

Public Accounts Committee 15 January 2013**Statement from Secretary General**

Chairman, I welcome the opportunity to set out for the Committee the role of the Department in relation to the establishment of Irish Water and the systems in place for the oversight of this major undertaking.

The establishment of this new utility involves major organisational change, an entirely new funding structure governed by economic regulation and the roll-out of a national domestic metering programme, all in a very short period of time. There was little flexibility regarding the timeline for delivery as the establishment of Irish Water by 1 January 2014 was a critical commitment under the Memorandum of Understanding with the EU/ECB/IMF.

The Department is responsible for driving this overall reform process – developing the policy and legislation, and ensuring delivery of the implementation strategy which was published in December 2012. We put in place programme management arrangements within the Department, through a dedicated Programme Management Office, to oversee the achievement of almost 80 individual milestones which were reflected in that strategy. It was also critical to ensure appropriate arrangements for engagement with the local authority sector and a Water Service Transition Office was established by the County and City Managers Association and funded by the Department.

The involvement of the Bord Gáis Eireann (BGE) was key to bringing the necessary skills and competencies to this project, allowing the utility to be established within this ambitious timeline at least cost and least risk, by leveraging from their knowledge, systems and skills and matching this with skills within the water sector. It was recognised that external service providers would be required as part of this process.

No Exchequer funds were provided to Bord Gáis or Irish Water in 2012 or 2013 in relation to establishment costs. In 2014, Irish Water, which now has statutory responsibility for water services, will receive €240m in equity from the Minister for Finance and €490m from the Local Government Fund but no other funding from the Department's Vote for establishment or other costs.

Irish Water is a commercial State body within the Bord Gáis Group and all the normal governance and accountability rules which apply to commercial bodies equally apply to Irish Water, such as requirements for Ministerial consent to enter into capital commitments and raise borrowing and requirements on the provision of annual reports and accounts. The legislation also provides for conditions to be attached to any grants from Central Funds by the Minister for Finance or in relation to grants from Departmental Funds by the Minister.

As a regulated utility, Irish Water has to provide considerable detail to the Commission for Energy Regulation in order to allow the CER to fulfil their role in examining and approving a water charges plan, and in this context the CER must ensure that water services are provided by Irish Water in an economical and efficient manner. As with other utilities, it would be the expectation that this process of review would be transparent involving public consultation. This is an important context for understanding the role of the Department in the governance of Irish Water and in particular, oversight of the establishment.

BGE had responsibility for most of the deliverables under the Government water sector reform implementation strategy. They developed a detailed programme initiation document within the framework of this strategy, which outlined all of the tasks required to establish a fully functioning integrated public water utility. They also provided an associated budget to the Department which outlined the costs involved in each area of activity at €150m plus €30m contingency and reflected both the estimated use of BGE and external resources.

These establishment costs were initially funded by BGE and subsequently financed by a loan from the National Pensions Reserve Fund. As they were to be included in the overall funding model for Irish Water, they would also be examined by CER as an integral element of the independent economic regulation of Irish Water.

Pending the CER examination, the Department agreed the classes of activity associated with establishment with BGE and they were required to report on expenditure v budget under each of these headings during 2013 (these reports did not identify spend to date on external resources). A report on the

outcome of the public procurement for external resources was provided to the Department in March 2013 as part of this process. More broadly the Department was engaged in driving the overall programme with stakeholders and developing the fuller funding model with NewERA and Irish Water to ensure that the expected benefits of the utility model to the customer and the tax payer were realised.

A key priority for the Department has been that existing resources within BGE, the Department and local authorities should be maximised to the greatest extent possible and this was fully understood and accepted by BGE/Irish Water. The Department worked with other stakeholders to secure agreement with Trade Unions representing staff in local authorities/Department to facilitate secondment of staff from local authorities for this purpose and put in place arrangements with the Local Authority Managers to ensure the effective engagement of the sector in the reform programme.

As part of the development of the overall funding model for Irish Water, the Minister sought the advice of the CER under section 27 of Water Services Act on this expenditure. In response, the CER conducted a short review, based on information supplied to it, and gave an initial view to the Minister in this context, that pending the full regulatory review to be undertaken in 2014, most of the proposed establishment costs appear to be reasonable and can be expected to result in value for money from a customer perspective. The in-depth review of costs by the CER will be critical in validating this view in relation to the full costs.

The Department has managed a complex programme of work to ensure that Irish Water was established by 1 January 2014 in line with Troika commitments. As part of this process, we have sought to ensure that risks are minimised and the utility is developed as cost effectively as possible. The Department has worked closely with NewERA and BGE/Irish Water to ensure that the costs arising, in putting the organisation and its systems in place, are outweighed by the benefits over time to consumers, the economy and the environment, but we recognised from the outset the need for independent scrutiny of this position by the CER. The oversight arrangements put in place were designed to feed into this process and ensure

that ultimately the costs arising proved to be value for money for the customer.

Thank you.