

Report by the Comptroller and Auditor General to the Northern Ireland Assembly

Department for Infrastructure 2020-21

Introduction

1. The Department delivers public transport services and water and sewerage services through two separate arm's length bodies – the Northern Ireland Transport Holding Company (NITHC) and Northern Ireland Water (NI Water). NITHC and NI Water are both wholly owned by the government. NITHC is the parent company of the publicly owned bus and rail companies in the region, collectively known as Translink¹.
2. In recent years public sector expenditure constraints have created significant funding challenges for the Department in meeting its responsibilities as custodian of the public transport system and the water and sewerage network. Against an already challenging backdrop, the Covid-19 pandemic continues to have a major impact on the finances of Translink and NI Water.
3. This report looks at the financial position of these arms' length bodies; the significant funding allocated in year to enable the continued provision of essential services; and the continuing financial challenges ahead.

Background

Northern Ireland Transport Holding Company/Translink

4. Transport legislation² requires the Department to secure the majority of public passenger transport provision from Translink under a public service agreement. This agreement includes a commitment that funding should be maintained at such a level to ensure that public service obligation activities performed by Translink enable it to maintain financial

¹ Three main subsidiary companies, Northern Ireland Railways, Ulsterbus and Citybus (Metro and Glider), operate under the brand name of Translink

² The Transport Act (Northern Ireland) 2011

viability over the life of its Corporate Plan. The Department is Translink's primary source of capital funding. It is also its second largest source of revenue, providing approximately one third of income during 2019 and 2020. The majority of Translink's income is from passenger fares.

5. The Department is responsible for setting specific targets for Translink and monitoring the extent to which these targets are achieved and for ensuring that appropriate financial and management controls are in place and that compliance with those controls is effectively monitored.

Northern Ireland Water (NI Water)

6. NI Water is the statutory water and sewerage undertaker in Northern Ireland. It is a government owned company and the Department is the sole shareholder. The Minister is responsible for overall policy and legislation and sets strategic objectives through guidance. The actual delivery of water and sewerage services is, the responsibility of NI Water, subject to regulatory oversight by the NI Authority for Utility Regulation and environmental regulators. The Department monitors NI Water's business performance and engages with the Company Board, Chair and Executive Team on strategic and shareholder matters.
7. The Department is responsible for making loans to NI Water. This mechanism is used to provide the cash funding for an element of NI Water's capital programme. At 31 March 2021, the Department had issued loan notes to the value of £1,270 million. NI Water also receives a subsidy from the Department in lieu of charging domestic customers for water and wastewater services. This subsidy accounts for over 70% of NI Water's income.
8. As NI Water's sole shareholder, the Department is eligible to receive a dividend if recommended by the Board of NI Water. The dividend in respect of the 2019-20 financial year, amounted to £28.3 million. The Department estimates that for the 2020-21 financial year the dividend will be in the region of £29.9 million, but this is yet to be considered by the Board of NI Water. The Department also receives loan interest from NI Water which amounted to £52.1 million in 2020-21 (2019-20: £51.3 million).

Both Translink and NI Water have been underfunded in recent years

9. The Department has reported that the ongoing public sector expenditure constraints have resulted in the annual budget allocation to the Department falling short of meeting its needs. As a consequence, the funding provided to both Translink and NI water has also been less than that required to fully meet their needs.
10. Translink has incurred significant losses and depleted its cash reserves year on year since 2014-15. In 2019-20 Translink reported a loss of £54 million (2018-19: loss of £17 million).
11. The Department was unable to provide NI Water with the full public expenditure allocation as recommended by the Utility Regulator through the Price Control 2015 (PC15) Final Determination³. PC15 covered the 6-year period from April 2015 to March 2021 and NI Water has reported that every year, funding provided by the Department was lower than that recommended by the Utility Regulator (£990m actual versus £1.7bn required). Northern Ireland is the only region in the UK where the regulated water utility was unable to fully implement the Utility Regulator's Final Determination due to public expenditure constraints⁴. NI Water has highlighted that continued underfunding has resulted in significant curbs to economic development as there is insufficient capacity to enable new housing and businesses to get connected to the wastewater network in over 100 towns and cities throughout the province.

Significant funding was allocated to Translink and NI Water to enable the continued provision of essential services during 2020-21

12. The Department has reported that during the height of the pandemic, in mid-April 2020, public transport use fell to just 5% of 2019-20 levels. The impact on Translink's income and therefore on its wider financial sustainability was very significant. In recognition of the importance of public transport and the substantial decline in income, the Department received an enhanced budget for public transport in 2020-21 and was able to provide significantly increased funding to Translink.

³ Price Control (PC) is the regulatory process which determines the levels of customer bills, capital investment and company performance during the control period. The Utility Regulator makes a Determination based on a Business Plan submitted by NI Water and the funding allocations indicated by the Department. A price control covers a fixed period.

⁴ NI Water, Our Strategy 2021–2046 – accessible at: <https://www.niwater.com/ourstrategy/>

13. During 2020-21 the Department funded Translink with £156 million in capital support (2019-20: £98.6 million) and £223 million of revenue support (2019-20: £71.2 million). The revenue support included Covid funding for lost passenger revenues and PPE of £91.5 million. This increased financial support ensured that public transport services continued throughout the year. At the end of March 2021, Translink's accounts show a profit of £38 million (2019-20: loss of £54 million).
14. NI Water continues to provide the essential water and sewerage services during the pandemic. In 2020-21 the annual subsidy provided by the Department was £314.3 million (2019-20: £310.3 million). In addition, new capital loan notes to the value of £83 million were issued (2019-20: £40 million).
15. The Department provided an additional £32.8 million of Covid funding in 2020-21 to NI Water, to address increased costs and the significant loss of income from non-domestic water charges due to the mandatory closure of many businesses throughout the lockdown periods; and £15 million capital funding from Covid allocations to help accelerate the delivery of essential water infrastructure projects, which will begin to address the deficit in wastewater investment that is affecting around 100 areas across Northern Ireland. At the end of March 2021 NI Water reported a profit of £46.7 million (2019-20: £48.4 million). NI Water has emphasised that this is an accounting profit and provides no additional spending power.

Despite the increase in funding during 2020-21, Translink anticipates a significant loss in 2021-22

16. In 2021-22, Translink will receive in the region of £197 million capital funding. This will enable it to continue key strategic projects such as the Belfast Transport Hub, the new Ticketing system and additional train capacity. In addition, there is a further funding commitment of £25 million for zero and low emission buses.
17. However, Translink and the Department have both stressed that there will continue to be a gap in revenue funding in 2021-22 and beyond. This has been further exacerbated by the impact of Covid-19 which has led to a dramatic decrease in fare income for Translink. The Department has advised that early indications based on Translink's 2021-22 budget and outline corporate plan are that Translink anticipate a loss of approximately £77 million in 2021-22 of which an estimated £50 million is attributable to

the ongoing impact of Covid-19 on its fare income. This has now been partially mitigated by an in-year allocation of £18 million to address lost income due to Covid-19. The remainder of the loss relates to additional funding required to meet increased costs, primarily associated with rail maintenance and inflationary cost pressures.

18. The uncertainty of funding for future years continues to raise financial sustainability issues for Translink. Ongoing uncertainty over funding can hamper the ability to make decisions and investments. The Department has secured a commitment from the Executive that it will sustain Translink's financial viability throughout the Covid-19 pandemic. I note the Department is working to ensure that this commitment is translated into the funding allocations needed to preserve and build on the public transport network.

The NI Water business plan 2021-2027 requires over £2 billion investment and uncertainty over the availability of the necessary funding remains

19. Similarly, whilst the increased funding allocated to NI Water during 2020-21 was welcomed, there remains uncertainty surrounding the availability of future funding. Research has estimated that for every £1 invested by NI Water, the positive knock-on effect in the local economy is almost double⁵. However, as with Translink, the continued uncertainty of funding impacts on NI Water's ability to invest and develop the water and sewerage network. NI Water continues to stress that the annual cycle of public expenditure funding does not enable it to plan and finance a continuous investment programme and there is an ever growing risk that the levels of service to customers in Northern Ireland will be impacted.

20. The Utility Regulator published the PC21 Final Determination in May 2021. This covers the business plan period 2021-2027 during which NI Water requires an investment of over £2 billion in water and wastewater services. The Department has confirmed that the full amount of funding recommended by the Utility Regulator will be made available to NI Water during 2021-22. However, there remains a lack of clarity on the position for the remainder of the six year period. Funding levels below the Final Determination will continue to restrict NI Water's ability to address wastewater treatment works capacity issues and wastewater network constraints. In the absence of guaranteed funding for the whole of the PC21 period the NI Water Board is considering whether it can accept the PC21 Final Determination.

⁵ <https://www.niwater.com/sitefiles/resources/pdf/reports/rippleeffectdocument.pdf>

Conclusion

21. As Northern Ireland's main public transport provider Translink provides an essential public service that is a key component in supporting economic growth and social inclusion. Investment in our public transport network can also contribute to addressing environmental issues such as congestion and climate change. The ongoing funding uncertainty is a significant risk to the financial sustainability of Translink. The Department and Translink need to work with all departments within the NI Executive and the private sector to develop a long term public transport strategy which considers all options for the delivery of a sustainable public transport network to support the NI economy in the future.
22. There has been chronic underfunding for water and wastewater services and funding levels have fallen below the required levels determined by the Utility Regulator. Having the right drinking water and sewerage infrastructure is essential to enable economic growth and development and requires a sustainable funding model. "New Decade, New Approach" recognises the need for urgent investment in wastewater infrastructure which is at, or nearing, capacity in many places across Northern Ireland. That commitment is welcomed and the Department, NI Water and other stakeholders must continue to work together to develop a sustainable funding model that keeps pace with the need for investment.

A handwritten signature in black ink, reading "K J Donnelly". The signature is written in a cursive style with a long horizontal stroke at the end.

KJ Donnelly CB
Comptroller and Auditor General
Northern Ireland Audit Office
1 Bradford Court
Upper Galwally
BELFAST
BT8 6RB

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