

Water Bill

Overview of the Water Bill

November 2013

This note provides an overview of the measures contained in the Water Bill and what it aims to achieve. It explains what we're doing and why. Further detail on the Water Bill can be found in other briefing notes.

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Why do we need a Water Bill?

In 2011 the UK Government published the Water White Paper Water for Life which, amongst other things, set out our ambitions for a sustainable and resilient water industry, which continues to attract long-term investment and puts the customers at the heart of what it does.

Our water supplies are coming under pressure as a result of an increasing population and a changing climate. The privatisation of the water industry has been successful in attracting investment that has improved infrastructure and produced cleaner water supplies. However, given the future challenges we face and the need to keep bills affordable, we need to find new approaches to water management, to encourage innovation and greater efficiencies.

The Water Bill is one of the main parts of our programme of action to deliver this vision, focusing particularly on the reform of the water industry. Beyond the Bill, we are taking action to tackle affordability for customers, water efficiency, leakage, pollution and unsustainable abstraction.

The Water Bill will also bring forward measures to address the availability and affordability of insurance for households at high risk of flooding and ensure a smooth transition to the free market over time.

The Water Bill extends to England and Wales, although the Welsh Government has taken the decision not to implement some of the market reform provisions in the Bill for incumbent water and sewerage companies operating wholly or mainly in Wales.

A draft Water Bill was initially published in July 2012. Following comments made during pre-legislative scrutiny of the draft Bill by the EFRA Select Committee, the Government strengthened the Water Bill, which was introduced to the House of Commons on 27 June 2013.

What will the Water Bill achieve?

The Water Bill aims to deliver:

Resilience – a future where water is always available to supply households and businesses without damaging the environment. The Bill will also ensure that households at high risk of flooding can get affordable flood insurance, to help them become more resilient to the financial effects of flooding.

Choice – a water sector that offers choice and flexibility to customers. The Bill will also help keep bills affordable by encouraging existing water companies to be as efficient as they can be and to encourage new businesses to enter the sector with innovative ideas

and approaches. New flood insurance measures will mean that customers will be free to shop around for their insurance rather than being tied to their existing insurer.

Growth – a water sector that continues to attract global investment and creates employment, by encouraging innovation, greater efficiencies and reducing burdens on businesses. New flood insurance measures will provide support with affordability for those at high risk as well as reinsurance that such households will be able to manage the financial impacts of flooding.

How will the Water Bill do this?

Reform of the water sector

The Water Bill allows greater competition in certain parts of the industry, and removes barriers within the existing legislation that restrict the ability of new businesses to compete in the industry. Allowing more competition in the sector will drive forward both innovation and efficiency, by bringing in new players and new ways of thinking, and by using market forces to keep down customer costs. This will benefit not only customers and stimulate growth, but will also contribute to our future resilience and the environment¹.

We want to see a water sector that will continue to attract investment – but this does not mean “no change”. It means delivering the improvements that customers want while keeping bills affordable and without undermining the reputation for stable regulation which attracts investors. It is therefore important that changes are measured, evolutionary and protect the core strengths of the existing industry model.

The main water reform measures in the Water Bill include:

- Increasing choice in the retail market by allowing all business, charity and public sector customers in England to switch their water & sewerage supplier (known as “retail competition”)
- Making it much easier for new businesses to enter the water market to provide new sources of water or sewerage treatment services, known as “upstream” services. This includes making it easier for owners of small-scale water storage (e.g. farmers) to sell excess water into the supply system, subject to environmental safeguards.
- Helping to better join up the national water supply network by making it easier for water companies to buy and sell water from each other
- Making it easier for developers and inset appointees to connect new developments to the water mains and sewerage system

¹ The case to reform the water industry was initially set out in Martin Cave’s report to Government: *Competition and Innovation in Water Markets*. Although he recognised the success of the water industry since privatisation, Cave nevertheless considered that changes were needed to deliver higher levels of customer services and meet the challenges that will face the industry in the future

- Ensuring that the regulator and water companies integrate resilience in their planning, by:
 - giving Ofwat a new over-arching duty to take greater account of long-term resilience, and
 - providing powers for Ministers to set the level to which a water company needs to plan to cope with droughts
- Improving the special merger regime for the water industry
- Various other changes to improve Ofwat's regulation of the industry, within the framework set by Government's policy

Flood insurance

The Water Bill will bring forward measures to address the availability and affordability of insurance for those households at high flood risk and ensure a smooth transition to the free market over the longer term. Access to affordable insurance is important to help protect households from the financial impacts of flooding. Without measures in the Water Bill there was concern that affordable flood insurance would not be widely available, causing uncertainty for households at high flood risk.

The Bill introduced to the House of Commons on 27 June included a placeholder clause on flood insurance and in parallel we announced the Government's proposed approach to the future of flood insurance and launched a six week public consultation. We also published draft clauses for comment. The Government's response to the consultation will be published in advance of the Bill's Second Reading in the House of Commons, followed by a Government amendment at Committee Stage which will add the full flood insurance clauses.

The proposed approach, known as Flood Re, would effectively limit the amount that high risk households would have to pay on the flood insurance element of their premiums and excesses. The limit on the premium will differ according to council tax band, rising for more expensive properties. Funding would be through a new industry-backed levy, with all UK household insurers paying into this pool creating a fund that can be used to pay claims for people in high-risk homes. Flood Re will ensure those at risk of flooding are able to find affordable insurance in the short to medium term. Through further targeting of Flood Re support in future years, the insurance market will be able to make a gradual transition towards risk reflective pricing in the long term.

There remain details to work through on Flood Re and there are a number of aspects which will need to be agreed with Parliament, the industry and the European Commission. We will therefore also be seeking powers in reserve to regulate for affordable cover if Flood Re should prove unworkable or if it would not deliver our policy goals, and if prices in a free market prove unacceptable. Having a fall back means customers can have confidence in this issue being addressed one way or another.

Other measures in the Water Bill

The Bill also includes measures to:

- Tackle unsustainable abstraction by changing the way water company schemes to restore sustainable abstraction are funded
- Improve the co-ordination between water resource management and drought planning
- Provide enabling powers to further streamline the environmental permitting framework by including three more licensing schemes (abstraction and impounding licensing, fish pass approvals and flood defence consents) subject to public consultation
- Encourage the use of Sustainable Drainage Systems (SuDS) by clarifying that building and maintenance of SuDS can be a function of sewerage undertakers
- Reduce bureaucracy relating to the governance of Internal Drainage Boards in England and
- Transfer responsibility for maintaining main river maps to the Environment Agency and Natural Resources Wales.

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This document/publication is also available on our website at:

<https://www.gov.uk/government/policies/reforming-the-water-industry-to-increase-competition-and-protect-the-environment/supporting-pages/reform-of-the-water-market-the-new-water-bill>

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