Publication of Independent Final Report on
Charging for Household Water and Sewerage Services

Today, the Independent Review of Charging for Household Water and Sewerage Services, led by Anna Walker, published its final report with recommendations for changes in the water charging system.

Anna Walker was asked to conduct the Review by the Secretary of State for the Environment, Food and Rural Affairs and by Welsh Assembly Ministers in August 2008.

The aim of the Review was to:

- examine the current system of charging households for water and sewerage services; and assess the effectiveness and fairness of current and alternative methods of charging including the issue of affordability;

- consider social, economic and environmental concerns; and

- make recommendations on any action that should be taken to ensure that England and Wales have a sustainable and fair system of charging in place. This could include changes to current legislation and guidance.

Anna Walker said:

“Most of us find water and sewerage services cheap – less than a £1 per day for some households. But the future looks rather different, and in some parts of the country and for some people, the affordability of these services is already a significant issue.

“A combination of significant population growth, the effects of climate change and the need to renew what is often Victorian infrastructure will put increasing pressure on both the availability and the cost of water. We need to tackle these challenges now, before they become major problems. The charging system can play an important role in this.

“The regulatory system has generally served us well, so far, with real improvements in the quality of our services. But changes will be needed if we are to meet future challenges. This will require action from all of us – individuals, governments, companies and regulators; from the abstraction of water to how we use it at the tap. This is a complex matter, and the report
recommends a package of measures which, when taken in the round, should help ensure a sustainable, and fair, provision of water and sewerage services.”

The report, which is based on responses to an initial call for evidence in 2008 and an interim report in July 2009, eight workshops across the country, including two in Plymouth, analysis of existing data and significant fresh analysis, reaches the following main conclusions:

- The charging system needs to incentivise the efficient use of water so as to ensure we have sustainable supplies for the future. Water also needs to be affordable for all, particularly those on low income.

- The way we currently charge for these services is creaking at the seams. For those still unmetered (most of us), there is no incentive to use water wisely. People are, however, opting for meters when they think they can personally benefit from doing so. This is an expensive way of making the transition to metered supplies. It also means the cross-subsidy in the current rateable value system is unwinding, so that those who remain unmetered (often those on low income) already have higher bills and will see their bills rise even if average bills are not changing (for example, in the South West, unmetered bills are predicted to rise by 29% over the next five years).

- Charging by volume of water used (which involves metering) is the most effective way of incentivising the efficient use of water. But meters incur additional costs. The transition to metering needs to be led to ensure that we keep the total costs down. The report recommends that Ofwat should provide this leadership, within an overall policy framework from government. It also recommends that there should be an agreed methodology for looking at the costs and benefits of metering; and that metering will generally be cost-effective where water is scarce or there are capacity constraints. There should also be systematic metering of properties on change of occupier and of customers with high discretionary consumption – who use more water than most, but under the rateable value system pay no more for that additional use.

- The support to low-income families through the rateable value charging system is very poorly targeted, as rateable value is so outdated. It is also unwinding as more customers opt for a metered supply. Some replacement is needed and the report makes recommendations for a package of help. This will be very important if the transition to metering is not to cause real problems of affordability to those on low incomes.

The report also looks at who should pay for the costs of improving the quality of our drinking water and the disposal of sewerage. There are potentially further costly proposals from the
European Union. Applying the principle that the beneficiary of the service should pay, and should pay for the clean-up of any pollution caused, means that it is right for water customers to pay. But if they are to do so, they need to be engaged in, and have an influence on, decisions on quality improvements and their costs. At present, this does not happen. If further costs are simply imposed on water customers, there is a real risk they will come to see charges as unfair and as “stealth taxes”.

The South West is a case study in this process. Since privatisation, the region has had to install significant new sewerage infrastructure in order to upgrade to a level that is similar to the rest of the country. Because of where they started, more investments on infrastructure per customer have been made, so price rises have been more significant, and prices in that area are now the highest in the country (at least 50% higher than the average). The report makes a number of recommendations to tackle this, including corrective adjustments or a package of measures for implementation in the South West.

There are other areas where change is needed, including:

- The need for the whole regulatory system to recognise the full (long-term) value of water, thus incentivising its efficient use.
- The current very high levels of bad debt – which penalise those who do pay their bills by about £12 per year. Debt levels are much higher than the energy sector (notwithstanding that energy bills are higher). Something is fundamentally wrong here. Lack of a proper, named customer and the resulting difficulties in pursuing those who can, but won’t, pay needs to be tackled and recommendations are made as to how to achieve this.
- A programme of measures on water-efficiency is needed alongside the charging system to encourage the efficient use of water. Among other things, the report recommends a national campaign to ensure we are all aware of the need to use water wisely.
- Climate change means we all have to think differently about how we deal with surface water. Household customers should be incentivised to minimise the amount of water from their properties which goes into the public sewer. Water customers cannot influence drainage on our roads: highways authorities should therefore play a much more significant role in doing so. The report makes recommendations.

Anna Walker continued:

“The issues that I was asked to address are complex. Good water and sewerage supplies are vital for the UK. Addressing future challenges now will be a lot better than waiting before
we start to tackle them. That is why it is important to get the long-term incentives right – including properly valuing the water we use so that we all use it efficiently. Only on that basis can we hope to achieve a really sustainable system – and one that we can all afford. The charging system can play an important role in this."

Notes to Editors

1. The Review was announced last year in Defra’s water strategy *Future Water*. It was commissioned to examine the issue of charging for water, in response to more acute pressure on supply and demand, a greater awareness of wider environmental impacts, and increasing concerns about fairness and affordability in the existing system. “Future Water – the Government’s Water Strategy for England” was published on 7 February 2008 and can be found at: www.defra.gov.uk/news/latest/2008/water-0702.htm

2. This independent review was jointly commissioned by Defra and the Welsh Assembly Government. It will report to the Secretary of State for the Environment, Food and Rural Affairs and to Welsh Ministers. More information, including the terms of reference, can be found at: http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/tor.htm

3. In order to develop its evidence base, the Review team began work in autumn 2008, issuing a call for evidence in November 2008, to which it received 82 responses including 3 South West MPs, 42 stakeholder organisations and 37 individual members of the public. In addition, the team held five regional workshops across England and Wales (in Plymouth, Warrington, London, Grafham Water and Merthyr Tydfil). These workshops explored questions in our call for evidence and other issues. A full record of the presentations by the speakers and discussions can be found on our website at: http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/stakeholder-workshops.htm

4. The Review team then published their interim report on the 29th June and received 73 responses including 7 MPs, 17 members of the public and 49 stakeholder organisations. During the consultation period the review team held a further 4 consultation workshops to engage on specific issues raised in the report. The interim report is available from our website at: http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/interim-report.htm

5. Anna Walker is the appointed Chairman of the Office of the Rail Regulator. She has wide experience in regulatory, environmental and social issues, including the protection of disadvantaged customers. Anna was Deputy Director-General at the office of Telecommunications from 1995-1997, Director-General Energy at the Department of Trade and Industry from 1998-2001, Director-General Land Use and Rural Affairs at Defra from 2001-2003, and Chief Executive of the Healthcare Commission 2003-2009. Anna is also a board member of Consumer Focus.

6. A copy of the final report published today can be found at: http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/final-report.htm

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If you have a media enquiry or interview bid, please contact

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