



ANNUAL REPORT 1990



HMSO publications are available from:

HMSO Publications Centre

(Mail and telephone orders only)

PO Box 276, London, SW8 5DT

Telephone orders 071-873 9090

General enquiries 071-873 0011

(queuing system in operation for both numbers)

HMSO Bookshops

49 High Holborn, London WC1V 6HB 071-873 0011 (Counter service only)

258 Broad Street, Birmingham, B1 2HE 021-643 3740

Southey House, 33 Wine Street, Bristol, BS1 2BQ (0272) 264306

9-21 Princess Street, Manchester, M60 8AS 061-834 7201

80 Chichester Street, Belfast BT1 4JY (0232) 238451

71 Lothian Road, Edinburgh, EH3 9AZ 031-228 4181

HMSO's Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-249291-3



9 780102 492910

INDEPENDENT CERTIFIERS AND AUDITORS

COMPANY	LICENCE CONDITION B CHARGES	LICENCE CONDITION F ACCOUNTS & ACCOUNTING INFORMATION	LICENCE CONDITION J LEVELS OF SERVICE INFORMATION & SERVICE TARGETS	LICENCE CONDITION L UNDERGROUND ASSET MANAGEMENT PLANS
WATER & SEWERAGE COMPANIES				
Anglian Water Services Ltd.	W.S. Atkins	Price Waterhouse	W.S. Atkins	W.S. Atkins
Dwr Cymru Cyfyngedig	Sir William Halcrow & Partners	Coopers & Lybrand Deloitte	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Northumbrian Water Ltd.	Binnie & Partners	Coopers & Lybrand Deloitte	Binnie & Partners	Binnie & Partners
North West Water Ltd.	Sir William Halcrow & Partners	Price Waterhouse	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Severn Trent Water Ltd.	Sir William Halcrow & Partners	Price Waterhouse	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Southern Water Services Ltd.	W.S. Atkins	Coopers & Lybrand Deloitte	W.S. Atkins	W.S. Atkins
South West Water Services Ltd.	W.S. Atkins	Price Waterhouse	W.S. Atkins	W.S. Atkins
Thames Water Utilities Ltd.	W.S. Atkins	Coopers & Lybrand Deloitte	W.S. Atkins	W.S. Atkins
Wessex Water Services Ltd.	Coopers & Lybrand Deloitte	Coopers & Lybrand Deloitte	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Yorkshire Water Services Ltd.	W.S. Atkins	Price Waterhouse	W.S. Atkins	W.S. Atkins
WATER ONLY COMPANIES				
Bournemouth & District Water Co.	Lichfield Management Services	Price Waterhouse	Lichfield Management Services	Lichfield Management Services
Bristol Waterworks Co.	Coopers & Lybrand Deloitte	Coopers & Lybrand Deloitte	Coopers & Lybrand Deloitte	Coopers & Lybrand Deloitte
Cambridge Water Co.	Pick, Everard, Keay & Gimson	BDO Binder Hamlyn	Pick, Everard, Keay & Gimson	Pick, Everard, Keay & Gimson
Chester Waterworks Co.	Sir William Halcrow & Partners	KPMG Peat Marwick McLintock	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Cholderton & District Water Co.*		Rowntree & Browne inc. Muzzi & Co.		
Easbourne Water Co.	W.S. Atkins	KPMG Peat Marwick McLintock	W.S. Atkins	W.S. Atkins
East Surrey Water plc	KPMG Peat Marwick McLintock	KPMG Peat Marwick McLintock	Binnie & Partners	Binnie & Partners
East Worcestershire Waterworks Co.	Lichfield Management Services	Wenham Major	Lichfield Management Services	Lichfield Management Services
Essex Water Co. & Suffolk Water plc	Sir William Halcrow & Partners	Arthur Anderson & Co.	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Folkestone Water Co.	Acer Consultants	Spain Bros & Co.	Acer Consultants	Rofe, Kennard & Lapworth
Hatfield Water Co.	Sir William Halcrow & Partners	BDO Binder Hamlyn	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Mid Kent Water plc	Sir William Halcrow & Partners	Messrs Larkin	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Mid Southern Water Co.	W.S. Atkins	Coopers & Lybrand Deloitte	W.S. Atkins	W.S. Atkins
Mid Sussex Water Co.	W.S. Atkins	Ernst & Young	W.S. Atkins	W.S. Atkins
North East Water**	Sir William Halcrow & Partners	Arthur Anderson & Co.	Sir William Halcrow & Partners	Sir William Halcrow & Partners
North Surrey Water Co.	Watson Hawksley	Clark Whitehill	Watson Hawksley	Watson Hawksley
Portsmouth Water plc	Grant Thornton	Grant Thornton	Rofe, Kennard & Lapworth	Rofe, Kennard & Lapworth
South Staffordshire Water Co.	BDO Binder Hamlyn	BDO Binder Hamlyn	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Suton District Water plc	Sir William Halcrow & Partners	BDO Binder Hamlyn	Sir William Halcrow & Partners	Sir William Halcrow & Partners
Tendring Hundred Waterworks Co.	Rofe, Kennard & Lapworth	Price Waterhouse	Rofe, Kennard & Lapworth	Rofe, Kennard & Lapworth
Three Valleys Water plc comprising:		Coopers & Lybrand Deloitte		
Colne Valley Water plc	Coopers & Lybrand Deloitte		Sir Alexander Gibb & Partners	Sir Alexander Gibb & Partners
Lee Valley Water plc	Coopers & Lybrand Deloitte		Coopers & Lybrand Deloitte	W.S. Atkins
Rickmansworth Water plc	BDO Binder Hamlyn		BDO Binder Hamlyn	Binnie & Partners
West Hampshire Water Co.	Lichfield Management Services	Price Waterhouse	Lichfield Management Services	Lichfield Management Services
West Kent Water Co.	W.S. Atkins	Ernst & Young	W.S. Atkins	W.S. Atkins
Wrexham & E. Denbighshire Water Co.	Sir William Halcrow & Partners	KPMG Peat Marwick McLintock	Sir William Halcrow & Partners	Sir William Halcrow & Partners
York Waterworks Co.	Sir William Halcrow & Partners	Garbutt & Elliot	Sir William Halcrow & Partners	Sir William Halcrow & Partners
*Cholderton & District Water Co. is an exceptionally small company and does not provide information				
**North East Water comprises Newcastle & Gateshead Water plc and Sunderland & South Shields Water plc				

1990 REPORT OF THE DIRECTOR GENERAL OF WATER SERVICES

TO THE SECRETARIES OF STATE FOR THE ENVIRONMENT
AND FOR WALES

*Presented to Parliament
in pursuance of section 35 of the Water Act 1989*

*Ordered by the House of Commons to be printed
18 June 1991*

TENDRING HUNDRED WATERWORKS COMPANY

Head Office Address: Manningtree,
Essex, CO11 2AZ

Telephone Number: 0206 392155

THREE VALLEYS WATER SERVICES PLC

Head Office Address: P.O. Box 48,
Bishop's Rise,
Hatfield,
Herts., AL10 9HL

Telephone Number: 0707 268111

WEST HAMPSHIRE WATER COMPANY

Head Office Address: Knapp Mill,
Mill Road,
Christchurch,
Dorset, BH23 2LU

Telephone Number: 0202 499000

WEST KENT WATER COMPANY

Head Office Address: P.O. Box 129,
1 Church Road,
Haywards Heath,
Sussex, RH16 3DX

Telephone Number: 0732 452307

WREXHAM & EAST DENBIGHSHIRE WATER COMPANY

Head Office Address: 21 Egerton Street,
Wrexham,
Clwyd, L11 1ND

Telephone Number: 0978 291777

YORK WATERWORKS PLC

Head Office Address: Lendal Tower,
York, YO1 2DL

Telephone Number: 0904 622171



THE TWENTY-SIX WATER COMPANIES (Continued)

NORTH EAST WATER PLC

Head Office Address: P.O. Box 10,
Allendale Road,
Newcastle upon Tyne, NE6 2SW

Telephone Number: 091 265 4144

NORTH SURREY WATER COMPANY

Head Office Address: Millis House,
The Causeway,
Staines,
Middlesex, TW18 3BX

Telephone Number: 0784 455464

PORTSMOUTH WATER PLC

Head Office Address: P.O. Box 8,
West Street,
Havant,
Hants., PO9 1LG

Telephone Number: 0705 486333

SUFFOLK WATER PLC

Head Office Address: 163 High Street,
Lowestoft,
Suffolk, NR32 1HT

Telephone Number: 0502 572406

SOUTH STAFFORDSHIRE WATERWORKS COMPANY

Head Office Address: Green Lane,
Walsall,
West Midlands, WS2 7PD

Telephone Number: 0922 38282

SUTTON DISTRICT WATER PLC

Head Office Address: 59 Gander Green Lane,
Cheam,
Sutton,
Surrey, SM1 2FW

Telephone Number: 081 643 8050



CONTENTS

CHAPTER ONE		
Director General's Statement		8-14
CHAPTER TWO		
Financing of major environmental improvements		15-18
CHAPTER THREE		
Structure of the industry		19-24
CHAPTER FOUR		
Paying for Water		25-34
CHAPTER FIVE		
Company reporting and performance monitoring		35-48
CHAPTER SIX		
Consumer protection		49-56
CHAPTER SEVEN		
Publicising Ofwat		57-59
CHAPTER EIGHT		
Managing Ofwat's resources		60-61
APPENDICES		
ONE	Dear Managing Director Letters	62-63
TWO	Dear Finance Director letters	64
THREE	Ofwat policy and management boards	65
FOUR	CSC and the customers for whom they are responsible	66-67
FIVE	CSC Chairmen and members at 31.3.91	68-71
SIX	Press notices issued	72-73
SEVEN	Current publications available from Ofwat	74
EIGHT	K Factors	75
NINE	The 10 water and sewerage companies	75-77
TEN	The 26 water companies	78-81
ELEVEN	Independent Certifiers and Auditors	82

*Report of the Director General
of Water Services to the
Secretaries of State for the
Environment and for Wales*



I am required by section 35 of the Water Act 1989 to make you an annual report on my activities and the activities of the Monopolies and Mergers Commission in so far as they relate to references made by me. I confirm that no references were made by me to the Monopolies Commission during the year.

This is my second report and covers events up to the end of March 1991. In my statement I comment generally on my activities during this period and highlight areas of particular interest. The succeeding sections describe key areas of Ofwat's work during the year.

I. C. R. BYATT
March 1991

Office of Water Services
Centre City Tower
7 Hill Street
Birmingham B5 4UA

EAST SURREY WATER PLC

Head Office Address: London Road,
Redhill,
Surrey, RH1 1LJ

Telephone Number: 0737 765933

EAST WORCESTERSHIRE WATERWORKS COMPANY

Head Office Address: 46 New Road,
Bromsgrove,
Worcestershire B60 2JT

Telephone Number: 0527 75151

FOLKESTONE & DISTRICT WATER COMPANY

Head Office Address: Cherry Garden Lane,
Folkestone,
Kent CT19 4QB

Telephone Number: 0303 276951

HARTLEPOOLS WATER COMPANY

Head Office Address: 3 Lancaster Road,
Hartlepool,
TS24 8LW

Telephone Number: 0429 274405

MID KENT WATER PLC

Head Office Address: P.O. Box 45, High Street,
Snodland,
Kent ME6 5AH

Telephone Number: 0634 240313

MID SOUTHERN WATER COMPANY

Head Office Address: Frimley Green,
Camberley,
Surrey, GU16 6HZ

Telephone Number: 0252 835031

MID-SUSSEX WATER COMPANY

Head Office Address: P.O.Box 129,
1-3 Church Road,
Haywards Heath,
Sussex RH16 3DX

Telephone Number: 0444 457711



APPENDIX TEN

THE TWENTY-SIX WATER COMPANIES

BRISTOL WATERWORKS COMPANY

Head Office Address: P.O. Box 218
Bridgwater Road,
Bristol BS99 7AU

Telephone Number: 0272 665881

BOURNEMOUTH & DISTRICT WATER COMPANY

Head Office Address: George Jessel House,
Francis Avenue,
Bournemouth, BH11 8NB.

Telephone Number: 0202 572261

CAMBRIDGE WATER COMPANY

Head Office Address: Rustat Road
Cambridge CB1 3QS

Telephone Number: 0223 247351

CHOLDERTON & DISTRICT WATER COMPANY LTD.

Head Office Address: Estate Office,
Cholderton,
Salisbury,
Wiltshire SP4 0DR.

Telephone Number: 098 064203

CHESTER WATERWORKS COMPANY

Head Office Address: Aqua House,
45 Boughton,
Chester, CH3 5AU

Telephone Number: 0244 320501

EASTBOURNE WATER COMPANY

Head Office Address: 14 Upperton Road,
Eastbourne,
Sussex BN21 1EP

Telephone Number: 0323 411411

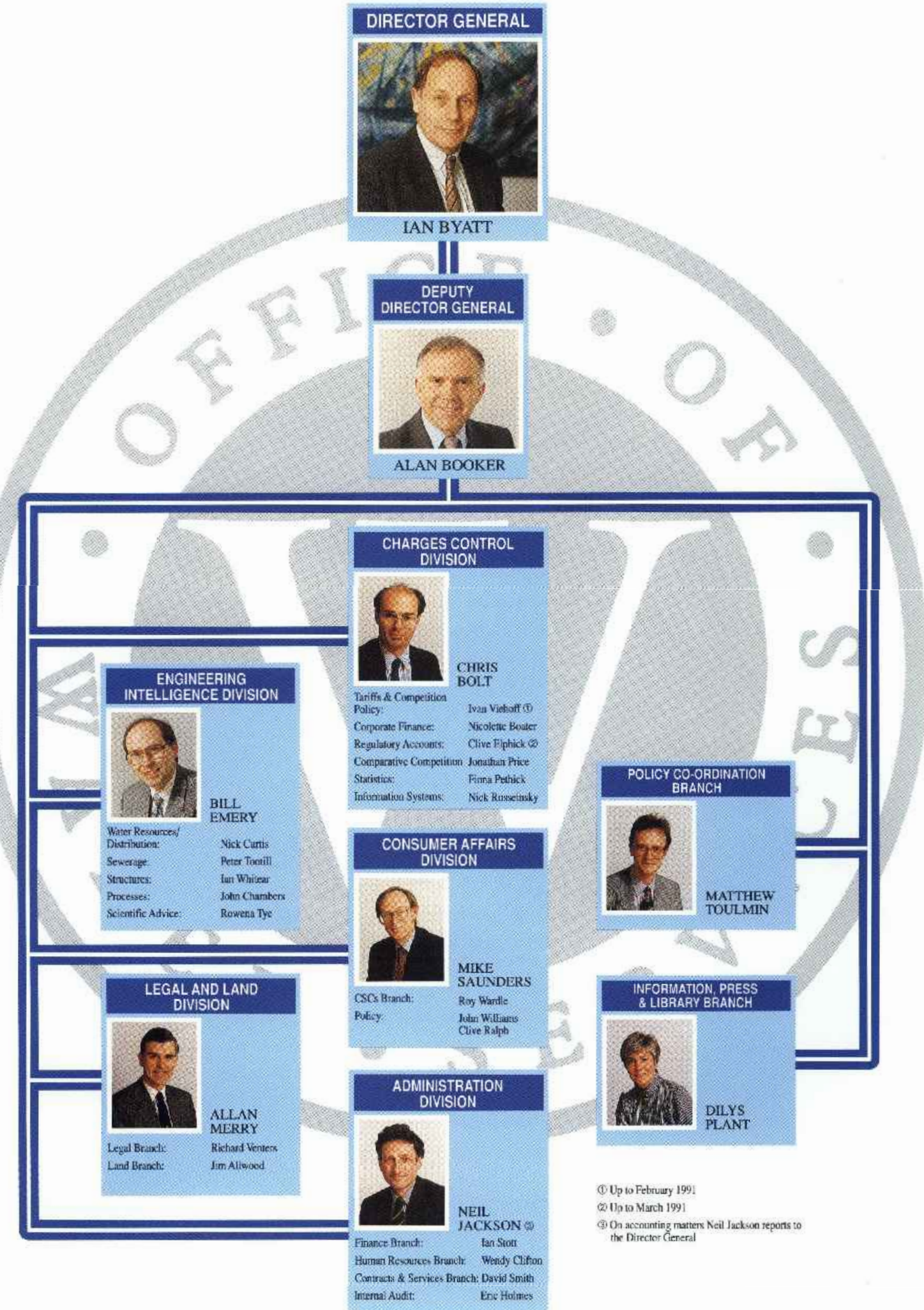
ESSEX WATER COMPANY

Head Office Address: Hall Street,
Chelmsford,
Essex CM2 0HH

Telephone Number: 0245 491234



Office of Water Services
ORGANISATION



DIRECTOR GENERAL'S STATEMENT

My last report described our work during the first six months of the new regulatory regime. 1990 saw us well into our stride making substantial and positive progress. It has been a year of challenge and achievement, both for us and for the management of the water industry.

1.1 Evolution The year has seen the clarification of some important aspects of the new regime. I describe these below. I also want to set out my thoughts about other issues which will be important in the coming year.

1.2 Mergers A number of reports from the Monopolies and Mergers Commission during 1990 helped clarify policy towards possible future changes in the structure of the industry. There is an acceptance of the value and importance of comparative competition in the water industry. There is also recognition that any reduction in the number of comparators would be prejudicial to my ability to compare performance and so to customers in general. Therefore, for any merger to gain my support this detriment to public interest would have to be compensated by substantial and clear benefits to customers, normally in the form of significant reductions in their bills.

1.3 Joint appointments 1990 has also seen a movement towards joint appointments for a number of companies. This is a process which I have encouraged when, particularly, geographically contiguous companies are owned by the same holding company and are seeking to rationalise their operations through the introduction of joint functions and shared use of assets. These situations are not covered by the merger provisions of the Water Act. I support these moves as I want to ensure that the structure of regulation is the most efficient and provides maximum benefit for customers. If companies hold separate licences then they will need to keep separate regulatory accounts and maintain unique control of assets to ensure compliance with ring fencing requirements. This would tend to preserve an artificial structure and might conflict with my duty to promote economy and efficiency. A joint appointment gives management the flexibility to introduce operational procedures which deliver a quality service in the most cost efficient way. It also allows Ofwat to maintain the arm's length distance from the day to day running of the business which I consider is appropriate.

1.4 Infrastructure charges Agreement was reached with the water companies during the year to change the way in which infrastructure charges are levied. This change was confirmed through amendments to the individual licences of the companies. The changes are designed to ensure that charges adequately reflect the different levels of demand which different kinds of new development may place on existing water and sewerage systems. I shall be monitoring the new arrangements to see that this balance is achieved in practice.

1.5 Diversification When the new regulatory regime was established it was envisaged that companies would be free to develop non-water activities and to adopt



THE REGULATORY REGIME

SOUTH WEST WATER SERVICES LTD.

Head Office Address:
Peninsula House,
Rydon Lane,
Exeter, EX2 7HR

Telephone Number: 0392 219666

THAMES WATER UTILITIES LTD.

Head Office Address:
Nugent House,
Vastern Road
Reading RG1 8DB

Telephone Number: 0734 591159

WESSEX WATER SERVICES LTD.

Head Office Address:
Wessex House,
Passage Street,
Bristol BS2 0JQ.

Telephone Number: 0272 290611

YORKSHIRE WATER SERVICES LTD.

Head Office Address:
Broadacre House,
Vicar Lane,
Bradford BD1 5PZ

Telephone Number: 0274 306063



THE TEN WATER AND SEWERAGE COMPANIES

ANGLIAN WATER SERVICES LTD.

Head Office Address:
Compass House,
Chivers Way,
Histon,
Cambridgeshire, CB4 4ZY

Telephone Number: 0480 443000

DWR CYMRU (WELSH WATER)

Head Office Address:
Plas-y-Ffynnon,
Cambrian Way,
Brecon,
Powys, LD3 7HP.

Telephone Number: 0874 3181

NORTHUMBRIAN WATER LTD.

Head Office Address:
Abbey Road,
Pity Me,
Durham, DH1 5EZ

Telephone Number: 091 383 2222

NORTH WEST WATER LTD.

Head Office Address:
Dawson House,
Great Sankey,
Warrington WA5 3LW

Telephone Number: 0925 234000

SOUTHERN WATER SERVICES LTD.

Head Office Address:
Southern House,
Yeoman Road,
Worthing,
West Sussex BN13 3NX

Telephone Number: 0903 64444

SEVERN TRENT WATER LTD.

Head Office Address:
2297 Coventry Road,
Birmingham B26 3PU

Telephone Number: 021 722 4000

group structures to facilitate this. It was also intended that such diversification should not cause any damage to the core business of providing water and sewerage services. Several of the former water authorities have consequently developed non-core businesses, either through acquisition or the development of non-core assets. Customers need to be confident that any such moves are not undertaken on the back of the core business and will not threaten the viability of the core functions. This is an area on which I propose to keep a close eye during the coming year.

1.6 Cost of capital I have a duty under section 7 of the Act to ensure that companies carry out their functions and can finance them (in particular by securing reasonable returns on their capital). I have been considering what constitutes a "reasonable return on capital". There are a number of aspects, including the relative balance of equity and debt and the raft of financial indicators, set out in the licence. Since privatisation evidence has been accumulating on the cost of borrowing and there is now an active market in the shares of the water companies. It has been suggested that changes in market perceptions mean that the original assumptions now look rather generous. One result of this may well be that, where new obligations are imposed on the companies in the first five years, the costs of additional borrowing could be accommodated without an equivalent increase in revenue, at least in the short term. I intend to set out proposals in a discussion document. I hope that this will receive wide debate.

2.1 Trust The regulation of an essential public utility can only be successful if it wins the trust and support of the public and the industry. The basis of this trust is transparency in decision making and the involvement of the general public and industry, as far as possible, in that decision making process.



The CSC Chairmen's Group meets in the Midlands



K FACTORS

2.2 Public consultation Customers are being asked to pay a lot more for their water and sewerage services. So companies have to ensure that they provide what customers actually want. We in Ofwat also need to give customers a way to have their voices heard as decisions are made. The main route is through my ten Customer Service Committees (CSCs) who bring a wide range of knowledge and opinion to the protection of customers' interests at a regional level. They have a major responsibility to champion the interests of the customer. I have also sought customers' views at a national level.

2.3 CSC Chairmen's Group The CSC Chairmen meet together with me on a regular basis. They form an authoritative body speaking for the interests of customers. I see them playing an increasingly important role in Ofwat's work.



The launch of the 'Paying for Water' consultation

2.4 Paying for water During the year we have carried out extensive public consultation on future ways of paying for water. The consultation has included leaflets, pamphlets, a video and articles in the press, both nationally and at a local level. I have been very pleased by the interest the media has shown in the debate and am grateful to the water companies who helped by mailing out a simple leaflet and questionnaire to almost all households in England and Wales. We have supplemented this with a survey of 3,700 households carried out by the Office of Population Censuses and Surveys. We have given the customer a real chance to contribute to a central issue for the future of the water industry.

2.5 Customer Surveys I expect companies to be responsible for finding out what their own customers want and for checking how well they achieve those objectives. We also need to know what customers want at a national level. We have commissioned a series of surveys to answer basic questions about customers' expectations and preferences. The answers to these surveys will help in deciding our future policies. I hope that they will also stimulate individual companies to look more carefully at what their own customers want.

2.6 Company Liaison Trust and effective communication also require personal contact. I am committed to meeting the senior management of the companies on a

	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00
Anglian	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Bournemouth	18.5	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bristol	5.0	4.0	4.0	2.0	2.0	2.0	2.0	2.0	2.0
Cambridge	10.0	8.0	0.0	0.0	0.0	-2.0	-2.0	-2.0	-2.0
Chester	4.5	4.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cholderton	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Dwr Cymru	6.5	6.5	6.5	6.5	5.5	5.5	5.5	5.5	5.5
East Wores	11.0	11.0	11.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
East Surrey	16.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
East Anglian	13.0	13.0	13.0	3.0	1.0	1.0	1.0	1.0	1.0
Essex	5.0	5.0	5.0	5.0	4.5	4.5	4.5	4.5	4.5
Folkestone	8.0	8.0	8.0	8.0	8.0	0.0	0.0	0.0	0.0
Hartlepoons	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Mid Kent	9.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Mid Southern	11.5	10.0	4.0	4.0	4.0	0.0	0.0	0.0	0.0
North East Water	8.0	6.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
North Surrey	8.5	8.5	8.5	8.5	2.0	2.0	2.0	2.0	2.0
North West	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Northumbrian	7.0	7.0	7.0	7.0	3.0	3.0	3.0	3.0	3.0
Portsmouth	5.5	5.5	5.5	2.0	2.0	2.0	2.0	2.0	2.0
Severn Trent	5.5	5.5	5.5	5.5	2.0	2.0	2.0	2.0	2.0
South East Water	16.0	8.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
South Staffs	5.0	5.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
South West	6.5	6.5	6.5	6.5	5.5	5.5	5.5	5.5	5.5
Southern	5.5	5.5	3.5	3.5	0.0	0.0	0.0	0.0	0.0
Sutton	10.5	8.5	8.5	3.5	3.5	3.5	3.5	3.5	3.5
Tendring Hundred	22.5	13.0	13.0	2.5	2.5	2.5	2.5	2.5	2.5
Thames	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Three Valleys	7.3	4.0	1.6	1.5	1.5	1.5	1.5	0.2	0.2
Wessex	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
West Hampshire	7.5	7.5	7.5	5.5	5.5	5.5	5.5	5.5	5.5
Wrexham	15.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
York	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Yorkshire	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

CURRENT PUBLICATIONS AVAILABLE FROM OFWAT

These publications are available free of charge unless otherwise indicated. All Ofwat publications can be obtained from Ofwat's library (Tel: 021 625 1352)

LEAFLETS	<p>Protecting the Interests of the Water Consumer (Revised December 1990) (also available in Welsh)</p> <p>Water and Sewerage Complaints Procedure for Customers (Revised January 1991) (also available in Welsh)</p> <p>Water and Sewerage Bills 1991/92 (March 1991)</p> <p>Paying for Water - a time for decisions (November 1990) Available in English, Welsh, Hindi, Bengali, Urdu, Punjabi and Chinese</p>
REPORTS	<p>Levels of Service Information 1989/90 (October 1990) Price: £3.50</p>
CONSULTATION PAPERS	<p>Paying for Water - a time for decisions (November 1990) with 10 annexes:</p> <p>Annex 1: Legal Framework for Charging</p> <p>Annex 2: Environmental Costs</p> <p>Annex 3: Current Water and Sewerage Charges</p> <p>Annex 4: Structure of Costs</p> <p>Annex 5: Requisitions & Infrastructure Charges</p> <p>Annex 6: Waste Water Charges</p> <p>Annex 7: Experience of water metering</p> <p>Annex 8: Alternatives to water metering</p> <p>Annex 9: Miscellaneous issues</p> <p>Annex 10: Overseas experience</p> <p>Maximum Price for the Resale of Water Services (January 1991)</p>
ANNUAL REPORT	<p>Ofwat Annual Report 1989 Price: £6.70</p>
INFORMATION SHEETS	<ol style="list-style-type: none"> 1. Monitoring Capital Expenditure: The Annual Return (April 1991) 2. Financing of Major Environmental Improvements (April 1991) 3. The Guaranteed Standards Scheme (May 1991) 4. Why Bills are Rising and how charges are controlled (April 1991) 5. Comparative Competition (May 1991)
DEAR MD/FD LETTERS	<p>These are copies of letters sent to the Managing Director/Finance Director of all appointed water companies. August 1989 to date. Price: £2.75 each (Annual Subscription £165)</p>
VIDEOS	<p>Paying for Water - a Time for Decisions (available on free loan or for purchase at £5 a copy).</p>



regular basis. I encourage visitors to come to Birmingham and have been pleased to see many companies here over the last year. I have also established an annual round of visits to each of the regions to meet the CSC, the senior management of the companies and the local media. These have been successful in building the personal rapport which is a prerequisite of effective regulation.

2.7 Working groups I wish to take the industry with me where possible and will consult with each company before introducing major initiatives. I propose to draw on the considerable experience of individuals in the industry in formulating my proposals and have set up a range of working groups on central areas of our work, with members selected on the basis of their personal experience and capability. I have been impressed by the time which members have committed to this exercise and the quality of their contributions.

3.1 Decision making Customers' bills are rising steeply to pay for the existing programme of improvements. There is continuing pressure to add to that programme. The last year has seen the introduction of new environmental initiatives - such as changes to the Bathing Waters Programme and the ban on the dumping of sewage sludge at sea. Both of these will have significant effects on the bills which customers will pay, particularly if they live in the South West. I have to consider the interests of these customers.

3.2 Costing of initiatives One important development over the last year has been a clarification of how the interests of customers, as bill payers, should be taken into account when decisions are taken on new environmental initiatives. It has now been clearly established that this is a matter for the Secretaries of State for the Environment and for Wales. The quality regulators have agreed to provide them with data on the costs and benefits of proposed initiatives to allow both aspects to be considered together. We can assist by indicating the impact of those costs on customers' bills and are then responsible for discussing with the companies how they are to implement the proposals within the guidelines of those costs.



Environment Minister David Trippier with the Director General and Clive Wilkinson, Chairman of Severn Trent CSC



4.1 Complaints During the year the CSCs dealt with 4,633 complaints. In many cases this was a reflection of greater public awareness of our existence and the complaint could be referred to the company for resolution. Out of this total number, 1,827 complaints were accepted for investigation by the CSC or by my office. Complaints about billing predominate but other complaints have helped us identify a number of general issues for consideration at a national level such as compensation in certain cases, company charges for pipe laying and differing policies on meter installation.

4.2 Customer Service The CSCs provide the means for us to gauge what ordinary customers feel about their company. The Chairmen's group has taken a number of important initiatives to seek information about how the companies perform in practice, for example on the linked issues of debt and disconnection and services for the disabled and elderly. This has identified significant variation between companies in the way they treat their customers. We will use this to draw up guidelines setting out examples of "Best Practice" for the industry.

5.1 Monitoring I want to remain at arm's length from the day to day decisions of the industry. These are for managers. If I am to maintain this distance then I have to have confidence in the data which I receive from the companies. A central part of our work over the last year has concentrated on setting up reliable and effective procedures for reporting and collating data about the activities and operations of the companies.

5.2 Regulatory accounts I need regulatory accounting information from the companies to assess their financial performance. I have concentrated in the first place on drawing up clear and appropriate guidelines for those accounts, to ensure that information is provided on a consistent basis. A key decision has been to change the basis on which Current Cost Accounts are produced, to be based in future on the concept of Financial Capital Maintenance. I am confident that these guidelines will generate accounting information which will be of greater value to the management of the companies and will also provide me with a reliable basis for the comparisons of performance which are central to the regime.

5.3 July Return One other major information flow between Ofwat and the companies concerns data on progress with their capital investment programmes. I need to know whether companies are on target. Otherwise they would not be justified in raising their prices in line with K. I am pleased that a number of companies have chosen voluntarily not to increase charges by the full amount allowed. In these circumstances the companies have merely deferred the revenue and have the right to reintroduce the price rise at a later date. Where the slippage is significant I will need to consider whether it is appropriate to seek to reduce the figures for K in line with the probable future expenditure of the company.

5.4 Certifiers I need to have confidence in the validity of the data flows, so I have developed the system of independent certifiers required by the licence. Certifiers have a

47/90	Publication of consultation document – "Paying for Water – a time for decisions"	05.11.90
48/90	Ofwat asks companies to help canvass views on water charging	
49/90	Ofwat consults on infrastructure charges changes	20.12.90
1991		
1/91	Ofwat proposes maximum price for resale of water services	28.01.91
2/91	17 million water customers to be asked to complete questionnaire on future water charging methods	29.01.91
3/91	Disconnection figures for first half 1990/91 published	30.01.91
4/91	New rules on infrastructure charges to come into effect on 1 April	28.02.91
5/91	Initial survey findings show considerable support for water metering	11.03.91
6/91	Average water bills to cost £156	11.03.91
7/91	DGWS agrees to rationalisation of three water companies in the South East	30.04.91
8/91	Water industry must consider its customers	08.05.91



PRESS NOTICES ISSUED

1/90	Head of Information appointed	04.01.90
2/90	Key staff appointments made for water watchdog	18.01.90
3/90	Operational note: Chairmen's appointments	22.02.90
4/90	Appointment of CSC Chairmen	27.02.90
5/90	Regional pns: appointment of Wessex CSC Chairman	27.02.90
6/90	appointment of Anglia CSC Chairman	27.02.90
7/90	appointment of Thames CSC Chairman	27.02.90
8/90	appointment of Severn Trent CSC Chairman	27.02.90
9/90	appointment of Southern CSC Chairman	27.02.90
10/90	appointment of North West CSC Chairman	27.02.90
11/90	appointment of Yorkshire CSC Chairman	27.02.90
12/90	appointment of Northumbria CSC Chairman	27.02.90
13/90	appointment of Wales CSC Chairman	27.02.90
14/90	Consumers must be made fully aware of costs of environmental improvements	26.03.90
15/90(Y)	Diary Note: First Yorkshire CSC meeting to be held	11.04.90
16/90(Y)	Yorkshire CSC members appointed	17.04.90
17/90(ST)	Severn Trent CSC members appointed	
18/90(W/S)	Welsh CSC members appointed	
19/90(SW)	South West CSC members appointed	
20/90(N)	Northumbria CSC members appointed	18.04.90
21/90(S)	Southern CSC members appointed	18.04.90
22/90(ST)	Diary Note: First Severn Trent CSC meeting to be held	19.04.90
23/90(NW)	North West CSC members appointed	19.04.90
24/90(A)	Anglia CSC members appointed	23.04.90
25/90(W)	Wessex CSC members appointed	23.04.90
26/90(NW)	Diary note: First North West CSC meeting to be held	23.04.90
27/90(T)	Diary Note: First Thames CSC meeting to be held	25.04.90
28/90	DGWS welcomes decision on Three Valleys merger	26.04.90
29/90(W)	Diary Note: First Wessex CSC meeting to be held	14.05.90
30/90(A)	Diary Note: First Anglia CSC meeting to be held	16.05.90

*From now on all CSC press notices have their own numbering systems

31/90	Operational Note: 1989 Annual Report to be published	14.06.90
32/90	Operational Note: Water Watchdog to visit Exeter	14.06.90
33/90	DGWS reports on first seven months of regulatory regime	19.06.90
34/90	DGWS welcomes water mergers decision but emphasises need for comparative competition	04.07.90
35/90	Operational Note: Watchdog to visit Cambridge	18.07.90
36/90	Customers to benefit in Three Valleys Merger	01.08.90
37/90	Deputy Director General appointed	07.08.90
38/90	Disconnection statistics published	15.08.90
39/90	Step by step approach to costing of large projects encouraged by Ofwat	12.09.90
40/90	Operational Note: DGWS to visit Wales	18.09.90
41/90	Operational Note: DGWS to visit North East	05.10.90
42/90	DG approves unified operation for Newcastle and Gateshead and Sunderland and South Shields water companies	17.10.90
43/90	Water consumers doing their bit for the environment	20.10.90
44/90	Operational Note: DGWS to visit Wessex	22.10.90
45/90	Ofwat publishes Levels of Service Information	24.10.90
46/90	DG proposes changes to infrastructure charging system	30.10.90

duty of care both to the company and through me to the customers. They have the responsibility for assessing and reporting on the accuracy, adequacy and significance of the data presented by the company. These certifiers have established themselves as a central part of the new regime. The senior management of the companies tell me that they have found the certifiers helpful in identifying limitations in their internal information systems and I have found them invaluable in identifying underlying factors behind the data presented by the companies.

5.5 Levels of Service Customers have the right to expect high levels of service from their water and sewerage companies and to see improvements to match the increased bills which they are paying. Last year saw the first reports from the companies on their performance on key Levels of Service Indicators such as water pressure, flooding from sewers and speed to answer complaints. I published the results in a report which was widely circulated. But these reports were a trial run of the system and were submitted voluntarily by the companies. 1991 will see the first complete reports. I intend to use these reports to show which companies are leading the way and which are falling behind the rest of the industry.

5.6 New measures of performance The selected key indicators do not provide a full picture. I propose to extend the range to include a number of other vital measures of performance. One critical parameter is the central question of how much water actually gets through to customers' taps. I have called this "water delivered". It will be a corner-stone for any system of measuring a company's performance. It will also be of great assistance in identifying and reducing leakage. I have asked the Working Groups to concentrate on devising further reliable output measures for the main areas of the companies' performance.

6.1 Performance I have been very pleased by the performance of my staff over the challenging period of the last year. We are moving confidently towards our revised complement of 130 staff, an increase mainly necessary to cope with the work load in the regional offices. Setting up new systems makes particular demands of imagination and flexibility, at the same time as the routine of the regime requires procedural efficiency. I think that my staff have more than risen to this task.

6.2 Senior management I have been glad to be able to appoint Alan Booker as Deputy Director General. He comes to us with wide experience and knowledge of the industry, most recently as Chief Executive and Managing Director of the three water companies owned by Biwater. I believe that I now have a senior management team of real quality. They work admirably together as a team in driving forward the considerable work programme which lies ahead of us. I propose to reinforce this corporate identity during the year through a senior management team building exercise.

6.3 DG's office Alan Booker's appointment has also allowed me to pull together the Information and Policy Coordination functions into a group reporting directly to Alan

THE OFFICE



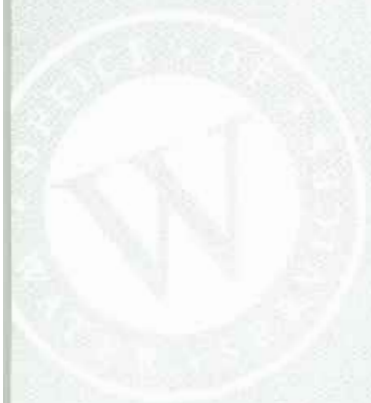
and myself. This gives these activities the central role which is essential for their success.

6.4 Communication I attach great importance to setting up effective communication between all levels of the office. Reports on discussions and decisions at the central Management Board are fed down through Heads of Divisions to their own staff in a system of structured team briefings and feed back is encouraged. I have continued to hold regular office meetings of all staff when important developments are discussed (an innovation in the civil service?) and have instituted an Office Committee with representatives from both unionised and non-unionised staff to address more detailed issues. I have a highly skilled and motivated staff. I want to ensure that their capabilities are given a structure in which they can be used to the full.

YORKSHIRE CSC

CHAIRMAN: Mrs. Diana Scott

MEMBERS: Mr. Mohammed Ashraf Bismil BEM
Miss Jose Brooks
Ms. Joan Burnett
Mr. Roy Collinge
Mr. John Dawson
Mr. Thomas Morris
Mr. William Newman
Mrs. Rosalind Perry
Mr. Gordon Polley
Mrs. Jean Turner
Mr. Steven Whitehead
Mr. Donald Wilcox



CSC CHAIRMEN AND MEMBERS AT 31 MARCH 1991 (continued)

THAMES CSC

CHAIRMAN: Mr. Philip Chappell CBE

MEMBERS: Mr. Clive Collier
Mr. John Hills
Mr. David Horton
Mrs. Elisabeth Monck
Mr. John Moore MBE
Mrs. Diana Ratzler
Mr. John Russell CBE
Mrs. June Smith
Mrs. Glenys Thornton
Mrs. Adele Thorpe
Mr. Ronald Yearsley

WALES CSC

CHAIRMAN: The Ven. Raymond Roberts CB

MEMBERS: Mrs. Penny Brickle
Mr. Derek Bryer
Mr. David Evans
Mrs. Maureen Freeman
Mrs. Heather March
Mr. Patrick Moriarty
Mr. David Patch
Mr. Maldwyn Rees
Mrs. Sheila Tristram
Mr. John Warman

WESSEX CSC

CHAIRMAN: Mr. Anthony Clothier

MEMBERS: Ms. Jane Aspden
Mr. Charles Barter
Mr. William Collins
Mr. Piers Feilden
Mr. Jeffrey Hordle
Mr. Leslie Keyte
Mr. Ian MacDonald
Mrs. Hazel McDermid
Mrs. Diana Tory
Mr. Graham Turner
Mrs. Jean Watkins



FINANCING OF MAJOR ENVIRONMENTAL IMPROVEMENTS

The companies' investment programmes were set in 1989/90 to achieve the objectives identified at that time. However, these objectives are not going to remain static for the next ten years. The water industry faces major demands to meet tighter environmental standards both for cleaner drinking water and for the quality of the effluent from sewage treatment works. These demands come both from the Quality Regulators (Department of the Environment, Drinking Water Inspectorate, National Rivers Authority etc.) in the UK and also from Europe. They will have a dramatic effect by adding to the costs of an already substantial investment programme.

1.1 The current investment programme for the industry totals more than £28 billion up to the year 2000 and sees expenditure greater than £2.5 billion in each of the years 1991 to 1994. For most companies this involves at least a doubling of their level of expenditure from the past. Table 1 (overleaf) shows the significant role which environmental improvements play in that total.

2.1 Table 1 also indicates an early assessment of the likely impact of two initiatives which relate to the recently approved Municipal Waste Water Directive (MWWDD). The diagram shows separately the considerable increase in expenditure which will be necessary to comply with the requirement to end the dumping of sewage sludge at sea by 1998 and to provide additional facilities at sewage treatment works which currently discharge into the sea and estuaries. This increase will be greater for some regions than others as is shown in Table 2 (overleaf). Further costs may arise from a range of other proposals under discussion for example statutory River Quality Objectives and changes in consent compliance policy.

2.2 In the water industry all such improvements are financed ultimately by increases in the bills paid by customers. These increases will come on top of the major rises in bills, shown in Table 3 (on page 17), needed to finance the existing programme of the water industry. Customers will not welcome further major price rises unless they feel confident that they are justified and provide good value for money.



SIZE OF PROGRAMME

IMPACT OF NEW OBLIGATIONS



TABLE 1
WATER INDUSTRY INVESTMENT PROGRAMME
 Effect of Municipal Waste Water Directive on Total Programme

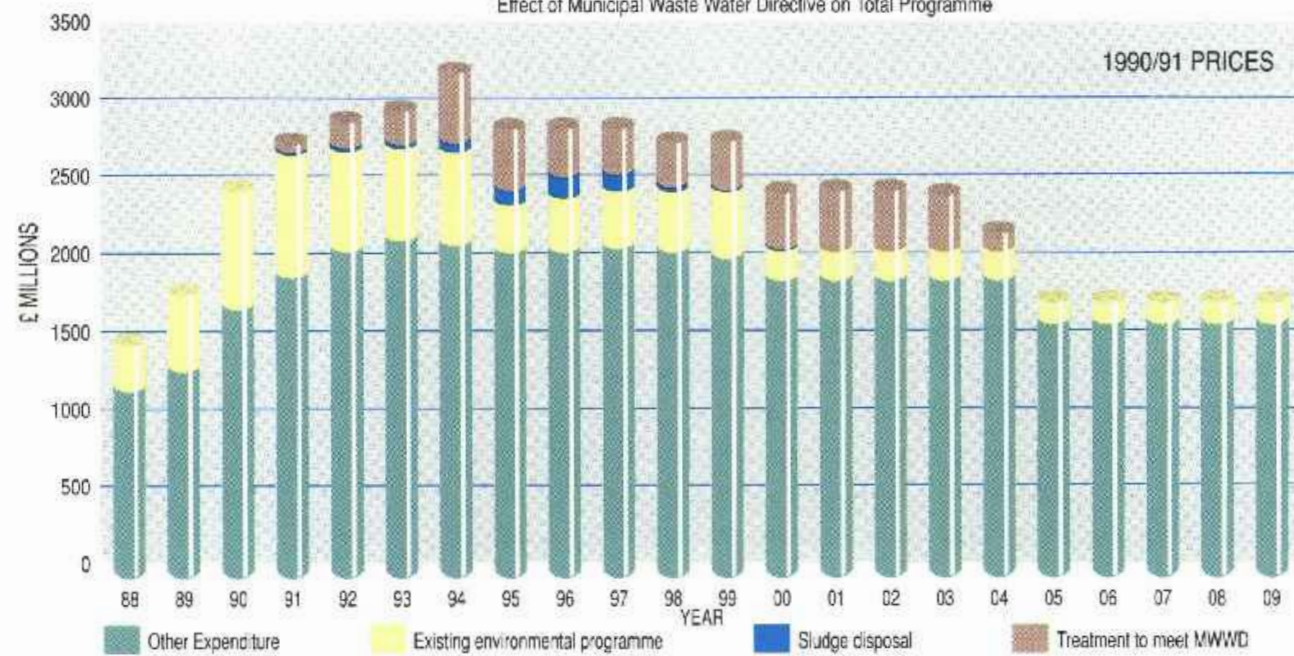
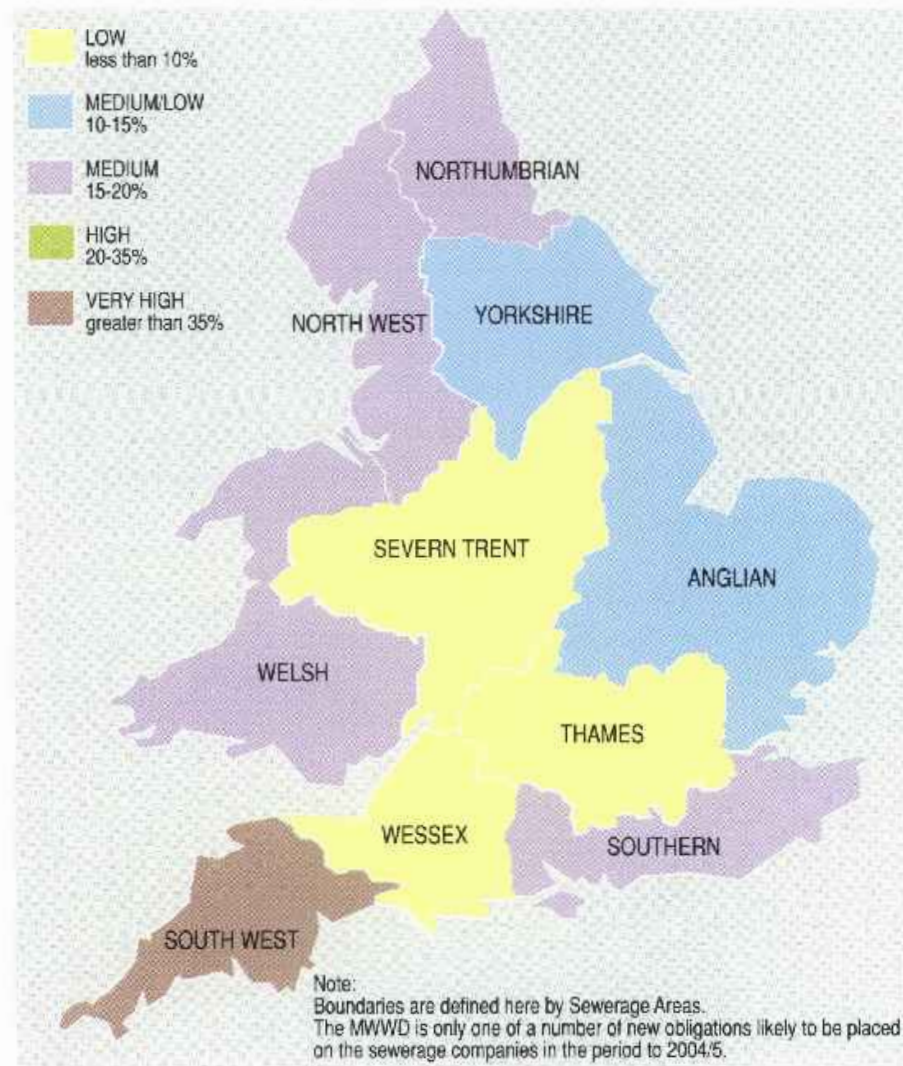


TABLE 2
MUNICIPAL WASTE WATER TREATMENT DIRECTIVE
 The impact of the additional investment necessary to meet the requirements of the MWWD relative to the total investment programmes to 2004/5.



SEVERN TRENT CSC

- CHAIRMAN:** Mr. Clive Wilkinson
- MEMBERS:** Mrs. Buddug Bates
 Mr. Derek Davis
 Mr. Gerald Godby
 Mr. Philip Heighway
 Mr. Marton Hudson
 Mr. Clive Hulls
 Mrs. Mary Milton
 Mr. Tom Rees-Jones
 Mr. Neil Richardson
 Mr. Robin Thompson
 Mrs. Barbara Venes

SOUTHERN CSC

- CHAIRMAN:** Professor Judith Rees
- MEMBERS:** Mrs. Nick Bagnall
 Mr. Mike Dobson
 Mr. Brian Drake
 Mr. Roy Elkington
 Mrs. Janet Graham
 Lt. Col. Leslie Gray
 Mr. Christopher Gwyn-Evans
 Mr. Harry Spoight
 Mr. John Starling ISO
 Mrs. Christine Swan
 Mr. John Witney

SOUTH WEST CSC

- CHAIRMAN:** Mr. Arthur Green
- MEMBERS:** Mr. Graham Andrews
 Mr. Aubrid Bourne
 Mrs. Joyce Clench
 Dr. Stuart Coverley
 Mr. Mike Cox
 Mr. Graham Facks-Martin
 Mrs. Ann Mallet
 Mrs. Anne Mayes
 Mrs. Janet Pearce
 Mr. Martin Rich



CSC CHAIRMEN AND MEMBERS AT 31 MARCH 1991

ANGLIA CSC

CHAIRMAN: Mr. David Edwards

MEMBERS: Mr. Walter Alblett
Mr. Philip Farrar
Mrs. Barbara Harrold
Mr. David Howarth
Mr. Philip Larratt
Mrs. Barbara Ruffell
Mrs. Deirdre Sanders
Mrs. Zena Scoley
Mr. Charles Simeons
Mr. John Tapp
Mr. Roy Thompson

NORTHUMBRIA CSC

CHAIRMAN: Mr. Jim Gardner CBE DL

MEMBERS: Mrs. Evelyn Black
Mr. Ron Dunn
Mr. Jock Millican
Mrs. Ann Morris
Mr. Gordon Potter Bem
Mrs. Mary Storer
Mr. Douglas Thompson
Mr. Harry Thornton
Mrs. Josephine Turnbull
Mr. Tom Yellowley MBE

NORTH WEST CSC

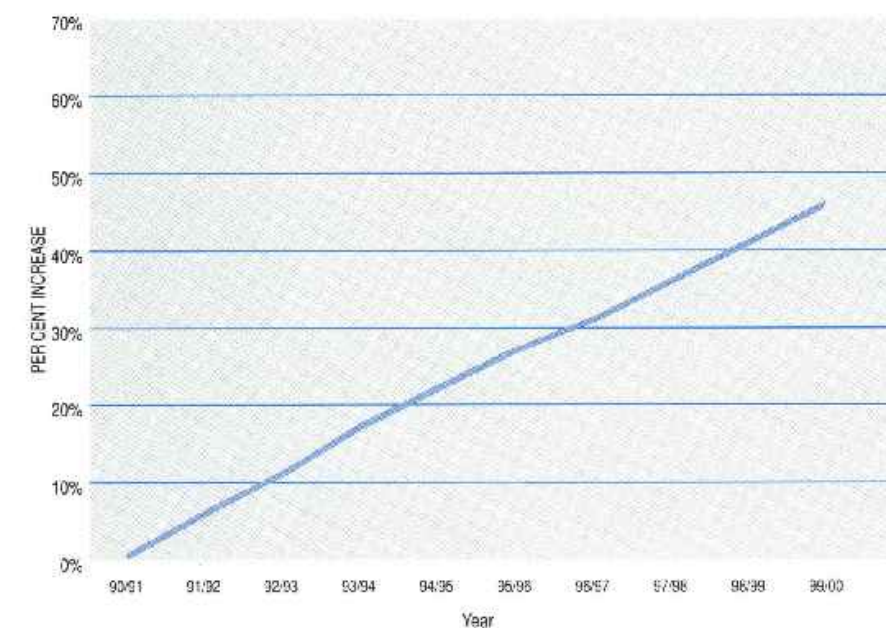
CHAIRMAN: Mr. Anthony Goldstone MBE DL

MEMBERS: Mrs. Beryl Allan
Mr. Arnold Barcroft
Mr. Peter Coackley
Mr. Hugh Lloyd
Mrs. Deborah Morton
Mr. Chris Muir OBE
Mr. Colin Reynolds
Mr. Michael Robinson
Miss Maureen Vince



TABLE 3

FORECAST AVERAGE HOUSEHOLD BILLS FOR WATER SERVICES
(Excluding Effects of Inflation)



3.1 Ofwat has been concerned over the last year about the procedures for translating these environmental initiatives into new obligations for the water industry and the need to take proper account of the higher bills for customers before decisions are taken. A number of important links in that chain needed better definition. These links are now clearer and there is a general consensus about the stages in the process and the inter-relationship between them.

3.2 The objective of this process is to ensure a rational discussion of environmental issues where costs and benefits are looked at together and to ensure that Ministers' decisions are then translated into investment programmes with broadly known consequences for prices. The main steps in this process are outlined below.

3.3 It is the prerogative of the quality regulators to make proposals for new initiatives. The costs of these initiatives must be identified and the differential impact on the regional companies assessed.

3.4 Ofwat will contribute by assessing the effect on customers' bills and the impact on individual companies' existing programmes. Examples of this over the last year have included the amendments to the Bathing Waters Programme and the ban on dumping sewage sludge at sea.

3.5 Final decisions on the proposals themselves are for Ministers who will balance the costs of making the improvements, and the consequences for customers' bills, against the environmental benefits.

DECISION MAKING



IMPLEMENTATION

4.1 Once a decision has been taken Ministers will inform Ofwat that these are new obligations which would be eligible for adjustment to K. This stage is essential to trigger the procedures of the licence.

4.2 Companies will then undertake detailed costing of the specific projects needed to implement the new objectives. The companies may approach Ofwat for adjustments to their price limits to allow them to finance the additional work.

4.3 Where the individual or aggregate costs are significantly above the costings when the initiative was adopted, Ofwat will let Ministers know so that they can decide whether the revised data justifies amendments either to the objectives or the timetable for the implementation of the programme.

EUROPEAN DIMENSION

5.1 The same steps should apply to decision making at a European level. However, their application in practice is more complicated. Article 25 of the 1987 Single European Act requires that: "the community shall take account of the potential benefits and costs of action or lack of action . . . in preparing its action relating to the environment". In addition the Commission has agreed to accompany each proposal for community legislation with a "fiche d'impact" outlining its expected impact on costs and jobs.

5.2 These provisions are not well implemented in practice. All Member States should press for such costings in the interests of the customers who will eventually foot the bill.

5.3 UK Government will want to do its own costing of the impact of European proposals as part of the process of negotiation. Once again Ofwat can assist in providing data on the relevance of changes for customers' bills.

5.4 When Member States come to implement Directives they should assess the final costs. Where these are out of line with the assumptions at the time the decisions were made then there ought to be a feedback loop to allow the Council to readdress the earlier decision.

6.1 Enforcement of a new obligation falls to both the environmental and economic regulators. The NRA will enforce quality by setting and monitoring discharge consents consistent with Ministers' environmental objectives. DWI will monitor compliance with drinking water quality standards and completion of improvement programmes. Ofwat will ensure that the companies carry out the programmes within the appropriate price limits.

South West CSC
1st Floor
Broadwalk House
Southernhay West
Exeter
EX1 1TS
Telephone: 0392 428028

South West Water Services Limited

Secretary: Sean O'Neill

Thames CSC
4th Floor
30-34 Albert Embankment
London
SE1 7TL
Telephone: 071 793 0115

*East Surrey Water plc
Mid Southern Water Company
North Surrey Water Company
Sutton District Water plc
Thames Water Utilities Limited
Three Valleys Water Services plc*

Secretary: Elizabeth Mitsching

Wales CSC
1st Floor
Caradog House
1-6 St. Andrews Place
Cardiff
CF1 3BE
Telephone: 0222 239852

*Dwr Cymru Cyfyngedig
Chester Waterworks Company
Wrexham and East Denbighshire Water
Company*

Secretary: Clive Sterl

Wessex CSC
1 The Hide Market
West Street
St. Philips
Bristol
BS2 0BH
Telephone: 0272 557001

*Bournemouth & District Water Company
Bristol Waterworks Company
Cholderton & District Water Company
Limited
Wessex Water Services Limited
West Hampshire Water Company*

Secretary: Terry Emm

Yorkshire CSC
10th Floor
Dudley House
Upper Albion Street
Leeds
LS2 8PN
Telephone: 0532 340874

*York Waterworks plc
Yorkshire Water Services Limited*

Secretary: Wendy Lockwood

ENFORCEMENT



CSCs AND THE CUSTOMERS FOR WHOM THEY ARE RESPONSIBLE

CSC ADDRESSES AT 31st MARCH 1991

RESPONSIBLE FOR CUSTOMERS OF:

Anglia CSC
Ground Floor
Carlyle House
Carlyle Road,
Cambridge
CB4 3DN
Telephone: 0223 323889

Secretary: Shiela Brignall

*Anglian Water Services Limited
Cambridge Water Company
Essex Water Company
Tendring Hundred Waterworks Company
Suffolk Water plc (previously East Anglian Water Co.)*

Northumbria CSC
2nd Floor
35 Nelson Street
Newcastle
NE1 5AN
Telephone: 091 221 0646

Secretary: Deryck Hall

*Hartlepool Water Company
Northumbrian Water Limited
North East Water (comprising
Newcastle & Gateshead Water plc and
Sunderland & South Shields Water plc)*

North West CSC
1st Floor
Boulton House
17-21 Chorlton Street
Manchester
M1 3HY
Telephone: 061 236 6112

Secretary: Robert Norris

North West Water Limited

Severn Trent CSC
1st Floor
77 Paradise Circus
Queensway
Birmingham
B1 2DZ
Telephone: 021 212 5202

Secretary: Will Dawson

*East Worcestershire Waterworks Company
Severn Trent Water Limited
South Staffordshire Water Company*

Southern CSC
4th Floor
30-34 Albert Embankment
London
SE1 7TL
Telephone: 071 793 0115

Secretary: Elizabeth Mitsching

*Eastbourne Water Company
Folkestone & District Water Company
Mid Kent Water plc
Mid-Sussex Water Company
Portsmouth Water plc
Southern Water Services Limited
West Kent Water Company*

STRUCTURE OF THE INDUSTRY

A key difference between the regulatory structure established in September 1989 for the water industry and those established previously for other regulated utilities is that the Director General of Water Services regulates a number of different companies, each with a local monopoly. Although the regime subsequently established for electricity has similarities, there are differences, because even the electricity companies do not have a complete monopoly. This chapter considers some of the implications of this structure, and the approach that the Director General of Water Services has adopted in response to it. It also considers the implications of diversification into enterprise activities outside the water and sewerage business by some of the groups controlling water and sewerage companies.

1.1 At the time the 1989 Ofwat Report was published, the Monopolies and Mergers Commission (MMC) was investigating three different mergers in the water industry. All have now been resolved. The references were made under the terms of Section 29 of the 1989 Water Act, which established a new test for mergers between water enterprises with assets of more than £30 million. In deciding on the balance of public interest, the MMC is required to have regard to the principle that the Director General's ability to make comparisons between different water companies should not be impaired by a reduction in the number of enterprises under independent control.

1.2 The first merger to be referred was that between Lee Valley, Colne Valley and Rickmansworth water companies. The MMC found that this proposed merger would operate against the public interest, but that the adverse effects could be mitigated if the benefits of the merger were passed on to customers in the form of lower charges. Following a request by the Secretary of State for Trade and Industry to see if satisfactory undertakings could be negotiated with the parties, the Director General secured their agreement to give undertakings which result in a reduction in charges of 10% from the level that would otherwise have applied by 1996. On the basis of those undertakings, the Secretary of State allowed the merger to proceed. Following cash offers by General Utilities plc (the majority shareholder previously in Lee Valley and itself wholly owned by Compagnie Generale des Eaux) the merger establishing Three Valleys Water Services plc as part of the General Utilities Group was completed.

1.3 The other two merger references were made in January 1990. In one (the minority shareholding of Southern Water in Mid-Sussex Water Company) the MMC found that the merger would not operate against the public interest. In the other (the 30% shareholding by General Utilities plc in Mid Kent Holdings plc, the owner of Mid Kent Water Company) it found adverse public interest effects. The Secretary of State, in publishing the report, indicated that he believed these effects could be mitigated only by divestment. Following discussion between the Director General and General



CHANGES IN INDUSTRY STRUCTURE



Utilities, undertakings have been given by General Utilities agreeing to divest to a shareholding of 19.5% (equal to that of the next largest shareholder, SAUR Water Services plc) by 30 June 1992, and not to seek or accept Board membership. Ofwat's Legal Adviser, Allan Merry, led the discussions with the parties which preceded this agreement.

1.4 A number of water companies came under common ownership before the merger provisions in the 1989 Water Act came into effect. In some of these cases companies have been integrating their management structures. In these cases, the Director General has sought to reach agreement on the terms under which those companies will move ultimately to hold a single appointment, with adjustments to prices in the meantime. The agreement in the case of Newcastle and Gateshead Water plc and Sunderland and South Shields Water plc, now trading as North East Water, was announced on 17th October 1990; in that case, a charges reduction of 1% was agreed. Discussions have also been held with SAUR UK plc, the owners of Mid-Sussex, West Kent and Eastbourne water companies, with Bournemouth and West Hampshire water companies and Essex and Suffolk water companies. The detailed text of the agreement has been developed by Ofwat's Legal Adviser to meet the circumstances of each case.

1.5 It is not part of the Director General's remit actively to promote structural change in the industry. However, work being undertaken on comparing the efficiency of different companies (See Chapter 5) is likely to throw further light on the implications of different sizes of water and sewerage companies. This analysis will help to inform the Director General's evidence to the Monopolies and Mergers Commission in any future merger investigations.



Rickmansworth Water Company's Headquarters, Hertfordshire. Mergers usually provide opportunities for reviewing property needs.

OFWAT POLICY AND MANAGEMENT BOARDS

OFWAT POLICY BOARD

Mr Ian Byatt
Mr Alan Booker
Mr Chris Bolt
Dr Bill Emery
Dr Neil Jackson
Mr Allan Merry
Mr Michael Saunders
Mr David Walker

Chairman
Deputy Director General
Head of Charges Control Division
Head of Engineering Intelligence
Head of Administration
Head of Legal and Land Division
Head of Consumer Affairs
Consultant

Mrs Dilys Plant
Mr Matthew Toulmin

Head of Information (in attendance)
Secretary

OFWAT MANAGEMENT BOARD

Mr Ian Byatt
Mr Alan Booker
Mr Chris Bolt
Dr Bill Emery
Dr Neil Jackson
Mr Allan Merry
Mr Michael Saunders
Mr Roy Wardle

Chairman
Deputy Director General
Head of Charges Control Division
Head of Engineering Intelligence
Head of Administration
Head of Legal and Land Division
Head of Consumer Affairs
Deputy Head of Consumer Affairs

Mr Ian Stott

Secretary



DEAR FINANCE DIRECTOR LETTERS

NUMBER	DESCRIPTION	DATE
FD1	Regulatory Accounts for 1989/90	16.03.90
FD2	Watermeadows Progress Report	16.03.90
FD3	Indices for 1989/90 CCA Accounts	06.04.90
FD4	Interest Rates for Requisitions and Infrastructure Charges	09.04.90
FD5	Watermeadows Progress Report 2	08.05.90
FD6	Inset Appointments	08.05.90
FD7	Revised Interest Rates for Requisitions and Infrastructure Charges	17.05.90
FD8	Watermeadows Progress Report 3	02.07.90
FD9	Charges Scheme 1990/91	05.07.90
FD10	Use of Leasing Finance	19.07.90
FD10	Corrigendum to Letter FD10	23.07.90
FD11	Definition of Appointed Business	23.07.90
FD12 (WS)	Holding Company Accounts	26.07.90
FD13	Watermeadows Progress Report 4	09.08.90
FD14	Reference Notices For Review of K Determinations	13.09.90
FD15	Consultative Guidelines on the Classification of Expenditure for Infrastructure Renewals Accounting	25.09.90
FD16	Interest Rates for Requisitions and Infrastructure Charges – six monthly review	09.10.90
FD17	Submission of Actuals Data	25.10.90
FD17A	Submission of Actuals Data	30.11.90
FD18	Transactions with Associated Companies	31.10.90
FD19	Proposed Strategy for Comparative Efficiency Studies	31.10.90
FD20	Principal Statement 1991/92 (plus) Corrigendum to Letter FD20	21.11.90
FD20A	Addendum (RPI) to Letter FD20 and Corrigendum	14.12.90
FD21	Infrastructure Charges – Demand Related Multiplier	28.11.90
FD21A	Infrastructure Charges – Demand Related Multiplier	06.12.90
FD22	23 November Workshop - Comparative Efficiency Studies	20.12.90
Issued during 1991		
FD23	Interest Rates for Requisitions and Infrastructure Charges	08.01.91
FD24	Water Industry Statistics	24.01.91
FD25	Guidelines on the Classification of Infrastructure Expenditure	12.02.91
FD26	Watermeadows 1991 Release	11.02.91
FD27	Responses to asset valuation questionnaire	27.02.91
FD28	Interest Rates for Requisitions and Infrastructure Charges	05.04.91
FD29	Regulatory Accounts	09.05.91

- * (WS) Water & Sewerage Companies only.
- * (WO) Water only Companies.



CORPORATE STRUCTURE

2.1 All ten water and sewerage companies, and a number of the water only companies, have established a company structure with a group holding company and a number of subsidiary companies, one of which is the appointed company and one often a property subsidiary. As part of this process, 11 of the water only companies have converted to public limited company status, and others have indicated that they are seeking to convert. Such a move frees them from the constraints of their statutory provisions and allows them to diversify outside water supply.

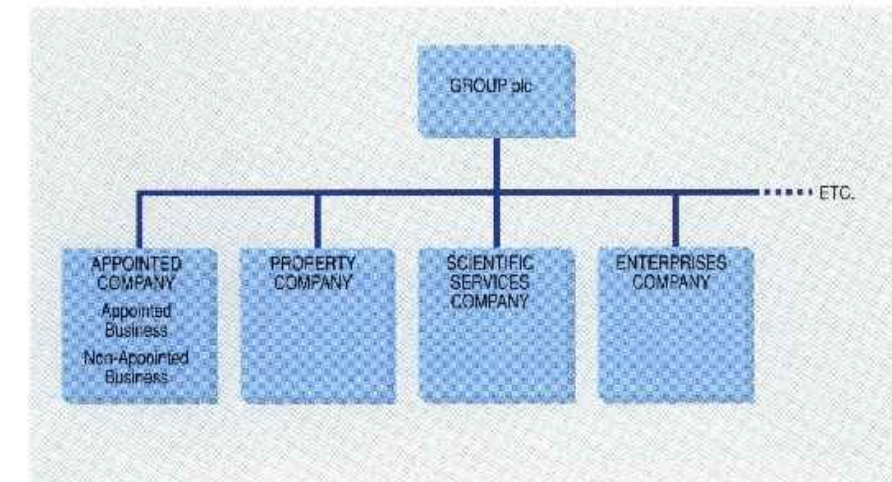


TABLE 4

Although the Director General only regulates the appointed company – and within the appointed company has primary concern for the appointed business – it is important to ensure that any transactions within the group are undertaken on a basis which properly protects the interests of water and sewerage customers.

2.2 During the course of the year the Director General issued regulatory accounting guidelines. These prescribe the basis on which companies prepare regulatory accounting information for the appointed company. They also define the activities to be regarded as within the appointed business, and specify the information to be provided on transactions between the appointed business and either non-appointed activities within the appointed company or other associated companies within the group. This information will be analysed to ensure that transfer pricing arrangements do not involve any cross-subsidy between the appointed business and other parts of the group.

3.1 Ofwat's involvement on land disposals generally is governed by Condition K of the licence. Half of the retention on land sales must go to water customers through a reduction in prices. For arm's length transactions to unconnected third parties, the procedure is straightforward and usually involves prior notification to Lands Branch with independent valuers' certificates. In these cases, the contents of the notifications are checked for conformity with the requirements of the licence and the valuers' certificates are scrutinised for the assumptions made as to value, particularly the planning assumptions. This is because obtaining suitable planning consents is crucial to realising the maximum possible value of land.

LAND DISPOSALS



3.2 There are usually few problems for Ofwat with these cases, as the companies are under commercial pressures to obtain the best possible price for such disposals for the benefit of customers and shareholders alike. However, much more extensive research needs to be conducted by Ofwat in the case of disposals to associated companies.

3.3 As mentioned earlier in the chapter, the typical structure of the water groups includes a property subsidiary. Most of the water and sewerage companies and also at least one of the water only companies have set up such property subsidiaries, either as a separate operating division of the group plc or as a wholly owned subsidiary company (or companies).

3.4 The purpose of these property companies varies. At the one extreme they are merely there to provide more accurate "cost-centre" based management of the group's property assets – and might employ the existing estate management staff; at the other is a range of companies, providing separate estate management, property investment and property development functions. In this latter case, the property development company is likely to be actively involved in the market place, dealing in non-core land as well as purchasing surplus land from the core. Inevitably, however, the main purpose is to develop land from the core company which has been identified as surplus to requirements.



Barn Elms 1. The proposed Wildfowl and Wetlands Trust Centre with enabling housing development

3.5 Without adequate control, there could be a temptation to transfer sites at relatively low values to property subsidiaries for them to develop at a later stage, reaping all the increases in values for the benefit of the shareholders. Not only might customers lose out on any increases in values but, as values for inclusion in the initial K determinations were set at a relatively high point in the property market, there is even a possibility of part of the losses being recouped from the customers through the interim adjustment mechanism.

NUMBER	DESCRIPTION	DATED
MD32	Reporting of Water Supply Disconnections	07.06.90
MD33	Consultation Current Cost Accounting Guidelines	27.06.90
MD34	Monitoring of Capital Expenditure and Levels of Service: Annual Report – July 1990 (3)	26.06.90
MD35	Share ownership in the Water Industry	10.08.90
MD36	Notified Items: Public Register	14.09.90
MD37	Annual Reports: Follow-up Action	03.10.90
MD38	Levels of Service Information 1989/90	23.10.90
MD39	Infrastructure Charges	30.10.90
MD40	Consultation Regulatory Accounting Guidelines	31.10.90
MD41	Director General's Expert Working Groups	14.11.90
MD42	Leaflet Mailing	21.11.90
MD43	Current Cost Asset Valuation	12.12.90

Issued during 1991

MD44	Draft Requirements: 'July 1991 Return to the Director General of Water Services'	11.01.91
MD45	Disposals of Land and Condition K	22.01.91
MD46	DG's Visits in 1991	15.02.91
MD47	Report of Requirements July 91	12.03.91
MD48	DG's Expert Working Groups	14.03.91
MD49	Guideline on the contents of Regulatory Accounts	22.03.91
MD50	Guideline on accounting for Current Costs	22.03.91
MD51	Reporting Requirements (2): 'July 1991 Return to the Director General of Water Services'	19.04.91
MD52	Reporting Requirements (3) 'July 1991 Return to the Director General of Water Services'	26.04.91
MD53	Reporting Requirements (4) 'July 1991 Return to the Director General of Water Services'	03.05.91
	Denominators – revised definitions Lotus 123 Tables	

DEAR MANAGING DIRECTOR LETTERS

Distribution of the following letters is to the Managing Directors of all appointed companies except where the letters are of application only to either:

- ◆ water and sewerage companies (suffix WS) or
- ◆ water only companies (suffix WO)

NUMBER	DESCRIPTION	DATED
Issued during 1989		
MD1	Disposal of Protected Land	29.09.89
MD2	Licence Condition G: Code of Practice for Customers	05.10.89
MD3	Mains Water Pressure	19.10.89
MD4	Financial Information	29.11.89
MD5	Requisition of Mains and Services: Approval of Interest Rate	11.09.89
MD6 (WO)	Effectiveness of Capital Investment	15.12.89
MD7 (WS)	Effectiveness of Capital Investment	15.12.89
MD8	Principal Statement for 1990/91 Charging year (MD/8a Letter: MD8b Notes)	19.12.89
MD9	Levels of Service	20.12.89
MD10	Condition F, Accounts: Appointment of Working Group	15.12.89
MD11	Code of Practice on Disconnection Code of Practice on Leakage	15.12.89 14.01.90
MD12	Working party on Accounting Issues	02.01.90
MD13	Principal Statement for 1990/91 Charging year (Additional to MD8)	22.12.89
MD14	Code of Practice for Customers	22.12.89
MD15	Regulatory Accounts for 1989/1989-90	04.01.90
Issued during 1990		
MD16	Disposal of Protected Land	25.01.90
MD17	Allocation to Customer Service Committees	31.01.90
MD18 (WO)	Principal Statement: Auditor's Report	05.02.90
MD19	Standardisation of Financial Years	08.02.90
MD20	Reporting of Water Supply Disconnections	19.02.90
MD21	Infrastructure Charges	26.02.90
MD22	Interest rates for requisitions and infrastructure charges	27.02.90
MD23a(WS)	Levels of Service and Annexes 1+2 (Annex 1: 1990 Requirements; Annex 2: Targets 1990/91)	27.02.90
MD23b(WO)	Levels of Service + Annex 1 only	27.02.90
MD24	Regulatory Accounts: Current Cost Accounting Guidelines	08.03.90
MD25	Levels of Service	29.03.90
MD26	Monitoring of Capital Expenditure Levels of Service – annual report	11.04.90
MD27	Independent Certifiers	11.04.90
MD28	Infrastructure Charges	11.04.90
MD29	Charging Policy Consultation Document: Synopsis	10.05.90
MD30	Contact between the Director General and the appointed companies	14.05.90
MD31	Monitoring of Capital Expenditure and Levels of Service – Annual Report July 1990	01.06.90



TABLE 5
LAND DISPOSALS
September 1989 - March 1991

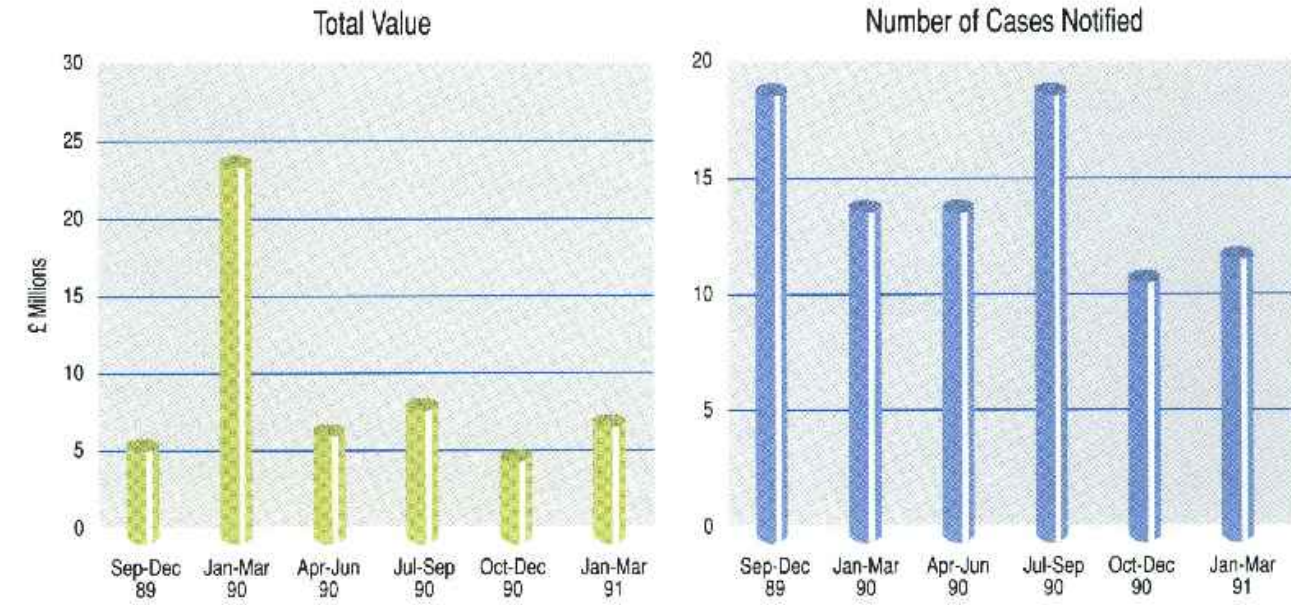
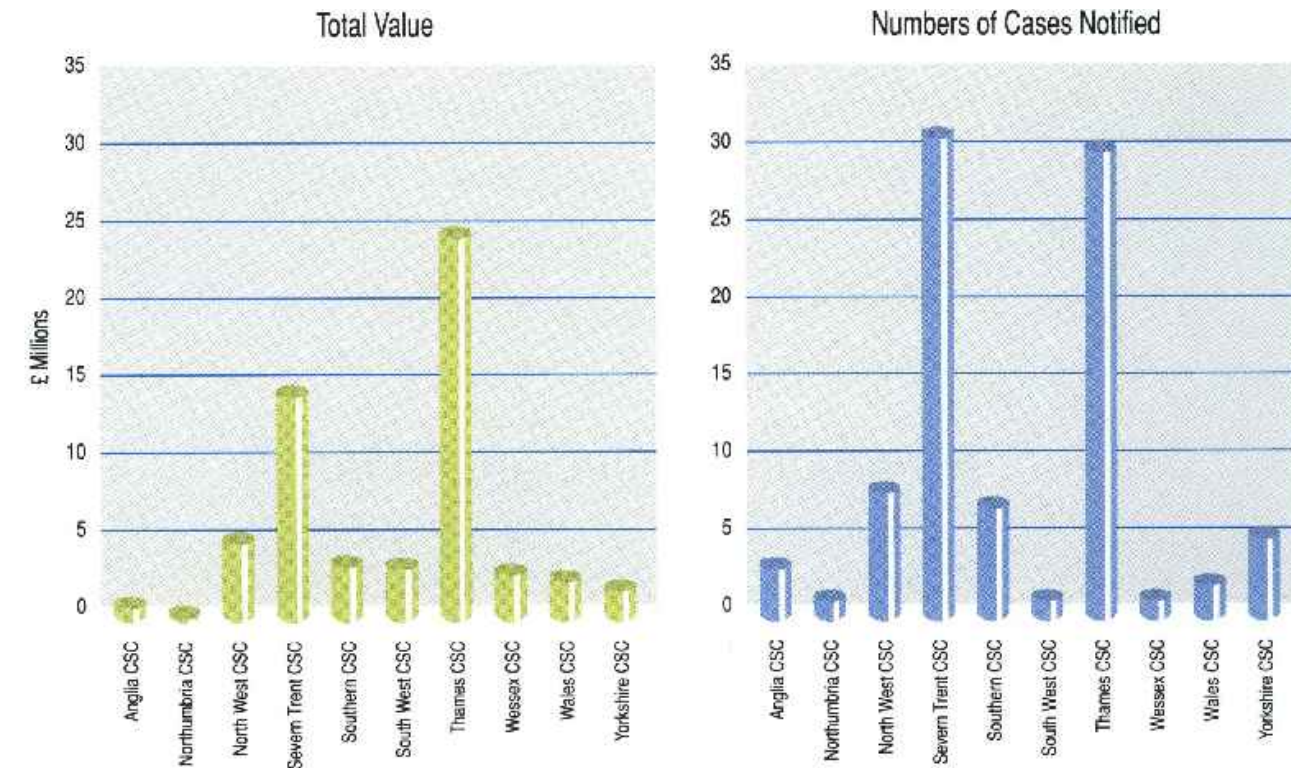


TABLE 6
LAND DISPOSALS BY CSC AREAS
September 1989 - March 1991



Note: This table includes sale and leasebacks, leases and other minor disposals as well as outright sales. It does not include all disposals made by water companies as small value arm's length disposals do not need to be notified under Condition K but are reported under Condition B in the event of an application for interim adjustment.

3.6 To avoid this occurring, clawback conditions are imposed by Ofwat, taking each case on its merits. Often the site in question requires huge costs of clearance, decontamination or development of access before it can be developed for alternative uses. These uses may be highly speculative and require investment of risk capital which may not in the event yield a return. It is totally appropriate that this investment is made by an associated enterprise company and not the core; equally the original owner should benefit from some of the extra proceeds if planning consent is achieved. Clawback conditions are designed to achieve a balance between the risks involved and the returns expected and any percentage split is based on Lands Branch's perception of those risks and likely returns.

3.7 Each such case received in this category will normally require a site inspection and often an assessment of value is requested from a local valuation consultant. For an initial period, Ofwat is contracting with the Valuation Office to obtain nationwide valuation advice and this will be reviewed on a regular basis.

3.8 Inevitably with any new legislation, full assimilation of the concepts and procedures takes time and so Ofwat's initial task was to provide comprehensive guidance on the subject. An updated guidance note on Condition K was circulated to all companies in January 1991 (under cover of 'Dear Managing Director' letter 45), after many meetings with companies and others. That task completed, more time is now devoted to individual company strategies and site-specific proposals. Notifications of proposed disposals since Ofwat was set up have been varied as Table 5 shows (see page 23).

3.9 As the property market improves, the workload may require a prioritisation in favour of the more valuable sites. However, that does not necessarily mean the largest sites nor always in the South-East. Lands Branch staff continuously monitor the various sectors of the property market and encourage dialogue at all times with the companies to ensure treatment of individual cases is consistent and fair, whilst fulfilling the Director General's duties to the water companies' customers.



Barn Elms 2: A major reservoir in West London – soon to become surplus with potential for a major ecological development

2.3 The space occupied in Centre-City Tower was enlarged and adjustments made to the layout. A portion of the 12th floor was acquired and redesigned and steps were taken to acquire the remaining portion of the 13th floor. The layout of the 13th, 14th and a small part of the 15th floors was changed. The reorganisation will allow more room for the Library and the Director's Register (the register of specified documents available for public inspection), for staff generally and for support services and storage. The repartitioning was carried out around staff as they worked; their forbearance is a measure of their commitment to meeting Ofwat's objectives whatever the circumstances.

2.4 The South West CSC moved, as planned, from Bristol to Exeter, first to a temporary address and then to its permanent accommodation. The changes at Centre-City also involved a move for Severn-Trent CSC to new central Birmingham accommodation.

2.5 IT and telecoms provisions were enlarged and adapted. The IT network now extends to the 12th floor. Software was acquired for policy and management support in Consumer Affairs and the CSCs, and for financial, personnel and other office services. The security of the IT system is being enhanced. The internal telephone system is now 15% bigger than at the start of the year, includes the 12th floor and has GTN and GOALS facilities.

3.1 Each appointed company is required to pay an annual fee to the Secretaries of State. The Director General collects those fees on their behalf for them to pass over to the Treasury. The fees are intended to equal OFWAT's estimated expenditure and are apportioned between the companies on a basis which they agree in advance with the Director General. In 1989, 1990 and 1991 that basis was their turnover in the regulated business. With the agreement of the other Departments and the Treasury, a degree of flexibility was introduced, seeking 70% of the fees at the beginning of the financial year, and adjusting the remaining 30% later in the year in the light of actual expenditure.

**DIRECTOR GENERAL'S EXPENDITURE 1990-91
(£M; CURRENT PRICES)**

	1989-90 OUTTURN (7 months)	1990-91 OUTTURN	1991-92 PLANNED
Running Costs	1.2	3.8	5.7
Superannuation*	-	-	0.5
Capital	0.5	0.5	0.1
TOTALS	1.7	4.3	6.3

*From April 1991, superannuation costs are being charged to Department Votes. Previously they were borne centrally although included in departmental costing and cost-recovery work.

MANAGING OFWAT'S RESOURCES

Management policies for Ofwat and the CSCs are set by Management Board. The Administration Division is responsible to the Director General and the Board for the efficient use of the Office's human, financial and physical resources. The total cost of Ofwat and the CSCs in 1990/91 was £4.3M. Ofwat began the year with 51 people. By the end of that year 112 people worked for the Office and the CSCs, occupied accommodation in nine cities, and made use of IT, telecoms and other office equipment worth over £300,000.

1.1 The principal management tasks were to bring the Office up to its planned size and structure while identifying and implementing new or changed needs and structures as policy divisions developed the new regulatory regime. In particular, the Office needed enlarging to give effect to the Director General's decision to carry out certain monitoring work in-house and to develop the provisions for approved certifiers of the quality of the relevant data provided by the companies.

2.1 The Director General redesigned and completed his senior management structure while keeping his team to its planned size and streamlining reporting arrangements. He strengthened Consumer Affairs and Administration, and brought both Information and Policy Co-Ordination Branches under his direct control. Alan Booker was recruited as Deputy Director General, Michael Saunders as Head of Consumer Affairs (both through the Civil Service Commission) and Roy Wardle was appointed Deputy Head of Consumer Affairs by internal promotion. The new structure is shown on Page 7.

2.2 The Director General meets Ofwat and CSC staff at bi-monthly office meetings to review policy developments and to discuss policy or management issues raised by any member of staff. He and senior managers also meet the staff's elected representatives in the Office Committee which handles management issues affecting staff in Ofwat and the CSCs.



Ofwat staff on a familiarisation visit to a sewage works

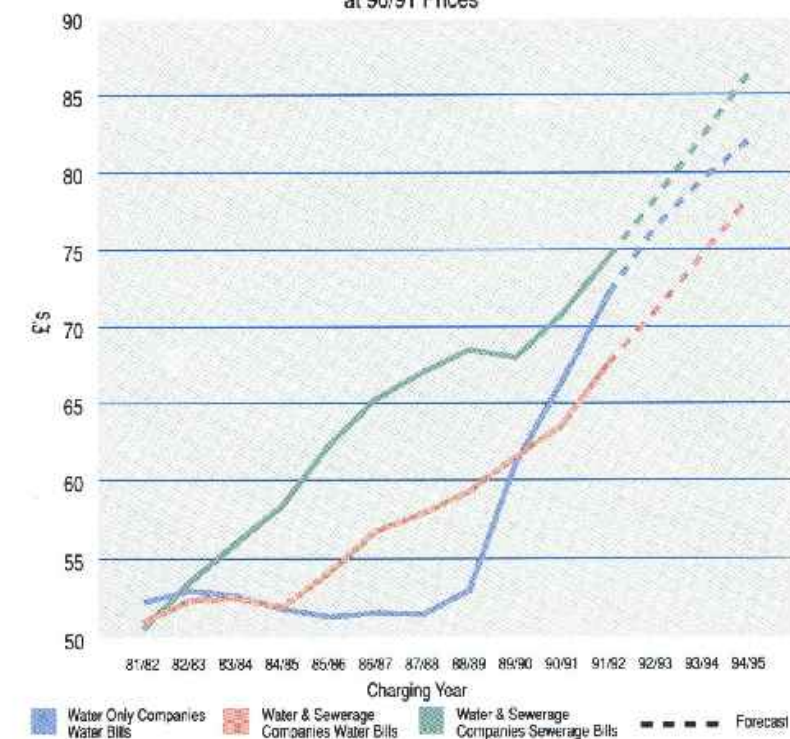
PAYING FOR WATER

The 'RPI + K' framework of price control is central to the regulatory regime. But monitoring compliance with that price limit is not the only concern that the Director General has with water charges. This chapter describes in more detail the work being undertaken on tariff structures and charging methods and on influencing the procedures adopted by companies where customers have difficulty paying their bills.

1.1 The charges increases implemented by companies in April 1991 were the second to be permitted under the regulatory regime introduced in September 1989. The average increase in charges for a number of specified services is limited to the change in the RPI to November plus a factor K. K was set individually for each of the companies for each of the years up to 2000 by the Secretary of State for the Environment or for Wales.

1.2 Table 7 illustrates the movements in average bills over the recent past, and likely future movements if current price limits are fully utilised. The increases in average unmeasured household bills from April 1991 are shown in Table 8. Most of the water and water and sewerage companies increased their charges by the full amount allowed under the price control limit, but a number made a voluntary deferment of K to reflect slippage in their capital programme. (See Table 9 overleaf) This will allow them to re-introduce the price rise at a later date.

TABLE 7
AVERAGE HOUSEHOLD BILLS
at 90/91 Prices



CHARGES INCREASES FROM APRIL 1991

AVERAGE HOUSEHOLD BILLS - 1991/92

UNMEASURED WATER		
Company	Levels from April 1991 in £	% Increase 90/91 - 91/92
Anglian Water Services Ltd.	94	19.7
Bournemouth & District Water Company	81	25.5
Bristol Waterworks Company	72	14.3
Cambridge Water Company	77	26.0
Chester Waterworks Company	93	15.7
Cholderton & District Water Company Ltd.	94	18.7
Dwr Cymru Cyfyngedig (Welsh Water)	104	16.2
East Surrey Water plc	125	25.1
East Worcestershire Waterworks Company	93	20.5
Eastbourne Water Company	136	26.3
Essex Water Company	77	13.7
Folkestone & District Water Company	81	17.2
Hartlepool Water Company	61	15.9
Mid Kent Water plc	103	17.9
Mid Southern Water Company	83	20.2
Mid Sussex Water Company	134	24.0
North East Water*	74	17.9
North Surrey Water Company	61	19.1
North West Water Ltd.	67	14.9
Northumbrian Water Ltd.	66	16.7
Portsmouth Water plc	56	13.2
Severn Trent Water Ltd.	61	14.7
South Staffordshire Water Company	60	15.7
South West Water Services Ltd.	83	16.7
Southern Water Services Ltd.	66	15.2
Suffolk Water plc	76	12.0
Sutton District Water plc	80	22.8
Tending Hundred Waterworks Company	96	32.2
Thames Water Utilities Ltd.	66	13.8
Three Valleys Water Services plc**	77	17.4
Wessex Water Services Ltd.	80	16.7
West Hampshire Water Company	48	13.1
West Kent Water Company	113	28.0
Wrexham & East Denbighshire Water Company	101	17.2
York Waterworks plc	69	15.2
Yorkshire Water Services Ltd.	81	14.6

* North East Water comprises Newcastle & Gateshead Water plc and Sunderland & South Shields Water plc

** Three Valleys comprises Lee Valley Water plc, Colne Valley Water plc and Rickmansworth Water plc

UNMEASURED SEWERAGE		
Company	Levels from April 1991 in £	% Increase 90/91 - 91/92
Anglian Water Services Ltd.	111	12.5
Dwr Cymru Cyfyngedig (Welsh Water)	91	16.2
Northumbrian Water Ltd.	76	16.0
North West Water Ltd.	76	14.5
Severn Trent Water Ltd.	76	14.7
Southern Water Services Ltd.	96	15.0
South West Water Services Ltd.	109	17.2
Thames Water Utilities Ltd.	64	14.8
Wessex Water Services Ltd.	96	12.8
Yorkshire Water Services Ltd.	74	12.7

Average unmeasured household bills 1991/91 - Water: £75; Sewerage: £81; Total: £156

TABLE 8

4.1 Ofwat staff have been in demand as conference speakers both at home and abroad. The Director General addressed the American Water Works Association and Water Pollution Control Federation joint management conference in San Antonio, Texas and Bill Emery, Head of Ofwat's engineering intelligence division spoke in Canada at the Canada/UK Colloquium organised by the Institute for Research on Public Policy. Nearer home, the Director General has spoken at the Economist Conference (September 1990); Financial Times Conference (March 1991), delivered a paper to the David Hume Institute; addressed the Institute of Chartered Accountants, the Society of Investment Analysts, the Institution of Water Officers, the Public Finance Foundation Conference - to name but a few. Deputy Director, Alan Booker has also carried out an extensive programme of speaking engagements.

5.1 To help explain alternative methods of charging for water and to stimulate discussion of the charging consultation paper Ofwat produced a 12 minute video "Paying for Water - a time for decisions". This was made available on free loan and was requested by many organisations. Excerpts from the video were shown on several TV programmes during the four month consultation period.

6.1 During the year the staff complement in the library has been brought up to strength with the permanent appointment of a librarian and a part time assistant librarian.

6.2 The library accommodation has been expanded to house the greatly increased stock held. A computerised library management system (INLib) was installed towards the end of the year and recent acquisitions have been recorded on the system. Records of older stock will be converted retrospectively. The increase in numbers of Ofwat staff resulted in a greater workload for library staff. Usage of the library by the general public also increased significantly during the year with the number of general enquiries well up on last year. The library acts as a sale's point for priced Ofwat publications and in future will handle the subscription series of Dear Managing Director and Dear Finance Director letters.

CONFERENCES

VIDEO

LIBRARY

2.2 Ofwat has circulated its leaflets widely through public libraries, Citizens Advice Bureaux, to environmental health officers and trading standards officers and through the offices of the Department of Social Security. Most water companies have also made Ofwat leaflets available to the public. Over 200,000 leaflets explaining Ofwat's role and about 140,000 leaflets outlining the complaint's procedure for customers have been distributed. Both these leaflets were produced in Welsh. Ofwat has also produced a leaflet giving details of companies' charges for water and sewerage for 1991/92. Over 22,000 copies have been sent out to public libraries and in response to requests.



A selection of Ofwat literature produced during the year

2.3 The "Paying for Water" consultation was supported by a range of informative literature. The general explanatory leaflet for the consultation was produced in six different languages.

2.4 Forty nine press notices were issued by Ofwat during 1990. (For full list see Appendix 6).



The Ofwat stand at the Ideal Home Exhibition

3.1 During the year Ofwat participated in the NACABS Annual Conference in York (October) and took part in Consumer Congress in Belfast. Ofwat also exhibited at the 1991 Ideal Home Exhibition at Earls Court. Discussions are underway with the Office of Electricity Regulation (Ofel) and the Office of Telecommunications (OfTel) to mount a regulators' road show. This would visit major towns and cities to explain the role of the regulatory bodies in helping customers.

K DEFERMENTS

COMPANY	91/92		COMPANY	91/92	
	K+U	USED K		K+U	USED K
BOURNEMOUTH	18.6	15.4	MID-SUSSEX	17.0	14.3
BRISTOL	5.1	5.0	SOUTH STAFFORDSHIRE	5.0	3.5
CAMBRIDGE	11.0	10.7	SOUTHERN	5.5	4.9
EAST SURREY	16.0	15.9	SUFFOLK	13.0	0.0
EAST WORCESTERSHIRE	11.1	10.9	WEST HAMPSHIRE	7.6	6.5
EASTBOURNE	20.0	17.2	WEST KENT	20.0	17.2
ESSEX	5.0	3.5	WREXHAM	15.0	7.7
HARTLEPOOLS	3.6	3.5	YORKSHIRE	3.9	3.3

U represents the amount of K not taken up by the company in 1990/91

TABLE 9

2.1 The RPI + K formula only controls the overall level of charges. There are separate provisions in the licences of water only, and water and sewerage companies which require them to set individual charges on a basis which avoids undue discrimination and undue preference. The method used to collect charges is ultimately for the individual companies to determine.

2.2 In the past, most households were charged for water and sewerage services on the basis of the property's rateable value. The introduction of the Community Charge has meant that rateable values are not available for new properties. Most companies are metering all new domestic properties, although some, such as Northumbrian, Portsmouth and Dwr Cymru (Welsh Water), are charging all new properties a flat rate licence fee. Companies can continue using rateable values until the year 2000; after then, an alternative must be found for all properties.

2.3 In order to stimulate debate both on the appropriate criteria for determining tariff structures and on the future methods of paying for water, the Director General issued a statement and consultation paper on 5 November 1990. Over 6,500 copies of the statement and 2,700 copies of the consultation paper have been issued, together with over a quarter of a million copies of a short general leaflet. In order to reach the majority of individual water and sewerage customers, most of the companies included a leaflet, incorporating a short questionnaire, with the bills sent out in March. In this way about 18 million customers were given the opportunity to voice their opinions.

2.4 More than 2,000 written responses to the consultation documents have been received by the Director General, with others sent direct to the Customer Service Committees. Nearly 290,000 responses to the questionnaire were received by the CSCs – a response rate of about 1.6%. The responses and questionnaires are now being analysed, and the Director General intends to develop guidelines on charging policy, focusing on the customers' viewpoint before the end of the year.

Ofwat's publicity objective during the year has been to develop consumer awareness of its role and to help the Customer Service Committees develop a relationship with the consumer. Creating an image for any new organisation presents a tremendous challenge. Without doubt the year has seen a growing public awareness of Ofwat's regulatory role and the role played by the CSCs as champions of the consumer. The "Paying for Water" consultation has secured extensive media coverage and has been instrumental in bringing Ofwat's name before a wide audience.

1.1 Water continued to be a subject of interest to journalists and the Director General tried to make himself as accessible as possible to the media. The CSCs have also worked hard at developing links with regional TV and radio stations. Media interviews undertaken by the Director General have been supplemented by countless regional radio and TV interviews given by Ofwat staff, by CSC chairmen or committee secretaries.

1.2 The Director General has made TV appearances on the national news and in programmes such as BBC Business Breakfast, The Money Programme (BBC2), Anglia's First Sight and the Nature Programme (BBC2). On radio he has contributed to the Today programme (BBC Radio 4), the World Tonight (Radio 4), made several broadcasts for You and Yours (Radio 4) and taken part in the Jimmy Young Show and the Derek Jameson Show (Radio 2).



Ian Byatt is interviewed for a local radio programme

2.1 The Director General has continued to give interviews to newspaper correspondents and to specialist journalists. Articles have appeared in many publications including the Sunday Times, Financial Times, Evening Standard, New Civil Engineer, Public Finance and Accountancy and the Economist.



ON TV AND RADIO

IN PRINT

2.5 As an input to those strategy guidelines, a structured customer survey of 3,700 homes was carried out by the Office of Population Censuses and Surveys in January and February 1991. When asked to choose between metering, banding, a licence fee, and rateable value based charges, the responses were as follows:

OPCS CUSTOMER SURVEY PREFERRED CHARGING METHOD BY REGION				
	LICENCE FEE	METERS	BANDING	RATES
The North	12%	41%	22%	26%
Midlands and East Anglia	9%	48%	22%	21%
London	8%	48%	20%	23%
South East	6%	48%	19%	27%
South West and Wales	8%	47%	18%	27%
Total	9%	46%	21%	25%

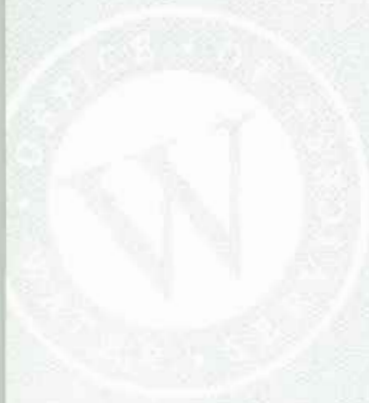
TABLE 10

2.6 Ofwat has also been working with members of the Metering Trials Coordinating Group to analyse the results of the metering trials now underway on the Isle of Wight and 11 other smaller trial sites. This work will assist Ofwat and the companies in understanding the relationship between, for example, property and household size and consumption. A joint Department of the Environment/Ofwat study will be carried out during the summer of 1991 to identify the circumstances in which compulsory water metering can give rise to hardship.

3.1 The 1989 Water Act permitted companies to levy a new charge where premises are connected to the water supply or sewerage system for domestic purposes for the first time. These charges, known as infrastructure charges, were introduced on 1 April 1990. It soon became clear that there were a number of problems with the arrangements for implementing the charge. These included not only problems of transition, where developers were unaware of the new charges being levied and unable to adjust their work programmes accordingly, but also disputes about the basis on which the charge was calculated. There were particular problems over its application to developments where there were a number of possibly self-contained accommodation units but a single supply pipe and a single bill. Such arrangements often apply, for example, to sheltered housing developments.

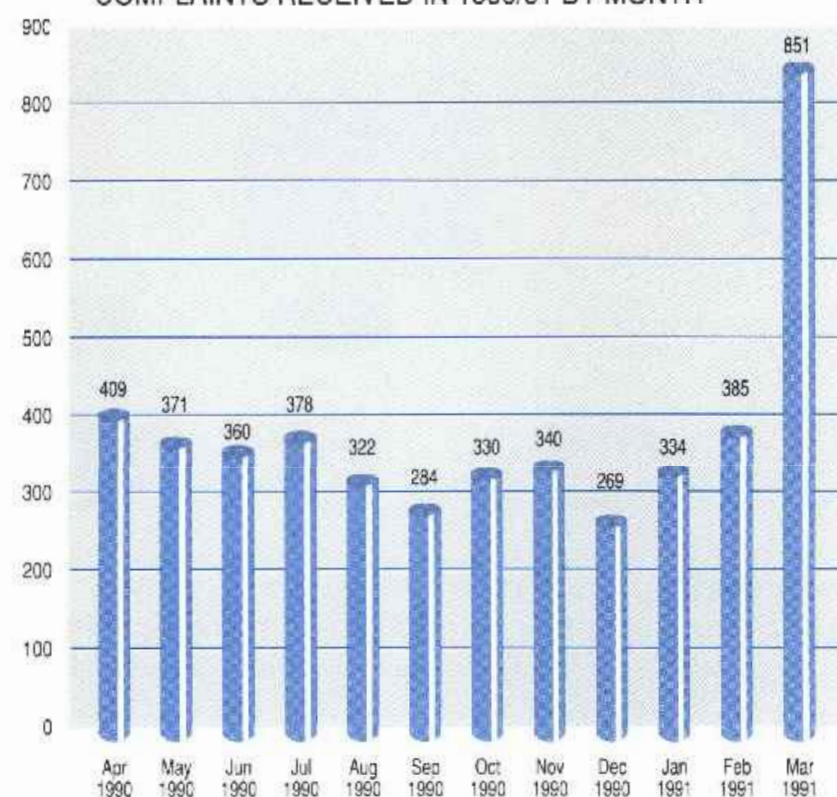
3.2 Discussions were held between Ofwat and the companies during the summer to identify ways in which the operation of the scheme could be improved. Broad agreement on the way forward was reached in October: it was agreed that, where a development had a single supply pipe, and all water and sewerage charges were paid centrally, the infrastructure charge would be calculated as a multiple of the standard charge for typical houses and flats, based on the estimated load placed on the system, and not on the basis of the number of accommodation units. At the same time, it was agreed to apply the same approach to commercial properties, such as hotels and office

INFRASTRUCTURE CHARGES



7.6 Although it is still early days the evidence is that the complaint system is working well and that when the CSC or the Director General consider that action is required by the company to resolve a complaint, such action is being taken; although there are regrettably still some companies who do so only after much argument and prevarication. Only one CSC has had to refer a complaint formally to the Director General as one they were unable to resolve and that case was eventually satisfactorily resolved, when the company agreed to a rebate of £660.

TABLE 28
COMPLAINTS RECEIVED IN 1990/91 BY MONTH



8.1 1990/91 was the first complete year of the operation of the Guaranteed Standards Scheme under which customers are entitled to claim payments of £5 for company failures to meet certain specified standards of service. Ofwat will be reviewing how well the scheme is working; in particular how well it matches customers' priorities as well as giving companies an incentive to maintain service standards.

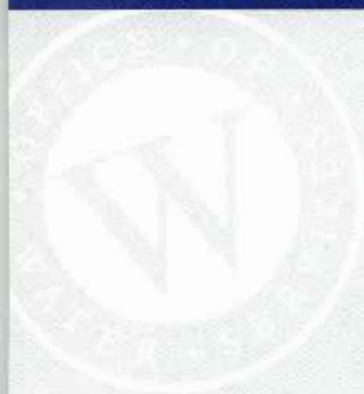
STANDARD INFRASTRUCTURE CHARGES 1991/92

WATER AND SEWERAGE COMPANIES	INFRASTRUCTURE CHARGE 1990/91		STANDARD CHARGE 1991/92	
	Water £	Sewerage £	Water £	Sewerage £
Anglian Water Services Ltd.	479	597	503	629
Dwr Cymru Cyfyngedig	259	332	275	351
Northumbrian Water Ltd.	111	240	120	217
North West Water Ltd.	198	338	212	362
Severn Trent Water Services Ltd.	498	356	532	380
Southern Water Services Ltd.	365	485	378	492
South West Water Services Ltd.	654	557	705	599
Thames Water Utilities Ltd.	403	337	382	314
Wessex Water Services Ltd.	551	983	611	1090
Yorkshire Water Services Ltd.	529	626	534	632
WATER COMPANIES	INFRASTRUCTURE CHARGE 1990/91		STANDARD CHARGE 1991/92	
	Water £		Water £	
Bournemouth & District Water Co.	1000		1093	
Bristol Waterworks Co.	439		509	
Cambridge Water Co.	1000		1097	
Chester Waterworks Co.	758		751	
Cholderton & District Water Co.	201		220	
East Surrey Water plc	251		304	
East Worcestershire Waterworks Co.	576		632	
Eastbourne Water Co.	1000		1098	
Essex Water Co.	404		413	
Folkestone & District Water Co.	998		1119	
Hartlepool Water Co.	252		276	
Mid Kent Water Co.	1000		1092	
Mid Southern Water Co.	700		772	
Mid Sussex Water Co.	392		428	
North East Water comprising:				
Newcastle & Gateshead Water plc	216		215	
Sunderland & South Shields Water plc	485		483	
North Surrey Water Co.	392		423	
Portsmouth Water plc	358		368	
South Staffordshire Water Co.	606		665	
Suffolk Water plc	1000		1059	
Sutton District Water plc	254		290	
Tendring Hundred Waterworks Co.	1000		1097	
Three Valleys Water Services plc comprising:				
Colne Valley Water plc	435		401	
Lee Valley Water plc	808		846	
Rickmansworth Water plc	395		401	
West Hampshire Water Co.	868		933	
West Kent Water Co.	834		958	
Wrexham & East Denbighshire Water	390		436	
York Waterworks plc	222		224	

RPI = 9.7%

TABLE 11

GUARANTEED
STANDARDS SCHEME



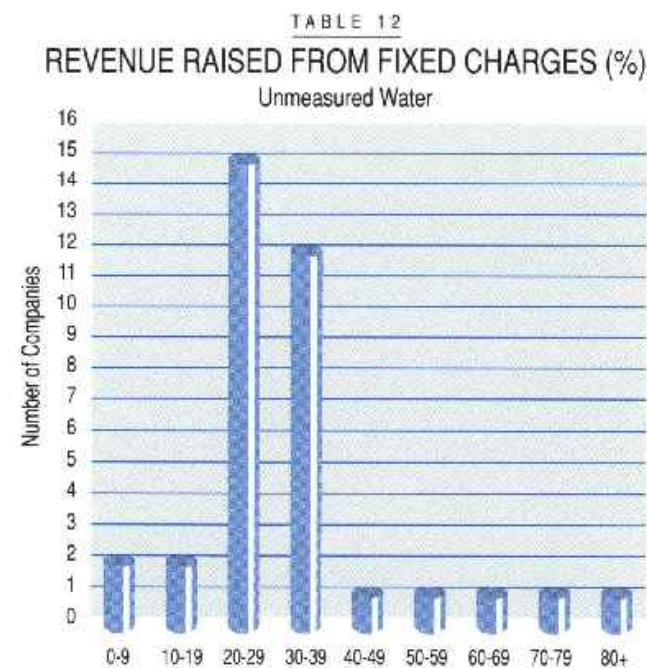
SPECIFIC TARIFF ISSUES

blocks, which under the previous arrangements paid the same infrastructure charge as a normal house or flat.

3.3 Following detailed negotiations with the industry, licence amendments were agreed with all the companies, and introduced in February 1991. The new arrangements took effect from 1 April 1991. The changes in the standard infrastructure charge are shown in Table 11 on page 29. The Director General will be monitoring the effect of the change, and either the companies or the Director General can initiate a review of the level of the standard charge in subsequent years if there is a variation in the average charge per connection from the level assumed.

3.4 In announcing the revisions to infrastructure charges, the Director General confirmed that he still had reservations as to whether infrastructure charges are the most suitable way of recovering the costs of extending water and sewerage systems; and that he intended to examine the position of these charges within the overall charging policy of each company in the guidelines he will produce in response to the "Paying for Water" consultation process.

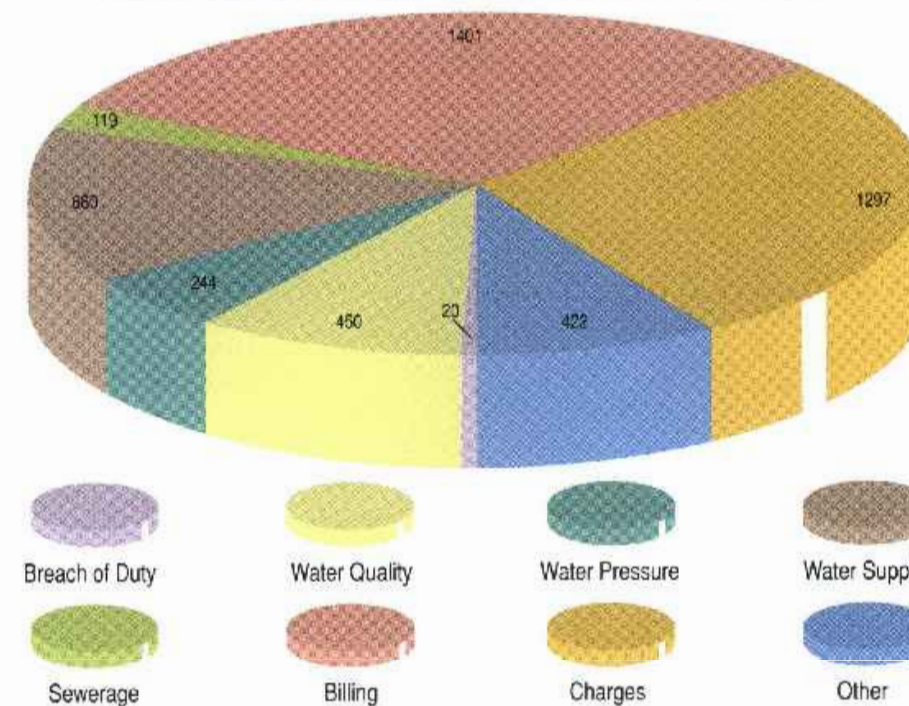
4.1 Analysis of charges schemes of the individual companies highlights the extent to which there are major differences in the structure of charges. For example, Table 12 shows that the proportion of the revenue from unmeasured water recovered through standing charges varies considerably, with the majority of companies recovering between 20% to 39% via fixed charges.



4.2 During the course of the year, discussions have been held with companies on a number of detailed tariff issues. Before charges for 1991-92 were set, all companies

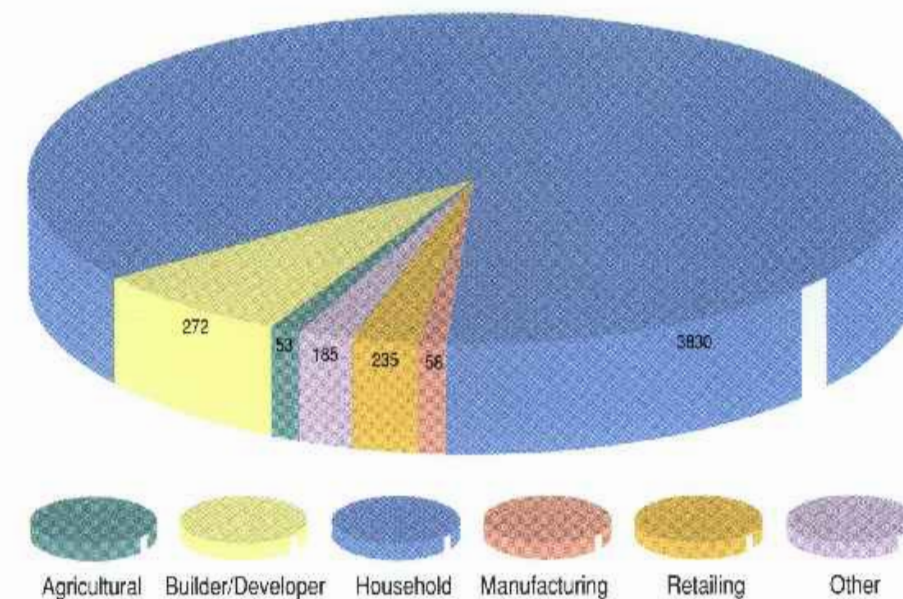
billing predominates. Examples of the sort of complaints received are contained in the CSCs' annual reports.

TABLE 26
TOTAL NUMBER OF COMPLAINTS RECEIVED BY OFWAT (INCLUDING CSCs) DURING THE PERIOD 1 APRIL 1990 TO 31 MARCH 1991 WAS 4,633



7.5 Many complaints relate to events and circumstances that are specific to the individual customer or company. However, complaints from customers have helped to identify a number of general issues that require examination and consideration at a national level, such as the payment of compensation for service failures and the costs of optional meter installation. The CSCs have encouraged companies to make ex gratia payments to customers who receive a particularly bad service.

TABLE 27
COMPLAINTS RECEIVED IN 1990/91 BY TYPE OF CUSTOMER



7.2 The Director General considers that the companies should have an opportunity to respond to complaints before they are considered by Ofwat. Thus, where it is clear that a customer has not first taken his grievance to the company the complaint is referred to the company to respond direct to the complainant. If the customer is not satisfied with the response the CSC will then look into the matter. All together the CSCs and the Director General investigated 1,833 complaints. Table 24 below provides a national picture of the complaints dealt with during the year.

COMPLAINTS HANDLED DURING 1990/91	
Complaints received during year	4,633
Complaints outside Ofwat's jurisdiction	113
Complaints referred to and resolved direct by company	1,279
Complaints investigated and resolved during the year	1,833
Complaints withdrawn or not pursued	415

At 31 March there were 933 complaints either under investigation by Ofwat or with the appropriate company for resolution.

TABLE 24

COMPLAINTS RECEIVED BY CSC REGION 1990/91			
CSC REGION	NUMBER OF COMPLAINTS RECEIVED IN CSC AREA	PERCENTAGE OF TOTAL COMPLAINTS RECEIVED	COMPLAINTS PER 100,000 CUSTOMERS
Anglian	411	8.9%	13.3
North West	614	13.3%	21.0
Northumbria	273	5.9%	16.0
Severn Trent	1069	23.1%	27.3
South West	165	3.6%	25.0
Southern	380	8.2%	15.2
Thames	552	11.9%	8.2
Wales	375	8.1%	28.6
Wessex	262	5.7%	17.1
Yorkshire	532	11.5%	25.8

Details of complaints on a company basis are contained in the CSCs' annual reports.

TABLE 25

7.3 It is still too early to draw any firm conclusions about the trends in complaints. It was expected that as Ofwat became better known the number of complaints would increase and this was the case initially. However, the level of complaints has remained steady with a predictable upsurge in March 1991 prompted by the receipt of annual bills.

7.4 Table 26 opposite shows the main subject areas for complaint, and not surprisingly

were invited to make a presentation to their Customer Service Committee to explain the changes they proposed. (Even in advance of the results of the consultation exercise there were, in a number of cases, modifications to tariff structures which it was appropriate to implement). Discussions have also been held with Charges Control Division where, for example, questions of potential discrimination in the existing tariffs have arisen.

4.3 Discussions with individual companies have often concentrated on different aspects of their tariffs. Discussions with Dwr Cymru and Sutton, for example, have concentrated on the arguments advanced by those companies that the great majority of their costs are fixed. (These issues were covered in general terms in Annex 4 to the consultation paper). In the case of Northumbrian Water, discussions have concentrated on the company's sewerage tariffs, and in particular the fact that, unlike the other nine sewerage companies, they do not offer a lower tariff for properties connected only for surface water drainage. In the case of North West, the main focus of discussion has been on the tariffs charged to major industrial users. These discussions have followed approaches to Ofwat by some industrial customers concerned that inadequate allowance was made for the lower costs of providing large, and stable, volumes of water. Inclusion in the measured sewerage tariff of an element related to rateable value has also been an issue discussed with North West.

5.1 The Water Act 1989 empowers the Director General to make an Order setting a maximum price at which landlords can recharge their tenants for water and sewerage services. Such an Order will be similar to the controls that have existed for some time in respect of gas and electricity, and which are designed to protect tenants from overcharging by their landlords. Following representations made by tenants and organisations representing their interests, the Director General has decided to make an Order to give similar protection in respect of water.

5.2 However, the issue in the case of water is somewhat more complicated than that for gas or electricity. The latter are always metered at the point of entry to the landlord's premises and it is a relatively simple matter to set a maximum resale price by reference to a charge per unit of gas or electricity used, as measured by a secondary meter for the tenant's premises. In the case of water the charges in respect of the landlord's premises may be based on either rateable values or on metered consumption; and the supply to the tenant will often not be metered. Where a landlord has several tenants the problem of apportioning his charges between the tenants can be particularly difficult.

5.3 If an Order is to be of practical assistance to tenants and allow them to challenge overcharging successfully, it must provide for a simple way in which to calculate the appropriate maximum charge. An Order, however, must also be fair as between the landlord and the tenant and also as between tenants of a single landlord. Striking the right balance between fairness and simplicity is likely to be difficult and the

RESALE OF WATER

Director General is anxious to have the views of tenants and landlords, as well as other interested bodies, before deciding on the scope and content of the order. A consultation paper outlining the issues and indicating a possible way forward was issued in January 1991. A wide range of comments has been received. These are being considered carefully and an Order will be made later this year.

6.1 There have always been households who have difficulty paying their water and sewerage charges. Before 1989 between 10 and 15 thousand households, each year, had their water supply disconnected because of failure to pay their bills. As water charges increase the problem is likely to worsen.

6.2 The 1989 Act introduced some protection for customers who face difficulties in meeting their bills. Companies are now required to obtain a county court judgement, in respect of the debt, before proceeding to disconnection. In addition, companies are required by their licences to produce a Code of Practice giving guidance to their domestic customers who have difficulty paying their bill and describing the procedures that they will follow before taking the drastic step of disconnection. The licence condition sets out certain steps that every company must include in its procedure.

6.3 The number of disconnections between September 1989 and September 1990 shows a pleasing fall compared with previous years for which statistics are available. However, several companies have been hesitant to disconnect their customers while they are feeling their way with the new procedures and it is far from clear whether the recent fall is a permanent feature.



Ofwat Consumer Affairs' staff, Maureen Henry, Denise Distant and Glenn Pugh, study the complaints' data base

6.4 Of equal concern to Ofwat is the fact that in the year 1990/91 approximately 900,000 customers were served a county court summons in respect of unpaid bills. Because the court's costs and the company's legal costs in serving the summons can be

5.2 Ofwat is currently discussing the matter with the disability organisations and the water companies with a view to identifying:

- ◆ the particular needs of the disabled and elderly so far as water and sewerage services are concerned;
- ◆ the services that companies can reasonably be expected to provide to meet those needs; and
- ◆ ways in which companies can bring the availability of those services to the attention of those who may require them.

The Director General will then issue guidelines and recommendations to the companies.

6.1 Between 4 - 5% of domestic properties are not connected to mains sewerage, but rely instead on private arrangements such as septic tanks, cess-pits and small treatment plants. In the past the cost of extending the sewerage system to provide sewerage services for the first time to existing properties has been met by householders, local authorities and the former water authorities, or a combination of all three, helped by grants administered by the Department of the Environment and, in Wales, by the Welsh Office. The existing capital programmes of the ten sewerage companies make no provision for further extensions to the existing sewer systems to the unconnected five per cent, other than through requisitioning procedures. Local authorities are increasingly reluctant to finance the requisitioning of main sewers (either in part or at all). This leaves the financial burden on householders, albeit helped in part by grant aid from the Department of the Environment; and the cost can be as much as £10,000 or more, per property.

6.2 Ofwat has received a number of complaints to the effect that sewerage companies should make some contribution in their capital programmes to extend the sewerage system to areas where the absence of public sewers is causing problems. The complainants argue that the failure to make any such provision in companies' capital programmes is a breach of their statutory duty. Ofwat is currently reviewing the position to see whether further action is required.

7.1 Investigation and consideration of complaints is an important aspect of Ofwat's role in protecting customers' interests. Most complaints are handled by the CSCs; only a few concerning alleged breaches of statutory duties are considered by the Director General.

addition, many have taken considerable trouble in presenting their codes in an attractive and helpful format.

3.3 However, the codes are only one aspect of company communication with customers. Other important elements are the information contained on bills and associated documents, and the clarity and helpfulness of company responses to requests for information and advice. The CSCs have made some detailed suggestions in these areas which have been accepted by the companies concerned.

4.1 A good understanding of the customers' viewpoint will be critical to Ofwat's success in protecting the customers' interest. Work has begun on planning a customer survey to be carried out later this year. The focus of the survey will be on customers' priorities and expectations and the results will be used, in conjunction with other information sources, to guide Ofwat's policy in a number of areas.



*Roy Wardle,
Deputy Director
of Consumer
Affairs, talks to
delegates at the
1990 Nacab
Conference in
York*

5.1 British Telecom, British Gas and the electricity supply companies are each required under the terms of their respective licences to produce a code of practice on services for the disabled and elderly. Similar provision has not been made in respect of the water companies, even though the need for it is arguably every bit as important. Ofwat has completed a survey of the services provided by the water companies for the disadvantaged. The results are very disappointing. Only a handful of companies would seem to recognise the particular problems faced by such groups of customers; and while the questionnaire itself has pleasingly prompted others to review their position, a significant number would appear to see little need for positive action. It is not sufficient for a company to say, as many have, that it will help any customer who contacts them, if the customer is unaware that special services are available.

recovered from the customer this means that each of those customers had to pay an additional £30 on top of their existing bill – a not inconsiderable burden for families struggling on a low income. An additional problem is that the very length of the court procedure means that, rightly or wrongly, some customers find that they are still in debt when faced with their next bill.

6.5 Ofwat accepts that bills must be paid; and that some customers who can afford to pay their bills choose to delay unreasonably. At the same time Ofwat takes the view that it is reasonable to expect water and sewerage companies, who are in the privileged position of being monopoly suppliers of an essential commodity, to adopt practices and procedures which take proper account of the genuine difficulties faced by some of their customers. Ofwat attaches high priority to securing company practices and procedures which will minimise the need to disconnect customers and/or to serve summonses. With this objective in mind Ofwat is reviewing existing company practices and procedures.

6.6 It is already clear that there are significant differences between companies not only in terms of the numbers of summons issued and the level of disconnections, but in their overall approach to customers facing difficulties with their bills. The next stage is to identify essential features of good practice in this area and to issue guidelines to companies.

6.7 The guidelines will cover the following aspects:

- (a) the availability of arrangements for paying bills which recognise the budgetary needs of low income families;
- (b) the provision of clear information and advice to customers about:
 - ◆ the help that the company can give;
 - ◆ the consequences of failure by the customer either to contact the company or to pay the bill;
- (c) the steps companies should take to make contact with customers to explore ways of avoiding disconnection;
- (d) the importance of staff training in handling customers with debt problems and when and where to advise customers to seek help from an outside agency.

7.1 Experience in the gas and electricity industry shows that the availability of pre-payment meters has helped to reduce the number of customers disconnected from supply. A number of companies are exploring the possibility of developing a pre-payment meter for water; but so far only one has been able to announce a prototype which is currently the subject of limited trials. Although Ofwat considers that pre-payment meters may, in principle, be a valuable tool in avoiding disconnection there are nevertheless some important issues which will need to be resolved. In particular:

- (a) should pre-payment meters charge on a time basis (akin to the rateable value system of charging) or on a volume basis and which is likely to be of most help to the customer who would prefer a pre-payment meter;

CUSTOMER SURVEY

DISABLED AND ELDERLY CUSTOMERS

PRE-PAYMENT METERS

- (b) the terms and conditions on which pre-payment meters are offered to customers including the costs of installation;
- (c) because of potential health problems companies are required to notify local authorities whenever a customer is disconnected. Customers who do not recharge the pre-payment meter effectively disconnect themselves with consequent risks to health;
- (d) availability of tokens to recharge the meters.

disconnection procedures, the monitoring of capital investment and security of supply during bad weather.

2.1 An oft voiced criticism of the water industry before privatisation was that it was one driven by engineers who decided what they thought was good for customers and resented challenges to their judgements. The industry is moving slowly to one in which the customer is a more important figure but, as the CSCs' annual reports reveal, many companies still have a long way to go. Ofwat's role is to secure for the customer a place that he/she would have were the companies operating in a competitive market. The key elements of good customer service and customer care are:

- ◆ communication and information;
- ◆ identifying customers' needs and responding to them including the needs of particular groups of customers;
- ◆ responding to complaints.

The following paragraphs deal with the steps taken by Ofwat to secure improvements in the services provided by the companies.

3.1 Under Conditions G, H, and I of the Licence each of the companies was required to submit, for the Director General's approval, three codes of practice:

- (a) a code covering relations with customers including the services provided by the company and its obligations to the customer;
- (b) a code giving guidance to customers who have difficulty paying their bills and describing the procedure to be followed before disconnection for non-payment; and
- (c) a code on the procedure for dealing with leakage where domestic premises are metered.

3.2 At the end of last year the Director General was able to approve only the codes of practice on leakage. None of the submitted customer or disconnection codes were sufficiently well written, complete and accurate to meet the basic requirements of Conditions G and H. Suggested modifications were sent to the companies and as a result revised drafts were submitted. All the codes have now been approved for each of the companies. The codes are an important element of a company's communication with its customers and the Director General was pleased to see that many companies had obviously taken a fresh look at their codes and made substantial revisions. In

CUSTOMER SERVICE

CODES OF PRACTICE AND COMMUNICATION WITH CUSTOMERS

COMPANY REPORTING AND PERFORMANCE MONITORING

In this chapter the reporting cycle established by Ofwat for the companies is described in outline. Information from these returns enables Ofwat to determine the progress that the industry and each company is making in achieving the objectives set as part of the initial determination of K. The general progress achieved by the industry is reviewed, with a special focus on the investment programmes.

1.1 Ofwat has now established a reasonably defined and stable rolling reporting cycle for the companies and is near to achieving stability in the reporting requirements. This will assist those involved in managing the industry to focus on their business objectives and facilitate the necessary integration of robust information systems for both internal and external reporting.

1.2 The key events in the annual reporting cycle are:

(1) by 1 July – Companies' Annual Returns to the Director General:

- ◆ a comprehensive report on the investment programme including actual performance and projections of expenditure through to the medium term. The reports include reconciliations with the projections underlying the initial determination of the price cap K and detailed commentaries on significant variations;
- ◆ summary progress reports on the three key compliance investment programmes: the Drinking Water, the Sewage Treatment Works Consents and the Bathing Waters Compliance Programmes;
- ◆ Levels of Service information covering the formal Condition J indicators and several other performance measures which are being developed to assess the performance of the companies against improvements underlying their initial plans and to make comparisons with other companies in the regulated sector.
- ◆ a confidential report and formal certificate from the company's independent certifier covering all aspects of the above reports.

(2) by 30 September – Regulatory Accounts: a formal submission of audited accounts of the appointed business in a prescribed common format. The use of a common format linked directly to the Ofwat "Book of Numbers" database enables easy and rapid analysis and the development of comparative studies.

(3) by 30 January – Principal Statements on Tariffs: a formal audited submission of the increases in standard charges proposed for the following charging year to demonstrate compliance with the price limit.

1.5 Each CSC is supported by a small full-time secretariat provided by Ofwat. Names and addresses of the Secretaries to each committee are listed in Appendix Four. The South West CSC office moved in February from temporary accommodation in Bristol to permanent accommodation within the South West Water area in Exeter.

1.6 Meetings of the CSCs are open to the public. The water companies and media representatives are encouraged to attend. CSCs met between four and six times each during the year. They have quickly addressed a wide range of issues of concern to customers and considered complaints which raise difficult or important issues.

1.7 Each CSC is required by the Water Act 1989 to report to the Director General at the end of every financial year. CSC Annual Reports for 1990/91 will be published by the Director General. These reports show that the past year has been one of settling down to what is a new task. All the CSCs have started to look at company investment programmes and will be formulating views in the light of complaints from customers and members' local knowledge and, where appropriate, advising companies on what they see as customers' priorities. They have examined tariff proposals for 1991/92 and considered company Codes of Practice. The reports show that all the CSCs have invested much time and effort in promoting the debate on the "Paying for Water" consultation as well as fulfilling their role as consultee in representing customers' views in their respective regions.



A public meeting held by Thames CSC – part of the 'Paying for Water' consultation

1.8 In addition to the above, many CSCs found themselves discussing similar issues and some of these are dealt with in more detail elsewhere in this report. They include company procedures for dealing with customers who have difficulty meeting their water bills, arrangements for paying bills, customers' concerns about the increases in water and sewerage charges, as well as concerns about water quality, customers' responsibilities for service pipes, the cost to the customer of opting for a meter and company charges for laying pipes.

1.9 The Director General chairs regular meetings of CSC Chairmen. Together they make up a national consumer committee which helps in the shaping of Ofwat policy and in ensuring that CSC and Ofwat policy division activities are properly co-ordinated. Issues considered by the CSC Chairmen's Group have included charging policy, debt and



REPORTING CYCLE

2.1 Ofwat's strategy for regulatory reporting has been based on three tenets:

- (1) **Good information on a common basis:** it has been a key objective to establish a regulatory regime based on good information. The information must be of the appropriate accuracy and based on sound reporting and the recording systems must be capable of proper auditing. Ofwat's approach is based on the belief that proper regulatory decisions or judgements are severely hampered by poor information. Good accurate and consistent information, whilst not guaranteeing prudent decisions and judgements, will provide the basis of efficient and effective regulation.
- (2) **Need for comparable information:** moving from an individual company's needs to those of the industry requires the assembly of regular, comparable information which is the second part of Ofwat's drive in this area. The provision of sound and robust reporting and recording systems for collecting information can be costly, but, Ofwat is convinced that investment in these areas will be worthwhile.
- (3) **Independent Certification:** to emphasise the importance of reliable data and provide an element of quality assurance on the utilities' monitoring and reporting without breaching the aim of arm's length regulation, Ofwat has taken full advantage of the facility for independent certification included in the licence. These provisions supplement the audit of regulatory accounts by the Appointee's own auditors. As part of the July 1990 Returns, Ofwat required companies to appoint external consultants to oversee the information and reporting process. The Director General approved these appointments and places great importance on their independence, impartiality and professionalism. (The independent certifiers of each of the companies are detailed in Appendix 9). The discipline that this rolling technical and financial audit places on regulatory reporting is a considerable strength of the new regime. The impact of this audit should not be underestimated. It is Ofwat's intention to reinforce the process by developing a more formal framework for independent certification. Any audit involves costs but these costs are necessary and not inappropriate given the nature of the industry. Companies who quickly install effective systems and reporting arrangements will be able to minimise the overhead cost of certification.

3.1 Ofwat will compare the performance of the appointed companies and use the examples of the best to set standards for the others to introduce an element of comparative competition. Such comparisons would cover variation in all areas of the companies' business, including levels of service and "customer care" but would make allowance for differences which are outside management control.

CUSTOMER PROTECTION

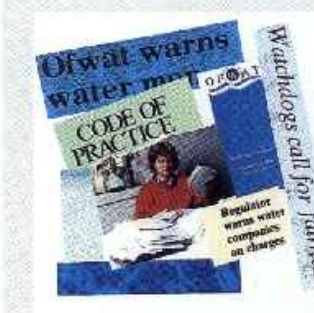
The ten Customer Service Committees (CSCs) established by the Director General in April 1990 are a vital part of the regulatory regime. In contrast to the arrangements which existed for representing the interests of consumers prior to the Water Act 1989, the new CSCs have statutory duties and are completely independent of the water and sewerage businesses they help the Director General to regulate. This chapter describes the work of the CSCs during the year and the main customer service issues currently under consideration by Ofwat.

1.1 The task of the CSCs is to champion the interests of the consumer. They act as the Director General's eyes and ears at the local and regional level in reviewing, consulting with and making representations to the companies about the concerns of customers. As well as dealing with policy issues they also pursue individual customer complaints and ensure that these are properly dealt with, referring any unresolved complaints to the Director General. In addition the CSCs assist and advise the Director General on particular issues, for example, in promoting the debate on the "Paying for Water" consultation document and in considering charging policy and debt and disconnection procedures.

1.2 There has been some criticism that the CSCs are too small and few in number to provide adequate coverage of companies' areas and all customer interest groups. This criticism reflects a misunderstanding of the aims and objectives of the new system of customer representation. Unlike the old arrangements members have not been appointed to represent, for example, particular local authority areas. The Director General's aim has instead been to form committees with a diversity of background and experience. Members are charged with representing the interests of all customers, domestic and non-domestic. To this end members are appointed in a personal capacity and not to represent the body which may have nominated them or any other organisation or group of customers.

1.3 Membership of the CSCs has been kept under review during the year with a view to making additional appointments where necessary to bring additional skills onto a CSC or to improve its geographical coverage. A number of new appointments have been made during the year. The names of members of each committee as at 31 March 1991 are listed in Appendix Five.

1.4 The Director General is concerned that members should have no financial or other interests which might give rise to a conflict with their CSC duties. He has decided, in particular, that members should not be permitted to hold shares in the water companies they are helping him to regulate. Although he believes that a modest shareholding is unlikely to influence a member's judgement, he considers that it is in the public interest for members to have no such shareholdings.



WORK OF CSCs



13.1 So far, the only regulatory accounting information published by companies is for 1989/90. The new regulatory framework was only in place for part of that year, so interpretation of the results is difficult. Accounts for 1990/91 will be received by September 1991. Information systems have been developed to handle both July Return and regulatory accounting information. These build on the WATERMEADOWS suite described in last year's report. Of particular importance is the development of the WATERCRESS program, which allows a comparison of figures and ratios from different Books of Numbers – either different generations of information for the same company or between different companies.

13.2 This software has been particularly important in the initial work being undertaken on a methodology for comparative efficiency studies. A working group, chaired by Chris Bolt, Head of Charges Control, has been established to discuss technical issues and undertake pilot studies, as a basis for wider consultation with the industry later in the year. The aim of this work is to have in place a methodology and data framework to enable efficiency comparisons to be made between companies. This will be one input to a future periodic review.

3.2 At this early stage in the regulatory regime it is not possible to compare rigorously relative performance across the industry. The information submitted in the 1990 reporting cycle can only form the basis of monitoring year on year performance of individual companies. It does, however, provide illustrative performance comparisons for the whole industry and enables Ofwat to make some general comments on companies' performance.

3.3 Ofwat is working jointly with the industry and other regulators to develop a comprehensive series of comparable output measures which are true and proper surrogates for improvements in performance and efficiency. These indicators will provide a means of determining the success of the company in meeting its targets and obligations. For the next few years the monitoring of the companies will focus on the medium term view of actual and projected expenditure and make comparisons with those projections assumed in the initial determination of K.

4.1 The key challenge facing the industry is the satisfactory completion of its major improvement programmes. These are inextricably linked to capital investment (CAPEX). In most companies the year by year investment programmes are rising substantially in real terms. The overall programme for the industry has been indicated previously in the report (Table 1 – Chapter Two)

4.2 The gross capital expenditure during 1989/90 was £1.8 billion (at 1990/91 prices) and the medium term forecast for 1989 to 1995 totals more than £16 billion (at 1990/91 prices). The ten water and sewerage companies account for more than 93% of the 1989/90 expenditure, and 91% of the medium term expenditure for water and sewerage services. Of the 26 water only companies, the largest 18 account for more than 87% of the remaining medium term total expenditure.

4.3 The variances in expenditure in 1989/90 from the planned expenditure projected at the time of setting K (Book of Numbers expenditure) for the water and sewerage and water only companies are illustrated in the following table:

1989/90 EXPENDITURE VARIANCES FROM THE BASE PROJECTIONS	
Water and Sewerage Companies	+1%
Water Only Companies	-35%

TABLE 13

4.4 The K setting process for the water only companies was not finalised until March 1990, or later in a few cases. This resulted in uncertainties in the expenditure available

to those companies and is a major factor in the total reported underspend in 1989/90 for these companies.

4.5 The progress and extent of variations for each service is summarised in Table 14.

	1989/90		1989/90-1994/95	
	EXPENDITURE*	VARIANCE	EXPENDITURE*	VARIANCE
	£M	£M	£M	£M
Water resources	95	-0.9	770	+89.0
Water treatment	178	-32.1	2290	+9.0
Water distribution	449	-2.3	3630	-1.1
Sewerage	335	-8.1	2740	-103.4
Sewage treatment	450	-18.1	4350	+220.8
Management & general	259	+12.9	1840	+34.5
TOTAL	1766	-48.6	15620	+248.8

*Expenditure is quoted at 1990/91 price base

TABLE 14

4.6 Tables 15 to 20 overleaf provide a more detailed breakdown of the progress on the investment programmes for each of the following service categories:

- Water Resources (Table 15)
- Water Treatment (Table 16)
- Water Distribution (Table 17)
- Sewerage (Table 18)
- Sewage Treatment & Disposal (Table 19)
- Other (Management & General) (Table 20)

4.7 To ensure a consistent approach to capital expenditure reporting, clarification of the work to be allocated to each service category was issued in the guidelines for the July 1990 Return. Some of the major variances in medium term expenditure are the result of companies reallocating projects in light of this clarification.

5.1 One important issue associated with the progress on the investment programmes has been the subject of widespread discussion with the industry. The overall investment figures for last year masked some significant slippage in some companies' CAPEX programmes which were offset by earlier expenditure in others. One year's figures are unlikely to be material but have provided a reason to address the problem of slippage if it persists. Allowance would be made for net impact of variations from the use of more effective operating cost solutions and capital efficiency savings. Most affected companies reported that the underspend is to be made up in the medium term.

10.1 The main purpose of the July Return is to monitor the progress of companies in meeting objectives. Another important aspect of monitoring is the use of regulatory accounting information to assess financial performance. This assessment includes both analysis of individual companies' performance over time and comparison of the performance of different companies in terms, for example, of unit costs.

11.1 Under the terms of the licence, the Director General may issue guidelines on certain aspects of regulatory accounts. Three such guidelines were issued in March 1991, after an extensive period of consultation. These covered: accounting for current costs; the classification of infrastructure expenditure; and the contents of the regulatory accounts.

11.2 Initial discussion of all these guidelines took place in the Working Group On Accounting issues for Regulation (WGAR), which comprises experts from the industry and from Ofwat, and is chaired by the Director General. Draft guidelines were then sent to all the companies for comment, and a number of workshops held in Birmingham to present their contents to the companies. In the case of the current cost accounting guidelines, in particular, comments were also sought from auditors and other outside bodies.

11.3 The main purpose of the second and third guidelines was to clarify the basis on which regulatory accounts were prepared, in order to improve their presentation and consistency. By contrast, the guideline on accounting for current costs represented a major shift in the basis on which current cost accounts are to be drawn up. The new guideline is based on the concept of Financial Capital Maintenance (rather than Operating Capital Maintenance), and also involves a change in the basis on which current cost asset values are calculated to relate more closely to the asset management plans.

11.4 The Director General will be discussing with companies the handling of the transition from old-style CCA accounts, based on SSAP16, to the new guidelines.

12.1 It is clear that these improvements to the reporting regime can only be achieved by consultation between the companies and the Director General. Consultation through the numerous joint working groups, with the other regulators and directly with the companies, will build on the firm base that has already been established. In this way an effective regulatory regime based on robust, accurate and comparable information, which will be to the benefit of all involved in the water industry, will be created.

8.3 It must, however, be recognised that Levels of Service Indicators are not performance measures in themselves. Only by considering levels of service improvements over time, and in combination with other physical and financial information, will meaningful performance comparisons between companies be possible. At this early stage in the regulatory regime the levels of service information can only illustrate the comparisons between companies which will become available and form the basis of a performance measure for the whole industry.

8.4 In October 1990 Ofwat published a summary of the information provided by the companies on the eight indicators (The Water Industry of England and Wales – “Levels of Service Information 1989/90”, Office of Water Services, October 1990). Many companies also took up Ofwat's suggestion of preparing a report on their Levels of Service for their customers. This was optional for the 1989/90 data but becomes a formal requirement for all the companies for the 1990/91 data.

9.1 The reporting requirements for the July 1991 Return were issued to the companies in March 1991. The Director General has included, in the requirements, a number of areas where the companies must submit additional information to enable him to develop performance monitoring.

◆ **Operating Costs**

to some extent, companies can vary the mix of capital and operating expenditure to fulfil their functions. It is, therefore, essential to obtain summary operating cost information to be able to fully monitor variances in capital expenditure performance and ensure that companies are seeking integrated economic solutions.

◆ **Capital Efficiency**

information is being sought on the scale and financial impact of claimed capital efficiency gains on the medium term ‘K Envelope’.

◆ **Other performance measures**

the companies submitted, in the July 1990 Return, information on other performance measures such as water quality, leakage and unsatisfactory sewage treatment works. It is anticipated that, following the development of consistent reporting on the new measures, these indicators will be incorporated into the Condition J Levels of Service information reporting regime.

9.2 The Director General has said that ‘water delivered’ will be a crucial measure of output for the water companies. It both concentrates attention on what is actually received by customers (including legitimate unbilled supplies, for example for fire fighting purposes), and correctly identifies leakage from the companies’ pipes as a cost of supply, rather than a part of output.

TABLE 15
WATER RESOURCES

SERVICE BREAKDOWN (Medium Term 89-95)	£ M
RESOURCE DEVELOPMENT	470
RESERVOIR SAFETY	140
AQUADUCT REFURBISHMENT	110
OTHER	50
TOTAL – 90/91 PRICES	770

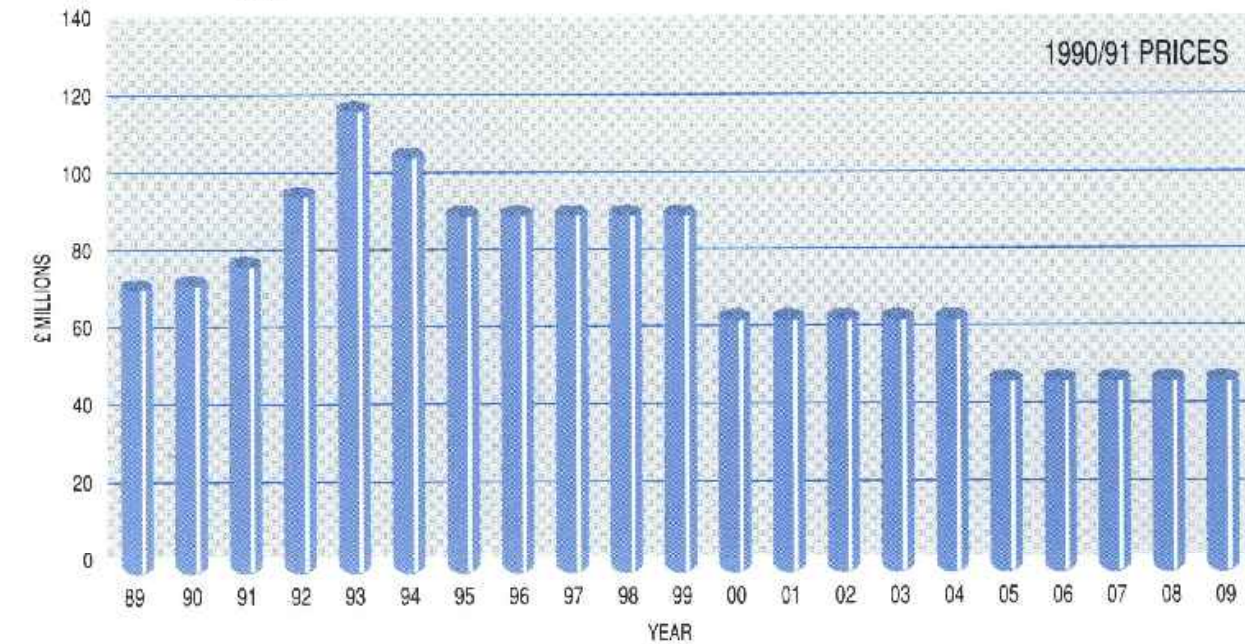
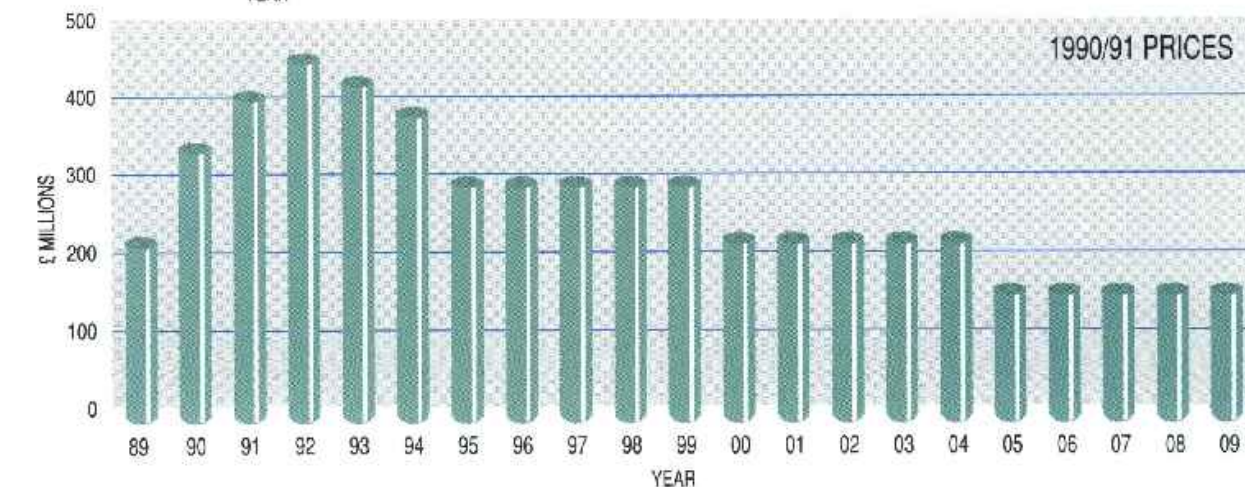
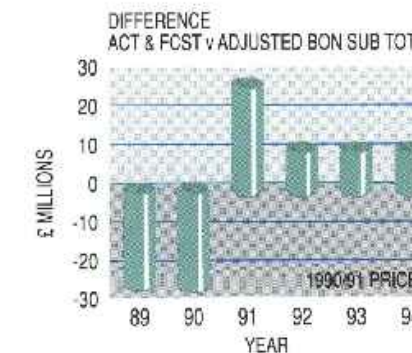


TABLE 16
WATER TREATMENT

SERVICE BREAKDOWN (Medium Term 89-95)	£ M
NEW DEVELOPMENT	250
WATER QUALITY NITRATES	160
WATER QUALITY OTHER	1430
WORKS REFURBISHMENT	360
OTHER	90
TOTAL – 90/91 PRICES	2290



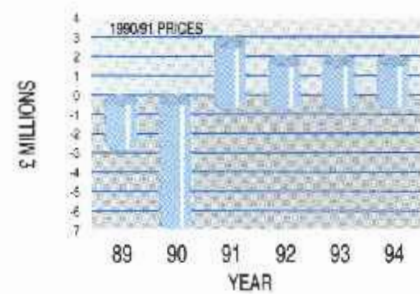


TABLE 17
WATER DISTRIBUTION

SERVICE BREAKDOWN (Medium Term 89-95)	£ M
NEW DEVELOPMENT	870
DISCOLOURATION	620
BACTERIOLOGICAL QUALITY	110
COMMUNICATION PIPES	260
INADEQUATE PRESSURE	310
SUPPLY INTERRUPTIONS	340
OTHER RELINING & RENEWAL	360
OTHER ASSETS	480
OTHER	280
TOTAL - 90/91 PRICES	3630

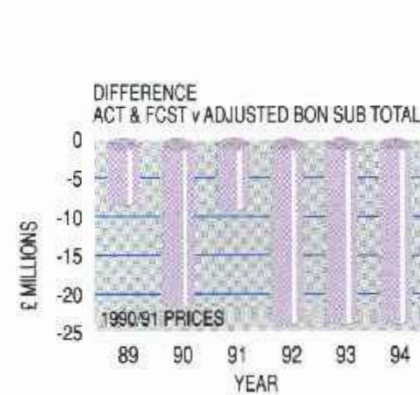
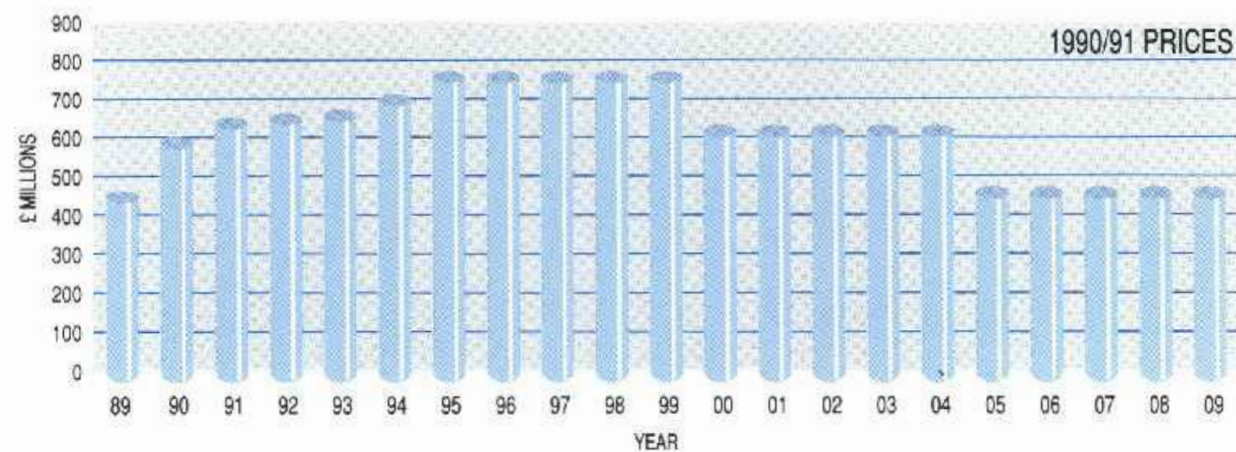
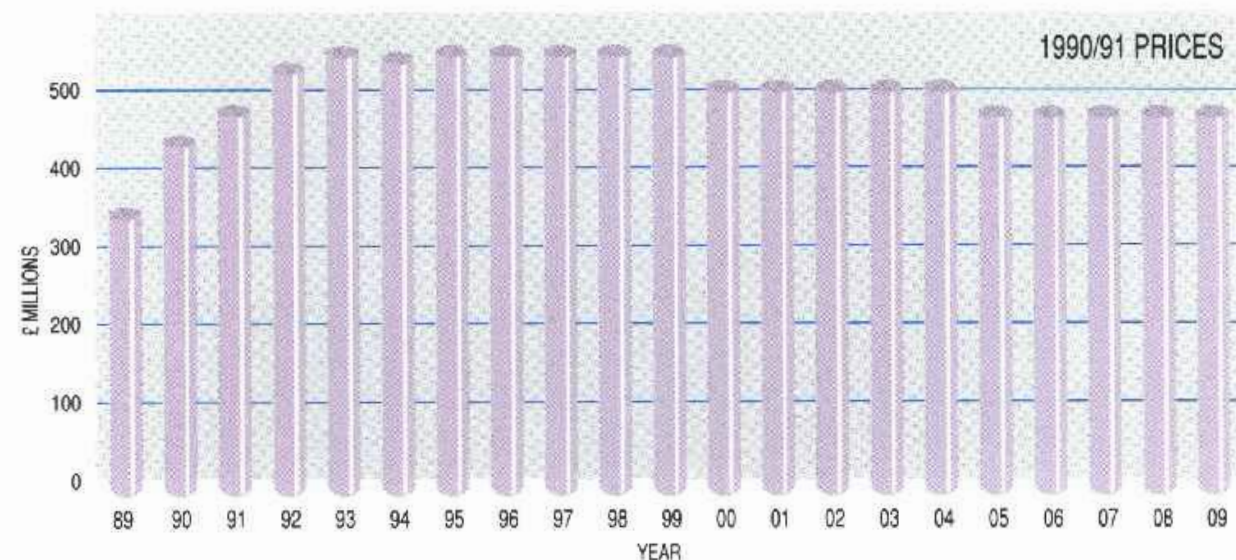


TABLE 18
SEWERAGE

SERVICE BREAKDOWN (Medium Term 89-95)	£ M
NEW DEVELOPMENT	550
FLOODING FROM SEWERS	780
STORM OVERFLOWS	200
OTHER SEWER REHABILITATION	870
PUMPING STATION REHABILITATION	140
OTHER	200
TOTAL - 90/91 PRICES	2740



Uncertainty prior to the adoption of the EC Municipal Waste Water Directive has caused delays in the early years of the programme and the need to accelerate some projects, (to meet the 1995 deadline), will lead to peak expenditure levels significantly above those originally programmed for the next few years. There is concern that other delays associated with gaining public acceptance of the necessary works also could disrupt the programme. During the report year 1989/90 expenditure was £1.5 million above that originally projected whilst planned expenditure during 1990/91 is for a shortfall of £52 million. The position is summarised in Table 23 opposite.

8.1 The companies are required to provide, under the terms of the licence, information on a specified series of Levels of Service Indicators.

The eight indicators on which the companies provided information to the Director General in the July 1990 Return were:

- ◆ **DG1 - raw water availability**
identifies the population whose theoretical water resource availability is below the reference level.
- ◆ **DG2 - pressure of mains water**
identifies the number of customers' properties that are subject to mains water pressures below the reference level(s).
- ◆ **DG3 - interruptions to water supplies**
identifies the number of customers' properties that have experienced a loss of supply for longer than the reference level, without reasonable notice from the company.
- ◆ **DG4 - hosepipe restrictions**
identifies the population who have been subject to hosepipe restrictions.
- ◆ **DG5 - flooding incidents from sewers**
identifies the number of customers' properties where flooding from sewers has occurred at a frequency that is greater than the reference level.
- ◆ **DG6 - response to billing queries**
identifies the banded response time for meaningful responses to customers' billing queries.
- ◆ **DG7 - response to written complaints**
identifies the banded response time for meaningful responses to customers' written complaints.
- ◆ **DG8 - response to development control consultations**
identifies the banded response time for responses to development control (planning) consultations. DG8 is deleted from the requirements for the 1991 Return.

8.2 The Levels of Service Indicators are important output measures which assist in the monitoring of the quality of service provided by the companies in a variety of ways; for example they will provide comparative information on individual companies performance.

LEVELS OF SERVICE PERFORMANCE



VARIATIONS BETWEEN 1990 ANNUAL REPORT AND BOOK OF NUMBERS

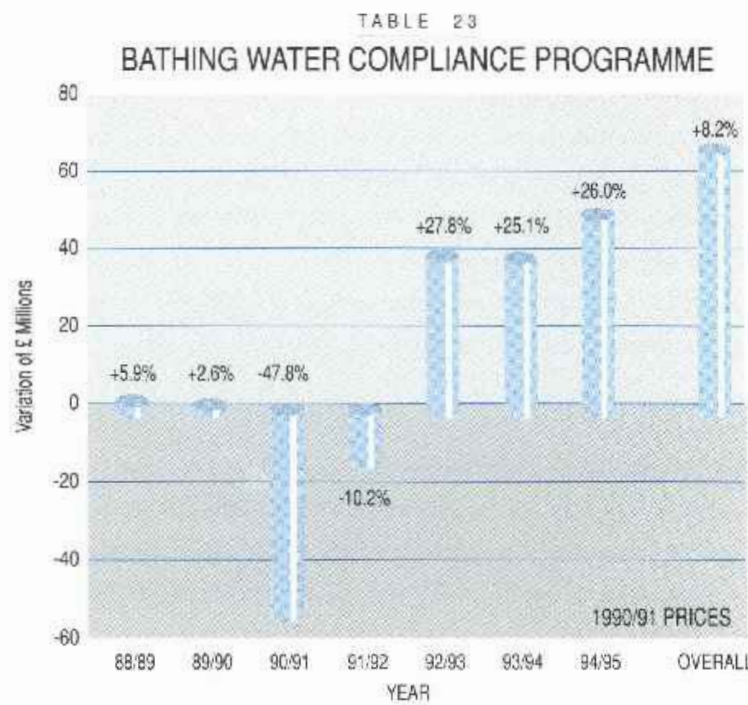
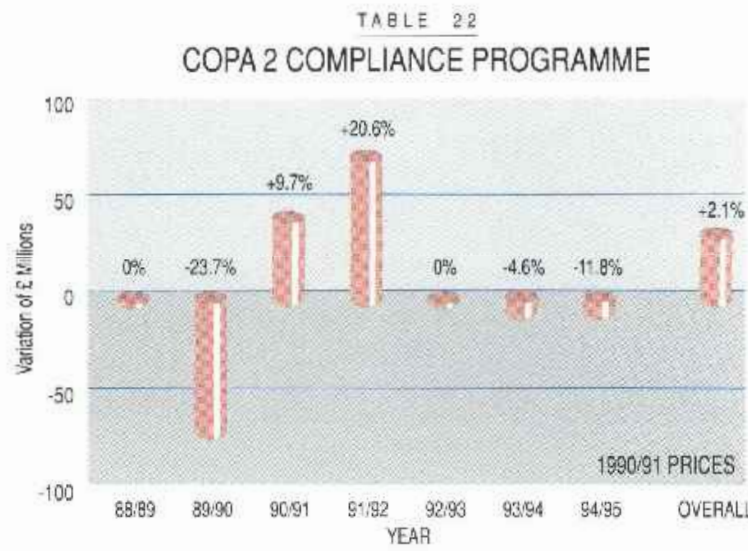


TABLE 19
SEWAGE TREATMENT AND DISPOSAL



SERVICE BREAKDOWN (Medium Term 89-95)	£ M
NEW DEVELOPMENT	250
COPA 2	1510
LONG TERM RIVER QUALITY OBJECTIVES	230
LONG TERM ESTUARIAL QUALITY OBJECTIVES	120
SLUDGE DISPOSAL	300
BATHING BEACHES	790
OTHER SEA OUTFALLS	170
SEWAGE WORKS REFURBISHMENT	860
OTHER	120
TOTAL - 90/91 PRICES	4350

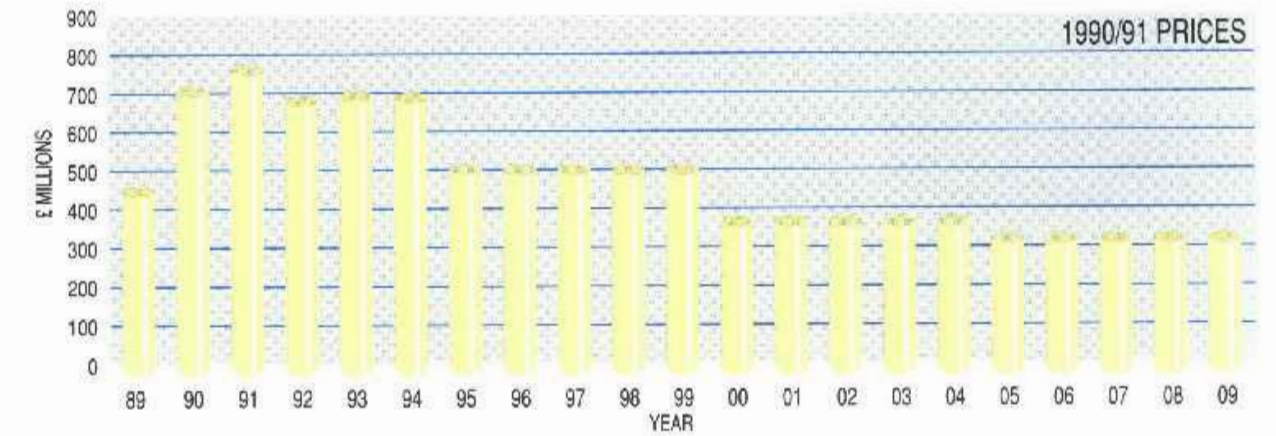
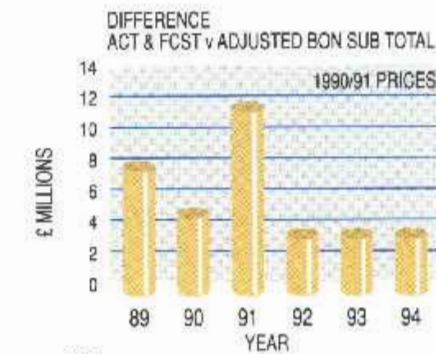
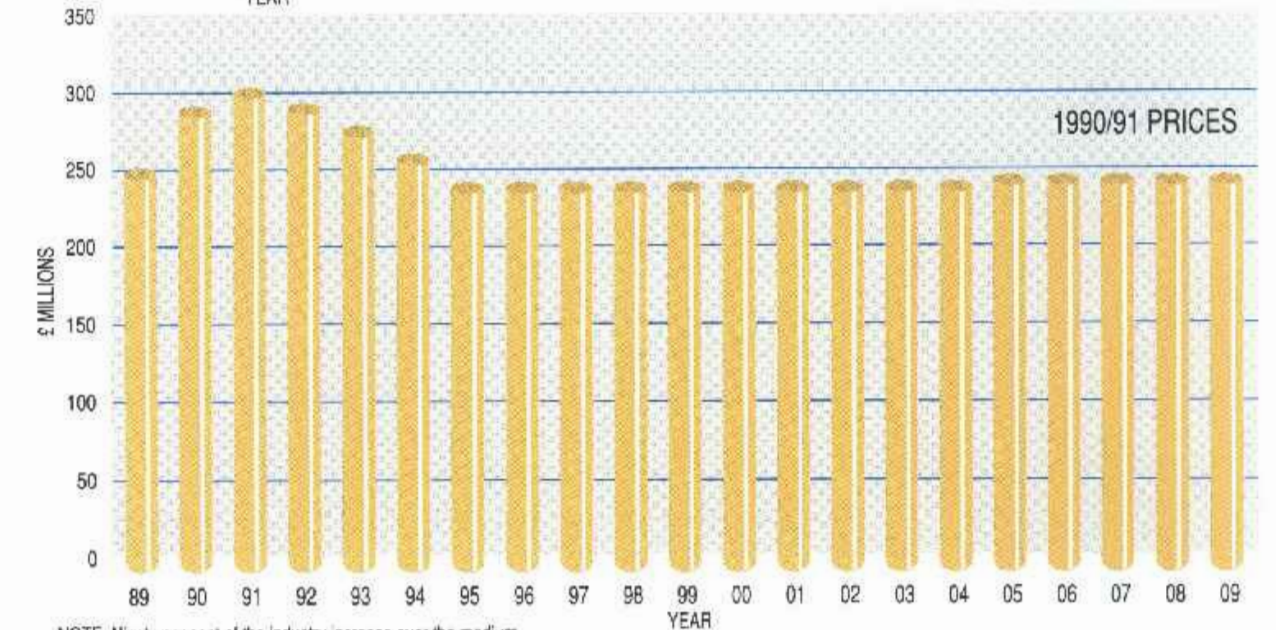


TABLE 20
MANAGEMENT AND GENERAL



SERVICE BREAKDOWN (Medium Term 89-95)	£ M	SERVICE BREAKDOWN (Medium Term 89-95)	£ M
WATER ICA/TELEMETRY/COMP	530	SEWERAGE ICA/TELEMETRY/COMP	410
WATER VEHICLES & PLANT	160	SEWERAGE VEHICLES & PLANT	110
WATER LAND & BUILDINGS	220	SEWERAGE LAND & BUILDINGS	80
WATER OTHER INVESTMENT	140	SEWERAGE OTHER INVESTMENT	140
WATER OTHER	30	SEWERAGE OTHER	20
TOTAL - 90/91 PRICES	1080	TOTAL - 90/91 PRICES	760



NOTE: Ninety per cent of the industry increase over the medium term is proposed by just two companies, Thames and South West.

5.2 Ofwat indicated in the autumn that it was open to companies to manage their overall price rises within the K envelope to adjust for slippage or lower investment expenditure. This could reduce the need formally to review the position i.e. issue a reference notice by the Director General to clawback the monies not spent. Companies who do not meet the levels of investment assumed in the initial determination of K were reminded that they may take the opportunity to manage their price rises to bring their income stream back into line with the changed circumstances in CAPEX. Ofwat would welcome this type of action being taken by companies and believes that it can only strengthen the regime and its focus on the medium term.

6.1 Another issue widely discussed with the industry is concerned with capital efficiency. It is an important objective of the new regime that it should lead to demonstrable improvements in efficiency. There are considerable incentives for companies to make savings over and above those included in the initial determination of K. This applies to both operating and capital costs. Ofwat's overall approach to efficiency savings is that genuine savings can be retained by companies in the short and medium term to use as they wish. At a periodic review the baselines will move to the efficiency frontiers and so the incremental incentive to drive for greater efficiency will be restored.

6.2 Difficulties arise in converting the concept into a practical and auditable mechanism of identifying and approving the savings. Four points are important in this area. Ofwat's starting point is based on the assumption that the investment needs identified by the company for the initial determination of K (Underground Asset Management Plans & Surface Investment Requirements) were fair and proper estimates at that time. Secondly, capital efficiencies must result from some positive initiative or innovation by the company. Thirdly, these efficiencies will result in a lower total cost solution to the problem than when the investment need was determined. Finally, lower expenditure in the medium term, which cannot be explained by virement to operating costs or capital efficiency, will result in lower levels of service or performance whether or not this is discernable from the output measures currently used.

6.3 The only other possibility is that the investment need no longer exists. In these cases, consideration must be given to either reducing the burden on customer charges or bringing forward improvements from future years, or accommodating a portion of new obligations within the existing price cap limits or adopting the voluntary deferment of K mechanism indicated above. This approach to capital efficiencies has been more closely defined in the July 1991 Return – Reporting Requirements. Four criteria are identified as being required in any claimed additional efficiency saving:

- ◆ triggered by positive management action;
- ◆ no loss in output achievement due to the change;
- ◆ a reduction in the "net present value" (NPV) using the appropriate discount period and rate;
- ◆ reduced expenditure.

7.1 Drinking water compliance programme: the Water Supply (Water Quality) Regulations 1989, which incorporate the requirements of the EC Drinking Water Directive require water companies to provide wholesome water at the time of supply. The compliance programme is designed to enable companies to comply with the Regulations for most chemical and aesthetic parameters by 1995, with priority being given to the removal of nitrates and aluminium residuals from chemicals used in treatment processes. Expenditure on the compliance programme was close to that forecast by the companies in total, although there are some wide variations in the expenditure by individual companies. The progress on the programme is summarised in Table 21 overleaf. A number of the companies have chosen not to include all the expenditure in their approved programmes pending the results of research into the most appropriate method of treatment for particular parameters e.g. pesticides.

Christine Mortin Postel, Senior Vice President, Lyonnaise des Eaux, places the last tile on the roof of North East Water's new White Dene Water Treatment Works watched by N.E. Water's Chairman, Lord Elliott of Morpeth and Ian Byatt



Photo courtesy of North East Water

7.2 Control of Pollution Act Part 2 compliance programme: the Copra 2 compliance programme includes all sewage treatment works which have failed to comply with the discharge consent conditions during one of the three previous years prior to formulation of the programme in 1989, together with those works which are considered by the companies to be at risk of failure to comply. Some of the companies are making good progress with the implementation of the programme, whilst others appear to be having some difficulties in achieving the targets. In some instances the delays have been caused by circumstances beyond the company's control. During the report year 1989/90 total slippage on the programme was £67.4 million representing 23.7% of the original projected expenditure. Planned expenditure during 1990/91 will reduce this deficit by £41.3 million with companies making every effort to ensure completion of the programme on time. The position is summarised in Table 22 overleaf.

7.3 Bathing Waters compliance programme: the Bathing Waters compliance programme is designed to achieve full compliance with the EC Directive on Bathing Water Quality. The completion of the programme, which affects eight of the water and sewerage companies, presents a significant challenge in order to achieve the desired deadline. The end date for the programme has been tightened by the Secretary of State so that in nearly all circumstances it must be completed by December 1995.