Surface water drainage charge (rain tax)

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This note introduces the debate surrounding the surface water drainage charge, or "rain tax".

Following a change in legislation, water companies are now permitted to introduce surface water drainage charge concessionary rates for community groups.

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1 Surface water drainage

Surface water is rainwater that falls on properties. This water has to be channelled and drained away, particularly from hard surfaces such as roofs and car parks. In many cases water is drained into public drainage systems that are managed and maintained by water and sewerage companies.

There are significant costs associated with such maintenance—approximately £600 million per year.[1] Water companies can charge customers for this service.

Without maintenance of the drainage system, sewer and surface water flooding can occur. Two-thirds of the 57,000 homes affected by the 2007 floods were flooded due to surface water runoff overloading drainage systems. Some 80,000 properties are currently at very high risk of surface water flooding. Such events are predicted to increase with climate change.[2]

2 Old charging system

In the past, charges for the provision of surface water drainage services were based on the rateable value of the property. The rateable value represents the rental income that may be achieved by a property.

However, rental income is not a good indication of how much surface water may drain from a property. A large property with a low rental income might not pay its fair share for the maintenance of drains.

The system discouraged effective management of surface water:

> …charges for surface water drainage, highway drainage and foul sewage are often encompassed into the general charge for sewerage. Charges for sewerage services make up more than half of the average bill that householders pay to water companies. The lack of transparency of the proportions of each of the three elements of the sewerage charge means there is no incentive for householders, businesses and highway authorities to minimise their runoff.[3]

3 Benefits of the new charging system

The old pricing structure provided little incentive for property owners to put in place measures to reduce their impact on the drainage system. Now that charges will be on the basis of the area that drains into public sewers, owners are incentivised to put into place measures to divert rainwater away from drains thereby reduce flood risk.

Such measures include permeable surfaces on car parks, soak aways and green roofs. Such measures, known as sustainable urban drainage (SUDS), are important in reducing the risk of surface water flooding. When these devices are installed the surface water drainage charge would be reduced—to zero if no surface water drains into the drainage system.

Indeed, it was partly due to the role of surface water in the 2007 floods that led the Pitt Review to recommend that the "automatic right to connect surface water drainage of new

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[1] *Why do I have to pay for surface water drainage?*, Ofwat, 19 October 2010
[2] *Making Space for Water: Urban flood risk & integrated drainage, IUD pilot summary report*, Defra, June 2008
[3] *The Pitt Review: Learning lessons from the 2007 floods*, Cabinet Office, 25 June 2008

developments to the sewerage system should be removed", to encourage the adoption of SUDS.[4] The Pitt Review said:

> Water companies could also play a role in incentivising positive behaviour. However, in their report on flooding, the EFRA Select Committee found that the current charging system does not encourage householders, businesses and highway authorities to minimise surface water runoff at source and that as a result a lot of surface water is routed into public sewers, which themselves have limited drainage capacity.

The Review outlined how similar incentives in Germany had led to the widespread adoption of SUDS:

> In Germany, adoption of transparent surface water drainage charges and subsidies has encouraged a high amount of retrofitting of SUDS, particularly green roofs and water reuse systems. In North-Rhine Westphalia, for example, approximately six million square metres of surface area was disconnected from the sewer between 1996 and 2004.
>
> In contrast, water companies in England offer rebates on the waste water charge for customers who can prove that they do not make any use of the public sewer to dispose of surface water, but uptake is limited, at typically 2 to 5 per cent of household customers, and the rebate is modest, typically less than £40. In England there is little uptake of property-level SUDS.[5]

OFWAT also assert that the old charging regime led to an unfair situation "where a small city centre newsagent could in effect end up paying in part for services used by a large out-of-town factory".[6]

The EFRA select committee welcomed the changes:

> We believe more must be done to reduce the volume of water run-off going into the public sewerage system by existing householders. Those flooded are often inundated by other people's water; it is therefore reasonable in principle that those who create the runoff should bear the cost of managing it. We welcome the Government's decision to consider, as part of its Water Strategy, changing surface water charging to reflect the "polluter pays" principle. Ofwat should insist that water and wastewater companies state the proportions of customers' bills that are made up of foul water drainage, surface water drainage and highways drainage. Property owners who have, or retro-fit, SUDs should receive a rebate on the surface water component of their water company bill. We believe this would provide an incentive for householders and businesses to adopt SUDS, such as green roofs, as has been the case in other European countries.[7]

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[4] *The Pitt Review: Learning lessons from the 2007 floods*, Cabinet Office, 25 June 2008
[5] ibid
[6] *Why is using site area the best system of charging for surface water drainage?,* Ofwat, 19 October 2010
[7] Environment, Food and Rural Affairs Committee, *Flooding*, 23 April 2008, HC 49-I, 2007-08

4 Controversy—the "rain tax" campaign

There has been controversy surrounding these changes due to potential bill increases for some not-for-profit and charitable organisations.

Drainage charges were, and still are in places, based on rateable values. As not-for-profit and charitable organisations could obtain rate relief they were also often exempt from the surface water drainage charge.

As drainage charges were to be based on a property's impact on the drainage system, organisations may have seen a large increase in charges if they owned large properties and did not reduce their use of the drainage system. However, some not-for-profit organisations would actually have seen a reduction in charges:

> It is also important to recognise that many organisations have seen their [drainage] charges fall as a result of this change… For example, in the area served by United Utilities, more than 300 charity shops have seen their [drainage] charges reduced as a result of these changes.[8]

Some groups facing increased charges lobbied on this issue. The phrase "rain tax" was adopted by affected parties to describe the charge instead of the more accurate "surface water drainage charge". Various groups released estimates of the cost. The Scout Association said:

> Groups have reported an increase in water costs of between £60 and £600 a year. This represents between 1% and 25% of their overall budgets.
>
> For example, 1st Weston and Weston Point Scout Group in Cheshire are now being charged £564 each year. When added to their metered water charges this accounts for around one third of their total annual budget.
>
> The changes are not universal but will affect Scout Groups who own or lease their Meeting Place. At present only some of the water companies have implemented the charges but Ofwat, the water regulator, is determined to see all water companies introduce them by 2010.[9]

In September 2009 the Labour Government announced a legislative change that would allow water companies to offer reduced rates to certain organisations.

5 Flood and Water Management Act 2010—the current situation for community groups

The Labour Government took forward its commitment in the *Flood and Water Management Act 2010*, which allows water companies to introduce concessionary rates for community groups. The legislation does not make it compulsory for a water company to introduce concessionary charges.[10]

These powers came into force on 1 October 2010. Defra issued guidance to help utilities to decide in what circumstances concessionary rates should be offered in December 2011.[11] It

[8] *How does charging for surface water drainage by site area affect community organisations?,* Ofwat, 19 October 2010

[9] *Rain Tax Home: letter sent to water companies*, The Scout Association, 5 January 2009

[10] *Guidance on Concessionary Schemes for Surface Water Drainage Charges*, Defra, 12 July 2010

[11] *Guidance on Concessionary Schemes for Surface Water Drainage Charges*, Defra, 12 July 2010

can be seen here. Some companies have now started to charge community groups reduced rates for their surface water drainage.[12]

[12] *Information for community amateur sports clubs*, United Utilities, viewed 30 November 2011