

Comprehensive Spending Review 2010

ACE submission to the Department for Environment, Food and Rural Affairs

1. Introduction

- 1.1. ACE welcomes the opportunity to contribute to the Department for Environment, Food and Rural Affairs' submission as part of the Comprehensive Spending Review.
- 1.2. ACE represents the UK's consultancy and engineering industry. Its 650 member companies collectively employ more than 100,000 people and contribute approximately £10 billion to the UK economy annually.

2. Summary

- 2.1. ACE recommends that DEFRA prioritises providing UK-wide leadership on climate change adaptation, ensuring that effective practice is shared and implemented and that the conditions are in place to facilitate investment in innovation crucial water assets.
- 2.2. Encouraging innovation and sending the right market signals will both secure vital water supply assets and generate economic benefits for the UK.
- 2.3. DEFRA should also consider whether efficiencies in the regulation of the water industry can be made to ensure better outcomes for consumers and greater resilience of vital water resources to climate effects.

3. Ensuring leadership on climate change adaptation

- 3.1. DEFRA plays a vital role in coordinating the Government's approach to climate change adaptation and ensuring a consistent policy environment. This work should continue as a matter of priority.
- 3.2. Given the wide spread of responsibility across the public and private sectors for delivering on adaptation, strategic leadership from DEFRA is

helpful in concentrating activity and ensuring that best practice is taken up.

- 3.3. DEFRA can also ensure that the regulator has the right remit, tools and capacity to address the issues of the future.

4. The importance of the water industry

- 4.1. The water sector has a key role to play both in climate change adaptation – for example through flood risk management – and in ensuring the welfare of society.
- 4.2. The UK's essential water resources face challenges of resilience, particularly from flooding. Anglian Water has identified significant water and wastewater assets that are vulnerable to sea level rise in the east of England. Replacing these assets would cost in the region of £500 million¹, costs that would be ultimately borne by the general public.
- 4.3. Protecting the UK's water capacity requires a long-term approach to investment that transcends the existing five year regulatory cycle. DEFRA should therefore investigate how water companies can be equipped to invest in asset resilience and innovation over the longer term.
- 4.4. Such investment will also help to address wider strategic issues - such as flood risk management and water asset protection - in a more coordinated manner.
- 4.5. Failure to take a long-term approach risks creating a situation where interruptions to supply are more common, consumption continues to increase, and where consumers bear an ever increasing cost of emergency repairs. Communities may also be more vulnerable to

¹ *Anglian Water Strategic Direction Statement 2010-2035*

flooding.

- 4.6. Key to this is sending the right market signals. The regulatory regime can play a central role in encouraging the right behaviours. By incentivising water utilities to invest over the long term, they will be more likely to drive the efficiencies and investments that are needed to address climate change issues and encourage consumption reduction.
- 4.7. A long-term approach is particularly pertinent in encouraging innovation. The payback period for investing in new technology is often longer than the five year price review cycle which is a large factor in water utilities' investment decisions.
- 4.8. ACE will be contributing to Ofwat's review of its regulatory mechanisms, and to the development of the forthcoming Water White Paper.

5. The economic case for long-term investment in water

- 5.1. Water infrastructure is vital for the health and wellbeing of the entire UK population as well as the performance of almost every sector of the economy. Loss of, or disruption to, water assets would therefore have significant implications for the economy aside from the immediate capital costs of restoring supplies.
- 5.2. A report by URS Corporation for DEFRA noted the interdependencies between essential infrastructure. The report cited the example of the 2007 Humberside floods, which caused over £150 million of damage. Failure to invest adequately in flood risk management could lead to disruption in essential transport, gas and power networks, the effects of which would be felt over a wide area².
- 5.3. Investing in water networks can generate economic benefits. A study of the water sector in the USA by the Clean Water Council estimates that

² URS Corporation (2010). *Adapting Energy, Transport and Water Infrastructure to the Long-Term Impacts of Climate Change*. Ref no RMP/5456.

every US\$1 billion invested results in economic returns of up to \$3.5 billion. The same report also suggests that the same level of investment leads to the creation of around 20,000 jobs³.

- 5.4. The UK Contractors Group estimates that every £1 invested in construction can generate up to £2.84 in direct and indirect returns, most of which is retained in the UK⁴.

6. Further information

- 6.1. To discuss any points raised in this document in more detail, please contact:

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³ Clean Water Council (2009). *Sudden Impact*.
http://www.nuca.com/files/public/CWC_Sudden_Impact_Report_FINAL.pdf

⁴ UK Contractors Group (2009). *Construction in the UK Economy*. www.ukcg.org.uk