

## **Capital Maintenance and National Infrastructure**

**Maintenance of the nation's water and sewerage infrastructure is essential to safeguard public health, protect the environment, ensure security of supply and minimise service failure. Customers tell us that maintaining secure supplies of water is their number one priority – we must ensure that sufficient capital maintenance funding is allowed at this Price Review to allow companies to do this, despite the challenging economic circumstances.**

The underground networks and above ground installations of the English and Welsh water companies have a replacement cost today of around £250 billion, over £10,000 per connected property. There are over 335,000 km of water mains and over 315,000 km of sewers with a total value of over £200 billion.

### **More assets – and a low rate of replacement**

Over many years, the industry has invested in new assets, to improve drinking water quality and to make our beaches and rivers ever cleaner. To maintain these service improvements, these assets need to be maintained or replaced – and therefore capital maintenance spending will need to increase as there are more assets to maintain.

Companies are currently investing about £2.5 billion per year maintaining these and the above ground assets. While this is significantly more than in the past, it is still only about 1% of their replacement cost. The water industry is a long-term industry but by any standards this is a low rate of replacement.

For example in 2007/08 about 4,200 km of water mains were renewed and relined, around 1.2% of the total. Only about 400 km of sewers were renovated and replaced, little more than 0.1% of the total.

Water companies have to manage their assets effectively to maintain service levels to current and future customers. Insufficient maintenance has a direct effect on customers, for example, by increasing supply interruptions.

Companies therefore need to understand the condition, behaviour and fitness for purpose of their assets and put in place appropriate maintenance regimes and replacement strategies. This is not easy for inaccessible and underground assets – the sewers and water mains.

Judgements about future maintenance needs are critical to safeguarding public health, protecting the environment, ensuring security of supply and achieving value for money.

### **Customers' number one priority – now and in the future**

Customers consistently tell us that maintaining reliable, high quality supplies of water – and safely disposing of waste – is their number one priority. To develop plans for the period from 2010 to 2015, the industry has carried out its largest ever customer consultation – and this has shown that customers are broadly satisfied with their water and sewerage services, and are willing to pay for maintenance and renewal to secure current standards of service.

Water UK believes it is essential to preserve the value of the huge investments undertaken in recent years so that those new works are properly maintained along with the assets provided many years ago. Otherwise the improved levels of customer service and the quality compliance will be lost.

### **Meeting long term priorities in challenging circumstances**

The 2009 Price Review is being carried out in challenging economic circumstances – difficulties that started in the financial markets have spread through the economy, both in this country and globally. The UK economy is currently in recession, and the prospects for recovery are uncertain.

In preparing their business plans, companies have sought to meet the right balance between investing to maintain (and where appropriate improve) services to customers and keeping customer bills as low as possible.

We must ensure that in seeking to mitigate the need for increased bills now, we do not return to past mistakes of under-investing in maintenance, storing up problems for the future.

As a nation we must also invest to ensure that our national infrastructure is fit to meet the challenges of the 21<sup>st</sup> century – most importantly climate change. The floods of 2007 and the drought of the previous year vividly illustrated the need to ensure that our infrastructure networks remain fit for purpose as the impacts of climate change become more pronounced.

Ensuring adequate funding for capital maintenance is thus critical for the sustainability of the nation's infrastructure to safeguard public health, protect the environment, ensure security of supply, eliminate current service failures and achieve long-term value for money for existing and future customers. Water UK is keen to ensure that the Price Review determinations reflect this in order to provide customers with the service levels they want.