


SECONDS OUT, ROUND FOUR

The fight is on to maintain high levels of investment in the environment and water infrastructure, without charging customers too much.

Words Karma Ockenden





Price rises of 70% sound a lot, don't they? But this is what Northwest water company United Utilities (UU) has said will be necessary between 2005 and 2010 if it is to fund a proposed £3.8 billion investment programme. In its recently published draft business plan for the period, UU says the average domestic bill would have to rise from £243 in 2004/5, the end of the current pricing period, to £416 at the end of the next pricing period in 2009/10. Northwest businesses won't get off the hook, either. Regional consumer watchdog WaterVoice Northwest estimates charges to a typical corner shop will rise by about £600 by 2010, while major manufacturers could see "well over £100,000" added to their bills.

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The percentages sound scary, but can the bigger bills be justified? UU argues the higher bills are simply necessary if the company is to meet its statutory obligations. Graeme Sims, head of water regulation at the Warrington-based water utility, points out that UU hasn't just decided to go on a spending spree of its own accord, it has simply costed what the government wants to achieve for the water environment and water customers. “Our business plan sticks closely to the guidance we have received from ministers,” he says. “We have only included actions that are set out as ‘essential and clear’.”

The initial guidance from ministers stresses the importance of maintaining water and sewerage assets to minimise water leakage, sewer flooding and pollution incidents. It also stresses the need to build on the environmental and drinking water quality improvements already made.

This last point is backed by green guardians the Environment Agency (EA) and English Nature (EN). In ‘A Good Deal for Water’, their policy document on what needs to be spent to safeguard the water environment in 2005-10, the EA and EN state that water companies need to invest a further £5 billion on top of the £50 billion invested since 1990.

A look at some of the Northwest schemes earmarked under the EA's programme shows the kind of benefits on offer. Sites of national and international importance will be conserved. For example, the Abram Flashes Site of Special Scientific Interest south of Wigan will be restored by tackling sewer overflows discharging to Borsdane Brook. Tourism, for example around the Salford Quays and the Liverpool docks, will be boosted, and leisure pursuits - canoeing, sailing, walking and bird watching - will be encouraged. Fish stocks will prosper, and the plan is to investigate UU's impact on the beaches of the North Wirral coast, with a view to achieving the coveted Blue Flag beach status in the future. EA chief executive Barbara Young says: “Our environment programme asks water companies to invest in improvements to around 4,000 assets across England and Wales. This will safeguard some 6,500km of rivers and over 2,000km of lakes, ponds, wetlands and coastal waters. The healthier and more attractive the environment, the more we will see knock-on benefits for leisure, recreation, tourism and the wider economy, the value of which we estimate to be of the range from £5-8 billion.” Young says the extra money the plan would add to bills is “the price of a can of fizzy drink [50p] a week” per household... “a bargain”. So, far from the higher prices going to boost UU's profits or “fat cat” salaries, customers will get better services, cleaner beaches and rivers and improved water standards for their extra cash.

UU has already done a lot to improve the Northwest's water environment. Since 1990 it has funded £8 billion of improvements. Past initiatives include a £500 million ‘Sea Change’ programme to help clean up the coastline and enough cash to regenerate the notoriously polluted Mersey to such an extent that it attracted salmon for the first time in around a century in 2001.

But there is still lots to do. UU's business plan admits: “Despite major improvements in recent years, river and coastal water quality still lags behind other regions.” This is a product of both geography and history. Sims says: “We have all the features conducive to a big capital programme - a long coast line and many rivers.” The Northwest's place in history as the hotbed of the industrial revolution also has its part to play. With water quality standards lower than in many other areas of the country from the outset, UU has further to go to reach tip top condition than many other water firms. Hence UU's capital spending needs for 2005-10 are extensive. The company says it will be necessary to invest £3.8 billion in the period. Of this, £2.2 billion will go on quality improvements, such as better drinking water quality, higher standards of wastewater treatment, finding new outlets for sewage sludge, conserving nature and ensuring European standards are met at all Northwest beaches. Sims explains that on the ground level, this kind of investment means 400km more river will be able to support fish life, and hundreds of thousands of lead pipes will be replaced.

A further £1.35 billion is earmarked for maintaining UU's 40,000km of water mains, 39,000km of sewers, 192 reservoirs and 737 treatment plants, so it can go on supplying 2,000 million litres of water a day and treating 2,200 million litres of wastewater with minimal damage to the environment. “Our assets need more tender loving care than they've had”, Sims says, illustrating that the cash boost will mean fewer fines and better

60-second expert

- Every five years, the prices water companies can charge, and what investment they need to make to satisfy customers, environmental concerns and investors, are set by industry regulator Ofwat. The latest round of this process, known as the price review, is in full swing and will set prices for 2005-10.
- The Secretary of State's initial guidance to Ofwat emphasises the importance of maintaining assets (for example, to reduce sewer flooding and control leakage) and to build on the quality improvements achieved to date.
- United Utilities says it needs to invest £3.8 billion between 2005 and 2010 to deliver its three priorities: delivering a reliable and secure water service; solving the problems that matter most to customers; and improving environmental and drinking water standards. This means bill rises of 70%, making average annual bills £270 by 2006; £303 by 2007; £337 by 2008; £374 by 2009; and £416 by 2010.
- The Environment Agency has set out its preferred environment programme for the Northwest during the period, which will benefit rivers and coastline, not to mention countless anglers, water-sports enthusiasts, residents and tourists.
- Some consumer groups have reacted angrily to the proposed price rises. Other groups argue that the benefits of what can be achieved by 2010 far outweigh the costs.
- Ofwat will balance the arguments and make a final decision on prices and investment spending for 2005-10 in November 2004.

waters because discharge consents will be met more consistently.

Finally, £250 million will go on improving customer service, particularly on preventing sewer flooding and reducing the risk of bad smells from treatment works. Sims stresses UU is doing what it can to keep customer charges as low as possible. “Our challenge is to meet our statutory charges as cost effectively as we can, and we're trying to do that,” he says. It has left non-essential works out of its plan. It is using other sources of finance where possible for example, it has borrowed around £3 billion since 1989, and in July asked its shareholders to raise a further £1 billion (half of which has now been raised, with the rest to come after 2005).

But it has no choice but to recoup the rest from its customers. In fact, so onerous is the current investment programme, the company has asked Ofwat whether it can

alter its current five year settlement to raise prices from April 2004-5, as well as in the next period. If Ofwat allows the price rises next year, this will offset some of the increases UU says are necessary after 2005. Sims also stresses UU is being straight with its customers by providing realistic cost estimates now rather than closer to 2005. "We're being responsible about it," Sims says. "We're not waving the flag for this plan, but at least we've started the debate. We're conducting as open and transparent a process as we can so people in the Northwest can have their say."

It is not just the Northwest that will be affected by bigger bills between 2005 and 2010. The water industry as a whole says bill rises of a third will be necessary during the five years, taking the average 2004/5 household bill of £240 to £315. This will pay for investment of £21 billion across the country, up 25% on spending in 2000-05. Firms say they need £7 billion for more environmental and drinking water quality improvements, mostly to comply with a steady stream of recent Directives from European Commission such as the Urban Wastewater Treatment, Freshwater Fish, Bathing Waters and Habitats and Birds Directives. A further £4 billion will go on meeting growing demand, but the bulk, some £8.5 billion (up 20% on the 2000-05 figure) will be spent on maintaining sewers, mains and plants, many of which are in a pitiful state.

The rejig is all part of what's known as the price review. Because water companies are monopoly businesses, whose activities have an enormous impact on the environment and on the health and wellbeing of the population, the prices they can charge their customers are controlled by a regulator, Birmingham-based Ofwat. Every five years, Ofwat, under government guidance, looks at what water companies need to spend to protect public health and the environment, to serve customers properly and to remain buoyant businesses in which people want to invest. It also looks at what customers can and should pay. It balances all these factors and makes a decision on what investment needs to take place, and consequently how much customers have to pay.

The current price review is known as PRO4, while the investment programme set for the industry is called the Asset Management Plan. The next one will be the fourth, hence AMP4. The government will issue further and final guidance to Ofwat in January. Then Ofwat will publish its draft prices and investment plans in July 2004, with final decisions out in November 2004. The new prices and spending will kick off in April 2005.

So far, Ofwat has played its cards close to its chest. It has acknowledged prices will have to rise, but has given little indication yet of whether it endorses the numbers in company business plans. Director general Philip Fletcher says: "These draft plans provide vital information to inform decisions that will need to be taken before we finalise price limits next year. We will be scrutinising these very carefully. It is early days in the process and we need time to review the evidence provided."

Price rises of some kind are inevitable. What remains to be agreed is exactly how much bills have to rise by, and just what the money will be spent on. One thing is certain. All the investment made will help achieve an incoming quality standard from Brussels. The Water Framework Directive will be transposed into UK law this December. Its ambitious objective is 'good' ecological quality for all watercourses in the European Union. A pilot study is already underway on the River Ribble in Lancashire, led by the EA and supported by the Mersey Basin Campaign. Although no investment is being directly committed to the Directive under AMP4, all the investment made will go towards its eventual achievement. Funds will be dedicated to the Directive under AMP5, although this fifth AMP period may not be one as we know it. Ofwat is considering lengthening review periods in future, to make the pricing and investment cycles more in tune with the water industry's long term needs.

It is easy to be scared, outraged, confused by the prospect of big price rises. But before jumping to conclusions and throwing up our arms in protest, we should consider what we get for the money, and what good value it is. After all, who would want the Mersey to go back to how it was? How much benefit has the community got from its clean-up? These are the questions we should be asking ourselves.

"The outcome of the price review is critical to achieving the objectives of the Mersey Basin Campaign and the Northwest region: sustainable economic development balanced with improved quality of life for our people. For this region to succeed in the twenty-first century, a healthy environment and good water quality are vital. Citizens should not have to put up with poor sewerage facilities, unpleasant aromas, flooding and dereliction. This is a real challenge for the government and Ofwat because of lobbying from consumer groups and some sections of industry committed to keeping prices down - this could delay this essential programme. The government and Ofwat need to realise that the people of the Northwest should not be disadvantaged and should not have to put up with antiquated and outdated infrastructure. It's certainly not value for money to put off investment for short term savings when we'll be forced to make it eventually to comply with the Water Framework Directive."

Joe Dwek chair of the Mersey Basin Campaign.



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