



Chartered
Institute of
Environmental
Health

Water charging:

Response to the interim report of the independent review of charging for household water and sewerage services

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Introduction

Following our submission to the Review's call for evidence last year, we are pleased to have the chance to comment on its emerging recommendations and to offer some answers to its further questions. The Review's Terms of Reference were very wide and water charging is a more complicated subject than it might appear. Obviously produced under some time pressure too, the interim report is nonetheless an impressive document. It has not been easy to comment on in the time allowed but though it has still led to a long response, for ease of reference and analysis we have taken the approach of annotating the list of emerging recommendations and further questions set out in annex J. Those are in plain type while our comments are in italics throughout. References in brackets are to those parts of our December submission.

The report has much that is useful to say but its underlying purpose is to invite criticism. Some of our concerns about it will be apparent from what follows beneath but in particular we were disappointed at the lack of inclusion of the planning system among the big issues – that surely has a significant role to play in the demand-supply balance and the implications for charges that flow from that. At the same time, we regret the over-riding emphasis on economics for decision-making and again, the reliance placed in various respects on Ofwat; financial considerations and a financial regulator have their place in the planning and management of the water industry but they are not well placed to represent the human aspects, even with better political direction.

Principal among those human aspects is, of course, affordability and though the report devotes a good deal of space to that it fails to come to a conclusion on how to ensure it for all consumers, measured and unmeasured alike. We hope that is only because it is "work in progress" nevertheless at the same time it is worryingly clear, and uncritical, in its justification of price-rationing through universal metering which, otherwise, will be so damaging to many households and to society as a whole. We were extremely concerned to read for the first time the phrase "scarcity charge" and believe strongly that there is an alternative way. Worse, it not only undermines the only benchmark we have for affordability but suggests the whole principle is optional and appears to abandon a significant cohort of the water poor – those whose difficulty paying even average bills is due to low income – to an inadequate benefits system which the government has said repeatedly and expressly it will not change for them. Its solution for consumers with medical needs is based on an existing scheme which patently does not work.

Resolving the affordability issue is, most stakeholders agree, key to the future of water charging. It cannot be left this time to a codicil; it must be a condition of further change. The Review's final report, when it comes, needs to be bolder if it is to achieve that.

Specific comments

Chapter 1 The Big Issues

Emerging recommendations:

- the true value of water should be used for decision making in the regulatory system. The Environment Agency and Ofwat should continue to work on a methodology for valuing water so that this can be taken into account in future investment and operational decisions as quickly as possible;

We are not sure what the “true value of water” means but we are sure that consumers – those who have to pay for it – will not understand what it means either, moreover no two economists will ever agree on it and even if they could, it will vary over even short timescales and by precise location. The necessary process of averaging will immediately undermine it and we neither see the practical value of such an academic concept or support the implication that water is simply another commodity, the availability of which should be determined solely by the intersection of supply and demand curves.

That is not to say at all that economics does not have some role to play in the planning and management of the water industry (and in the context of the Review, such aspects in particular as resource development and leakage control) but that cannot depend on monetary considerations alone; consumers who reduce their demand in response to price signals are not, as economic theory might suppose, happily engaging in some expression of a perfect market – they just cannot afford it and there is a real sense that a regulatory regime which has so far emphasised finance above all has not always served consumers best. Nothing illustrates that better than that, as the interim report’s endorsement of a “scarcity charge” and the next recommendation show, price rises are to be used increasingly to deter demand rather than for resource development or to assist conservation. Future consumers, charged more for the privilege of receiving less, may find that hard to understand (Ch.11 – intro).

- the Environment Agency should be asked to revise its water stress map for England and Wales on the basis of catchment areas or water resource zones, to fully reflect water resource pressures (both water availability and ecological) and the latest (2009) climate change projections. These revised maps should be used to identify where compulsory metering may be justified.

We do not accept that driving down demand through compulsory metering - by the industry’s admission the most complex and costly arrangement possible to devise - is a better way forward than helping households to reduce their need for water and this is a disingenuous recommendation given the Review’s overall advocacy of metering. While we question in any event the accuracy of such maps given the uncertainties they embody, better stress maps ought instead to be used to indicate where to concentrate conservation efforts. Where as, nevertheless, we think that will be insufficient, they might also be used to indicate where resource developments might be made, including through water transfer from better supplied zones, or where water stress is predicted by increases in local populations or industrial development, where the planning system needs to be empowered to say “enough!” (paras 8.16-8.30).

Chapter 2 Current System of Charging

Emerging recommendations:

- Ofwat should explore the variation in the composition of the sewerage bills between companies in England and Wales to see if it is justified.

We agree. Twenty years of economic regulation, it might be supposed, should have led to greater convergence in the size of bills than we see, and not least in the structure of bills i.e. the balance between fixed and variable elements, in particular when so much emphasis is placed on efficiency benchmarks and cost-reflectivity. This inquiry needs, however, to look outside the regulated tariff basket to examine the companies' commercial tariffs too and the impact their structures have had on domestic ones (para 7.2).

Further questions:

- the review team would like to understand better the rationale for these differences in the composition of sewerage bills across England and Wales. We would welcome evidence on what might explain the differences (for example, household water consumption, population density, and amount of rainfall). We believe that Ofwat should explore this variation to see if it is justified;

Concerns presumably exist in relation to both measured and unmeasured bills but while the reasons in respect of the latter may be more historic, the former post-date privatisation and should be more readily explicable by Ofwat. We would be surprised, though, if the Review could get an answer within its timescale.

- in addition, as the infrastructure used by the three sewerage services is largely shared, the review team would welcome views on the basis on which costs can be allocated fairly between the three services;

We are not sure this premise is correct; how much of the infrastructure is shared will depend on location, separate (ie separate foul and surface water) systems having long become the norm in new developments whereas combined systems predominate in older urban centres. A starting point may nevertheless be the rebates undertakers allow to householders who do not use one service or another, perhaps because they discharge their rainwater to a soakaway or, more rarely, treat their own sewage. Perhaps more important in view of the review's proposal in respect of highway drainage is the cost of that which several of the undertakers already identify separately on bills.

- the review team would welcome further information on what type of customer remains unmetered and why.

This would be interesting, particularly if it might assist the development of a new basis for unmeasured charges but we imagine they fall into a few, fairly predictable groups: those who, for technical reasons cannot be metered; those who need someone else's permission to be metered (which has not been forthcoming); those who, rightly or wrongly, see no advantage; those who just do not care (probably because someone else pays the bill); those who do not realise they have the choice and those who do, but reject it as morally wrong. Much was made during the passage of the Bill which became the 1999 Act of consumer choice in charging; we would like to think that will be respected better in the future.

Chapter 3 Fairness Principles

Emerging recommendations:

- the review team recommends that while the first four principles involve trade-offs that may have to be balanced against each other, the last four principles should apply in all circumstances; that is, charges should be fair to future generations and to companies, clear to customers, and not too expensive to administer;
- the review team recommends that a fair charging system should:
 - charge according to the costs imposed upon the system;
 - incentivise the efficient use of water by charging by volume;
 - embrace the ‘polluter pays’ principle wherever possible; and
 - be affordable where affordability is a problem.

Leaving aside that a tradeable principle is at once something less than a principle, it remains fundamental to our sense of fairness that water should remain affordable to everyone and we cannot imagine how the Review team could think that principle could be traded-off against any other. Affordability (and where, given the cost of debt, is it not a problem?) has too often in the past been an after-thought and it is crucial for the integrity of this Review that it deals with it head-on; compromising on it again can only result in either growing social exclusion or increasing water debt (and probably both). It is equally hard to reconcile the Review's overall advocacy of metering with the last, supposedly non-tradeable, principle given its £5bn capital price tag and on-costs, irrespective of tariffs, of hundreds of millions of pounds per year (paras 6.1-6.9 and 7.2).

At least as far as the companies are concerned, the present system already charges broadly according to imposed costs and if it did not, they would have become insolvent long ago. Section 2(3) of the Water Industry Act 1991 has the same effect in relation to categories of consumer. If, in a way side-stepping that, the aim now is to charge individual consumers according to the costs they impose, we suggest that the ratio of fixed to variable costs in bills should be reversed; small variations in individual households' consumption have negligible cost implications. That would, however, require more than a trade-off with the second suggested principle which we think is unnecessary anyway; there is no evidence to suggest that though they could be helped to need a little less, householders are in current circumstances generally wasteful or that present consumption levels are profligate (paras 8.10-8.14).

- costs should reflect regional differences and that water prices should continue to be regionally based and geographically averaged within regions;

We regret that regionally-based pricing is inevitable; it is a consequence of regional ownership which it is now difficult to see being changed nevertheless we are not convinced that the companies are all as efficient as each other (and costs should not reflect regional inefficiencies) or, in particular, that the two-tier structure of WASCs and WOCs necessarily minimises costs and Ofwat should be asked to justify its continuing support for so many small supply companies. We think there are also strong arguments for some costs – those which give rise to a wider benefit – to be shared more widely (para 6.7).

- the review team is minded to recommend that, in the long term, the net benefits are likely to be limited of moving to national or taxpayer charging for some environmental benefits.

However, the review recognises the complexity of the interactions between different fairness principles here and would welcome views on which environmental improvements, if any, should fall to either water customers nationally or the national taxpayer;

We do not understand this conclusion: the clear benefit for funding such schemes through general taxation is that their costs would be allocated on an "ability to pay" basis. Those schemes most apt for this approach are those which arise through national obligations as opposed to local discretion.

Further question:

- the review team would welcome views on a potential recommendation that in future the UK Government and Assembly Ministers should make clear in all impact assessments associated with new legislation the effect of changes on water customers' bills. All impact assessments should quantify the additional cost on the national average water bill and those of each water company area. Formal and informal consultations must make specific efforts to engage water customers in the debate on proposed improvements.

We are sympathetic to the principle expressed here but wonder how realistic it is in practice to predict the consequences for each company (presumably all 27) with enough accuracy to be worthwhile. We would also be sceptical about the effect that these disclosures would have on decision-making anyway. A good illustration of both would be the costs of the proposed transfer of private sewers and drains, the political decision for which was made some years ago but the cost estimates of which even today still vary widely. It is not just about impacts on bills either, but about additional supply pressures too.

Chapter 4 Future Charging System

Emerging recommendations:

- an alternative basis for charging must be found in the near future, as the system is so outdated;

We agree. A system based on rental values, even if it had not been allowed to decay, is increasingly anachronistic in a society where fewer than 30% of households now rent their homes.

- neither council tax nor rateable value identifies those who need help with bills sufficiently accurately; nor does it incentivise the efficient use of water. Therefore, neither should form the long-term basis for charging for water;

We have dealt with rateable values in the recommendation above but otherwise, this conclusion would not seem to reflect the review's views on fairness very well; there is no doubt that a system based on CT bands would be cheap to operate and bear a relationship with ability to pay while of the Review's recommended system, metering, the third bullet point below admits; "Measures outside the main charging system will be needed to address the difficulties low-income households may face in paying their bills." Metering actively conceals problems of affordability and that, therefore, cannot be used to exclude CT bands which seem to fit the bill adequately in Scotland. A system based on CT bands remains our preference (paras 6.10-6.37).

- there is a close relationship between occupancy and water use, but occupancy rates are not collected nationally and could be open to deception. Therefore, the review team does not recommend it as the basis for a national charging system. Number of bedrooms would be a poor proxy for water use and is also not recommended for a national charging system. We have also considered property type and a possible flat rate per household as basis for charging. However, neither incentivise the efficient use of water nor do they reflect income;

We agree that none of these systems is ideal and we do not favour them either.

- the basis of water charges should continue to move away from the current mix of rateable value and volume consumed (the current system) towards volume consumed. The speed at which this is achieved depends on the costs of metering and finding solutions to the issues of affordability. Measures outside the main charging system will be needed to address the difficulties low-income households may face in paying their bills.

We disagree profoundly and regret the Review's ready acceptance of this orthodoxy. The majority of homes – more than twice as many as are metered - are still charged on an unmeasured basis and while a replacement for rateable values needs to be found, that is no reason for a wholesale move to what we (and the industry) have already said is the most complex and costly system imaginable, moreover one with unique adverse effects on poorer consumers. It is no excuse to add that the speed of change should be dependent on finding solutions to affordability, continuing to condone that change which itself exacerbates the problem, when no clear and comprehensive solution is proposed alongside (Ch. 7).

Chapter 5 Metering

Emerging recommendations:

- until the abstraction regime reflects the true value of water, this value should be built explicitly into investment and operational decisions.

This would not appear to make sense.

- the process of bringing the true value of water into decision making will need to be driven by the regulatory framework. Both Ofwat and the EA have a central role to play in identifying the right values for environmental and social benefits, and in making sure that these are incorporated into the water companies' decision-making processes. Both the EA and Ofwat should concentrate on establishing the true value of water in those areas already identified by the EA as being or coming under resource pressure. Establishing a true value for water should become a requirement on both regulators, so they accomplish this quickly.

We have already commented on the usefulness of the concept of a "true value" of water but we would be surprised if the Environment Agency accepted any role in costing social benefits as a component of that. To the extent that Ofwat's sustainability duty might suggest that is part of its role, our original submission to the Review (Ch. 9) showed how focused it nevertheless remains on the economic aspect of that, indeed it is an enduring weakness of the regulatory scene that social concerns are still so under-represented, CCWater (even if it were adequately equipped) sitting outside that. A missing pre-requisite in any event is clear social and environmental guidance from the Secretary of State.

- companies have quoted a wide range of meter installation costs, raising a question of whether installation costs deserve greater regulatory scrutiny.

This is no doubt true of reading and billing costs too, indeed the companies' accuracy with other figures too is often in question (para 9.20).

- where optant metering is the driving force behind the increase in metering penetration, it may be appropriate for companies to be under an obligation to ensure that low-income customers are supplied on the lowest possible tariff.

This recommendation is difficult to understand. Optants are just that; they make their requests freely, with their eyes open, calculating their likely future charges and that they will be lower than current ones. The customer groups which more need this protection are those on whom meters are imposed and those unmeasured consumers who, though their consumption is unchanged as a result, unfairly pick up the bill for others' meters. The proposal would only exacerbate this unfairness. There are in any event dangers in requiring the companies to apply the lowest possible tariff to particular groups in any circumstances where the composition of those is unknown; the lowest possible tariff may be limited to a very small volume perhaps or, in the future, to particular times of day, and not be in consumers' broader interests.

- the right to opt for a meter should continue to be offered to all customers.

It is difficult to deny this but it must cease to be at the detriment of other consumers; meter optants must pay the full economic cost of installation and if, as is said in justification for metering, that measured consumers impose lower costs, the companies should bear the resulting loss of revenue (since they should not need it) instead of recouping it from other consumers. The principle of choice about which so much was claimed at the time of the 1999 Bill also works both ways; if unmeasured consumers should be allowed to demand meters at any time, is it not only fair that measured consumers should be allowed to opt out at any time? (paras 7.1, 7.2).

- water companies must ensure that their low-income customers who are low users and would benefit from being metered are identified and encouraged to apply for a meter.

It is not true that lower users will automatically benefit from metering, either now or especially in the future, since charges are a function of tariffs and not hardware while meters necessarily expose low-income consumers to cost pressures they do not face while unmeasured. Under current arrangements, this is also blatantly unfair to unmeasured consumers. The recommendation seems to suggest that the only way to relate bills to ability to pay is through metering which is clearly wrong.

- compulsory metering should be introduced:
 - for high discretionary water users;
 - where the true value of water is high; and
 - where levels of metering are already high and running two charging systems is inefficient.
 The review team invites views on what the level should be.

While this recommendation at least appears to acknowledge high discretionary users are in a minority, their larger consumption is, in the greater context, actually irrelevant. Only c.6-7% of all water delivered is used externally and owners of swimming pools are unlikely to be deterred from filling them because, if they are not already, they will be metered in the

future. This is just the politics of envy. More worrying though is that, it is implied, everyone should be metered where the value of water is high i.e. where supplies are deemed under stress. If anyone's consumption should be constrained this way, arguably (and just as applies to land prices) it is those in-comers whose needs tip the demand-supply balance into deficit but the problem with the proposal is obvious: a high value predicates a high price and where discretionary use is low (see above), a high price results in unreasonably constrained consumption and/or increasing debt among a larger number of consumers. It is not clear that the Review has entirely grasped this paradox. Though operating two different charging systems in the same region may be inefficient that has clearly not been a barrier to introducing the most recent of them and if this situation is to be rationalised, logic suggests that the system which is least complicated and costly should win-out. This is a very poor argument for metering (paras 8.10-8.14).

- the review team concludes that it is both fair and advantageous to compulsorily meter properties which have high discretionary use. It also believes that the current Regulations are too limited, and that the current Regulations need to be extended to cover other circumstances of high discretionary use. In particular, we would like to explore further whether the powers to compulsorily meter households should be extended to all properties with an outside tap.

We doubt the Review actually has any evidence to back up this recommendation; its report presents no data to show that higher discretionary use is not already correlated with higher RVs and, hence, bills or explained why, given as we (in fact, Water UK) say discretionary use is a very small proportion of total use, that there is any advantage in this approach. We might be more sympathetic to the final idea if it were to meter external supplies alone but it does not appear to be, notwithstanding that, again, no evidence is given that the mere presence of an outside tap is a good proxy for external consumption. Without evidence, these recommendations look like mere pretexts for advancing metering regardless (para 8.13).

- now that the government has committed to roll out smart energy metering to all households by 2020, the incremental cost of adding water meters to the smart energy communications system needs further examination. Ofwat and the water companies need to take action now to assess the costs and benefits.
- in support of Ofwat's leadership on metering issues, we recommend that Ofwat sets up a smart meter group, including the Environment Agency and water companies, to determine the costs and benefits of smart meters to inform any decisions on approach and potential roll-out of smart meters. This group should also direct the data strategy and analysis for smart meter trials and exploit any potential synergies.
- when designing metering programmes that use dumb meters, water companies should consider how to minimise the costs of any potential future transition to smart metering.

The costs of "smart" meters are several times more than those of "dumb" meters and we have to be concerned about the assumptions about future water prices which underpin this group of recommendations. Notwithstanding, the versatility of smart meters is seriously undermined when, as current evidence suggests, consumers actually pay them no more regard than conventional ones, i.e. very little at all (para 7.3).

- the detailed design of assessed tariffs is for Ofwat and the companies, but we recommend that they select charging bases that provide as good a proxy for use as possible without being open to deception by unscrupulous householders.

The bases of current charges are, for the most-part, fundamentally standard, i.e. either rateable value or volume consumed. An RV in the Thames region is derived in the same way as an RV in the Southwest and a cubic metre is a cubic metre wherever it is measured. We think it is unsatisfactory, consequently, for different companies to derive assessed charges on different bases, one perhaps on occupancy and another on some property characteristic and, admitting that there needs to be some kind of local multiplier, we think there is a good case for the basis for all assessed charges to be prescribed nationally.

- strong leadership in achieving the transition to metering will be needed. The UK Government and Assembly Ministers should set out their policies on metering and make any necessary changes to the regulatory framework; and the regulatory agencies should work together to achieve the desired outcome efficiently.
- we recommend that Ofwat is asked to lead the delivery of metering in a proactive way, publishing a report on progress every one or two years.

Greater candour from Ministers would often be welcome though it is really too late here. Ofwat already publishes figures, garnered from the June returns, for meter penetration in each company region and it needs to turn its attention to the effects of that. In particular, when, with advancing metering we can increasingly no longer judge the scale of water poverty by a simple comparison of incomes and bills, Ofwat needs to investigate the extent to which poorer households are compromising on water use to meet increasing bills (para 7.6).

Further questions:

- at the moment meters can be installed in three locations: the property boundary, on the external wall of a building, and internally. Some 80 per cent of metered properties have their meters located externally, but we do not know what proportion has been fitted at the boundary.

We would welcome information on the proportion of meters that are located at the boundary;

Installation on an external wall of a building would usually require some convoluted of the pipework and expose the supply to a greater risk of freezing and we should have thought was very rare.

- we would welcome information on the cost of leak repair in a form that allows us to include it in the cost–benefit analysis;
- we would welcome comments on the cost–benefit analysis, on our assumptions, the evidence we have used and on the merits of our recommendations. Further details are set out in Annex E;
- the presence of an outside tap enables households to have high external, discretionary use and we suspect that the tap is a good indicator of this behaviour. If this is the case, then there is a case for extending the Regulations to cover outside taps. We would welcome evidence on the use of outside taps and views on whether the powers in the Prescribed Conditions Regulations should be extended, including to cover properties with outside taps;

We disagree; an external tap might as well be used by a pensioner to fill an occasional watering can as by a senior civil servant to sprinkle his trophy lawn for hours every night. The mere presence of a tap provides no indication of use whatever (para 8.13).

- the review team believes the trigger for compulsory metering should be when 60 or 70 per cent of households are metered. The review team would welcome views on what the appropriate percentage to trigger a compulsory metering programme for the remaining unmetered properties should be;

We do not think it is appropriate for, in effect, one's neighbours to decide when everyone else should be metered.

- given the potential synergies with the roll-out of smart metering technology in the energy sector there is some urgency to this to ensure that the maximum long-term benefits can be achieved for water customers. We would welcome views on whether this could evolve from the current Intelligent Metering Initiative;

We are not able to comment on the technological aspects of this but we do question whether there are, in fact, any long-term benefits to be achieved for water customers.

- in the case of apartment buildings, individual meters should be the preferred option as with all other properties. The multi-occupied building is a type of property where meter installation costs are often relatively high. In this case a single meter could be used to measure consumption by the whole building and the water company could distribute the measured volume across the households in the building when preparing their bills. We would like to hear views on this proposal.

This would seem to lay individual bills open to influence by the consumption patterns of neighbours; that is plainly unsatisfactory.

Chapter 6 Tariffs

Emerging recommendations:

- with metered tariffs a high proportion of the company's revenue should be collected through the volumetric charge, and that the unit price of water should be no less than the true value of water. Ofwat should review the division between volumetric and standing charges in metered tariffs and continue to evaluate the advantages (and disadvantages) to customers of varying the relationship between the standing charge and the volumetric charge.

There is, in several senses, no point in a metered tariff unless a high proportion of the revenue collected derives from the volumetric element – it cannot exert any conservation pressure and the cost cannot be justified - nevertheless as the report acknowledges in para 1.1.4, the greater proportion of supply costs are related to infrastructure provision and fairly fixed and the ratio of fixed to variable costs in individual bills is generally the opposite to what cost-reflective pricing would suggest. There is some contrast here between domestic and commercial bills whereby, in the latter case, the more water is consumed, the less is paid for it. The reason, of course, is that the large commercial market is a competitive one but there is a suspicion that domestic consumers suffer as a result (para 7.2).

- in respect of more innovative tariffs, the review team's view is that:
 - rising block tariffs have complex effects in redistributing the burden of costs between households, which may merit further consideration in specific circumstances. However, rising block tariffs cannot be recommended as a general tool to address affordability, as there is no

robust data on household occupancy.

We agree, though relating the size of blocks to needs is only one of several problems with these kinds of tariffs; not least as we pointed out in our original submission is the small discretionary use of most households (paras 7.13-7.15 and 8.14).

– the declining block tariff is not appropriate for a general national household charging system as it weakens incentives to reduce discretionary use of water.

We agree.

– seasonal tariffs appear to show potential for controlling summer-time peak demand.

That is self-evident but the question is: at what alternative cost and, just as we are all being encouraged to do on a micro scale with water butts, would it not better satisfy the fundamental purpose of a water industry to capture a little more of our increasing winter rainfall? (paras 8.20-8.23).

• Ofwat should work with the companies to ensure that the tariff trials provide robust and detailed information on the behavioural response to innovative tariffs.

We can only be disappointed at the ad hoc and opaque nature of many trials which it is not clear meet generally accepted research standards. It is difficult, accordingly, to have confidence in their results (paras 7.7-7.10).

• wherever distributional consequences from the introduction of changes to tariffs are likely, they should be assessed and considered against the review's fairness principles.

We agree; on the face of it, it would not seem fair for one group of consumers to pay for the consequences of decisions by others (para 7.2).

Further question:

• the review team's work suggests that some tariffs will be seen as fairer, and more effective in promoting efficient water use, than others. Given these differences in outcomes for customers, there is a question as to what guidance the government should give the regulator on how metered tariffs should look, and what principles Ofwat should observe in considering the acceptability of different metered tariffs. We present the results of this analysis here and invite views on how the guidance to the regulator on metered tariffs should be cast.

Asking consultees, in effect, to set out the criteria for a future measured tariff is rather a tall order and not one we are equipped to meet, even if we favoured one anyway. We have nevertheless written that we do not think consumers should face different charges because of the different inherent costs of charging methods chosen by their suppliers and that must include the choice of different tariff structures. Notwithstanding regional pricing, consumers should, we think, pay broadly the same for the same service and while some tariffs may favour some groups and others favour others, fundamentally this is because the suppliers are monopolies and consumers have little more freedom to choose the tariff which suits them best than they do charging method while the suppliers will, given the chance, inevitably seek to construct tariffs which maximise their profits above anything else. Since (the Review will not be surprised to know) we do not favour open competition in the

domestic water services market (with the tariff chaos seen in the equivalent energy market), the starting point for any guidance must be that every supplier's tariffs must reflect the balance of its annual admissible fixed and supply-dependent costs, those costs mediated as now by consideration of industry benchmarks. The Review's invitation to Ofwat in paragraph 6.1.12 effectively to manipulate this relationship is unfortunate.

Chapter 7 Sewerage

Emerging recommendations:

- Defra, the Assembly government, the Environment Agency, Ofwat and sewerage companies should consider how the future charging system could better incentivise householders to minimise the amount of rainwater run-off from existing and new households, including incentives to install small-scale sustainable drainage systems. We would welcome views on how this could be achieved;

We understand that households which divert surface water to soakaways already receive rebates from the companies nevertheless these are inevitably small. We have some doubts about taking this proposal too far, however, since, in the case of combined systems (and notwithstanding the problems of combined storm water overflows), rainwater is required to maintain adequate flows and for occasional flushing and, in the case of separate systems, there seems to be an argument for channelling relatively clean water directly to treatment for drinking purposes rather than allowing it to dissipate into the ground or, at least, for encouraging on-site recycling.

- Ofwat should look at the variation in charging households for surface water drainage as part of its work on the future charging system for this service. The aim must be to ensure that the distribution of the surface water drainage costs between customer types is fair, and that the right financial incentive is in place to install alternatives to rainwater drainage;

We agree, though while current methods may be irrational, recent changes by some undertakers have had unfortunate (and possibly unforeseen) effects and need to be reviewed.

- the use of greywater recycling does not justify adjusting the sewerage charges upwards;

We agree, nevertheless it might be noted that the loss of revenue arising from recycling by measured consumers does contribute to higher water charges for others.

- rainwater harvesting should continue to be charged as now;

We agree.

- foul sewerage should continue to be charged for on the same basis as water supply;

We agree.

Further question:

- the review team invites views on the possibility of transferring highway drainage costs to local authorities – both on the principle and the practicalities, including costs and benefits. It

also invites views on alternative ways for highway authorities to be incentivised to reduce the volume of highway drainage run-off to sewerage systems.

We see little point in this; there is a high degree of incidence between water customers and council tax payers and they would pay much the same amount as currently, albeit perhaps spread over more instalments. Alternatively, since much of the costs related to highway drainage arise from the need to remove petrol residues etc from run-off and properly drained roads are of most benefit to road users, we should have thought these costs are best allocated to road fund licences. That is what is done in N Ireland. As a tax base, it would also be much wider, i.e. the additional bill per licence would be much less than the reduction per customer.

Chapter 8 Affordability

Emerging recommendations:

- recognising the lack of sensitivity of the benefit system to large regional differences in water cost, the UK government should consider introducing a regional water benefit. The review team would like views on this suggestion;

While water poverty is largely a consequence of low income and the relief of poverty in general is a responsibility of the state to which all taxpayers contribute, we support the principle of helping poorer consumers by way of the tax and benefits system in preference to via cross-subsidies from other water consumers. Everyone, including Parliament, agrees (except the government). If, as we assume, the Review means by "regional water benefit" one calculated with reference to regional price variations (rather than one simply administered or funded regionally) we think that is the right way to go, i.e. relating actual costs to individual households' available income, nevertheless it needs to be borne in mind that the smaller water suppliers operate at sub-regional level (paras 5.1,5.2).

- in the absence of a regional water benefit, there should be a percentage reduction to the bills of low income customers (in receipt of Council Tax Benefit) in high bill areas, down towards the national average bill, paid for either by the national water customer or by the national taxpayer. The review team would like views on this proposal;

By our calculation, the national average bill is twice the size of the current water element of Income Support on which many low income consumers depend; the point is that average bills are not the same as affordable bills and though the disparity will vary region by region, there will be a shortfall in most and that is simply a recipe for debt.

- retain and refine the national safety net for low income high essential water users (WaterSure) and increase promotion of the scheme, including providing more information on bills. Recognising the current lack of interaction between the benefit system and the regional variation in water costs, cap WaterSure bills at the national average bill; refine the criteria for a family with older children in education or training, and seek advice on eligibility on medical grounds; make applicants medical certificates free. The costs of this and the costs of the current WaterSure system should be met by national water customers.

The Vulnerable Groups scheme under any name has failed, take-up after nearly a decade being less than 10% of those households potentially eligible. Not conceived as an anti-poverty measure anyway, we discussed its faults in our original submission and in previous

work but prominent among them is its reliance on average bills (see above) and that it offers no assistance to unmeasured consumers. It is time to put it out of its misery and to start again with a scheme less concerned with smoothing the transition to metering and more with relieving water poverty in the round (paras 5.16-5.19).

- companies should be statutorily required by English and Ministers to develop their own water efficiency programmes which would contribute to their enforceable water efficiency target, with priority given to low income customers in debt or in receipt of Council Tax Benefit. The review team would like to invite views on the principle of such a scheme, where the costs of such a scheme should fall, and the powers necessary to put it into place.

We are attracted to the idea of “water service companies” along the lines of their energy sector equivalents, i.e. into whose licence obligations are built requirements to reduce their customers’ needs for water. Those requirements would need to be more stringent than so far, however and we drew attention in our original submission to recent Environment Agency research to the effect that a package of five retrofit measures could pay for itself on the basis of an average bill in just two years. Obviating the need for a meter, it would not be unreasonable for the water undertaker to contribute the equivalent cost, i.e. something approaching £300 in the same period, though the water savings from such “fit and forget” approaches continue indefinitely whereas the costs of metering would continue to accumulate (paras 8.24-8.30).

- Ofwat, building on its current duties, should be more pro-active in terms of helping companies tackle affordability problems. The review team would like views on whether the scope and detail of Ofwat’s current duties are sufficient to tackle affordability issues, or if something further is necessary;

Ofwat already has duties to have regard to the interests of “individuals with low incomes” and “to contribute to the achievement of sustainable development” (sections 2C(c) and 3(e) Water Industry Act 1991); those should be sufficient yet it has always taken a rather narrow, even purest, view of its primary role as the economic regulator. That has been partly a consequence of personalities but not least latterly of inadequate guidance from government. The formation of the new authority may broaden its focus; greater boldness by the consumer representative body would help too (paras 5.20 and 9.11-9.13).

- Ofwat should produce an annual report on affordability and debt issues, and where it is not clear that it is possible to solve the affordability problems within the current regulatory framework, should provide advice to the Secretary of State and Ministers on what action is necessary and why;

We agree, though to a large extent it does this already.

- within a new consolidated set of guidance on charging, social and environmental issues, new guidance should be provided to Ofwat by English and Welsh Ministers on social tariffs, with the aim of companies being encouraged to develop local social tariffs, acceptable to their bill payers, and for Ofwat to be more ready in accepting these schemes; and

We agree that Ministers need to give more explicit political direction to Ofwat but whereas we favour a national approach to water poverty, based on the tax and benefits system and personalised to individual households, we are less happy to encourage an inevitable variety of local solutions in what would be, in effect, a privatisation of welfare.

- local government should consider sharing data on low income customers receiving Council Tax Benefit with water companies so companies can target assistance.

We do not think that local authorities would be, in principle, against using this data to bring assistance to their poorer residents but receipt of CT benefit is not a perfect indicator of need (many eligible householders do not claim it, for example) and there are data protection and, indeed, ethical issues to be considered. It would also be of concern that benefit recipients could be viewed as potential debtors and treated differently accordingly.

Further questions:

- the review team would like further views on the value of using receipt of Council Tax Benefit to identify low income households for targeted support;

We are not able to say whether receipt of CT benefit is a better indicator of low income than any other benefit though we understand that a substantial number of eligible households fail to claim it while others, for various reasons, are not eligible at all.

- in order to model the potential impact of a regional benefit the review team has assumed in the absence of further information from DWP, that benefits currently cover the national average water bill. In high-bill areas, people on means-tested benefits would therefore require additional benefit to cover the difference between the regional average (metered and unmetered) bill and the national average (metered and unmetered) bill. The difference in the South West Water region between the regional average bill and the national average bill was £171 in 2007/8. The total cost of such a scheme to rebalance this difference for high-bill areas (looking at water and sewerage companies only – see Table 7 Annex G) could be around £45m in the first year. If the scheme provided for existing metered customers only, the cost would be around £17m in the first year. The costs of such a scheme would fall to the national taxpayer, allowing the funding to be on a progressive basis. We would like views on this suggestion;

As we have explained before, closing the gap between actual bills and average bills will still not make many of those bills affordable to poorer consumers. By our calculations (sent separately), in any event, the current water component of Income Support (and Jobseekers' allowance) amounts to only about half of the national average water bill and the cost of such a scheme would be somewhat higher than estimated consequently.

- the review team would like views on the proposal to apply a percentage discount on bills as a means of assistance for low-income households in high cost areas in receipt of Council Tax Benefit or in debt. The review team would also like views on whether this should be funded by national water customers or national taxpayers;

Again, a blanket approach such as this is bound to failure; increasing metering means that bills are becoming increasingly personalised and approaches to assistance with them must be likewise if they are to succeed.

- we believe that as this measure is designed to address the affordability issues that arise because of the mismatch between the tax and benefits system and regional price variations, eligibility should also be restricted to those in high-cost areas (regions where the average water bill is above the national average). The review team would like views on this restriction and the administrative implications of such a scheme;

The measure is aimed at the wrong target; it needs to address the mismatch between individual incomes and bills, wherever they occur.

- we received evidence in response to our call for evidence that there are potentially people with other medical conditions and, in particular, mental health conditions, who might require high water use and are not explicitly covered by the WaterSure Regulations list of medical conditions other than the general provision covering 'any other conditions'. This may discourage people from applying to the scheme, and GPs and companies might face difficulties in taking decisions on applicants. The review team intends to take advice from the Royal College of General Practitioners (RCGP) on what advice might be necessary for GPs and companies in future on the medical conditions that should qualify under 'any other conditions'. Any system should make it clear that doctors have the appropriate flexibility to sign certificates for any person receiving benefits they believe requires extra water as a result of a medical condition and that these certificates should be free. The review team would welcome views on this proposal;

Leaving aside our views about WaterSure generally, GPs and others may be reluctant to rely on informal advice in the face of a statutory scheme.

- the review team would like views on whether the scope and detail of Ofwat's existing duties are sufficient to tackle affordability issues, or if something further is necessary.

We think they are; they just need to be observed. While in the past it has claimed that the mere existence of the Vulnerable Groups scheme dealt with the question of affordability, the closest Ofwat's current Forward Programme gets to the "A" word is to state an aim of achieving "value for [customers'] money"; whatever does it think "have regard to the interests of...(c) individuals with low incomes" is supposed to mean and if there is any real doubt, why has the Secretary of State not made it clearer? (para 9.12)

Chapter 9 Bad Debt

Emerging recommendations:

- as a priority, the Water Industry Act 1991 should be amended to clarify and widen the definition of who is responsible for paying the water bill, through a definition of 'liable person' along the lines of that used in Council Tax legislation; and ensure that water companies have named customers. Three statutory changes are necessary in order to improve the situation:
 - clarify and widen who is liable for paying the bill;
 - ensuring that the name of the person responsible for paying the bill has to be supplied to the water company; and
 - identifying the property owner as responsible for paying the bill when the property is in multiple occupation;

The supply duty under the 1991 Act is owed (s.54(1)) to the "consumer" who should, therefore, be liable for payment. While it is reasonable that the undertakers should have powers to identify consumers, we are much less happy that they should have powers to charge non-consumers – by definition people to whom they owe no duty and who have not had the benefit of their services - in default.

- companies should be encouraged by Ofwat to move towards debt prevention and best practice approaches rather than concentrating on debt management;

We agree, and the best way to prevent debt is to ensure charges are affordable.

- Ofwat, together with CCWater, should be asked by government to monitor company performance on debt prevention, management and recovery against Ofwat's debt guidelines. Ofwat should produce a separate annual report on debt which makes clear which companies are performing well ('name and acclaim') and which should improve. It should also highlight good and poor practice. This annual report could be combined with the report proposed in Chapter 8 on affordability issues in the water industry;

We do not disagree but had understood that Ofwat did this already, though not perhaps all on an annual basis or in formal partnership with CCWater.

- local government should work with water companies to identify low income customers receiving Council Tax Benefit so that companies can better target assistance;

We do not believe local authorities would be unwilling to do this but there are issues of data protection and ethics to be considered and we would be concerned if benefit recipients might be viewed as potential debtors and treated unfavourably as a result.

- companies should consider, as a way of helping customers pay their bills, developing more voluntary agreements with Registered Social Landlords and local housing authorities so that water bills are paid with rent for unmeasured customers;

Housing providers have shrunk from such agreements in recent years, in part not wanting to be associated with rising prices. While there may be advantages in rolling-up water bills with rents (in single, frequent payments, often made locally, and in the close relationship between providers and tenants) we would be concerned that defaulting on a water payment could put the tenancy at risk.

- there should be clearer bills and better information to customers from companies, clearly indicating methods of payment, contact details for third party debt advice agencies and written in plain English. Greater transparency will provide more information concerning the breakdown of charges and the reasoning behind bill increases (see Chapter 11);

We agree all this would be good practice. It is unlikely to reduce debts however.

- there should be more publicity on water debt advice and help from the companies and greater use and funding of third party advice organisations. This could be along the lines of current innovative schemes (such as Wessex Water's scheme) or might be a part of a company's water efficiency programme;

We would support this; good quality debt advice is in both consumers' and the companies' interests and the need for it appears likely to grow in the future.

- the option of current third party deductions scheme (WaterDirect) should be pursued more pro-actively by water companies, where this would be more helpful to customers in debt; and

Though we have reservations about the number of "bites" which could potentially be taken out of a consumer's benefit before s/he even sees it, and not least since the bite a water undertaker might take is likely to be larger than the water element in that benefit, we agree that this option is worth consideration and might be more so if the consumer did not have already to be in debt to access it.

- companies need to have available and accessible schemes in place that help low income earners who want to stay out of debt; this could include social tariffs.

This conclusion notes, usefully, that low income households may not be benefit recipients and whether in debt or, as most consumers will be, trying to avoid that, the current benefits system is of no help at all to them, either to provide help directly or to passport them to other sources of it. There are a number of ways companies can help these consumers and the best, recognising it is in their mutual interests, already do but we are wary of relying too heavily on local fixes, in particular the charitable trusts.

Further questions:

- the review team would welcome views on the costs and value of prepayment meters compared to other mechanisms to help customers manage debt;

Pre-payment meters, euphemistically called "Budget payment devices" by the companies, merely circumvent the ban on disconnections, allowing them to wash their hands of the consequences of water poverty which they disingenuously then ascribe to consumer choice (i.e. not to feed the meter). In truth, these are nothing more than electronic debt collectors. They threaten personal and public health, are an abuse of the companies' positions as suppliers of an essential good to prioritise payments to themselves and we oppose them absolutely.

- the review team would welcome comments on the possibility of introducing trickle-valves to reduce supply to persistent 'won't pay' customers. It would be feasible to set up a process whereby trickle-valves could be used in exceptional circumstances after rigorous independent safeguard conditions have been met, for example through agreement by the courts or CCWater. The review team would welcome observations on this.

We do not believe the companies can distinguish "can't pays" from "won't pays" or that they are particularly interested in doing so. Even if they could, how would they classify the children or other dependents of those subjected to these devices? The evidence is that many of the companies manage debt perfectly well without having to resort to measures like this, to the extent in fact that it has to be asked whether the others are trying to make some kind of point. They would have wider effects too, e.g. to restrict heating, they are inhumane, unnecessary and, again, we oppose them absolutely.

Chapter 10 Water Efficiency

Emerging recommendations:

- while the regulatory framework for water efficiency has improved in recent years, more can still be done to ensure that the right incentives are in place to encourage the use of water efficiency activity by water companies, customers and Ofwat. This includes:

- the operational efficiency of a company's water efficiency activity to be calculated separately by Ofwat, instead of included in the overall operational efficiency calculation;
- the true value of water should be used in investment decisions and any evaluation of the costs and benefits of water efficiency measures; and
- Ofwat to set a minimum percentage of water efficiency targets to be achieved through water efficiency activity targeted at defined low-income metered household customers to help them reduce their water use and, therefore, their bills. In the longer term, the UK Government and Assembly Ministers should introduce a statutory requirement for all water companies to implement a water efficiency scheme targeted at defined low-income metered customers;

We agree that more needs to be done to encourage the companies to take domestic efficiency beyond the tokenism of giving out free "hippos" when, increasingly, they stand to boost their revenues from selling more water. Their efforts so far, calculated by ippr at just 11 pence per customer per year stand in huge contrast to the gains to be made from the appliance replacement programmes demonstrated in other countries. A model for the future exists in the energy sector with the emergence of energy service companies, motivated by the energy efficiency commitment, which deserves serious consideration here (para 8.30).

- the UK Government and Assembly Ministers should maintain progress on the water efficiency of new homes and ensure that synergies with existing refurbishment and retrofitting programmes of existing housing stock are fully exploited to ensure that the water efficiency of existing homes is achieved as economically as possible;

Improving Building Regulations is an important step (though we have doubts about the "whole-house" approach and some particular methods being applied) but will not reach most of the existing stock in which it is clear that "fit and forget" measures can provide equivalent water savings without the expense and other disadvantages of metering on top. There are, however, no retrofit programmes for the existing stock or, as far as we are aware, any plans for them (para 8.31).

- water and energy companies should be incentivised to work together to retrofit existing homes with energy and water efficiency measures and allocate the respective water and CO2 savings to their respective water and energy efficiency targets, especially for hot water efficiency measures accredited in the CERT scheme;

We suspect there is more scope here for the energy companies to expand their offerings than the other way around nevertheless if the water companies are able to promote that they should be able to claim a share of the benefits.

- water companies should be incentivised to work together with social landlords and housing associations to improve the water efficiency of existing homes;

Though installers have found a ready mass market here for energy efficiency improvements, over 3m social housing units have already enjoyed kitchen and bathroom up-grades as part of the Decent Homes programme with the remainder now scheduled for improvement in the near future. With a focus on the cosmetic though, the DCLG's guidance for implementation does not mention water efficiency and it seems now largely too late to achieve any synergies here.

- where water companies undertake retrofitting projects by themselves, the water companies should be able to accrue any CO2 savings for measures accredited in the CERT

scheme, and then be able to sell the CO2 savings to energy companies to use against their targets, or to use the CO2 savings against their own Carbon Reduction Commitment;

Though there appears to be no immediate prospect of this happening, it would seem to provide a potential source of revenue to support it. A greater source would, nevertheless, be the money otherwise budgeted for meters which would become unnecessary as a result (para 8.29).

- the UK government should encourage the use of more water-efficient fittings and appliances by:
 - ensuring that only water-efficient products can be sold on the UK market; and
 - reviewing the efficacy of the current and proposed labelling schemes and deciding what information consumers need as a matter of priority. Government should work with Waterwise, water companies, manufacturers and retailers to ensure voluntary schemes are effective or to decide whether a mandatory scheme is needed;

We are sympathetic to the purpose of this, nevertheless there are already signs that it is being taken too far. The water fittings market is also an international one and there may be legal constraints to attempting to transform it this way (para 8.31).

- the UK Government and Assembly Ministers should promote a national education strategy working with stakeholders to influence public behaviour on water use. Regional and local community-based campaigns on water efficiency should be developed, using the key national messages, but targeting local issues;

We do not agree that, on the whole, individual behaviour is the cause of the problem, rather, more attention needs to be paid to the greater role in projected water stress of demographics and of planning failures encouraged by economic appraisals which postpone improvements in infrastructure until there is a crisis (paras 8.10-8.21).

- household customers' awareness of the links between hot water and energy savings should be raised by:
 - ensuring that the Act on CO2 calculator¹⁵⁴ includes a section on emissions linked to hot water use and advice on how to use hot water more efficiently;
 - the Act on CO2 campaign including dedicated messages on water efficiency; and
 - water companies including messages to customers on this link, providing information on potential energy savings linked to water efficiency.

We suspect that consumers' attention would be drawn more by the financial savings from lower energy use than by the prospect of achieving lower emissions or marginally lower water bills.

Further questions:

- the review team would therefore welcome views on whether Ofwat's current sustainable development duty should be extended to make specific reference to consideration of climate change, in particular mitigation and adaptation measures;

Our answer to this is no; the multiplicity of Ofwat's duties are challenging enough and this is only likely to divert attention even further from the social component of sustainable development which is already neglected (paras 9.17-9.19).

- the review team calls on the UK Government and Assembly Ministers to promote a national education strategy working with stakeholders to influence public behaviour on water use. In addition, this sort of campaign will need national operational leadership; the review team invites views on who this should be.

We have written that, though most households (and many businesses and public bodies) could be helped to need a little less water, blaming increasing water stress on their behaviour is mistaken and, as prices continue to increase, could be counter-productive. If any kind of information campaign is to be undertaken though, public distrust of the water industry is such that it has to be by government (paras 10.1-10.3).

Chapter 11 Customer Involvement and Understanding

Emerging recommendations:

- the review team recommends that as companies are monopoly providers to household customers, the regulatory regime should include measures on customer experience in the Overall Performance Assessment which have a real and visible effect on companies and thus incentivise better handling of customers. It would welcome views on this recommendation and what the specific measure or measures should be to achieve this;

This is arguably the job of CCWater.

- the review team recommends that Ofwat should publish an annual analysis of companies' responsiveness to their customers;

To an extent, Ofwat already does this.

- the review team recommends that the 12 month limit within which Ofwat must pursue breaches and penalise companies is extended to 5 years;

Though not directly linked to it, this would coincide with the length of the investment cycle. We agree.

- the review team considers that water customers should be given more information on their bills. Building on best practice in some water, energy and council tax bills, it recommends water bills include the information set out in paragraph 11.8.2. It would welcome views on this recommendation;

The list omits only the cost of preparing bills containing all this information.

- the review team recommends that companies should consider whether best practice in some other companies or other sectors could help them engage better with their customers, such as 'meet the manager' sessions or going out into the community with local councillors and community representatives. Companies should strengthen their work to find out how their customers want to access the information they require, and use those channels in future. Companies should assess the effectiveness of their communication methods, particularly with their harder to reach and vulnerable customers, on a regular basis, and Ofwat should report on this activity;

While we agree that the companies and information about their services and dealings should be as accessible in different ways as possible, for the most part we think consumers are content for water services to be out-of-sight and would not react well to being door-stepped by company glad-handers.

- the review team welcomes further comments on the development of a UK model for a participatory budget approach by Ofwat and CCWater. This would have the aim of achieving better and earlier involvement of customers by companies in the formulation of company plans and proposals.

Though CCWater's remit is to represent the interests of consumers it is not certain that all, or even a majority of consumers would regard it as their representative, in particular since it lacks any accountability to them. It may be an effective "watchdog" but it consequently lacks the legitimacy to take part in a participatory approach which is probably better suited to more local and less technically complex matters than deciding water prices and what communities should receive in return.

Further questions:

- the review team's view is that as companies are monopoly providers to household customers, the regulatory regime should include measures on customer experience in the Overall Performance Assessment which have a real and visible effect on companies and thus incentivise better handling of customers. It would welcome views on this recommendation and what the specific measure or measures should be to achieve this;

Ofwat has already pre-empted this proposal but suggests that companies which answer their telephones more promptly should be able to charge a premium for their water; arguably, Ofwat's efforts might be better spent on more substantive matters but if this is to be taken seriously, we suggest that while companies failing to deliver should be fined accordingly, customers should receive an exemplary service without paying more.

- the review team welcomes views on the viability of such a participatory budgeting approach for the England and Wales water sector.

We do not think this is appropriate in these circumstances.
