



House of Commons
Committee of Public Accounts

Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales

Thirtieth Report of
Session 2003–04

*Report, together with formal minutes and
oral evidence*

*Ordered by The House of Commons
to be printed 24 May 2004*

HC 463
Published on 15 July 2004
by authority of the House of Commons
London: The Stationery Office Limited
£8.50

The Committee of Public Accounts

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Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk.

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Summary

Introduction

Sewers provide an essential service to households and businesses throughout the country but they are usually taken for granted. When they fail the consequences can be very damaging, especially when homes are flooded internally with sewage. There were 6,000 such incidents in 2002–03. Although this represents a small proportion of properties connected to the sewer network, these incidents cause great distress and inconvenience for those affected.

The Director General of Water Services is the economic regulator of water and sewerage services in England and Wales and head of Ofwat. Ofwat's statutory duties are to ensure that the functions of water and sewerage companies are properly carried out and that undertakers can finance their functions. In addition to these duties, Ofwat must protect customers' interests as regards price and quality of service; promote economy and efficiency on the part of companies; and facilitate effective competition.¹

On the basis of a Report from the Comptroller and Auditor General,² we took evidence from Ofwat on responsibilities for preventing sewer flooding, compensation for sewer flooding incidents and information on the performance of sewer networks.

1 The Water Act 2003 will change Ofwat's duties, including giving primacy to the protection of customer interests, wherever appropriate by promoting effective competition, from April 2005, and will replace the Director General with a Statutory Board (the Water Services Regulatory Authority) from April 2006.

2 C&AG's Report, *Out of sight — not out of mind: Ofwat and the public sewer network in England and Wales* (HC 161, Session 2003–04).

Conclusions and recommendations

- 1. There is insufficient co-ordination between the bodies responsible for managing connections to the sewer network.** Public sewers are owned by 10 water and sewerage companies, but local authorities, housing developers and property owners are responsible for ensuring that connections to sewers do not overload the existing system. At present, water companies are not required by statute to be consultees in the planning process by which new properties are connected to existing sewers.
- 2. Water companies should educate consumers and businesses to help reduce sewer blockages.** Nearly half of all sewer flooding incidents are caused by blocked sewers, often a result of households and businesses disposing of inappropriate items (for example, nappies or cooking fat) down their drains. Ofwat should work with water companies to investigate the costs and benefits of a national campaign of education, or a series of local campaigns run by each company.
- 3. Compensation arrangements are currently inadequate.** All consumers pay for an effective sewer system through their water and sewerage bills. About 5,000–7,000 each year suffer from sewer flooding. At present, the victims are guaranteed only a refund of their sewerage charges for the year, and are left to bear the cost of cleaning, repair and redecoration themselves. Consumers can cover these costs under household insurance, but some have been unable to obtain insurance through poverty or because of repeated flooding.
- 4. The Department for Environment, Food and Rural Affairs should extend statutory compensation arrangements.** The Guaranteed Standards Scheme requires water companies to compensate customers for service failures by refunding part or all of the water bill. This is a reasonable basis for service failures like low water pressure, but it is inadequate for the cost and inconvenience of sewer flooding. The Scheme should be more flexible, on the principle that all consumers who benefit from effective drainage should, through their sewerage charges, contribute to the costs of those who endure sewer flooding.
- 5. In the meantime, Ofwat should encourage companies to increase voluntary compensation payments.** Water companies can and do make voluntary compensation arrangements above the guaranteed minimum. The system is currently ad hoc. Ofwat should issue guidelines on when companies ought to pay compensation, and how it should be calculated.
- 6. Ofwat should secure greater consistency in recording the number of properties at-risk of sewer flooding.** Ofwat requires sewerage companies to record properties that are at-risk of future sewer flooding incidents. Companies adopt a range of approaches to identify these properties. This inconsistency means that Ofwat cannot compare the performance of companies in a meaningful way and homebuyers cannot be confident about the risks facing the property they wish to purchase.
- 7. Ofwat should require companies to include the same sewers in its regular five-year asset inventory assessments.** At present, companies report on a sample basis. This approach means that it is rare for the same sewer to be surveyed from one five-

year assessment to the next. Companies have therefore been unable to assess the deterioration of individual sewers over time. Five-yearly samples of the same sewers would provide a clearer understanding of the rate of deterioration.

8. **Ofwat should develop measures which provide an indication of the future condition and performance of sewer networks.** Ofwat uses a series of indicators based on past performance. The indicators are inherently backward-looking, and may give neither sufficient warning of imminent problems nor an adequate guide to investment needs. Ofwat should supplement existing measures with new ones which assess the risk of asset failure.
9. **Ofwat should require water companies to prepare long-term sewerage resource plans.** At present, Ofwat requires water companies to prepare water resource plans which consider the balance of supply and demand over a 25 year period. There is no parallel requirement for sewer systems. In view of the potential pressures on sewer systems arising from new housing developments in the South East, and climate change, Ofwat should require sewer resource plans.

1 Responsibilities for preventing sewer flooding

1. Sewer flooding is among the worst service failures a householder can suffer, with raw sewage flooding into homes, gardens or business premises. There are four main causes of sewer flooding: *hydraulic overload*, when the capacity of a sewer is insufficient for the volume of waste water flowing through it; *blockages*, when the flow in a sewer is impeded; the *collapse* of the sewer itself; and *equipment failure*, when the machinery driving the flow in the sewer, such as a pumping station, breaks down. **Figure 1** shows the main causes of flooding of the interior of homes and business premises.

Figure 1: Causes of internal sewer flooding incidents

Cause	Percentage of incidents
Hydraulic overload (insufficient sewer capacity)	45
Blockages	45
Sewer collapses	5
Equipment failure	5

Source: C&AG's Report, Figure 3

2. Sewers are open networks. They are designed to collect waste water from homes and business premises. But they can also collect it from highways, car parks and other urban areas, and discharge waste water to rivers and the sea as well as sewage treatment works. Although newer parts of the sewer network separate storm drainage from the sewer system, the majority of the system remains a combined system in which rain water combines with waste water from properties.³

3. The combined nature of the system means that there are a variety of organisations with direct or indirect responsibility for preventing sewer flooding. These include the 10 water and sewerage companies in England and Wales; local authorities who are responsible for local highways, and granting planning permission for new developments which connect to the system; the Highways Agency; and the construction industry. In addition, the Environment Agency has responsibility for setting maximum acceptable limits of discharge from the sewer networks into rivers and the sea. And the Department for Environment, Food and Rural Affairs (the Department) has general responsibilities for changes to the regulatory framework, setting new standards, and promoting new legislation for the water and sewerage sector.⁴

4. The range of bodies involved in managing and connecting to the sewer networks can mean that when a householder suffers from sewer flooding, it may not be clear who is responsible for causing the incident and preventing similar incidents in future. From the customer's point of view, it can seem as though everybody is blaming each other: the local authority is blamed for not clearing the gulleys by the side of road; the housing developer is blamed for building houses in the wrong place; and neighbours can be blamed for things they have or have not done.⁵

3 Q 36

4 C&AG's Report, para 1.7

5 Q 28

5. The sewer network assets are the responsibility of the 10 water and sewerage companies.⁶ Each company has a monopoly in its region. Ofwat's role under the Water Industry Act is to ensure that the companies fulfil their duties as sewerage undertakers. It does not take operational decisions on the size and shape of the network, and it can only compel companies to undertake specific works through an enforcement order. Ofwat has not taken enforcement action against any company in relation to its sewerage service because it has found its discussions with companies have led to action plans which have dealt with emerging problems.⁷

6. Ofwat's main tool for ensuring that companies fulfil their duties is the price control and associated conditions it places on them as monopolies. The price control covers a five year period, with the current period ending in March 2005. At the start of every price control period, Ofwat sets the outputs that the water companies must deliver in return for the agreed price limits. Ofwat then monitors each company's performance against key performance measures.⁸

7. For sewer flooding, the main performance measures are the number of properties flooded and properties at risk of sewer flooding.⁹ The annual performance of the industry against these two measures is shown in **Figures 2 and 3**. The figures show that the number of properties flooded internally shows no clear pattern, but varies between around 5,000 to 7,000 properties each year, and the number of properties at risk of sewer flooding has fallen from just over 30,000 to 11,600 in 2002–03.

6 Q 3

7 C&AG's Report, para 2.14

8 50th Report from the Committee of Public Accounts, *Pipes and wires* (HC 831, Session 2001–02)

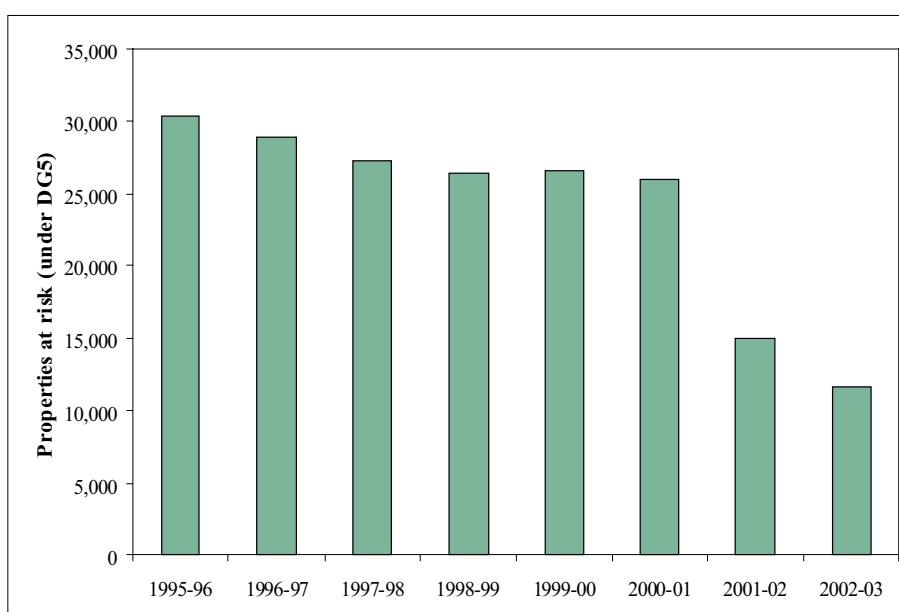
9 C&AG's Report, para 1.17

Figure 2: The number of reported internal sewer flooding incidents



Source: Ofwat Annual Levels of Service reports

Figure 3: Properties at high risk of sewer flooding



Source: C&AG's Report, Figure 5

8. There are doubts about the reliability of this information. For sewer flooding incidents, it is possible that some incidents are not reported by householders because they fear blighting their property. Ofwat said that this was one of the factors which meant that less serious flooding events, such as sewage at the bottom of the garden, are not reported regularly.¹⁰ In addition, the wide range of methods used to estimate the number of properties at risk means that there is inconsistency between the figures quoted by different companies. Ofwat did not seek complete uniformity in the way companies prepared at-risk registers, as there should not be too much discrepancy between them, but it would be looking for greater consistency between the registers in future.¹¹

¹⁰ Q 23

¹¹ Qq 47, 49

9. Figure 3 shows a large fall in the number of properties at risk between 2000–01 and 2001–02. This fall is the result of the reclassification of 10,000 properties by Thames Water because these properties had not flooded in the last ten years.¹² Ofwat confirmed that the water industry could not take credit for the substantial dip in the figures between 2000 and 2002.¹³ The reclassification demonstrates the difficulties of obtaining reliable, consistent data on properties at risk.

10. One factor causing sewer flooding is new housing development. New developments may mean that a sewer system which was adequate when it was designed becomes subject to intolerable strain. Ofwat explained that new developments had an almost absolute right to connect to the network, and whether this absolute right should continue was a significant issue.¹⁴ Water companies did not have a formal role in the process for approving new planning applications and perhaps water companies should be made statutory consultees as part of the planning process.¹⁵

11. As Figure 1 shows 45% of sewer flooding incidents are caused by blockages. Many of these result from households and business, such as restaurants, putting inappropriate items, including fat and nappies, down their drains.¹⁶ They are therefore preventable. Ofwat are responsible for ensuring that water companies fulfil their duty to promote the efficient use of water by their customers.¹⁷ There is no equivalent duty to promote the effective use of the sewerage system. But it may be in companies' interests to educate consumers on the risks of putting the wrong things down the drain, since it could reduce the number and severity of blockages. Ofwat had not explored the case for water companies conducting education campaigns. It would, however, take companies' proposed education programmes into account when setting five-year price limits.¹⁸

12 C&AG's Report, para 1.21

13 Q 31

14 Q 21

15 Q 22

16 Qq 40–42

17 8th Report from the Committee of Public Accounts, *Office of Water Services (Ofwat): Leakage and water efficiency* (HC 397, Session 2001–02)

18 Q 42

2 Compensation for sewer flooding incidents

12. Water companies are required to provide effective drainage of waste water from homes and properties. They recover the costs through the sewerage component of the water and sewerage bills they charge consumers. The sewerage element varies from company to company, ranging from £95 to £225 per property in 2003–04 depending on the company. It does not, however, vary for consumers within each company's region.¹⁹

13. A small minority of consumers suffer from sewer flooding. Since 1994, the number of sewer flooding incidents has fluctuated between 5,000 and 7,000 per annum (Figure 2 above), which represents less than 0.03% of the total number of properties in England and Wales.²⁰

14. Ofwat must strike a balance between the interests of these two groups of consumers. It pointed out that sewer assets effectively provide a public service. It is not, however, possible to do all the capital works to remove properties from the risk of sewer flooding at once. Water companies therefore prioritised sewer flooding remedial works.²¹

15. In some cases, consumers suffer repeated incidents. In one case, a consumer in the Thames Water region suffered numerous incidents of external flooding. In response, he brought an action against Thames Water on the grounds of nuisance, and that the company had breached human rights legislation as regards respect for family life and home and protection of property. The High Court found in favour of Thames Water, arguing that Parliament had (through the Water Industry Act 1991) established arrangements to provide redress for customers, and had created Ofwat in order to balance the interests of those customers affected by sewer flooding, against those of all other customers. The High Court judgement added, however, that the present modest compensation arrangements were a matter of concern, and that Ofwat should reconsider current compensation policy in the light of the case, even if this meant a slight increase in the average water bill paid by all consumers. This was because “if it was not practical for reasons of expense to carry out remedial works for the time being, then those who enjoy the benefit of effective drainage should bear the cost of paying some compensation to those who have to endure intolerable sewer flooding, internal or external”.²²

16. The statutory arrangements for compensating customers who suffer sewer flooding are limited. The statutory Guaranteed Standards Scheme (GSS) provides for payments to be made to customers for service failures, including internal sewer flooding. It does not cover external flooding. Under the scheme, customers receive a rebate of their annual sewerage payment. The scheme is not supposed to compensate customers for damage or losses incurred, and merely reflects the service failure they have suffered. It does not vary in

19 Charges for water services can however vary where consumers have elected to use a water meter, which charges them for water actually used.

20 C&AG's Report, para 1.18

21 Qq 28, 30

22 Peter Marcic v Thames Water Utilities Limited (2002 EWCACiv 65)

proportion to the damage caused by sewer flooding or the severity of the incident – in some cases victims may have to vacate their property whilst it is properly cleaned and repaired.²³

17. Companies can also make further compensation or ad hoc payments to victims of flooding, and Ofwat and WaterVoice (which represents the interests of consumers) encourage them to do so. For example, some companies give a partial rebate for external sewer flooding, and companies can also provide help with uninsured losses. In 2002–03, companies made voluntary payments under circumstances not covered by the GSS of just over £1.2 million.²⁴

18. Ofwat expected householders to obtain insurance that covered incidents such as sewer flooding. It also recognised the need to protect the sewer-flooded consumer, who might not be well off and might not be able to obtain full insurance cover, and to ensure that poorer consumers were not driven further into poverty by an event that was no fault of theirs. There was now a general recognition among all parties, including Ofwat, the water companies, consumer representatives and insurers, that customers should not be out of pocket as a consequence of sewer flooding.²⁵

23 C&AG's Report, para 2.4

24 *ibid*

25 Q 45

3 Information on the performance of sewer networks

19. For companies to make the right investments at the right time, there must be consistent and reliable information on the condition of the sewer network they own. Before privatisation, there was incomplete and inconsistent information on the performance and condition of networks. Ofwat described the records maintained by water authorities before privatisation as patchy.²⁶

20. The companies and Ofwat have improved the quality of information. Since 2000, the industry and its regulators have worked together to develop a “common framework” allowing companies to obtain a better understanding of network capital maintenance needs, founded on risk-based principles.

21. There remain, however, problems of consistency between and within companies. There can be difficulties in comparing asset condition over time, in particular with the interpretation of grades assessing condition. The water industry has produced five versions of its guidance on grading in their Sewer Rehabilitation Manuals and companies use different versions.²⁷

22. Some companies consider that Ofwat should give more weighting to trends in the condition of sewers. At present, companies report on asset condition on a sample basis as part of a five-yearly asset inventory exercise. There is however no long-term programme of surveys of the same sample, or cohort, of sewer – so it is rare for the same sewer to be surveyed from one assessment to the next.²⁸ Companies do not have a cohort of sewers which they continue to look at every five years in order to detect whether there is a systematic rate of deterioration.²⁹

23. Ofwat uses backward-looking indicators, based on past performance, to monitor the condition of each company’s sewer network. The indicators do not provide robust information on the likelihood of asset failure (for example, a sewer collapse) or the need for investment in the future. Ofwat acknowledged the weaknesses in the backward-looking approach and confirmed its determination, alongside the companies, to develop a more forward looking element in the analysis of the performance and condition of sewer networks.³⁰

24. The investment cycle appears to be driven less by the information obtained by companies and Ofwat than by the regulatory cycle. **Figure 4** below shows how companies tend to incur low expenditure immediately after Ofwat has set price controls, while expenditure tends to increase towards the middle of the price review period, before falling away at the end.

26 Q 19

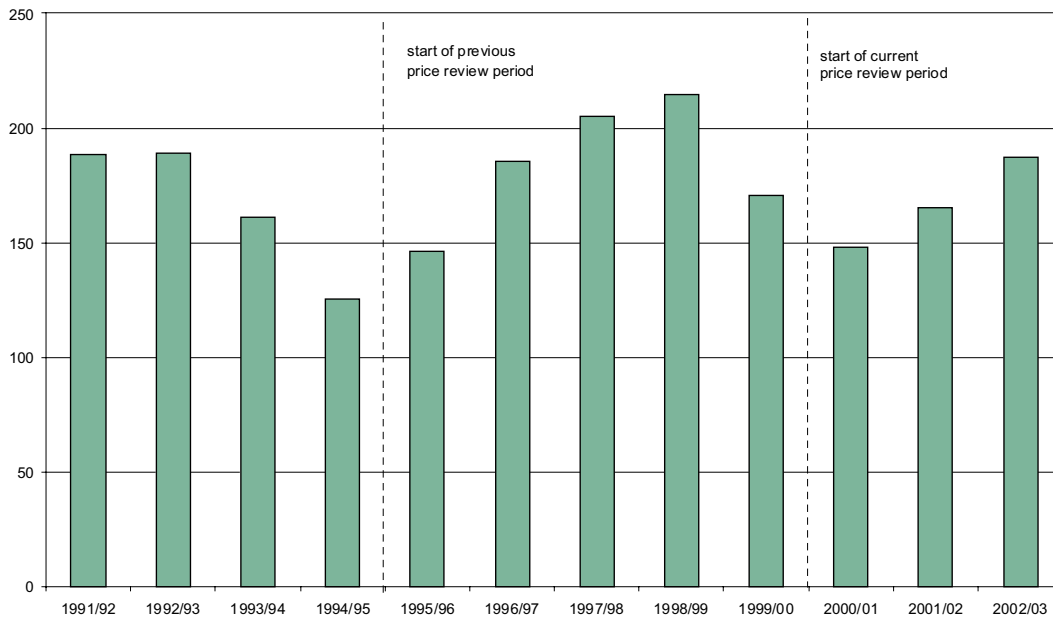
27 C&AG’s Report, para 3.16

28 *ibid*

29 Q 20

30 Q 10

Figure 4: Profile of investment spending on sewer networks



Source: C&AG's Report, Figure 7

25. Ofwat did not think this was an acceptable profile, but the investment cycle was more stable than it had been in the past, when sewer assets had been owned by water authorities subject to annual public sector expenditure controls. Ofwat have sought to address the uneven cycle by confirming in advance the investment programme for the first year of the next price control period.³¹

26. There is only a limited longer-term framework for planning investment in sewer networks. By contrast, the licences issued to water companies require them to prepare water resource plans, which consider the balance of supply and demand over a 25 year period.³² There are two issues that may increase the pressure on water companies as they attempt to run effective networks. Firstly, climate change may lead to more intense rainstorms, which in turn may lead to more incidents when the existing sewer capacity is insufficient for the expected water flow. Ofwat consider that there is already evidence of climate change in the increasing intensity of rainstorms.³³ Secondly, expected increases in the number of houses in the South East may increase the risk that existing sewer networks have insufficient capacity. Ofwat acknowledged the potential impact on the design of water and sewerage systems of the pressure of new housing development in the South East.³⁴

31 Q 53

32 C&AG's Report, paras 3.30–3.31

33 Q 12

34 Q 12

Formal minutes

Monday 24 May 2004

Members present:

Mr Edward Leigh, in the Chair

Mr David Curry
Mr Ian Davidson
Jim Sheridan

Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

The Committee deliberated.

Draft Report (Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirtieth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 26 May at 3.30 pm

Witnesses

Wednesday 17 March 2004

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Mr Philip Fletcher, Dr Bill Emery, and Ms Sue Cox, Office of Water Services
(Ofwat)

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Third Report	The Sheep Annual Premium Scheme	HC 64	<i>(Cm 6136)</i>
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137	<i>(Cm 6155)</i>
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206	<i>(Cm 6175)</i>
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207	<i>(Cm 6155)</i>
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253	<i>(Cm 6155)</i>
Eighth Report	The English national stadium project at Wembley	HC 254	<i>(Cm 6155)</i>
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305	<i>(Cm 6175)</i>
Tenth Report	Purchasing and managing software licences	HC 306	<i>(Cm 6175)</i>
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Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406	<i>(Cm 6191)</i>
Thirteenth Report	Excess Votes 2002–03	HC 407	<i>(N/A)</i>
Fourteenth Report	Inland Revenue: Tax Credits	HC 89	
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429	
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120	<i>(Cm 6191)</i>
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Thirtieth Report Out of sight—not out of mind: Ofwat and the public HC 463
sewer network in England and Wales

The reference number of the Treasury Minute to each Report is printed in
brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 17 March 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Jon Cruddas

Mr Brian Jenkins

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, further examined.

Mr Rob Molan, Second Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Out of sight—not out of mind:

Ofwat and the public sewer network in England and Wales (HC 161)

Witnesses: **Mr Philip Fletcher**, Director General, **Dr Bill Emery**, Director of Costs and Performance and Chief Engineer, and **Ms Sue Cox**, Head, Service and Performance Team, Ofwat, examined.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts, where today we are looking at the Comptroller & Auditor General's Report on Ofwat, regulator of the public sewer network of England and Wales. We welcome Mr Philip Fletcher, the Director General of Water Services. Would you like to introduce your colleagues?

Mr Fletcher: On my right is Dr Bill Emery, who is Ofwat's Director of Costs and Performance and our Chief Engineer. On my left is Sue Cox, who heads the Service and Performance Team.

Q2 Chairman: Could I ask you, please, to look at the Executive Summary in paragraph 7, point B, which you will find on page 3, where you will see that the number of properties flooding internally with sewage has remained static since 1994 at around 5,000-7,000. Is that right?

Mr Fletcher: That is right, of course.

Q3 Chairman: Why have you made so little impression on the problem?

Mr Fletcher: Chairman, can I start with the relationship? Ofwat is there as the regulator of a privatised sector. That is not in any way to duck our responsibilities, but these are assets which are the responsibility of the ten water and sewerage companies in England and Wales. Having said that, of course, we are very concerned that this extremely—it is hard to overstate it—unsatisfactory business of sewer flooding should be continuing. Reductions have been made by the companies, urged on by Ofwat, in the numbers of properties at risk, and substantial further steps are being taken, but yes, still an unacceptably large number of properties are experiencing sewer flooding each year.

Q4 Chairman: If we now turn to page 15 and look at paragraph 1.18, you will see there that the number of properties internally affected by sewer flooding is

relatively low. What I put to you, Mr Fletcher, is that you and the companies concerned have tolerated this problem precisely because the number of people affected is low and therefore it is not an enormous political problem, with a small "p", and therefore, despite the enormous distress and inconvenience caused to these people, it can be safely ignored.

Mr Fletcher: As the NAO Report points out, it is 0.03% of the 22 million properties in England and Wales but, Chairman, I would not accept that that means it is *de minimis* and can be ignored, nor, I believe, would any of the companies, nor, I am absolutely certain, would WaterVoice, which is the representative of customers and is linked with Ofwat, and sees sewer flooding as a particular target for making further significant progress in the price review period which begins from April next year.

Q5 Chairman: Let us look at WaterVoice's target, which we find reference to in paragraph 2.2 on page 19, which is this target to eliminate the backlog of properties at risk by 2010. Is there any chance that you can achieve this with the industry?

Mr Fletcher: We can certainly make significant progress in the period to 2010 in the work done by companies, paid for by customers. As you know, Chairman, I am just in the period leading up to the publication of draft price limits in the summer, and publication of final price limits before the end of this coming year. So I cannot say just at the moment fully what progress there would be, but I can refer to the draft business plans which the companies prepared last year and which will serve as the base for their final business plans, hopefully, next month. These show all of them paying strong attention to the guidance which both the Secretary of State, Margaret Beckett, and I have given them, which is to show what could be done to take down and certainly address all the at risk properties, the 11,000 plus, that we have at the moment on the companies'

registers over the period to 2010. It would not eliminate the problem because, first, a lot of sewer flooding is caused by events other than hydraulically overloaded sewers, events notably like blockages in the sewer, caused by things like fat, which tends to accumulate. And second, because over the course of the coming five years, 2005–10, we shall see other properties come on to the at risk register as the companies continue their analysis and further properties are identified.

Q6 Chairman: Would you say that sewage ending up in your living room is about the worst service failure that can happen to anybody?

Mr Fletcher: Short of threats to life and limb and health, it is one of the most unpleasant events that can happen to any household.

Q7 Chairman: Is the figure of £125 compensation to the people who are so affected not insulting?

Mr Fletcher: The figure you are referring to, Chairman, is the payment under the Guaranteed Standards Scheme.

Q8 Chairman: The reference, for colleagues, is footnote 29 on page 20. This figure of £125 is calculated, is it not, as broadly what the average person would be paying in sewerage charges for a year?

Mr Fletcher: What it actually relates to in any individual case is the sewerage element of the bill for that household. If this were intended as fully recompensing compensation for every bit of harm and damage which the customer had suffered from the invasion of sewage, then I would accept your point. I guess that the Committee becomes more than fed up at witnesses appearing before it and saying “Well, it depends.” My “Well, it depends” in this case is what is this payment about? It originated, at Ofwat’s instance, soon after privatisation in 1992, before which no payments had been due at all when the previous regional water authorities and before them the local authorities had been responsible for sewerage. It is enshrined in law. It is given authority by a statutory instrument negative resolution through Parliament, and it was enhanced, again on Ofwat’s recommendation, at the end of the 1990s to put it in terms of saying that for every internal sewer flooding incident you are entitled to a rebate of your sewerage charge. It is primarily about a recognition that the company—whatever the cause—has failed to give you the service which you as a customer deserve. That is what it is intended to do, not to be total recompense.

Q9 Chairman: Would it be fair to describe it thus: that I do not have to pay for my sewage this year if it ends up on my living room floor?

Mr Fletcher: That is one way of putting the picture, but can I go on to say it really is not meant to be compensation in full, let alone insurance. No doubt the Committee may want to ask me more about that, but this is an area which we, the Association of

British Insurers, the companies, WaterVoice and all the other stakeholders want to get further into and to make progress on.

Q10 Chairman: Can we now turn to page 27, paragraph 3.15, which looks at “backward-looking serviceability”, which is rather a complicated phrase, which you will be familiar with. It is a way of working out what might happen in the future by looking back to the past. Some people have described it as you walking backwards towards the edge of a cliff. Is that a fair description?

Mr Fletcher: No, Chairman, but it has sufficient elements of truth in it to mean that we and the companies were determined to introduce more of a forward-looking element into their appreciation, and then our appreciation, of the overall condition of these networks which, buried beneath the ground, many of them very old indeed, are quite difficult to assess. We have this concept first of all of condition, ranked according to five grades, with danger of imminent collapse as the lowest, fifth grade. That is not good enough as an indication of where your priorities for investment should be, because even a grade five sewer may actually, as the NAO Report rightly points out, be able to continue to perform its function quite successfully for many years. Therefore, given that resources are not infinite, we need to get the companies to look at the priorities, and we have been trying with them, helped by the industry’s research body, UKWIR, to develop a forward-looking approach to serviceability. Although this is something that will only really prove its worth over decades, nonetheless, the industry and the regulators together have made significant progress between the last review, when your comment would have been more justified, and the review which we are in the middle of at the moment, where we have many more forward-looking elements in our assessment of serviceability.

Q11 Chairman: Can you describe for us what the common framework is? It is mentioned in paragraphs 3.21 to 3.23. This is a way of trying to reduce the regulatory burdens on companies, is it not? What I am worried about is, will this mean that bills might be higher, as you step back from companies?

Mr Fletcher: Yes, it may well mean that bills will be higher. If I may, I will bring in my colleague, who is an engineer and has been particularly instrumental in helping develop that common framework. To answer your point about costs, I am afraid I have had to warn customers now for over a year of the likelihood that their water bills will increase from April 2005. This does not mean that Ofwat has gone soft, that we will give up on our job on behalf of customers of scrutinising very firmly the plans from companies. But all the evidence suggests that a number of pressures, including the need to make sure that we are not putting this crucial infrastructure at long-term risk, will tend to mean that price limits will have to go up to enable the companies to make further investment to deal with the problems.

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Q12 Chairman: I want to end by dealing with two threats to your world. One is climate change, and I want to ask if you have assessed the effects of climate change. The other is that we have had a well publicised report from Kate Barker today advising the Government that we are going to have to do a lot more housing development. How will this affect your work, do you think?

Mr Fletcher: If I take climate change first, Chairman, I understand your colleagues on the Environment Committee are just launching a study of their own. I believe that we are certainly seeing evidence of climate change already. If the Committee care to look at the pattern suggested by the internal sewer flooding incidents per 100,000 customers on page 15 of the NAO Report, you will see there a wide variation between companies. You will particularly see United Utilities, number three from the left, with a very high spike indeed. As the footnote brings out, United Utilities, Blackburn particularly, was subject to very heavy weather indeed on 14 June 2002, 87 incidents in that particular town alone due to a one-in-73-year event. More and more companies, and more and more customers, unfortunately, are experiencing the result of very heavy rainfall in sudden downpours, often during the summer, which is a change in the regular climatic pattern, and does have implications for sewer flooding and overloaded sewers. You also mentioned Kate Barker's report, Chairman, which is just one piece of evidence of the pressure on the south-east of England in particular for more development, as the over-heated, or at least more heated than other parts of the country economic, geographical area, which is also unfortunately geographically and hydrographically the driest part of the country. Parts of the south-east of England, on a *per capita* basis, are drier than countries around the Mediterranean littoral, so there are really serious issues about long-term supply to those areas. Both the points you have made highlight pressures that are coming, no doubt gradually, but we cannot anticipate just where the one-in-100-year storm is going to take effect, and therefore sewers will always fail to cope with that sort of event, I am afraid. We need, with the companies, to plan further—I would bring in here the Environment Agency and the other environmental regulators—to ensure that we are properly looking forward without foolish anticipation, without trying to put gold-plated investment in before it is needed.

Q13 Chairman: My last question is: are you worried about the invulnerability of the sewerage system to terrorists?

Mr Fletcher: In terms of the sewerage system, I would say no, Chairman, not particularly. Water, however, is a resource vital to life, and it is clearly very important that Government, with the companies, should be taking all appropriate steps to ensure that water supplies are safeguarded. Ofwat is not in the lead on this issue, but I do make it my business to ensure that proper steps are being taken in my own role in the interests of customers, and I am satisfied that proper steps are being taken.

Q14 Jon Cruddas: Can I come to the Barker report and issues around housing development and regeneration in a minute, but first I would like to ask a couple of questions around the nature of the sewerage network. You mentioned earlier the asset inventory referred to on page 26 in paragraph 3.8. When is the next asset inventory planned? Is this a regular piece of work?

Mr Fletcher: Can I bring in my colleague, Dr Emery, on that?

Dr Emery: The asset inventories are done on a five-year time cycle for supporting information for our periodic review. The first one was in 1992, the second one was in 1997–98, the third one was completed and sent to us as part of the draft business plans last summer. There were some questions on that which will be addressed, and it will be updated in the final business plans we will have from the companies in the next few weeks.

Q15 Jon Cruddas: Not wishing to pre-judge the outcome of that, but given the data we have available here is the 1998 data, are there any trends that we should be aware of compared to the 1998 report of figure 11?

Dr Emery: I think the headline numbers coming out from a number of the companies show that they are classifying more of their sewers into grade 4 than they have done in the past. The question we have not yet resolved is whether that is a classification change or a deterioration change. The difficulty we have had with analysing the asset inventories to date has been that these particular inventories are dogged by marginal changes in the way that they have been looked at. They are statistically based assessments, and you can explain the variations in these things by a change in the way they have assessed it. So at the moment we do not have a real feel. Our overall strategy in this is to say that we are moving to a much more systematic method, and over a number of successive periods we will get a proper answer as to how stable this is.

Q16 Jon Cruddas: The reason I ask is because in paragraph 3.16 on page 27, the second bullet point, the NAO suggest in the last long sentence “A national study into deterioration rates and methods of characterising the effect on behaviour of sewerage networks would strengthen information on the condition of networks and would provide Ofwat with an additional source of evidence to complement its serviceability assessments.”

Mr Fletcher: Could I start on this one, and again bring Bill Emery in? I think that, with the NAO, we are always concerned that we are taking forward and properly encouraging the companies to ensure that they have a proper grip on these networks. But the NAO's focus, I think, is right. It is to complement serviceability assessments. I think we are going to go on wanting to put the emphasis on whether these assets continue to be fit for purpose, looking forward, not just looking backwards, and that is the crucial issue, rather than just, subject always to these

problems of classification, whether more are drifting, as companies come to understand their assets better, into grade 4 or even grade 5.

Q17 Jon Cruddas: I am not sure whether by that answer you agree that there should be a national study into deterioration.

Mr Fletcher: The NAO, it would be fair to say, has put this in fairly tentative terms, and I would not want to instantly grab it and say this needs to be brought forward, but rather to say yes, this is a helpful suggestion, which forms part of the thinking—and we have, of course, had the NAO Report for some months already—that we and the industry and the industry research bodies are undertaking.

Q18 Jon Cruddas: It does say at the beginning of paragraph 3.17 “Ofwat does not believe that there is sufficient evidence available to say whether there is a future problem with sewer networks.” That can be turned on its head as well, to say that you do not have evidence that there is not a structural problem.

Mr Fletcher: That is why we want to be looking forward rather than just backwards. It is to meet the point the Chairman very fairly put to us of the danger that we might be facing some sort of cliff edge. We do not believe we are facing a cliff edge. There is no sign that, for example, a very heavy investment in the 1920s or 1930s is all about to suddenly start failing at the same moment, or that the Victorian sewers, many of which were over-engineered, thank goodness, will fail in their continuing robust service, including, of course, the sewers that are running more or less beneath our feet as we speak.

Q19 Jon Cruddas: Presumably you would agree there is a degree of ambiguity about where we are.

Mr Fletcher: There will always be, I think. These are assets that were installed over centuries by a huge variety of different bodies, many of which did not keep any proper records of what they were putting in place. When the NAO talks about patchy records at privatisation, it is, as always, accurate, but perhaps a little kind to some of those predecessor bodies. The companies are working from that handicap and their understanding is going to grow over time. We focus them—they focus themselves—on the critical sewers, those which, if they failed, would be very difficult to repair and therefore it is best to anticipate and put the repair in at the moment you most want it, or which are absolutely crucial for the network, and that is where the surveys have been concentrated, and we think that is right; that is where the priorities should lie. But developing gradually over time does make sense.

Dr Emery: In the light of the Report here, and we have been discussing with colleagues in the companies and with the UK Water Industry Research association about research into how to do these more systematic asset deterioration studies. It is something that remains quite difficult to determine.

Q20 Jon Cruddas: A suggestion came out here in recommendation E on page 8: “The industry or individual companies could achieve this by instituting a long-term programme (over perhaps 25 years) of surveys of a selected sample of different types of sewer.”

Dr Emery: In principle, that is what the asset inventory does, in a sense, after another four or five surveys. But the issue really is whether or not you do a complete new statistical study or whether you have a cohort of sewers that you continue to look at every five years. Over a period of time you will be able to detect whether or not there is a systematic rate of deterioration. That is where, in a sense, we are looking at a proportion of the sewers that they are looking at as a common proportion throughout these asset inventories. We are looking at the viability of that with the companies, and there is research going to be undertaken on that once we have this particular review out of the way. The issue at the moment, of course, is that the companies’ plans are being based on use of the common framework, which looks at where they are, tries to identify the level of risk that they incur in doing the job of maintaining the services and what are the best intervention options to take in the sewer network to maintain the integrity of the system. This type of information would help long-term planning. Five-year planning is much more about the steps that are optimal to take in the next five years.

Q21 Jon Cruddas: That was one thing that came out of the Report in terms of how I read it. The other one was the one that the Chairman touched on, how it interrelates with the dynamic of the housing market and future growth trends and, for example, the Government’s plans around sustainable communities and the like. One thing that comes out of this is that, again, in the NAO language, there may be the need for more robust assessments of future demands on the networks. If you look over and above the common framework, if you look on page 30 at paragraph 3.11: “The common framework will provide more robust assessments of the capital maintenance needs but may need to be supplemented”—again, note the language—“by reviews of the need to increase network capacity in some areas.” I just wondered more generally at what stage in policy development do you start plugging into some of the debates around new communities, sustainable communities and what is your role at an early deliberative stage in some of those discussions? I am MP for Dagenham, for example, so we sit right in the middle, and the smallest borough in London is planning some 25,000 new properties over the next 10-15 years.

Mr Fletcher: I would not be surprised, though I have not made a specific study of the issues in Dagenham, to find that the problems of sewer flooding which your constituents may experience are due at least in part to the fact that new development has a pretty well absolute right to join the sewerage network. And therefore, those of your constituents living at the bottom of hills at important junctions in the sewerage network may well find that a sewerage

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system which was perfectly adequate when it was designed for what it was then required to carry has been over time and will increasingly in the future be subject to intolerable strain. There is a significant issue, which has been canvassed in some of the seminars that we have held on this, on whether there should be a continuing absolute right to effectively put problems on your neighbour down the hill by joining in.

Q22 Jon Cruddas: Given that finite ability of the present system to deal with incremental housing, when you are talking about real qualitative shift in the proposed nature of housing, at what stage do you fit into those policy discussions? I see from appendix 2 that you are not statutory consultees.

Mr Fletcher: No, nor would Ofwat want to be. There is, again, a live issue on whether the water and sewerage companies should be made statutory consultees, with several of them saying they should, helpfully, as part of the planning assessment, bring their expertise to bear. Not just on the issue of sewers and their capacity but, perhaps even more important, on the issue of supply of drinking water. Others of them say they would be looking at a lot of material, most of which they would not have anything in particular to contribute to, but at any rate, I think probably all would agree that it is good practice for a planning authority to consult with the water company and sewerage company when major new development is in train. I know that there have been discussions following the announcement from the Deputy Prime Minister with the companies and with the regional planning authorities and local authorities about the implications of the major new sustainable communities, all of which, though understandably, are in this very dry corner of England. So it is very much a live issue. Something can be done and various propositions are put forward, including the possibility of mandatory metering, and of building houses in a way that is good for the environment, uses minimal water and creates minimal waste water. All that we can do as individual householders is important but certainly when we are talking about major new communities, water in the future must be a key issue to think about.

Q23 Mr Allan: I want to come back to an issue the Chairman raised, about the impact on individual customers. Particularly with reference to paragraph 2.4 on page 20 of the Report, it would seem to me to paint a frightening picture of what I would call absolutely classic blight on a property, which is that you have a property, it floods with sewage, and you cannot seek compensation from the water company because paragraph 2.5 goes on to tell us that Thames Water has established in the House of Lords that they do not have to pay compensation for damage to the property, only for loss of service, and you cannot get insurance cover. I just wonder, in the sense of being the body that is there to protect the customers, I assume, whether you can see any potential solution to that situation.

Mr Fletcher: You have raised a number of issues there, and I will tackle them in turn. First of all, the issue of blight. That clearly does weigh with customers. When I have talked to people who have suffered sewer flooding, it is something that does concern them and may be one of the factors which almost certainly means that the less serious events, the external flooding, the sewage at the bottom of your garden—nasty enough—is not reported at all regularly by customers to their sewerage company. Partly because they are worried about what this might do to property values, and for not dissimilar reasons, I think it is one of the difficult balancing issues for companies when they are compiling their at risk registers. Once a property is on the at risk register there is clearly a potential blight issue there.

Q24 Mr Allan: Who can access the at risk register?

Mr Fletcher: It is pretty well publicly available. It would be available for solicitors' searches. I am afraid I do not know the answer to whether it would be in the new house-buyer's pack, but it is the sort of thing that you would expect perhaps to see there. If you had a solicitor doing a rigorous job, they would certainly pick it up.

Q25 Mr Allan: You could sue your solicitor if he failed to pick it up?

Mr Fletcher: I suspect so, in the current litigious environment, and perhaps not unfairly. The at risk register means "at risk". It is not just a list of properties which have suffered sewer flooding. After all, thousands of properties are being removed, thank goodness, even over this five-year period, and hopefully more in the next five-year period, as the companies make progress in removing properties from that register. But it is also meant to look at those which have not flooded and yet might flood, but it must not be too all-encompassing for fear of unwarrantedly putting blight on people's homes. So it is quite a nice balancing act. You raised the issue of insurability. This is something which clearly both the Association of British Insurers and we are concerned about, and we have been talking to them. Their view is that there does not currently seem to be a widespread problem in practice, I am glad to say. It is part of a much wider issue on the insurability of a property subject to flooding from rivers following heavy rainfall, which we experienced particularly in not the last winter but the two winters before that.

Q26 Mr Allan: The position there is that it is entirely at their discretion whether they choose to insure or not insure a property.

Mr Fletcher: I think if they were here—and obviously I must not try to give their exact words—they would say insurers feel that they do have a responsibility towards their customers, and therefore they would normally stick by the customer but, of course, the customer may start to experience problems with the premium going up. The issue then is whether there is a competitive insurance market, and in general I think there undoubtedly is, even to properties which have suffered one unpleasant event. Certainly if that event is a blockage which

there is no reason to think would be repeated, then I do not think there is a problem at all. For a property which is subject to repeated problems of sewer flooding, and the flooding in that case is due to hydraulic overload of the sewer, the thing that will put it at risk and mean it may well happen again, then there could be the odd problem. I certainly cannot say that there is no problem, and we need to keep working on this issue, which is one of the reasons why it is important that companies continue to get properties off the at risk register.

Q27 Mr Allan: Going back to my colleague's comments earlier, you talked about the situation of, say, people buying a house. In a sense, the search can find out whether something is at risk or not, but you could buy a house at the bottom of a hill in Dagenham, they might build 500 new houses at the top of the hill, and your house can start to flood with sewage on a regular basis and you can lose your insurance and be completely blighted, and at the moment it seems as though, if Thames Water does not fix the sewerage pipe, there is nothing you can do.

Mr Fletcher: If it were an issue as big as 500 homes at the top of the hill, I would expect Thames Water to be looking to the developer of those 500 homes for a very significant contribution to the cost of the additional sewerage capacity that will be needed to cope with that very significant additional development. The problem tends to arise much more with a couple of homes, a large bit of hard-standing for the new Tesco, and a series of other incremental things which eventually push the sewerage system beyond the point where it can cope, and especially if, as still tends to be the case with most of the older sewerage, it is an asset which both takes the sewage and storm drainage away.

Q28 Mr Allan: From the customer's point of view—and we have all dealt with these as constituency cases—often when that happens their experience is that they get stuck with everybody blaming each other. The local authority is blamed for not clearing the gulleys, the housing developer is blamed for building the houses, the neighbours are blamed for something they have done, and you have this poor customer stuck in the middle, and what they want is for the water company to give them a service that is going to work year in, year out. It does not seem as if the teeth are really there to insist on that. A lot of this is about saying it would be too expensive to guarantee a perfect service, therefore tough luck.

Mr Fletcher: There is always this rather hard aspect that someone has to pay for this in the end, and we cannot do it all at once so it is very important to prioritise, to recognise that this is an unacceptable event and to make progress in dealing with it. But I too could match your stories from talking to people who had to go round to their neighbours three streets away, where the new pumping station was to be put to deal with their problem, to help convince them that this little pumping station, buried beneath the surface, was somehow not a blight on those who were not affected by the sewer flooding at all. So

there are these issues. There are also issues which are very intractable and difficult to get into where there is uncertainty about who is responsible for the flooding. Parliament passed the Water Act at the end of last year, which has yet to be brought into effect, which included provision for the adoption by the sewerage companies of private sewers, which affect some constituencies more than others. Clearly, if the Government requires the sewerage companies to adopt those private sewers, which I bet are for the most part in much worse condition than the public sewers which the companies have been working on for the last 15 years, we will have a whole new crop of problems.

Q29 Mr Allan: Can I just confirm that the water companies have the statutory powers to insist that developers pay towards sewerage systems?

Mr Fletcher: Yes, but there is always a lively debate about just how big the load is. We certainly look to them to push and to ensure that they get every penny, because otherwise the customers have to pay as a body, but the developers ought to be paying for new development which puts strain, whether on drinking water or on the sewers.

Q30 Mr Allan: Did you take a view on the Thames Water case? It seems to me that if water companies did end up having to pay compensation for repeated flooding, that would provide quite a strong incentive for them to sort it out and, without that, it is hard to see where the incentive is.

Mr Fletcher: Could I take that in two parts? First of all, there is this important case, *Peter Marcic v Thames Water*, where the Court of Appeal took the view that Mr Marcic, who had suffered not internal sewer flooding within his home but repeated and nasty episodes of external flooding to his surroundings, was entitled to compensation under the law of nuisance, under the common law. There was also an issue of whether the Human Rights Act applied. The Lords in their judicial capacity effectively reverted to what everybody had previously understood was the state of the law. These are assets effectively providing a public service, where you cannot do everything at once, and where an individual customer holding up his hand and saying "Me first" is liable to create an awful lot of confusion about priorities. The view of the Lords was not that this was unimportant, as I read it—on the contrary; it is very important—but there are avenues which Parliament in legislation has created and which actually put a significant responsibility on Ofwat, on me as the Director General, to ensure that the companies are properly carrying out their duty of securing effectual drainage of their area. At each five-year price review period working with the companies and with the customers to ensure that we are taking proper account of this nasty event and making steady progress in eliminating it. I do hope that when I get the final business plans from the companies I shall find myself able to put significant further pressure on reducing these at-risk properties.

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Q31 Mr Allan: My final point is on that. We see in the Report here that Thames Water, in particular, managed to remove 10,000 at risk properties. Page 17, paragraph 1.21, explains that you put requirements on the companies to get rid of the at-risk properties but one way to read that is to say that a removal of 10,000 properties from Thames Water's register looks a bit like cooking the books. I wonder whether the incentive really is reducing the number of properties at risk or reducing the number that are declared to be at risk.

Mr Fletcher: We look very hard at a company that says "At a stroke, we have solved our problem" by just eliminating properties on definitional grounds. Having said that, there are the real issues, some of which I outlined earlier, in ensuring that at risk means at risk, that you do not have properties there where the risk has been dealt with by improvements to the sewerage system. You constantly update it. You make sure you have not included properties on the basis of inadequate hydrological modelling which may identify properties that are not really at risk of being flooded given the particular configuration of the sewerage. So we, so to speak, did not object, but I do not believe that the industry can take huge credit for the substantial dip in the figures that you see between the years 2000–01 and 2002.

Q32 Mr Allan: Are new properties being put on in the kind of circumstances that we have described, for example, in Blackburn, where you described the properties that appear to be at risk now?

Mr Fletcher: They will be assessed on whether this was blockage, a one-off problem that will not be expected to recur, or rather the identification of a problem that could recur and which would result in new properties being added to the register. This is a treadmill where we shall never get to the end, but hopefully we shall yet find ourselves making steady progress.

Q33 Mr Allan: You are confident you have not got one of these targets problems, where you set a target, they meet it, it does not necessarily have any bearing on reality but they are the figures you have asked them to send in?

Mr Fletcher: We have a dilemma. Our constant push for all our targets is to be looking at outcomes, not merely outputs. If we took an outputs target and left it at that, we would say to the companies "Right, solve X problems for Y pounds over the five years." In our view, that would not be good enough. It would be human instinct for the companies to do all the cheapest ones first. They do tend to do that, though we insist, and to be fair, they also take care to try and prioritise so that they are not just doing the cheap ones, but they are also doing the nastiest ones, even if they are expensive. But we also look to them in terms of outcomes to be showing that they are making progress along that treadmill, that is, they are not just saying, "Aren't we good? We have solved 3,000 problems." They are saying, "We have

made real progress against consistent definitions in reducing the number of properties at risk within our area."

Q34 Mr Jenkins: Mr Fletcher, when you saw the NAO Report, were you surprised? Were you pleased by certain parts and disappointed by others?

Mr Fletcher: I quite welcomed the title. This is an issue which all too readily can be forgotten. If the NAO and the Comptroller & Auditor General in their wisdom had put a question mark at the end of this title, I would have thought, "Well, I always accept the fairness of the National Audit Office but perhaps that is a bit harsh." What they have actually done is to say out of sight, certainly; not out of mind. This is something we could forget about, we have not forgotten about it, and we are looking to make real progress in dealing with it.

Q35 Mr Jenkins: I do not think we are harsh in this Committee in any way, shape or form, but we do ask certain questions. One of the things I was surprised at was the reference you made to storm water going into sewerage systems. I thought we had stopped that years ago.

Mr Fletcher: In terms of major new development, we have. For example, the sustainable communities to be created under the Deputy Prime Minister's policy initiative I have no doubt will separate out storm water from sewage, and those who dwell in those communities will be the better for it. But it is extraordinarily hard retroactively to fit whole new sewers in to carry storm water away. As every member of the Committee knows, there are enough issues about water companies digging up the streets to cure leakage in the water mains, to repair water mains, to deal with sewage problems.

Q36 Mr Jenkins: For 50 years we have separated storm water from sewage, have we not?

Dr Emery: No, I am not certain about that. It tends to rely a little bit on practice in the individual companies whether or not it is feasible in the particular circumstances to separate it or not. The majority of the system is a combined system. Of course, road drainage tends to be separated. There are some elements of surface water which are separated, but still a substantial proportion of the system is primarily a combined system where the rain water coming off properties goes in with the other.

Q37 Mr Jenkins: I understood historically the need for rain water to go down and flush the system through, which may be a good thing, but with the new Tesco car park, an area of a couple of acres of hard standing, I should have thought that most of that would have gone into a storm water system rather than a sewerage system.

Dr Emery: No, a lot of that will go into a separate system, and of course, the question these days would be for it to be a sustainable urban drainage system where in fact it percolates down into the groundwater without actually going into pipes. That is the favoured route, but you are still left with quite

a large number of houses, paving areas, building conservatories, increasing the impermeable area on the property which when it rains it gets into the sewers. The issue at Dagenham may well be that people building conservatories, building hard standing, is creating more run-off straight into the sewers, which cannot cope when you get a big storm event.

Q38 Mr Jenkins: It must vary across the country, but in my part of the world no storm water has gone into the sewerage system for more than 50 years. It is too expensive to operate a sewer system, and we have become quite good at natural drainage. I love the idea of this one-in-100-year storm. It has happened three times in the last 10 years. I do not care what happened in the last 90 years. I am more interested in what is happening today when I see different parts of the country having summer storms, when the system cannot cope and it looks as though it is becoming more regular and in the same places time and time again. Have you taken that into consideration?

Mr Fletcher: The shorthand writer will not have been able to put my vigorous nodding on the record, so can I put it on the record now? Of course, any customer who experiences this is going to find it intolerable, and will not be put off just by being told it is a totally exceptional event. I think that is a fact of life. Some will be totally exceptional events, and it would in my view be wrong to expect customers as a body to be paying over the odds for huge tranches of concrete that is not strictly going to be needed except very exceptionally. But in the sort of circumstances you have postulated, where it is quite clear one in 100 was wrong, it is not one in 100, the sort of climate change event we were talking about—and I could have added that the Association of British Insurers is also concerned about this sort of evidence—will mean that the companies and the regulators need to keep a close watch on past assumptions, which may no longer be valid, and to react accordingly.

Q39 Mr Jenkins: I would also like to revisit your comment with regard to an automatic right of developers to join the existing system. Planning committees consider roads, and road development might have an automatic right to join the road system. But they are refused if the road system cannot take the extra traffic generated, and planning committees do that quite regularly. If you are saying they do not consider this in relation to water companies and the sewerage system, would you like to see that as part and parcel of the statutory obligations on planning authorities to undertake that assessment?

Mr Fletcher: I would certainly like to see planning authorities, and of course their officers, more regularly—and again, I think this particularly applies to drinking water more than waste water, even though the latter is very important—considering in the dry South-East what the implications of the new development are for this essential to life.

Q40 Mr Jenkins: On the system at the present time, although 45% of flooding is due to the fact that the system cannot take the extra flow, 45% is due to blockages. Whose responsibility is it and who is undertaking the role of educating the customers so as to ensure that these blockages do not occur? You particularly mentioned fat. Are industries not being visited and told the risks to the system? Are they being charged for cleaning it?

Mr Fletcher: If we took fat as just one example, who is responsible? We, the customers, are. We put the wrong things down the loo. Disposable nappies go down the loo.

Q41 Mr Jenkins: Not you; the customers?

Mr Fletcher: I accept that, but we are also all customers and, as customers, we are partly responsible for the blockages that occur. On the fat issue, if Thames Water were giving evidence to the Committee, they would be regaling you with stories of workers down in the sewers in the West End with pickaxes dealing with what comes out of Soho. Of course those who cook in the Soho restaurants are not entitled to pour their fat down the drains but it is very difficult actually to work out precisely who is responsible and to prosecute them. Nonetheless, Thames Water, if they were here, would, I am sure, be saying this is something they take very seriously and they look to make progress—and that is something which all the companies have a role in and accept they have a role in—in educating their customers.

Q42 Mr Jenkins: So it is the companies' responsibility, not yours?

Mr Fletcher: It is our role to ensure the customers are not having to pay for more than is strictly necessary in their bills. So while I have to, if it is necessary, increase price limits to cope with the pressures which an efficient company faces, I have no responsibility for increasing price limits if a company is being inefficient. So where it is sensible for a company to be helping to brief its customers, educate its customers, and if necessary prosecute customers and others who are putting the wrong things down the drain, then that is the sort of thing we would take into account.

Q43 Mr Jenkins: If the vast majority of ordinary domestic customers do not contribute towards these blockages and it is done by industry, should the polluter not pay?

Mr Fletcher: The polluter should pay, but it is one of those areas where we are talking about a form of diffuse pollution—and this is why I brought all of us in. We are all diffuse polluters so far as we drive or travel in vehicles. It is very difficult to ensure that the costs of that diffuse pollution are properly borne other than through the tax system or, in this case, the near analogy of the water bills.

Q44 Mr Jenkins: On page 20, the case you referred to in the High Court, I notice the comment “. . . the Water Industry Act, which provided for the regulator to balance the interests of individual

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flooded customers and customers generally . . .” So the role of the regulator there is to balance the interests of the individual flooded customers. How do you see that balancing act?

Mr Fletcher: I see it in terms, first of all, of accepting that the experience of sewer flooding, especially in your home, is extremely nasty and that collectively, as a society, we ought to be making rapid progress towards dealing with it, wherever it can be dealt with, wherever it can be foreseen.

Q45 Mr Jenkins: There is no train of thought here that the cost of improving and remedying it is greater than the cost of just paying the compensation every now and again to these individual customers?

Mr Fletcher: I accept that is an entirely valid point, and where the cost of remedying for an individual property is very high—and in some cases it is very high; we could easily be talking about six figures for a single property or for a scheme which only benefits a few properties, and back to the houses at the bottom of the hill, where you can only deal with that problem long term by putting in a substantial new piece of plant in place. Clearly, cost per property is one of the things that both the companies and Ofwat look at when we are dealing with prioritisation. Compensation is, of course, another proper issue. In a seminar we have held since the NAO Report was published, last week in fact, with the various parties who are all interested in this, including the insurers, customer representatives and companies, we experienced a general recognition that customers should not be out of pocket as a consequence of a sewer flooding event. This is where we get the difficult interaction between insurance, and I think the reasonable expectation of society that householders should be insured on the one hand, and the need to ensure that a sewer-flooded customer, who might be a customer who is not well off and does not have full insurance cover, is not driven still further into poverty or near-poverty by this event which was no fault of his. We are constantly trying, and it was properly brought out, I think, in this House of Lords case, to get the balance right, and the balance will shift over time. We are already making significantly more progress than we were in the period immediately after privatisation.

Q46 Mr Jenkins: Do you think you have the balance right?

Mr Fletcher: That would sound complacent of me, and I cannot anticipate today, when I am just about to look to strike the balance through this very definite process between bills going up and additional progress on sewer flooding.

Q47 Mr Jenkins: On page 21, figure 9, it gives a range of methods used to estimate the number of properties at risk, and there seems to be a great level of inconsistency between different companies. Is this down to the company not bothering to invest in information-gathering, is it down to the company not wanting the information because if it has the

information it will have to do something about it, and why is there not a consistent approach to this problem?

Mr Fletcher: I think it is important that the companies should really own their registers. These are the registers of the assets and the properties affected by their assets, for which they are responsible. So I would not look for total uniformity, but I would entirely accept the underlying point of your question, and indeed of the NAO Report, that we cannot afford to have too much discrepancy between these registers.

Q48 Mr Jenkins: Let me go back a step. It says in the last question what your role was in relation to the individual customer. You gave a long answer. I wanted a robust defence of the individual customer. Then how can you defend the individual customer, when you are prepared to put up with the inconsistency of companies when they fail to report flooding on a regular basis?

Mr Fletcher: They are not failing to report flooding.

Q49 Mr Jenkins: How do you know?

Mr Fletcher: Because we have reporters. We do not just take the companies' word for it; we have independent engineering consultants who vet the companies' figures, not just in this area but in other areas. One of the suggestions in the NAO Report is that our reporters should be one of the elements for looking to ensure that there is a broad consistency between the companies' registers, and I agree with that and think that this is something that will develop and improve over time.

Q50 Mr Jenkins: It will not develop over time unless you put more effort into it, surely?

Mr Fletcher: We are putting effort into it. I have obviously failed to convince you, Mr Jenkins. I assure you that we are putting a lot of effort into this whole series of issues to make sure we better understand the problems. We are absolutely convinced that all the incidents that are reported to the companies are reported on to us. It would not be in the companies' interests to try and draw the wool over our eyes. What we do not track of course are those, like some of these external floodings, which are never reported to the company, perhaps for reasons of worry about blight.

Q51 Mr Jenkins: Sending a report to—

Mr Fletcher: Yes.

Q52 Mr Jenkins: I know the infrastructure is a complete mish-mash of systems and I know how difficult it is to assess the assets when you are trying to work in that system; but without consistency and the ability to cross-check between companies, one of the things companies will say to you—and I know—“to remedy this, it will cost a million pounds, and that will mean we are going to put our prices up to pay for the remedial work and therefore we have got this investigation.” Just how rigorous are you in that investigation to make sure work is done and costed accurately?

Mr Fletcher: It is for the companies to cost the issues in their business plans, and this is a general point, not specific to sewer flooding. When we get those plans, although what we want to do is work from those plans, we first of all have had the same reporters analysing the costs that the companies are incurring; because there is an obvious danger that a company might gold-plate its costs in preparing its plan. They have done that in respect of next year's price limits from last year onwards. We have had a very vigorous go at the draft business plans that the companies put in last summer. We will have another very vigorous go at the final plans that come in next month. We shall not let the companies get away with gold-plating or false assumptions underlying their plans; but we do want them to make progress in this area, as in other areas, where it is necessary to ensure the infrastructure is fit for purpose.

Q53 Mr Allan: I want to come back to the point you raised about long-term investment and the price points you are discussing at the moment. We recognise that investment was a bit of a black art pre-privatisation and some of the earlier investments certainly in York was in Roman Cisterce, and then over the ensuing 1,800 years we have invested various things with local authorities and other bodies. We now have at page 18, figure 7, a proper chart of the investment and a response to the price points. It is a roller-coaster and it looks in a sense as though you are responsible for boom and bust in sewerage investment from that diagram. Can we expect to see that continue?

Mr Fletcher: It is not an excuse, and I do not see this as an acceptable profile. Believe me, it was a whole lot worse when these were nationalised industries working within the public sector on a one-year cycle in the 1980s. At least we have got it on to a five-year cycle rather than seeing that stupid end of year sudden push. However, this is not an acceptable

profile. It is clearly not an efficient one. It may be understandable—companies wait for their price limits before they are sure what their programmes are going to be; so then they start planning; so it takes some time to let the contracts, and therefore we see this build-up. Then we see it falling away again when we get into the period of uncertainty before the next review. Ofwat has sought to at least mitigate that effect in the current review by authorising, before Christmas 2003, companies to make an early start on certain projects which they were able to identify, which we, after consultation with the environmental regulators and the Environment Department were convinced were going to be necessary. So they are doing the planning in the certainty that I shall allow certain projects going forward. I am afraid it will not be enough to eliminate this peak and trough position, which I discuss regularly with the contractors to the industry, and which I share their dislike of. I hope that over time—and it is a long-term industry—we shall make progress gradually in pressing down the peaks and building up the troughs.

Q54 Mr Allan: When the NAO come back to look at this in another 10 or 15 years, then if you have succeeded, we will see this flat line.

Mr Fletcher: Yes, I think that is a fair indicator of whether collectively, not just the regulator—though I accept my part in that—the industry is able to adopt a more efficient process to its contracting and investment.

Chairman: Thank you, Mr Fletcher. We are very grateful to you and your colleagues for coming here today. As you said, this is a subject that is out of sight but not out of mind; but of course for 7,000 people a year it is very much in sight and very much on their minds. I am sure in our report we will wish to return to this subject and see how greater pressure can be exerted on the water company to avoid this acute distress.