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THE INTERIM REPORT OF THE WALKER REVIEW OF CHARGING FOR HOUSEHOLD WATER AND SEWERAGE SERVICES

A RESPONSE BY THE BLUEPRINT FOR WATER COALITION

AUGUST 2009

The Blueprint for Water was launched in November 2006 by a unique coalition of environmental, water efficiency, and fishing and angling organisations to call on the Government and its agencies to set out the necessary steps to achieve “sustainable water” by 2015 and to fully implement the Water Framework Directive (WFD). The Blueprint for Water is a campaign of Wildlife and Countryside Link (Link).

Link brings together 38 voluntary organisations in the UK concerned with the conservation, enjoyment and protection of wildlife, countryside and the marine environment. Our members practise and advocate environmentally sensitive land management and food production practices and encourage respect for and enjoyment of natural landscapes and features, the historic environment and biodiversity. Taken together our members have the support of over 8.3 million people in the UK and manage over 690,000 hectares of land.

This response is supported by the following 13 organisations:

- Angling Trust
- Association of Rivers Trusts
- Buglife – The Invertebrate Conservation Trust
- Froglife
- Herpetological Conservation Trust
- The National Trust
- Royal Society for the Protection of Birds
- Salmon & Trout Association
- Waterwise
- Wildfowl & Wetland Trust
- The Wildlife Trusts
- WWF-UK
- Zoological Society of London

1. Overview

The Blueprint for Water (the Blueprint) is very pleased with the importance this report attaches to wasting less water, one of the 10 steps to sustainable water set out by the Blueprint in 2006. The water environment is already under significant stress; the UK has less water available per person than most other European countries, and climate predictions are for hotter, drier summers, and more frequent drought. Combined with an ever-increasing population, less water will need to go further in coming years. We welcome the recommendations set out in the report, which, if accepted and taken forward by the UK Government and Welsh Assembly Ministers, will help insulate our economy (every sector of which is dependent on water) against climate change.

It is vital that we all recognise the true value of water, now and in the future, to people and the environment as we could never survive without water. The report's recommended package of regulatory reforms and incentives, more water efficient retrofits of homes and buildings (including linking these with energy efficiency), an increase in metering so that we pay for what we use, stronger leadership from Government and regulators and improved public engagement, together present a valuable outline for how this can be achieved.

2. Value of water

Our water environment is already under significant stress from over abstraction and over licensing. The ecological impact of abstraction, as well as our need for water, is both highly variable in time and space, which will become increasingly critical as the climate changes. This must be reflected in the way we value water.

It is essential that we act now to ensure we value water correctly to drive abstraction down to sustainable levels. Our special, aquatic ecosystems are at risk. As part of our 10 steps (2006) the Blueprint called for amendments or revoking of damaging abstraction licences to keep rivers flowing and wetlands wet. We support the use of regulatory mechanisms that place the true value on the water we abstract from the environment, to dis-incentivise damaging abstraction and drive water efficiency and reduce water wastage.

We welcome the recommendation that the true value of water should be used for decision-making in the regulatory system, and that the Environment Agency (the Agency) and Ofwat, in consultation with stakeholders, 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. Members of the Blueprint coalition look forward to working with the regulators as they develop this methodology, and the framework within which it would operate. This framework will need to recognise that value can be measured in several ways reflecting monetary, social, environmental, and well-being costs and benefits, in addition to the costs set out in section 5.3.6 of the report.

We agree that the 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 climate change projections (UKCIP 2009). These revised maps should then be used to identify where compulsory metering should be targeted firstly for maximum benefit. Combined with the scarcity charging recommended by the Cave report, we believe the two measures outlined in this section would ensure that the regulatory system fully reflected the challenges of mitigating and adapting to climate change which were far less understood and wide-reaching when the water industry was privatised twenty years ago.

3. Water efficiency

We welcome the priority attached to water efficiency in the report and we agree that progress has been made by governments, water companies and regulators in delivering water efficiency in recent years. However, in the face of climate change, there is a need for further and more effective measures so that the regulatory and legislative systems incentivise water efficiency as fully as possible, to ensure that it is mainstreamed in investments and decision-making. Water company spending on water efficiency is still minimal when compared with expenditure on supply-side measures (many of which are in themselves vulnerable to climate change). Water efficiency is a key tool in mitigating and adapting to climate change, both in reducing emissions from heating water in homes and businesses, and through reduced pumping and treating of water and wastewater, and in making less water go further.

The Blueprint would welcome a shift in the current reliance on capital expenditure in the regulatory system, which incentivises supply-side measures over demand management. For this reason, we support the report's recommendation that the operational efficiency of a company's water efficiency activity be calculated separately by Ofwat, instead of included in the overall operational efficiency calculation. This would work alongside the revenue correction mechanism which Ofwat has put in place for the Periodic Review 2009 (PR09).

In the long term, some of the Cave report's recommendations for the separation of upstream and downstream services and the introduction of competition could help move away from the current emphasis on capital investment, by providing separate incentives for two separate organisational interests; firstly, the bulk supplier with an interest in meeting retailer demand, and secondly the water services provider which would have a profit incentive in terms of services rather than the volume of water sold or the capital asset built. Combined with the Walker Review interim report's recommendations in this area, this would help drive a move from water companies as water suppliers to water service providers.

The Blueprint supports the recommendation for a national water efficiency scheme. This would build on the good work by some water companies and other partners in recent years in retrofitting tens of thousands of homes; including in partnership with Blueprint member's Waterwise, social housing providers and energy companies. We welcome the proposal to place this on a statutory basis, which would help the water companies to deliver their water efficiency targets, now and in the future. We believe this statutory basis, combined with the regulatory and other incentives described in the report and commented on below, will help ensure that the full potential of water efficiency in mitigating and adapting to climate change is realised. As part of the scheme's focus on low-income customers, we suggest starting with social housing providers as working in partnership can deliver the best results. However, the Blueprint calls for every home to be made water efficient, which could be tied in with the Government's programme to retrofit every home for energy efficiency in the next two decades.

We agree that the progress on ensuring new homes and buildings are water efficient should be maintained, and consider that this should be regularly assessed, in terms of how new regulatory structures such as the Code for Sustainable Homes and the amendments to Building Regulations are actually delivering, and both the standards themselves, and enforcement of them, tightened accordingly. However, as the report recognises, the majority of water demand will continue to be from existing housing, so regulation, standards and other measures to drive the water efficiency (and wider sustainability) of this stock remains essential.

The Blueprint supports the report's recommendation that synergies between water and energy be fully exploited to ensure that the water efficiency of existing homes is achieved as economically as possible. We would like the UK Government to commit to this explicitly in their final Heat and Energy Saving Strategy, and Community Energy Saving Programme; this would also reflect Government policy and strategies on climate change mitigation and adaptation. The Decent Homes standard, or its replacement, should also include water efficiency. For example, at present, there is no requirement for showers, and a large proportion of social housing units contain baths only.

Building on this point, we agree that 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. However, the current process of CERT accreditation for hot water efficiency measures is complicated and acts as a barrier to such activity.

The Blueprint continues to support the view that, where water companies undertake retrofitting projects themselves, they should accrue any CO₂ savings for measures accredited in the CERT scheme. They should then sell these CO₂ savings to energy companies to use against their targets or use against their own Carbon Reduction Commitment. This would clearly incentivise large-scale water efficiency programmes. We also believe that such markets must be supported by a far more transparent and thorough evidence base than the current CERT programme. The current programme appears to accept limited evidence of carbon savings from hot water efficiency measures, is based on a large number of assumptions, is not made public, and does not require follow-up studies to confirm savings. Some assumptions will be necessary but the scheme could be adapted to make it easier to certify hot water efficiency products, assuming robust evidence can be presented.

We agree that water companies should be incentivised to work together with social landlords and housing associations to improve the water efficiency of existing homes. We also strongly agree that the UK Government and Welsh Assembly Ministers 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. Fiscal and financial incentives currently applied to energy efficient products, such as VAT reductions, should also be applied to water efficient products and argued for in EU policy discussions. In addition, we would like to see a recommendation in the final report which recognises that Government procurement could single-handedly transform the market for water efficient products. For example, through a spend-to-save scheme, where investment is repaid through savings in water bills, and where mandatory Government procurement standards reflect the best currently available on the market, and are regularly reviewed.

The report recommends that the UK Government and Welsh Assembly Ministers should promote a national education strategy working with stakeholders to influence public behaviour on water use, and that regional and local community-based campaigns on water efficiency should be developed, using the key national messages, but targeting local issues. We agree that a national strategy, working with stakeholders in its development and delivery, and supported by a grassroots local element, to drive behaviour change in this area, is necessary and important, as consistent messaging has been proven to be effective in this regard, and stakeholders agree on the need for such a move.

4. Metering

The Blueprint supports the criteria set out in Chapter 3 for a fair charging system. We fully agree that volume consumed should be the long-term basis of charging. We also agree that issues of affordability should be resolved outside the main charging system and therefore should not be used to avoid a move to universal metering. We agree that the current system of charging is outdated and that a new system must be implemented as soon as practicably possible.

The Blueprint supports the statement in the report that the case for compulsory metering is strongest where the benefits are highest. However, we remain committed to full water metering in England and Wales by 2020 (supported by measures to protect vulnerable groups). We believe that, using the criteria in this report, the date by which universal metering would be achieved would be far beyond 2020. We consider this very unambitious, given that the draft PR09 determinations approve funding for a move from 36% metering now to 49% by 2010 across England and Wales, and to 56% across water-stressed areas. We also believe that an emphasis on areas where the true value of water is high would essentially be re-establishing the current criteria of water-stressed areas. With to date only a minority of companies in water-stressed areas applying for and being granted the licence to

compulsorily meter in those areas, it is clear that a regulatory or political driver is necessary alongside incentives and the removal of legal barriers.

The Blueprint welcomes the review's recognition of the true value of water as playing a role in assessing the costs and benefits of water metering. Current definitions of water scarcity appear to reflect current water resource issues without assessing vulnerability to future issues or to the value and vulnerability of the water environment. We therefore support the report's recommendation that further work be taken forward on the value of water. In the context of the recently-updated UK CIP's scenarios, it is essential that the UK is able to better measure and manage its demand for water; a selective metering programme would not deliver this.

We would like the final report of the Walker Review to set a deadline of full metering by 2020 (supported by measures to protect vulnerable groups). Priority within a company should be given to the first categories set out in the draft report (for high discretionary water users and where the true value of water is high). We continue to believe, that this is a political decision which, once taken (and metering is now accepted as the most sustainable way to pay for water by both the Government and the Conservative Party), would simply be delivered by the industry and its regulators. As the report states, strong leadership in achieving the transition to metering will be needed from Government.

We support the recommendation that Ofwat be asked to lead the delivery of metering in a proactive way, publishing a report on progress every one or two years. This should be within the framework of a political decision to deliver universal metering in England and Wales by 2020 (supported by measures to protect vulnerable groups).

The Blueprint supports the recommendation that Ofwat set up a smart meter group with the Agency and water companies and we believe it would be useful for this group's membership to go wider than those stakeholders. For example, it should include representatives of the energy industry and Ofgem to link with the Government's programme of smart energy meters for all homes, and also Blueprint coalition members, to ensure the links with water efficiency and the water environment are maximised. We also agree that the incremental cost of adding water meters to the smart energy communications system being undertaken by Government should be fully examined, in terms of costs and benefits. We also agree that, 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. This would need to include not only the physical compatibility of systems, but also how the large increase in data from smart metering would be collected, stored, analysed and passed back to customers.

In general, customers bills must be made easier to understand and more transparent so that they are aware of what they are paying for. The Blueprint feels that the cost of environmental improvements should be clearly stated as "willingness to pay" data is only truly valuable in the context of informed customers. Clear information on water charging based on use and surface water drainage will incentivise more sustainable behaviour, for example through fitting water efficiency devices and systems of sustainable drainage.

5. Protection for vulnerable groups

We agree that without appropriate information concerning occupancy, standard step tariffs are difficult to apply accurately, but we welcome the report's recommendation that Ofwat should not overlook the potential for tariff structures at this point, and that further evidence is required. We believe it is in part the role of the water industry and its regulators, acting within parameters laid down by Government, to address affordability issues; the nature of flat-rate

cross subsidies is a result of current industry charging structures. Current charging structures mean that the water industry is already (intentionally or not) subsidising and protecting many of its customers. We agree, that water companies should not necessarily be the sole delivery body on affordability, and that the principle of full cost recovery for water provision should be applied. However, as the report sets out in detail, “bad debt” in the form of unrecovered costs from customers is a particularly significant issue in the water industry. Therefore the water industry should attempt to find a system of cost recovery which makes bills as easy to pay as possible. There is an industry role in working with Government during the transition to full metering, to protect vulnerable groups. Indeed there are already tariff trials being undertaken by some water companies.

We support the principle of a regional or national water benefit, to protect vulnerable groups as we move towards universal metering funded through either the regulatory or benefits system.

6. Climate change duty for Ofwat

We agree that Ofwat’s current sustainable development duty should be extended to make specific reference to consideration of climate change mitigation and adaptation. We believe this would help ensure that the full potential of water efficiency is realised, and incentivised in the regulatory system.

7. Highways drainage and sewerage services

The Blueprint calls for an upgrade of the sewage system and universal adoption of Sustainable Urban Drainage Systems (SUDS) to keep sewage and pollution out of homes, rivers and beaches.

The Blueprint supports the recommendation that Ofwat should review water companies’ charging for surface water drainage, to provide fairness to customers and provide incentives for retrofit of SUDS. We feel that such a system should include:

- Transparency, so customers know how much of their bill is spent on surface water drainage;
- Advice to customers, so they are aware of how much they can save and options available for SUDS retrofit;
- The opportunity to apply for subsidised or free equipment to retrofit SUDS ideas to a property or estate.

The Blueprint also supports the transfer of highways drainage charges to local authorities, as this better reflects the polluter pays principle and will encourage the use of SUDS.