



Economic elements of the Environment Agency's implementation of the Water Framework Directive

The Water Framework Directive (WFD) has many important good economic elements, including careful consideration of the costs to stakeholders. This Brief gives the Environment Agency's current understanding and position on some of the key issues and identifies some of the work being undertaken to address the issues.

Key issues

- Identify likely developments in significant pressures in order to assess the risks of failing to achieve good status up to 2015 and up to 2027. This will also provide a sound baseline for assessing options for addressing the main current and future pressures so as to achieve good status.
- Report in 2004 on the current recovery of costs of water services by water users. In particular, for the Agency, this will include:
 - identifying the environmental and resource costs of possible failure to achieve good status ; and
 - reporting on our charging systems for abstraction licences and discharge controls which fully recover the costs of our water management services.
- Assess the costs and effectiveness of options to achieve good status in each River Basin District. This includes careful appraisal of the economic, environmental and social implications of economic instrument options so that these might be included in any package of measures, where these would be worthwhile. This will then enable Defra to report in 2010 that there is adequate recovery of the costs of water services.
- Assess the costs and benefits of options for achieving good status so as to aid Defra's determination of whether they might be disproportionately expensive. If so, then the deadline for achieving good status would be put back (time derogation) to enable polluters to implement lower cost measures, or a less stringent objective could be set (objective derogation). If a time derogation is set, then it might be necessary to consider economic instrument options to ensure that polluters have a real incentive to start developing the more efficient lower cost control measures.

The Agency's approach to these economic issues

The Agency considers that it is essential to assess costs and take due account of them in assessing the cost-effectiveness of options. In addition, the costs and environmental benefits of the options in River Basin Management Plans (RBMPs) must be considered to help Defra determine whether the costs of options to achieve good status are disproportionate, in order to justify any derogations that are needed.

It is essential that this economics work is well integrated with the Agency's scientific and technical analyses for river basin characterisation and river basin management planning.

Existing work

The Agency undertook a study in the Ribble catchment exploring how to carry out economic analyses in practice as part of an integrated appraisal for preparing RBMPs. This set out the steps involved and information required and showed what the economic analyses needed could look like in illustrative virtual examples. This study was important in helping to shape the EC's (WATECO) guidance, which outlines the economic analyses for implementation of the WFD.

The Agency has carried out extensive economic appraisals for the current periodic review of the water industry (PR04). These appraisals are consistent with the requirements of the WFD and will help prepare the way for its implementation. We have assessed the cost-effectiveness for options to achieve statutory requirements and have also assessed costs and benefits where ministers have choices regarding further environmental measures.

We have assessed the environmental benefits of approximately 500 schemes in PR04 and as a result have set out a streamlined proposed environmental programme. This achieves 80 per cent of the benefits for 38 per cent of the costs of these schemes. Hence our economic appraisals have assured and considerably enhanced the 'value for money' of our programme. We developed the guidance for these assessments in close consultation with leading academic researchers and stakeholders. Our development and application of guidance will help us prepare to assess whether the options in the RBMPs might be disproportionately expensive.

Environmental benefits to be obtained by implementing the WFD will include reduced illness and sewage-related litter (because of cleaner bathing waters) and improvements for recreation, fishing and natural habitats (from better water quality and flows). Improvements to water bodies will also enable them to support wildlife and rich diverse aquatic species (e.g. otters and water voles).

The way forward

The Agency is ready, willing and able to continue to collaborate closely with Defra, the National Assembly for Wales, the Scottish Environment Protection Agency (SEPA) and other bodies to specify and carry out the economic analyses needed for implementation of the WFD. The Agency has a team of high-calibre economists to carry out this work.

Assessing the cost of the WFD for stakeholders.

The Agency is keen to ensure an even-handed and full assessment of the costs of options before any decisions are taken on them in RBMPs. As a priority we will:

- develop clear, agreed methods for the even-handed assessment of costs and economic impacts of options across the major sectors, including water industry and sources of diffuse pollution, including agriculture and others;
- develop (in collaboration with the major stakeholders concerned) clear pro formas for the sectors to provide and present estimates of the costs of options affecting them;
- set up a clear process for independent validation of these cost estimates; and
- use these costs of options, along with indications of their effectiveness, to prepare cost-effective packages of options for RBMPs for consultation with stakeholders and the public.

- Assess the environmental benefits of these options to aid the Secretary of State's determination of whether these options are disproportionately expensive so that derogations are needed.
- Input the assessments of costs and effectiveness and benefits into Regulatory Impact Assessments of the proposed programme of measures for the RBMPs.

We are now developing a major long-term research programme to develop methods to assess both the costs and the benefits of options to support the implementation of RBMPs. The Agency is providing £380k for this research programme over the period 2004-2008. We are keen to collaborate with other bodies and stakeholders in the research needed on these issues and would welcome their collaborative contributions to this research programme.

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