding must recognise the £89.3m reduction in revenue proposed in the FD. Furthermore, financial considerations such as the possible release of distributable NI Water reserves, the movement of capital to operational spend and the classification of subsidy as revenue should be fully and carefully considered.

If reduced services become inevitable, careful consideration and agreement between the water stakeholders will be necessary over the activities NI Water will stop or reduce, with an assessment of the impacts on consumers; a necessary but resource intensive repeat of detailed Price Control considerations.

We have discussed the potential impacts of the proposed budget cuts with NI Water. In these discussions NI Water has set out the probable impacts on consumers across day to day services, response to emergency events and operational effectiveness. It is clear that budget reductions beyond the FD will significantly deteriorate the services NI Water can deliver. Their scale and range is extremely troubling including but not limited to:

- stopping secondary and tertiary sewage treatment at coastal works and reducing it at inland works, slashing wastewater quality compliance from 98 per cent down to an estimated 27 per cent population equivalent and risking infraction proceedings;

- stopping orthophosphate dosing to control lead in drinking water, meaning greater risk of increased exposure to lead in drinking water running counter to DRD's development of a lead reduction policy;
- reduced sewer unblocking and leakage detection meaning more water wasted through leakage and increased risk of out of sewer flooding, a priority for consumers since PC10 and highlighted again for the PC15 period;
- no flushing of watermains meaning an increased likelihood of problems with drinking water taste and colour, and concerns regarding its safety with the expected increase in contacts;
- increased response times to out of sewer flooding or interruptions to supply meaning consumers spending longer without water or suffering the effects of flooding (including NI Water's reduced capacity for multi-agency emergency response and recovery);
- reduced capability to identify, prioritise and respond to local 'hot-spot' issues;
- vulnerability to short term or unexpected shocks with a dramatically reduced ability of activation, response and recovery to emergencies ranging from individual households to large scale major events, having consequential impacts on the consumer, particularly the vulnerable;
- reduced capital enhancement programmes including wastewater treatment work upgrades (e.g. Ballycastle WwTW) and flood alleviation activity (e.g. Sicily and Marguerite Park); and
- reduced customer service, call handling and response to consumer contacts and complaints, leading to backlogs, repeat contacts, consumer dissatisfaction and increased costs.

Our research repeatedly shows that consumers care about their water and sewerage services in a way distinct from other utilities or public services. There is an emotional attachment to the water environment and the services and protection provided by NI Water. The impacts will not just be felt by households, communities and business in isolation but will also have wider societal impacts on health, tourism and recreation, industry and business development. Any reduction in service will have a detrimental impact on the reputation of NI Water, consumer confidence in the company and the organisations, and Government and government bodies charged with overseeing, regulating and improving these services.

We understand that the immediate impetus is on reduced spending but we place equal importance on the desire to deliver better outcomes for consumers. NI Water has made strong progress in improving services and reducing costs since 2007. Once momentum in service development and efficiency delivery is lost it is not easily regained. We fear that such short term 'annualised' savings required to meet the 2015/16 budget cut will eventually cost consumers more as they pay twice for the same service improvement – once for initial delivery and again to regain ground lost to meet short term budget pressures – and an inflated price because delivery is by a more inefficient NI Water.

Consumers must not pay for services they are not receiving. Any budget reductions leading to reductions in service must be offset by adjustments to regulatory K factors and domestic subsidy levels.

To contribute towards the reduction of the regulatory burden on NI Water, the Consumer Council has reduced its 2015/16 water budget by 21 per cent from 2014/15.

## **2.3 Water Conclusion**

The Consumer Council does not see the current budget as viable or realistic and cannot support a budget proposal that will knowingly result in the cessation or significant reduction of controls over recognised risks to public health, the removal of protections to consumers, and NI Water failing to meet various regulatory and quality standards.

The PC15 Final Determination challenges NI Water to remove £89.3m of revenue while delivering sustainable improvements to services. Given the meticulous Price Control process undertaken with the full participation of all water stakeholders we would expect DRD to push for full funding of the FD and understand the consequences of any underfunding.

**If you wish to discuss any aspect of this response in more detail please do not hesitate to contact Kathy Graham, Interim Director of Policy on 028 9067 2488 or via email on [kathy.graham@consumercouncil.org.uk](mailto:kathy.graham@consumercouncil.org.uk)**



**The Consumer Council**

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