



The Water Bill

Standard Note: SN06638
Last updated: 15 May 2013
Author: Oliver Bennett, Policy Analyst
Section: Science and Environment

The Government announced its intention to introduce a Water Bill in the Queen's Speech 2013. [The Bill will apply to England and Wales](#), with a small number of provisions extending to Scotland.

The Bill will probably focus on increasing competition in the water sector. It will also aim to deliver other objectives including the better management of water supplies and more sustainable water abstraction. The Government also indicated that the Bill could be used to address the availability and affordability of flood insurance.

It is not known when the Bill will be introduced, or what its exact contents will be.

This briefing sets out background information on the Bill. Members and their staff can contact Oliver Bennett for more detailed information. A detailed Research Paper will be produced for the Second Reading stage of the Bill in the House of Commons.

Contents

1	The water sector	2
2	Origins of the legislation	2
	2.1 The Water White Paper	2
	2.2 Competition	3
3	The Draft Water Bill	3
4	Pre-legislative scrutiny by the EFRA select committee	4
5	The Queen's Speech	4
6	The current state of play	4

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to [our general terms and conditions](#) which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

1 The water sector

The water companies are regional monopolies. They were privatised in this way because they are natural monopolies—each water company area had a dedicated pipe network and dedicated water supplies. These networks are only weakly connected to other areas, so privatisation could not happen in the same way as the energy sector (where there is a national grid).

Ofwat, the regulator, controls what these monopolies can charge customers. It sets water bills for customers through the [Price Review](#) process. Ofwat aims to set charges at a level that enables water companies to carry out and finance their functions, while protecting the interests of consumers.¹ More information about the Price Review process [can be found here](#).

2 Origins of the legislation

Water resources are under pressure in England and Wales; south east England is classed as water-stressed. Additional natural supplies of water are not available in many areas, and water abstraction in some areas is at environmentally damaging levels. Pressure on these supplies is predicted to increase in future because of climate change, demographic changes and environmental standards.²

Added to these issues are concerns about the cost of water. Current water bills might not be affordable for a large number of people. Water affordability problems have grown with real-term increases in water bills of around 45% over the past 20 years.³

The Labour Government commissioned two wide-ranging independent reviews of the challenges facing the sector: Anna Walker’s [Review of Charging for Household Water and Sewerage Services](#); and Professor Martin Cave’s [Review of Competition and Innovation in Water Markets](#).

In its Coalition Agreement the Government said that it would “examine the conclusions of the Cave and Walker Reviews, and reform the water industry to ensure more efficient use of water and the protection of poorer households”.⁴

2.1 The Water White Paper

The Water White Paper, [Water for Life](#), set out Government’s intended policy direction for the water sector in the light of these reviews and other developments. It was published in December 2011.

Much of the White Paper set out how Government intended to approach the challenges posed by increased water scarcity. Policies included: reform of the abstraction regime; the development of infrastructure; improving water efficiency; proposals for company social tariffs to address water affordability issues; and a Government subsidy to reduce high water bills in the South West.

¹ “Our duties”, *OFWAT* [online], accessed 15 May 2013

² “The case for change—current and future water availability”, *The Environment Agency*, accessed 15 May 2013

³ O Bennett, [Water bills - are they affordable to all?](#), House of Commons Library Standard Note SN06596, 10 April 2013

⁴ [The Coalition: our programme for government](#), HM Government, May 2010

However, perhaps the most important parts of the White Paper dealt with market reforms to increase competition in the sector. A number of changes were proposed, including extending retail competition and developing an upstream water supply market. These proposals will be delivered by the Water Bill.

2.2 Competition

It is thought that greater competition in the water sector could stimulate innovation. Competition could also deliver benefits to the environment and consumers by, for example, better reflecting the cost of water in bills and through a possible reduction in bills.⁵

Improved competition was estimated in 2009 to be worth some £2.5 billion to the economy over 30 years.⁶ As a result there has been interest in increasing competition in the sector for a number of years.

There is already some limited competition between water companies. Some groups of users and those consuming large amounts of water can already switch their supplier through [Inset Appointments](#) (introduced in 1990) or the [Water Supply License](#) regime (introduced in 2005). However, only limited use has been made of these arrangements.⁷ The Government said that the arrangements had “not worked well” and that barriers in the legislation have meant that “only one customer has changed suppliers in six years”.⁸

3 The Draft Water Bill

[The Draft Water Bill](#) was published by Defra on 10 July 2012. The Draft Bill’s provisions sought to implement those aspects of the White Paper that required legislation. For the most part these related to the reform of the water market to introduce increased competition in the sector.

The Draft Bill contained provisions intended to remove or simplify the legislative and regulatory barriers that currently make it difficult for new companies to compete with incumbent water companies. The proposals included extending retail competition and upstream competition in the sector, and:

- Replacing the “costs principle” used to determine the price that water companies can charge new entrants for access to water and sewerage with a transparent wholesale access pricing regime;
- Extending the current water supply licensing (WSL) regime to sewerage services, allowing companies to tender for water and sewerage services at the same time; and
- Establishing statutory market codes and standard terms and conditions to increase transparency and make customer switching simpler.⁹

The Government provided a more detailed briefing on its market reform proposals [here](#).

⁵ [Independent Review of Competition and Innovation in Water Markets: Final report](#), Cave Review of Competition and Innovation in Water Markets, April 2009

⁶ [Independent Review of Competition and Innovation in Water Markets: Final report](#), Cave Review of Competition and Innovation in Water Markets, April 2009

⁷ [Independent Review of Competition and Innovation in Water Markets: Final report](#), Cave Review of Competition and Innovation in Water Markets, April 2009

⁸ [Water for Life: The Water White Paper 2011](#) Cm 8230

⁹ [The Draft Water Bill 2012](#) Cm 8375

4 Pre-legislative scrutiny by the EFRA select committee

The Environment, Food and Rural Affairs (EFRA) select committee conducted pre-legislative scrutiny of the draft Water Bill. It published [its report](#) on 23 January 2013.

The Committee generally welcomed the retail competition proposals. However it also had a number of concerns. For example, it said that the Draft Bill relied “too heavily on establishing the broad framework for future reforms whilst leaving the details to be set out in guidance with the likelihood that these will receive less scrutiny. It highlighted “parts of the draft legislation where amendment is necessary to provide greater clarity and, where appropriate, recommend that guidance be published at the same time as the Bill”. It felt that this would have the added benefit of providing certainty to investors.¹⁰

The Committee also had serious concerns about upstream competition. It concluded that “further work is needed before the Government embarks on” upstream competition. It had concerns that it could: increase costs to some customers; have negative implications for the resilience of water supplies; and have negative implications for investor confidence. It called on the Government to “revisit this issue, inviting evidence from water companies, consumer representatives and other interested parties both on the likely impact of the reforms and on the detail of their implementation”.¹¹

The Government has not yet responded to the Committee.

5 The Queen’s Speech

The 2013 Queen’s Speech included a commitment to “continue with legislation... to improve the water industry”.¹² The Government said that the main provisions of the Water Bill would include:

- Increasing choice in the retail market by allowing all business, charity and public sector customers to switch their water and sewerage supplier. This would encourage suppliers to offer a better range of tariffs and services for the customer e.g. one bill for organisations with multiple sites (rather than a bill for every site) or free water efficiency advice;
- Making it much easier for new businesses to enter the water market to provide new sources of water or new approaches to treating waste water, known as “upstream” services;
- Helping to join up the national water supply network by making it easier for water companies to buy and sell water from each other, so they can better manage drought situations.¹³

The Government also stated that Bill is “the best vehicle for taking measures to address the availability and affordability of flood insurance”, although it is not known what measures these might be. [See here](#) for more information on flood insurance.

6 The current state of play

It is not known when the Water Bill will be introduced to the House.

¹⁰ The Environment, Food and Rural Affairs Committee, *The Draft Water Bill*, HC 674, 1 February 2013

¹¹ The Environment, Food and Rural Affairs Committee, *The Draft Water Bill*, HC 674, 1 February 2013

¹² The Queen’s Speech 2013, [Background briefs](#), 8 May 2013

¹³ The Queen’s Speech 2013, [Background briefs](#), 8 May 2013