Joint Response by Forfás/ IDA Ireland/ Enterprise Ireland to the Department of Environment, Community and Local Government’s Position Paper on Reform of the Water Sector in Ireland

February 2012

The development agencies, Forfás, IDA Ireland and Enterprise Ireland, represent the interests of the internationally trading business sector in Ireland. Over three quarters of Ireland’s exports of goods and services in 2010 were by development agency client companies. Agency-assisted companies operating in Ireland provide over 300,000 direct jobs, a similar number of indirect jobs; 40 per cent of national GVA; €33 billion through payroll, materials and services purchases (which represents about 25 per cent of GNP); and three-quarters of all corporation tax.
Introduction
The enterprise development agencies, Forfás, IDA Ireland and Enterprise Ireland, welcome the opportunity to input to the consultation on the reform of the water sector in Ireland. We welcome the strong emphasis placed on the importance of water services to economic growth and competitiveness in the consultation paper. Ireland’s recovery and future economic growth depends on the ability of businesses to trade successfully in increasingly competitive global markets. The availability of a competitively priced world class infrastructure and related services is critical to support enterprise activity and jobs.

Importance of Water for Enterprise Development
As highlighted in the Department of the Environment, Community and Local Government’s (DECLG) position paper, water services play a key role in supporting economic activity and job creation, particularly in key growth sectors such as food, pharmaceuticals and ICT. In particular, enterprise needs access to secure and competitively priced water supplies and treatment, at appropriate quality levels:

- Water is an important input to many business processes. We need to ensure that water and waste water services are competitively priced;
- Although Ireland has made substantial investments in water and waste water infrastructure in recent years, further investment is required to ensure the main urban centres can continue to meet current and future enterprise needs. Ireland also has relatively high leakage levels, which need to be reduced; and
- While drinking water quality in Ireland is generally high, a continued focus on ensuring it remains so is required as contamination of water supplies can have a major impact on enterprise, particularly in the food and biopharma sectors. We also need to ensure that other quality measures of particular relevance to enterprise are monitored and improved where necessary. These include minimising disruptions to service and ensuring minimum pressure levels.

As highlighted in Forfás’ 2010 report, Adaptation to Climate Change: Issues for Business, Ireland is expected to be relatively less affected by climate change than our key competitor countries1. Ireland’s relatively rich water resources, if properly managed, can become an important source of competitive advantage particularly in industries such as agriculture, food, and pharmaceuticals. This presents opportunities for indigenous companies to realise these competitive advantages and to promote Ireland as a relatively low risk location for business activity.

Enterprise Priorities for Irish Water Policy Reform
We believe that the policy direction proposed by DECLG represents a significant step towards ensuring water services continue to meet the needs of the economy and that once implemented these reforms will address many of the concerns raised in Forfás’ 2008 report on water services2. We strongly welcome proposals to take a national approach to water. We believe that the proposed public utility model offers the best outcome for enterprise. Under this model, Irish Water would be allocated full responsibility by statute for all aspects of water services planning and delivery at national, regional and

local level. Currently domestic water services are funded by taxpayers indirectly through the Exchequer. We welcome plans to apply water costs directly to domestic consumers. The proposed approach enables the application of the ‘user pays principle’ and creates greater awareness among all users of the cost of water services and encourages greater conservation of the resource.

The enterprise development agencies believe that it is important that the objectives and priorities that will underpin Ireland’s water policy are clearly set out before developing the implementation plan to establish Irish Water and reform the sector. From an enterprise development perspective, the key priorities are as follows:

**Cost competitiveness**

- Ensure that national water policy supports national competitiveness as well as environmental policy objectives to enable businesses operating in Ireland to compete successfully in international markets;
- Reduce inefficiencies in the delivery of water and waste water services. In particular, we need to bring operating, maintenance and capital into line with international best practice;
- It is essential that water prices are cost reflective and are passed on to all customers in a fair and transparent manner;

**Adequate and Secure Supply**

- Ensure that during the transition period and beyond that enterprise has access to adequate and reliable water supplies and treatment;
- Given the significant investment in water services required to meet future enterprise needs and to comply with the Water Framework Directive in the medium term and the constraints on future public expenditure, it is critical that Irish Water becomes self-financing within the timelines set out in the PwC report;
- Exploit technological developments, which offer innovative solutions to water challenges such as reducing leakages and operational costs through remote monitoring of our extensive water networks;
- Coordinate the rollout of different infrastructure services (e.g. water, roads, telecoms, and energy), which has the potential to deliver significant cost savings, particularly where projects are undertaken simultaneously. This will require a more integrated approach to infrastructure planning;
- Climate change proof key water infrastructure to ensure that risks are minimised at least cost;

**Efficient Institutions and Processes**

- Establish appropriate corporate governance structures and processes for Irish Water to ensure the successful reform of Irish water services. This will include clearly setting out the roles and mandates of the various water stakeholders, in particular Irish Water, DECLG, the regulators, NewERA and the local authorities. It will be important that the transition occurs without disruption to service delivery or investment; and
- Establish protocols to ensure existing legal agreements and standing arrangements between large enterprise users who already pay for water and local authorities are honoured under the new structures.

**Role and Structure of Irish Water**

The enterprise development agencies support the establishment of Irish Water as a public utility, which will operate as a commercial semi-state company in a regulated environment. We agree that the public utility model offers the best outcome for enterprise. Among the benefits are:

- *Increased economies of scale and greater efficiencies:* Moving from the current regime, where water services are provided by 34 local authorities, to a public utility will lead to greater efficiencies and reduced capital and operational costs as potential economies of scale are exploited. The PwC report illustrates clearly the efficiencies gained by the adoption of a single public utility model in Scotland when compared with its previous models of water provision and when compared with the average performance of local authorities in Ireland;

- *Potential for self financing water services provision in the medium term:* Given the significant investment required to ensure future water and waste water needs are met, the ability to raise finance from external sources will be critical. As an internationally recognised business structure, the public utility model would be attractive to lenders who could place reliance on stable revenue streams and cash flows, thus ensuring Irish Water has significant borrowing capacity. In the longer term, moving to a self financing water services provision will reduce the burden on Exchequer both for capital and operational expenditure;

- *Coordinated national approach to strategic planning and prioritisation of capital investment projects:* As a public utility, Irish Water will be well placed to develop a national approach to water services, prioritising investment according to stated objectives such as delivering on the National Spatial Strategy. This will be critical to ensure that the main urban centres, particularly the gateways and hubs, can meet future enterprise needs and also to deliver projects such as the Greater Dublin Strategic Water Supply Project which will be crucial to facilitating economic growth in the medium and longer term;

- *Establishing operating regions aligned with the River Basin Districts (RBDs):* Currently, RBD management is dependent on cooperation between all of the relevant local authorities. As a public utility, Irish Water would ensure a more efficient and co-ordinated approach to managing RBDs. The establishment of regional offices, as recommended by PwC, would also go some way towards mitigating the loss of local knowledge of water and waste water infrastructure and facilitating a rapid response to crisis events such as flooding;

- *Consistent water services delivery:* The public utility model will also facilitate the establishment of a more consistent approach to water service delivery across the country. Under the current structures, there are considerable variations between local authorities with regard to how water services are delivered and costed. For example, as mentioned above, the combined charge for water services varies from €1.49 per cubic metre in Kildare to €3.04 in Wicklow. Also, it should be noted that tailored agreements are often put in place between large water users and local authorities in order to ensure sufficient capacity and quality of water services and the form and structure of the agreements can vary considerably on a case-by-case basis. As a regulated public utility, Irish Water will be able to establish consistency in agreements for new customers. It will also be well placed to identify best practice protocols and to develop a process for ensuring continuous service improvement; and
Better collection rates: The level of collection of water charges from businesses varies significantly across the country. As the State currently makes up the shortfall between what revenues are collected and what monies are required to cover the delivery of water services, there is little incentive to improve low collection rates. If Irish Water is to be self financing, it will have to develop a clear framework to ensure payment compliance by residential and non-residential water customers.

Corporate Governance
Establishing appropriate corporate governance structures and processes for Irish Water will be key to ensuring the successful reform of Irish water services. As a state owned enterprise, Irish Water should be held to high standards of accountability. To facilitate strong corporate governance of Irish Water structures should be put in place to ensure:

- **Strong oversight by shareholders, including monitoring by shareholders:** this requires the development of specific and transparent mandates to ensure that Irish Water has clear objectives and targets (which can be reported on and monitored over time). A commitment to supporting enterprise development and national competitiveness should be a core principle underpinning the establishment and operations of Irish Water;

- **The board of directors of Irish Water should have the relevant expertise at the necessary level of depth:** The determination of board skill requirements should precede all appointments. Given that the board of Irish Water will undertake fiduciary duties on behalf of the public, it is reasonable to develop a mechanism for evaluation of directors and for treating under-performing directors. The use of independent non-executive directors could improve the accountability of management to the board and ultimately to the State as shareholder; and

- **High levels of transparency and disclosure:** Structured public reporting (potentially to the Oireachtas) could ensure transparency and build public trust in Irish Water. Key metrics of importance to enterprise should be reported on periodically.

Regulation of Water Services
The position paper notes that the Commission for Energy Regulation (CER) is to become the economic regulator for water services while the EPA will continue in its role as environmental regulator. Giving these functions to existing regulators should minimise overhead costs. Combining the experience already developed through the regulation of the energy market in Ireland with new water sector expertise would ensure the CER is well placed to understand the complexities of regulating water services. In addition, the CER has an established relationship with the Northern Ireland Utility Regulator which has responsibility for the regulation of electricity, gas and water in Northern Ireland. This will be of assistance in the management of cross-border water resources.

Regulation involves the balancing of many requirements – some of which may conflict at times. Balancing different needs can become more challenging when more than one regulator is involved. The position paper notes that there will be an economic regulator and an environmental regulator. Conflicts may arise for example where environmental regulations imply significant additional investment needs that will result in substantial price increases for users. It will be important that the roles and responsibilities of the two regulators are clearly set out in Ireland’s water policy and in legislation.

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3 The Role of State Owned Enterprises, Forfás, 2010.
England and Wales, a memorandum of understanding has been developed between Ofwat and the Environmental Agency to provide clarity regarding roles and responsibilities and to avoid conflict between the two regulators\(^4\). It sets out how the regulators will work with one another. The enterprise development agencies recommend the development of a similar agreement between the CER and the EPA.

Given the importance of water services for economic growth and job creation, it is imperative that the new regulatory framework supports enterprise development and national competitiveness while also taking account of the social and environmental implications. Consideration should be given to prioritising the objectives and functions of the CER in national water policy.

It is not clear what impact the establishment of Irish Water will have on existing legal agreements and standing arrangements between large industry water users who already pay water charges and local authorities. This uncertainty is of concern to the enterprise agencies and should be addressed quickly. It will be necessary to undertake a thorough review to understand the agreed commitments made by both parties and to develop appropriate mechanisms and protocols to transfer these agreements to Irish Water. It is to be expected that some of these agreements will have an impact on the way the regulated price is applied to large users who have already made significant capital contributions or where existing pricing contracts are in place. The enterprise development agencies believe it will be important that a commitment is given that Irish Water will honour all such agreements. Addressing the issue of the management of these legacy contracts and standing agreements should be a priority so that large water users can have certainty regarding the future costs and service quality of this important input.

Forfás highlighted the lack of performance monitoring of water services as a significant issue for enterprise in its 2008 report. A key part of the CER’s proposed role should be to establish a suite of indicators to monitor and benchmark Irish Water’s performance with regard to cost, capacity and quality against the performance of water utilities in peer and competitor countries. Quality indicators should cover issues of most relevance to enterprise such as water prices, service disruption levels, water pressure levels etc. The performance indicators used by Ofwat in the UK and referenced in the PwC report offer a useful template and adoption of this approach would enable comparison between Irish Water’s performance and water services providers across Great Britain and Northern Ireland\(^5\).

The CER should also develop a standard service level agreement between Irish Water and its customers which would cover a number of areas including commitments relating to service access and water quality, response times to service disruption and customer queries, billing arrangements and protocols for addressing failures to uphold service levels.

Given the enormity of the task of establishing Irish Water and the complexities associated with the proposed reforms, it may not be appropriate to attempt to introduce competition into the water services market in the short term. However, the enterprise development agencies agree with PwC’s


\(^5\) Ofwat does not regulate Scottish Water or Northern Ireland Water, however, data collected by their relevant regulators is benchmarked against data collected by Ofwat.
recommendation that when undertaking the detailed design of the new organisational structure for Irish Water, that provision should be made for the possibility of future competition in parts of the water services market.

**Pricing**

One of the key issues for enterprise is to ensure that businesses have access to competitively priced water and waste water services. As already mentioned, under the existing regime, water and waste water charges vary considerably across the country - from €1.49 per cubic metre in Kildare to €3.04 in Wicklow. Irish water prices (based on the average cost) are relatively competitive (latest data is for 2009) but comparable data is not available for waste water costs.

It is difficult to determine at this point, what the impact of the proposed changes to the delivery of water services will have on water prices for enterprise. This is a concern for the enterprise development agencies – we would welcome the opportunity to engage further with DECLG when key findings on the implications for water costs emerge. At this time, we understand that significant cost savings will emerge from efficiency savings which should be in part passed on the customers. However, uncertainties exist over the recent EU reasoned opinion on abstraction and with regard to how water charges will be calculated and applied. The outcome of these decisions may present upward pressures on costs for enterprise customers.

It is unclear whether pricing will be determined at a national level or by River Basin Districts. In some countries there is one national unit price for water services (Scotland) while elsewhere water prices vary regionally (e.g. England/Wales and Germany). An investigation should be undertaken to establish which approach can deliver the greatest efficiencies for water services in Ireland. Consideration should also be given to whether water costs should be structured in the same way for households and enterprise or whether different approaches should apply.6

From an enterprise perspective, the key principles that should underpin water pricing policy are:

- All users should pay for water services i.e. the user pays principle should be central to water pricing policy. While water is free, we currently spend €1.2 billion per annum on treating and transporting water;
- Water and waste water charges should be fully cost reflective and passed on to all customers in a fair and transparent manner;
- We need to drive for efficiencies in the delivery of water services – in particular, we need to bring operating, maintenance and capital into line with international best practice;
- It will be important that while the Government sets water pricing policy, that the application of that policy is left to the regulator; and
- Cross-subsidisation of domestic water charges by enterprise should be avoided. In particular, we are concerned that the introduction of a free allowance could lead to enterprise subsidising domestic water costs.

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6 In order to discourage wastage it may be appropriate to apply a pricing scale to households where water is priced at cost up as far as a reasonable level of usage, but if this level is exceeded the unit price increases significantly. However, given the necessity of higher water use by enterprise, particularly in key sectors such as food and pharmaceutical, a different pricing structure would be required.
While the free allowance for domestic users is not directly relevant to enterprise, we are concerned about its potential impact on business water costs. The ‘free allowance’ will not be free – it will require a payment from the State to compensate Irish Water and/or higher charges on consumers who use more than the free allowance and/or additional charges on business. A free domestic allowance does not appear to be in line with the ‘user pays principle’ and does not encourage efficient water usage. We would recommend that consideration be given to other alternatives to achieve the same outcome as the free allowance.

- Given the administrative costs and challenges associated with setting and monitoring ‘free allowances’, it would be more efficient to support low income families access to water services through the social welfare system. For example, the fuel allowance and free landline connection for the elderly are administered through the social welfare system.
- Alternatively, mirroring the telecommunications sector, potential might exist to introduce a fixed standing charge for the water meter and connection that would also offer a free water allowance.
- Another option would be to introduce a tax credit for water services charges as had been in place for waste services charges until 2011.

If the Government decides to introduce a free allowance we recommend that it be set as low as possible as a broad base will support lower charges per unit of water for all.

**Domestic metering**

The enterprise development agencies support the rollout of meters to domestic water users as a means to promote the ‘user pays principle’, to ensure cost reflective pricing, to encourage conservation of this valuable resource and the development of the green economy (e.g. increased use of rainwater harvesting systems).

The following are a number of principles which we believe should underpin the final water metering solution:

- **Not funded or co-funded by the enterprise community**: Businesses are liable for the cost of water metering on their own premises and should not subsidise the cost of domestic metering;
- **Undertake a cost benefit analysis of metering options**: It has been suggested that the cost of metering could vary from €200 million to over €800 million depending on where meters are placed (inside the building or on the boundary of premises) and the type of meters used. Based on these figures, the benefits from external installation, would have to be €600 million higher than the benefits of internal installation in order to pass economic criteria. With respect to the type of meters to be used, there is potential once a set of basic standards have been set, to allow consumers to choose from a range of approved meters, thereby encouraging competition and efficiencies in the metering market. The benefits of this approach will need to be measured against the potential benefits arising from the rollout of a single meter to all domestic properties;
- **Co-ordinated rollout**: Every effort should be made to ensure the highest levels of cooperation and co-ordination between all relevant state agencies to enable the realisation of any synergies that may arise between water metering and smart energy metering;

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7 Improving Water Services in Ireland, Morgenroth E., ESRI, 2012.
• Future-proofing: It will be important that the final metering solution is future proofed to a reasonable extent to ensure it can adapt to technological advances and future demands; and

• Accessible tender process: The national rollout of domestic metering will require the development of a range of products and services to meet the needs of Irish Water, associated service providers and consumers. Enterprise Ireland would appreciate the opportunity to work with the relevant State bodies to ensure access for relevant Irish based enterprises is facilitated for procurement needs and any public tendering process undertaken.

Transitioning from Local Authorities to Public Utility Model
The requirements of the EU/IMF agreement have put in place a challenging timeline to progress the development of Irish Water. We need to plan for a smooth transition to ensure that the establishment of Irish Water and the transfer of responsibilities from the local authorities to the national utility company do not cause any disruption to water services. Consistent access to sufficient water services of appropriate quality at a competitive cost level is essential to maintain and develop enterprise activity across all industry sectors.

Planned investment in water service infrastructure should proceed as scheduled in the Water Services Investment Programme. It is to be expected that new investment needs and opportunities will arise prior to the full operation of Irish Water coming into affect. Given the significant deficits that exist in some key centres, and the importance of water services to economic growth and job creation, it will not be possible to delay these investments until after the transition has been completed. The division of roles and responsibilities for managing these investments during the transition period must be made clear in the implementation plan. The investment priorities for enterprise are discussed in more detail in the next section.

The enterprise development agencies recognise that the transition from the current model of water services provision to the proposed model will require a total overhaul of the sector and will need to be planned and managed with the upmost diligence. However, it will be important that any unnecessary delays or lags in the transition period are avoided. As we move towards a transparent pricing structure that ensures full cost recovery of water services, it will be important from a national competitiveness perspective that every effort is made to mitigate the impact on the cost of water for the end user. Only when Irish Water is fully operational can the economies of scale and other efficiencies associated with the public utility model be fully realised and the cost savings passed on to customers.

An effective communications strategy must be a priority area for Irish Water. It will be necessary for Irish Water to clearly communicate the transition process to all water users and the implications of the change over from local authority provision to public utility provision. Certain high growth sectors, such as the food, ICT and pharmaceutical sectors are particularly dependent on reliable access to water services. It is, therefore, imperative that during the period when responsibility for the management of water services and ownership of the associated infrastructure is transitioning from local authorities to Irish Water every effort is made to ensure that service interruption is avoided. If service interruption is unavoidable, the nature and length of interruption should be clearly communicated to all service users in advance to allow plans to be put in place to minimise the disruption to enterprise and other users.
The enterprise development agencies believe there could be significant advantages gained from the establishment of a Large Water Users Group that would meet on a regular basis with the regulators, Irish Water and DECLG to discuss issues of relevance regarding water services. This group should be established at the earliest possible opportunity to ensure the members’ queries and concerns regarding the transition phase are addressed quickly. After the transition phase is completed, ongoing consultation with the group will be required to ensure the needs of these important stakeholders are catered for.

The question of whether Irish Water should be a stand-alone new entity or incorporated into an existing commercial semi state company is an important one. PwC research indicates very few examples of the combination of water services provisions with other infrastructure providers (e.g. roads) or utility services (gas or electricity) internationally. We note that in the UK, multi-utility companies were later broken up to focus management attention and to aid in the attraction of finance. The development of a single utility model is optimal. It would allow Irish Water, its board and senior management team to focus its attention exclusively on ensuring that the transition is as smooth as possible and that it is completed as quickly as possible so that the benefits (e.g. greater efficiencies, improved service levels) can be realised and passed on to water customers. As highlighted in the PwC report, a stand-alone water company is also more attractive to external investors as it is a well established funding model. This has two benefits: (1) it enables Irish Water to raise funds to invest in new treatment capacity/improved quality and (2) it reduces the amount of Exchequer funding (capital and current) required to deliver water services. A mixed portfolio is likely to lead to higher interest rates (and therefore higher costs for water customers) than would be the case if Irish Water were a single utility company.

However, given the significant resources and expertise that will be required to establish Irish Water, serious consideration should be given to supporting its development with the aid of other State agencies or State owned companies. We support the ongoing review to determine whether and in what manner, skills can be harnessed from these entities to support the successful implementation of the proposed water sector reforms, and in particular, the establishment of Irish Water. Should an existing State company be charged with supporting/establishing Irish Water, clear rules will be required to ensure that the ‘parent’ State company does not gain any unfair competitive advantage from the relationship (e.g. cross subsidisation, joint marketing). It would also be essential that the legislation requires an independent review after a defined period of time to assess when best to separate Irish Water as a stand-alone entity.

**Investment**
Despite significant investment in water services in recent years, there will be continued long term investment required for both water and waste water infrastructure in Ireland to address significant deficits which remain and will arise in the medium term.

The enterprise development agencies have highlighted a number of NSS gateways and hubs that face water service deficits in the medium term. (For the methodology used to identify these NSS centres see the 2008 Forfás report):8

- Additional water and waste water treatment capacity required in Dublin;

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• Additional water and waste water treatment capacity in Galway;
• Additional water and waste water treatment capacity required in Athlone;
• Additional water and waste water treatment capacity required in Letterkenny; and
• Additional waste water treatment capacity required in Wexford town and Mallow.

Dublin faces particular challenges. Since the mid 1990s it has been clear that an additional water source for the Greater Dublin region will be required to ensure security of supply for the region in the longer term. In order to ensure that uncertainty regarding future water supplies does not become a constraint on enterprise development and job creation, it will be important that Irish Water is in a position to quickly progress on the work already completed by Dublin City Council and others on this project. The most likely option to address the long term supply issue for the region appears to be extraction from the Shannon and storage at the Garryhinch site in Laois. This proposal is estimated to cost €540 million and as an infrastructure project of strategic national importance, it must be a priority area for the management of Irish Water.

In addition, we recommended that reducing the high leakage levels that exist in many NSS centres needs to be a priority for Irish Water, as it will increase the volume of water available to meet demand without necessitating significant capital investment in new water treatment capacity. This approach will be supported by the installation of meters in domestic premises which will encourage householders to repair leaks and avoid water wastage.

PwC recommend that in addition to the NSS, Local Authority Development Plans and Regional Development Plans that inputs from other agencies such as the IDA, Enterprise Ireland and Forfás should play a key role in informing investment decision making. The enterprise development agencies are in a unique position to advise Irish Water and others regarding current and future enterprise water services needs. For this reason, it is appropriate that a formal mechanism be established to enable the enterprise development agencies and the Department of Jobs, Enterprise and Innovation to feed into the investment planning process and to liaise on an ongoing basis with Irish Water regarding the access to and quality of water services for enterprise.

Given the importance of managing future investments to ensure the highest potential return, it will be important that Irish Water takes into consideration the potential for intelligent infrastructure to address or to assist in addressing infrastructure deficits. Intelligent infrastructure offers innovative solutions to efficiently address issues such as an extensive water distribution network with high levels of leakage or accurate real time measurement of water and waste water quality. It provides effective means to map water and waste water networks quickly and efficiently. Smart applications can also assist in avoiding or mitigating system failures. Since 2010, Dublin City Council has been working with IBM on a smart water project. There is potential for this project to act as a template for a national approach to improving water services efficiencies through smarter use of technology. Other Local Authorities may also be using ICT in innovative ways – the development of Irish Water should allow local best practice to be rolled out nationally. The enterprise development agencies recommend that the potential for intelligent infrastructure to substitute or complement traditional capital investment should be reviewed as part of
all future water service investment programmes\textsuperscript{9}. In addition, investments will be required to monitor performance and facilitate continuous improvement in the operation of Irish Water. It will be necessary to deploy sophisticated management information systems that can analyse significant volumes of data across a range of key indicators and provide up to date accurate assessments of performance.

Smart applications are applied across a broad spectrum of infrastructure and often employ generic technologies such as sensors, software systems for control and data management and analysis systems. Given the cross-infrastructure synergies of smart technology, institutional cooperation can yield significant benefits in terms of cost savings and other economies of scales. A more integrated approach to infrastructure planning would facilitate improved efficiency, effectiveness and competitiveness. Coordinating the rollout of different infrastructure services (e.g. water, roads, telecoms, and energy) has the potential to deliver significant cost savings, particularly where projects are undertaken simultaneously.

\textit{Procurement}\textsuperscript{10}

Making service provision open to aspects of competition incentivises more efficient behaviour by incumbents, for example encouraging better resource management and improved customer services. We, therefore, support the recommendation that elements of water services e.g. building new capacity, managing existing water treatment facilities, billing operations and customer relations management could be put out to tender.

In addition to driving efficiencies in the delivery of water services, this approach has the potential to provide significant enterprise opportunities. Ireland’s indigenous supply base to the water and waste water sector includes consulting engineers; civil, mechanical and electrical contractors; equipment manufacturers; hardware and software providers for electronic control and operation of plant; data and management reporting; and providers of a range of water-related services. Working with Irish-based multinationals via IDA Ireland, Enterprise Ireland will encourage indigenous industry to extend and deepen partnerships with large players in the market such as Intel, IBM, Siemens, Veolia and others to maximise the growth potential for relevant indigenous firms.

Irish Water will become the lead entity in the procurement of services from the private sector, where previously suppliers may have had relationships with multiple local authorities. Consideration should be given to the adoption of an appropriate Supplier and SME Charter to ensure fair and transparent treatment of all potential suppliers. In particular, it will be important that requests for tenders are not structured so as to limit opportunities for SMEs to bid for contracts with Irish Water.

\textsuperscript{9} An in depth analysis of the potential for intelligent infrastructure is provided in Forfás, Intelligent Infrastructure: Delivering the Competitiveness Benefits and Enterprise Opportunities, 2011. \url{www.forfas.ie/publication/search.jsp?ft=/publications/2011/Title,8521,en.php}

\textsuperscript{10} Enterprise Ireland made a separate submission setting out proposals to enable Irish companies to realise the enterprise opportunities arising from the reform of the water sector. While this section summarises the key recommendations made by Enterprise Ireland, their submission should be consulted for the full details of the proposed actions.
To ensure Irish Water can obtain best value for money to support its activities from the market, we recommended that a professional procurement function be resourced within the new water utility. This would serve two purposes – it would enable Irish Water to secure efficiencies in its own procurement, as well as providing leadership to a well-functioning industry supply chain. For regular engagement with the market, Enterprise Ireland could facilitate a service for stakeholder engagement workshops and information seminars. This service would also give Irish Water a system for handling new market innovations. Enterprise Ireland’s experience with other contracting authorities has shown that if a process for handling innovation from the market is not resourced, the drain on personnel in disparate parts of the organisation can be costly, and essential market developments may be missed.

In line with the Government’s green procurement guidelines, Irish Water should articulate a clear requirement for the water investment programme to test, trial and demonstrate green technology developments in its procurement approaches.

**Conclusions**

As noted above, we believe that the policies set out in DECLG’s position paper represent a significant step towards ensuring water services continue to meet the needs of the economy and that once implemented these reforms will address many of the concerns previously raised by the enterprise development agencies.

Our key issues of concern regarding the proposed reforms are summarised below:

- **Ensuring a smooth transition period:** As a critical input to enterprise activity, the transfer of water service responsibilities from local authorities to Irish Water should occur without disruption to service delivery or investment in infrastructure. Delivering potential efficiency savings is key;

- **Ensuring Irish water services are competitively priced:** Irish based enterprises must have access to an adequate supply of competitively priced water and waste water services at appropriate quality levels. It will be important that a range of indicators are benchmarked against comparative international water services to ensure competitiveness is embedded as a key objective of Irish Water;

- **Providing certainty with regard to legacy agreements between large users and local authorities:** It will be important that both the regulator and Irish Water are in a position to confirm that existing agreements between large users and local authorities will be honoured under the new structures for water services and that protocols are put in place to transfer these agreements to Irish Water;

- **Ensuring required investment is made to meet enterprise needs in key NSS centres:** Water service deficits identified by the enterprise development agencies must be addressed to ensure that a lack of sufficient water or waste water capacity does not become a constraint on enterprise growth and job creation; and

- **Realising potential enterprise opportunities:** Enabling Irish Water to tender for a range of services will not only drive efficiencies in water service delivery but will also provide opportunities for enterprise growth and innovation.
As noted above, we appreciate the invitation to submit the views of the enterprise development agencies on the proposed reforms of water services policy and, given its importance to enterprise and national economic growth, we would welcome the opportunity to continue to engage with DECLG on this issue as required.