

Summary of responses to the consultation on proposals for the recovery of costs by the Drinking Water Inspectorate

February 2012



Contents

Background.....	2
Analysis of responses	2
The way ahead	4
Appendix 1	5

Background

The Drinking Water Inspectorate (DWI) was established in 1990 as the drinking water quality regulator for the privatised water industry.

Proposals to enable DWI to recover the cost of its regulatory functions from water companies were raised in the consultation on the Flood and Water Management Bill in 2009. However, the provisions were removed from the final session of the Bill to reduce its size. The proposals were subsequently included in the Public Bodies Bill, and addressed the implementation of those proposals.

Consequently, a further non-formal consultation was undertaken from 24th October 2011 to 5th December 2011 to seek views on the proposal for DWI to develop a system to identify the costs of their regulatory services in relation to each of the individual water companies and licensed suppliers that would allow cost recovery to be apportioned fairly to individual water companies and licensed suppliers.

The question posed in this consultation was:

- 1. Do you have any comments on the proposals for implementation of a cost recovery scheme by DWI that will enable it to recover the cost of its regulatory functions from water companies?**

Analysis of responses

Number and detail of those that responded

The consultation was available on both the Defra and DWI websites. In addition, 33 key stakeholders in the water industry were emailed directly notifying them of the consultation. A total of 21 responses were received. A list of the organisations who responded can be found below in Appendix 1.

Summary of responses

Overall views

- Nearly all respondents supported the proposal for charging in principle, and the approach proposed.
- There was recognition by many respondents of some common themes: the importance of a simple, fair to all, transparent and stable system, which minimises the administrative burden on all parties concerned, but which did not encourage inappropriate behaviours on the part of the water companies, and which provided incentives for water companies for efficiency improvements .
- It was pointed out by one respondent that DWI accountability did not require an extension to cost recovery, although they were supportive of the principles for better regulation outlined in the Hampton review

Points made by respondents

1) Principle of cost recovery

- The point was made that the link between accountability and cost recovery was not clear, and that it was not immediately apparent how this particular recommendation from the Hampton review would be achieved.
- One respondent did not agree that Regulator accountability extended to cost recovery or that the 'polluter pays' principle applies to water companies in this particular context

2) Cost recovery process

- The point was made that impact /effectiveness studies involving stakeholders would be welcomed, and the proposal to facilitate further stakeholder audits was welcomed to facilitate transparency and accountability for both the charging process and for the overall costs.
- It was suggested that a list of included and excluded activities for charging should be available
- A respondent pointed out that DWI activity relating to private supplies should not be included.
- It was suggested that statutory public reporting should not be included in any charging mechanism as this is a duty undertaken on behalf of the Secretary of State.
- A number of respondents made the point that costs for dealing with events and audits should reflect the severity of the issue under investigation. A respondent stated that costs relating to Inspector training should not be included.
- A number of companies commented on the timing of the proposals, noting that this would be an unfunded cost for water companies, as it sat outside the funding provisions for the current price review cycle. In addition, there may be internal funding issues associated with the timing of charging in the last quarter of 2012/2013 where budgets have already been set.
- It was suggested there should be an appeals process in place as part of any charging mechanism.
- Some inset appointees and smaller water companies noted the potential for them to incur what they considered might be disproportionately high charges.

- Some respondents noted to need to clarify with Ofwat how funding provision might be included in business plans.

3) Mechanism for charging

- Several respondents were of the view that consideration should be given to operating on a fixed cost basis only to minimise administrative burden, and that if a variable cost element is to be included it should relate only to those activities arising from water quality events and/or compliance failures. There were a number of refinements suggested on this theme. One respondent suggested that all costs be treated as variable.
- It was noted that using the number of compliance samples as a basis for the fixed element of the charge would better reflect the level of DWI activity, and also that the data is readily available.
- A respondent suggested the use of financial turnover as a basis for the fixed element of the charge as it reflects company efficiency.
- Several respondents noted the need to ensure stability in DWI revenues.

The way ahead

Defra proposes to make enabling regulations based on the technical content in the consultation draft. The points made by respondents will be considered further to refine the processes and mechanisms for charging.

Appendix 1

List of respondents to the consultation

Water UK
OFWAT
CCWater
Dee Valley Water
South West Water
Northumbrian Water
Albion Water
Sembcorp Bournemouth Water
Severn Trent Water
SSE
Albion Water
United Utilities
Anglian Water
Portsmouth Water
Veolia Water East
Veolia Water South East
Veolia Water projects
South Staffordshire Water
Thames Water
Yorkshire Water
Dwr Cymru Welsh Water

© Crown copyright 2012

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk

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

<http://www.defra.gov.uk/consult/2011/10/24/dwi/>

Any enquiries regarding this document/publication should be sent to us at:

dwi.consultation@defra.gsi.gov.uk