



The Water Industry (Financial Assistance) Bill 2010-12

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The *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12, had its First Reading on 2 February 2012. Second Reading will take place on 29 February 2012. The Bill only applies to water or sewerage undertakers whose areas are mainly in England.

The Bill contains two measures. One will give the Government the discretion to reduce water bills in certain regions. The other will give the Government the discretion to provide financial assistance for major water and sewage infrastructure projects.

Initially the Government plans to use these powers to reduce water bills in the South West of England and to support the Thames Tunnel project.

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1 The Bill

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The Bill contains two measures. One will give the Government the discretion to reduce water bills in certain regions. The other will give the Government the discretion to provide financial assistance for major water and sewage infrastructure projects.² The two measures will be added to the *Water Industry Act 1991*.³

2 Clause 1—financial assistance to reduce charges

This clause will give the Government the power to give financial assistance to a water and sewerage company in order to secure a reduction in household bills.⁴ The Secretary of State can give this assistance in any form including grants, loans and guarantees.

The power is “discretionary and may be exercised for such reasons as the Secretary of State feels desirable. It may be exercised in respect of all customers in an undertaker’s area or a particular description of customers in such an area. The Secretary of State may make the assistance subject to terms and conditions”.⁵

2.1 Why has this measure been proposed?

For a number of years there has been a campaign to reduce water bills in the South West. Water and sewerage bills for South West Water customers are significantly higher than elsewhere in the country. In 2010-11 the average bill was £486 compared to an average £339 elsewhere. Unmetered customers in the region have much higher bills—average £721.⁶

Bills are higher because of a lack of sewerage infrastructure when water and sewerage services were first privatised—there was a reliance on disposal of raw sewage from 200 sea outfalls. Most of the costs of addressing this pollution, over £1billion, fell to local water customers in the region—although at privatisation the Government injected finance into the company equivalent to 20% of the capital programme.⁷ More background on this issue can be found in the standard note on [Water bills in the South West](#).

¹ *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12, [Explanatory Notes](#)

² Defra, *Water Industry (Financial Assistance) Bill* [on 27 February 2012]

³ *ibid*

⁴ The *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12

⁵ The *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12, [Explanatory Notes](#)

⁶ Oliver Bennett, *Water bills in the South West*, House of Commons Library Standard Note SN5894, 4 March 2011

⁷ *ibid*

In Budget 2011 the Government said that it was “committed to supporting households who face water affordability pressures and households in areas with particularly high water bills, such as the South West”.⁸ It conducted, a consultation, [Affordable water: a consultation on the Government’s proposals following the Walker Review of Charging](#), on the way forward.

In the Autumn Statement 2011, the Government announced that it had “decided to fund South West Water to enable it to cut bills by £50 per year for all household customers”.⁹ This payment equates to around £40 million per annum.¹⁰ The payment will be made to South West Water, which will reduce each household customer’s bill by £50.¹¹ This will reduce bills to a level more in line with the region with the second highest bills (Wessex Water, £408 p.a.).¹²

A one-off payment of £700 million proposed by the Walker Review, which would have reduced bills in perpetuity, was rejected by the Government as being “unaffordable”.¹³

The Government intends that bills be reduced from April 2013.¹⁴ The funding will come from the HM Treasury Reserve until the end of the spending review period in 2014-15. After that time funding will come from the Department for Environment, Food and Rural Affairs (DEFRA) budget.¹⁵ The payment will continue until “at least the end of the next spending review period”.¹⁶

Although the Government intends to use these powers to cut bills in the South West, under the Bill they could be used elsewhere if the Secretary of State “considers it desirable to do so”.¹⁷

3 Clause 2—financial assistance for major works

This measure will enable the Government “to provide contingent financial support for exceptionally large or complex water or sewerage infrastructure”. This funding can be provided in a number of forms and after the works have been completed.¹⁸

3.1 Why has this measure been proposed?

Delivery of major water and sewerage infrastructure improvements has been identified by the Government as important to the UK economy.¹⁹ The Government has expressed particular support for the proposed [Thames Tunnel](#) to deal with the overflow of large amounts of raw sewage into the Thames.

However, the [National Infrastructure Plan 2011](#) identified that there could be future constraints on the raising of finance for such major infrastructure projects. In particular it

⁸ HM Treasury, *Budget 2011*, HC 836

⁹ HM Treasury, *Autumn Statement Cm 8231*, November 2011

¹⁰ Defra, *Affordable water: a consultation on the Government’s proposals following the Walker Review of Charging*, April 2011

¹¹ HC Deb 16 January 2012 c459W

¹² Defra, *Affordable water: a consultation on the Government’s proposals following the Walker Review of Charging*, April 2011

¹³ Defra, *Affordable water: a consultation on the Government’s proposals following the Walker Review of Charging*, April 2011

¹⁴ Water for Life: The Water White Paper Cm 8230, December 2011

¹⁵ HC Deb 16 Jan 2012 c459W

¹⁶ Water for Life: The Water White Paper Cm 8230, December 2011

¹⁷ The *Water Industry (Financial Assistance) Bill* 2010-12

¹⁸ *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12, [Explanatory Notes](#)

¹⁹ Water for Life: The Water White Paper Cm 8230, December 2011

found that the private sector may be unwilling to bear all the risks. It proposed a range of solutions to this including the use of government guarantees:

The Government recognises that the private sector cannot always bear every risk in major new projects. It will consider using transparent forms of guarantee to support specific projects, where this provides best value for money for taxpayers and users and subject to affordability.²⁰

The Bill will give the Government the power to give such a guarantee to water and sewerage companies in connection to the construction or maintenance of large or complex infrastructure projects like the Thames Tunnel. Under the powers the Government can give financial assistance:

...in any form, including grants, loans, guarantees and indemnities, the provision of insurance and by acquiring shares or securities in a body corporate.

The power is discretionary and may be exercised for such reasons as the Secretary of State feels desirable. The Secretary of State may make the assistance subject to terms and conditions.²¹

The Government has indicated that offering such a guarantee for the Thames Tunnel may reduce the costs of the project for Thames Water customers and tax payers:

Financing a tunnel of this size at a cost that is value for money for customers is a challenge. The Government believe that the private sector can and should finance this project but accept that there are some risks that are not likely to be borne by the private sector at an acceptable cost. It is willing in principle to provide contingent financial support for exceptional project risks where this offers best value for money for customers and taxpayers. However, I will want to be assured that, when offering this contingent support, taxpayers' interests remain a top priority and that the taxpayer is appropriately protected by measures that minimise the likelihood and impact of these exceptional risks.²²

The Consumer Council for Water welcomed this measure:

This will help secure finance for the scheme which might otherwise have difficulty in raising capital or make the cost of capital very expensive. The Bill also provides for financial assistance to be given to water and sewerage undertakers to secure a reduction in water and sewerage bills where Government considers it desirable to do so. We welcome any intervention that will help to minimise the risk and financial burden carried by Thames Water's customers.²³

²⁰ HM Treasury, *National Infrastructure Plan 2011*, November 2011

²¹ *Water Industry (Financial Assistance) Bill*, Bill 299 of 2010-12, [Explanatory Notes](#)

²² HC Deb 3 November 2011 c41WS

²³ Consumer Council for Water, *Thames Tunnel: Second Phase of Consultation by Thames Water*, February 2012