

Down the Drain

London's water usage and supply

March 2005



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**Greater London Authority
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Chair's Foreword



Londoners could face water shortages within the next 10 years if Thames Water and other companies fail to tackle the twin problems of leaky mains pipes and increasing demand. The capital's water loss through leakage is the highest in the country. Nearly 1,000 million litres of water per day were lost in last year – enough to fill 17 Olympic sized swimming pools every hour.

We need to reduce leakages and reduce demand for piped water or we are just storing up problems for the future. Simply increasing the supply of water, whether through flooding parts of the countryside for new reservoirs or through building energy-intensive desalination plants, has significant environmental impacts that should not be underestimated.

The current business plans of the water supply companies do not do enough to reduce water wastage. Whilst Thames Water intends to replace more than 850 miles of water mains in London during the next five years, solutions are still being agreed on a piecemeal basis with no detailed plans put forward for a long-term programme. There needs to be more investment in improving the infrastructure otherwise the water companies are making a profit whilst customers pay for water that is simply lost down the drain.

Reducing water leakage alone, however, will not be enough to address future water supply problems for London and the South-east. There must be comprehensive and coherent action on changing consumer attitudes alongside improvements to the buildings we live in and the equipment we use in order to conserve water and promote water saving devices. Customers should be given incentives to become water efficient. The current system for regulating the water industry doesn't create enough incentives for efficient resource management leading to an in-built bias in favour of large-scale capital investment rather than innovative solutions to reduce wastage and reduce demand.

The Committee also believes developers and builders must take more responsibility for water conservation so that individual householders can reduce their water use. Planning policies need to be strengthened to reflect this in order to ensure all new buildings are water efficient.

Conserving water resources is an important issue for London and we have put forward some important recommendations. My thanks to my colleagues on the Environment Committee and to our witnesses who gave us the benefit of their views.

A handwritten signature in black ink, appearing to read 'Darren Johnson'. The signature is fluid and cursive, written on a white background.

Darren Johnson AM, 9 March 2005

Environment Committee Membership & Terms of Reference

At the meeting of the Assembly on 18 June 2004, the membership and terms of reference of the Environment Committee was agreed as the following:

Darren Johnson (Chair)	Green
Murad Qureshi (Deputy Chair)	Labour
Roger Evans	Conservative
Bob Neill	Conservative
Valerie Shawcross	Labour
Mike Tuffrey	Liberal Democrat
Peter Hulme Cross	Veritas

1. To examine and report from time to time on -
 - ## the strategies, policies and actions of the Mayor and the Functional Bodies
 - ## matters of importance to Greater London
2. To examine and report to the Assembly from time to time on the Mayor's Air Quality, Biodiversity, Energy, Noise and Waste Strategies, in particular their implementation and revision.
3. To consider environmental matters on request from another standing committee and report its opinion to that standing committee.
4. To take into account in its deliberations the cross cutting themes of: the health of persons in Greater London; the achievement of sustainable development in the United Kingdom; and the promotion of opportunity.
5. To respond on behalf of the Assembly to consultations and similar processes when within its terms of reference.

Comments on the findings and recommendations of this report are welcomed. Any comments will be considered as part of the review and evaluation of this scrutiny.

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Executive Summary

Londoners are facing an increasing risk of water shortages. In the future the region's demand for water will exceed the amount that can be supplied from current sources. The London Assembly Environment Committee therefore investigated what key organisations are doing, and what else should be done, to improve the water supply-demand balance. We looked at both sides of this equation and how to provide better services for Londoners, but prevent damage to the environment.

The report considers how to manage demand by reducing water loss before it reaches the customer, and by encouraging customers to use less water and make water efficient choices. On the other side of the supply-demand equation it addresses how to increase supply without creating merely a short-term fix to the problem of ever increasing demand. Finally it looks at the current regulation system and whether this is doing enough to encourage good water resource management.

The climate in the region means that there is little capacity for increasing supply through conventional means without causing environmental damage to habitats, biodiversity and amenity through over-abstraction from groundwater and rivers. In addition purifying water requires energy which has an environmental impact through greenhouse gas emissions that contribute to climate change. Water wastage through leakages or inefficient use therefore squanders both water and energy.

Thames Water has a high rate of leakage. Around 40% of water is lost before it even reaches the customer and water lost through leakage has increased by 43% since 1999. The Committee recognises the amount already invested and the problems with ageing infrastructure faced by Thames Water, and the other London supply companies. However, we feel there should be greater efforts to reduce leakage to at least 1999 levels. A long-term programme for replacement of all ageing infrastructure should be agreed within the next two years. The funds for this may come from reduced private sector profits, government investment or from higher customer bills, but the improvements must be made.

The Committee wants more action to reduce water demand and needless waste with Thames Water leading on the production of an action plan for demand reduction in the London area. Emphasis must be placed on education campaigns to allow informed choice and incentives for low water usage and water efficient equipment. Fiscal and pricing measures such as VAT reduction and variable pricing according to use should be introduced alongside programmes to safeguard low-income families. Particularly with the scale of building expected in the south-east, the planning and building regulation system will be crucial to ensure new developments are water efficient.

The Committee also recommends active promotion of rainwater harvesting schemes as an innovative and sustainable means of increasing water supply. More than a third of domestic water use is for flushing toilets and so does not need to be purified - an ideal use for rainwater. Rainwater collecting systems not only reduce the use of piped water, but also reduce the risk of flooding from heavy rainfall events. New large-scale supply schemes should only be developed as a last resort after steps have been taken to reduce leakage and demand.

We would like to see water companies take a broader approach and not simply consider the amount of water they deliver to the customer, but instead look at how they can provide them with the water services that they need such as rainwater harvesting systems or water efficient equipment. There is currently no financial incentives for water supply companies to reduce the water usage of their customers.

1 Introduction

London's demand / supply balance for water

1.1 Despite most people's perception of the UK as a damp place, water supply in London is finely balanced. The South-east already uses 55% of effective rainfall, one of the highest rates in the world,¹ because of high population density and comparatively low levels of rainfall. A scenario of two hot dry summers with a relatively dry winter in between could result in water shortages². The south of England is currently in a winter drought.³

1.2 The risk of shortage is expected to increase because the balance between demand and supply is worsening⁴. This is largely due to increases in demand arising from:

- ## changes in behaviour resulting in higher demand per person;
- ## reduction in household size (on average each person in a small household uses more);
- ## increasing population;
- ## increasing commercial demand;
- ## climate change – hotter summers are predicted leading to higher usage.

1.3 Londoners therefore face an unacceptably high risk of water shortages in the future⁵, unless there is a change in patterns of water usage or new supplies for the region. This led the London Assembly Environment Committee to investigate: potential shortages; what key organisations are doing; and what else should be done to resolve the problem. The Committee requested evidence from London's water supply companies and key stakeholders; held an evidentiary hearing on 12 October 2004 and went on site visits to a water efficient housing development and to the pilot of a proposed desalination plant in Newham on 6 October 2004. Terms of Reference for the scrutiny are given in Annex B.

Impact on the environment

1.4 London relies on water from outside its own boundaries, although mostly from within the Thames catchment area. This means the city draws in water from the South-east, and exacerbates the high rate of use of rainfall across the region. Water abstraction from rivers and ground sources is already at a high level and increasing this would therefore tend to damage biodiversity and the amenity value of rivers. It has also been suggested, by an officer at the Environment Agency⁶, that current abstraction levels in the Thames region are 10% higher than ideal from an environmental perspective.

1.5 It is worth remembering that the process of water purification, to make it safe for consumer use, consumes energy and so inefficient use is a waste of both water and energy. When the energy used creates greenhouse gas emissions, through the use of fossil fuels, then purification contributes to climate change and the occurrence of extreme weather events, such as flooding and drought.

¹ Dr Peter Spillett, Thames Water, evidentiary hearing 12 October 2004

² Based on drought warnings in 2003 and Environment Agency annual reviews of water resource plans

³ Environment Agency press notice 1 March 2005

⁴ Dr Peter Spillett op cit

⁵ *Securing water supply*, Environment Agency 2003

⁶ Environment Agency officer, tel con October 2004

The UK's water supply

- 1.6 In the UK, water is supplied by private companies. In London Thames Water is the largest supplier of water, with Three Valleys the other main supplier, serving north west London. There are two other companies which supply very small areas of London – Sutton and East Surrey and South East Water.
- 1.7 Standards and prices for water services are set under strict government regulation through the Office of Water Services (OFWAT) and the Environment Agency. Prices for water supply are decided through five-yearly price reviews during which business plans and water rates are approved by OFWAT, based on submissions from the water supply companies. Companies also have to submit 25 year water resource plans to the Environment Agency which contributes to the Agency's water resource strategy.
- 1.8 The water industry makes money based on the amount of litres of water it supplies to metered customers and, through the regulation system, the cost of supplying that water to customers who pay water rates. There are currently no financial incentives for the industry to reduce the amount of water it provides.
- 1.9 The water rates set on 2 December for 2005 – 2010 included a rise of around 15% for most London customers from 1 April for the first year alone, and across five years Thames Water rates will increase by a quarter⁷. OFWAT believe this level of rate rises is required to enable the water companies to invest in improvements and maintenance to allow an acceptable level of service.

Issues for London

- 1.10 London should have a water supply system which meets the water needs of its population into the future at an acceptable cost and without damaging the environment. The Committee was keen to identify whether there will be sufficient funds to bring about the scale of improvements that are required to meet this goal.
- 1.11 A major issue for London is that the region has the highest loss through leakages in the country. Thames Water lost nearly 1,000 million litres of water per day in 2003/4⁸, enough to fill 17 Olympic sized swimming pools every hour. The region's very high level of use of available water resources⁹, mentioned above, means increasing supply is challenging and potentially damaging to the environment. In addition, climate change and tighter environmental standards are both expected to reduce the amount of water available from current sources.
- 1.12 The Committee welcomes the establishment of the Water Resources Working Group by the Mayor¹⁰ in 2004 to work on water issues and expects that it will have a positive impact.

⁷ Rate increases from 1 April 05: Thames Water 14.9% for combined water and sewage services; for water services Three Valleys 15.3%; South East 15.8% and Sutton and East Surrey 12.9%.

⁸ OFWAT press note, 28 July 2004

⁹ Dr Peter Spillett, Thames Water. Evidentiary hearing, 12 October 2004

¹⁰ It consists of representatives directly concerned with the management of water resources in London, and a range of bodies representing Londoner's interests. These include the Environment Agency, the main water companies in London, Office of Water Services, London Development Agency, London First, Association of London Government, Transport for London, and the GLA. The Group will consider all aspects of water management.

2 Changing the demand-supply balance

- 2.1 There are two main ways in which to manage demand – through the amount of water lost through leakages before water reaches the customer and the level of water usage by the customer. On the other side of the equation it has already been mentioned that London's sources of supply are stretched. The Committee was therefore interested to determine whether the right balance is being struck by water supply companies and OFWAT, between increasing supply and reducing demand.

Reducing leakage

- 2.2 Over the past five years Thames Water has failed to reduce mains water leakage despite high levels of investment¹¹. Rates of loss have worsened 43% since 1999 from 660 million litres per day in 1999-2000, to 945 MI/day in 2003-04¹².
- 2.3 Thames Water's leakage rate of nearly 40 % makes up more than a quarter of all water lost in England and Wales and is equivalent to 13.5 million baths full of water¹³ per day. We recognise that there are problems because of the age of the water pipes, the shifting nature of London clay and the length of time it took to recognise the scale of problem with the system. However, in 2003/04 Thames Water again exceeded its target, set by OFWAT, for the amount of water lost by more than 10%¹⁴. Furthermore. The cost of purifying this water that is pouring back into the ground is approximately £100, 000 every day.
- 2.4 The Committee is relieved that at least the scale of the problem with the supply infrastructure has been recognised and we are pleased that the water supply companies have plans for large-scale replacement of ageing mains.

Recommendation 1

Thames Water, and the other supply companies with ageing infrastructure, must step up their efforts to get under control the unacceptably high level of water leakage in the London region and should aim to reduce water leakage to at least 1999 levels. The companies should commit to using any efficiency savings made during the replacement programme to increase the rate of repair and replacement.

- 2.5 Under the price determination for 2005-10, Thames Water has an agreed programme to replace over 850 miles of water mains in London over the next five years¹⁵. However, the total length of water supply pipes in London under the responsibility of Thames Water is 18 750 miles. One third of these are over 150 years old and half are over 100 years old. Investment in mains replacement was limited on cost grounds by OFWAT and by Thames Water because of perceived limits arising from the need to minimise traffic disruption¹⁶. The agreed plan of improvements is therefore not expected to replace all the pipes that are likely to cause problems.

¹¹ Over £80 million invested in 2002/03. Dr Peter Spillett, Thames Water, evidentiary hearing

¹² OFWAT Press note 15 Dec 2004

¹³ http://news.bbc.co.uk/1/hi/english/static/waterweek/region_thames.html

¹⁴ Thames Water lost 945 M/l in 03-04 and the target set 845 M/l. OFWAT press note 28 July 2004

¹⁵ Thames Water Press note 25 Jan

¹⁶ Dr Peter Spillett, Thames Water, evidentiary hearing op cit

- 2.6 A full repair and replacement programme will therefore last beyond the current planning cycle. At present OFWAT consider five-year plans in detail, but also ask companies to set out outline proposals on maintenance requirements for a further five years in the future¹⁷. Due to the scale of water loss in London we think a full programme should be negotiated now, rather than waiting for the next five-year review. This should be negotiated over 25 years to fit with the timeframe of the water resources plans already submitted to the Environment Agency. This longer time scale for planning of improvement and maintenance would be appropriate to the longer timeframe for planning under the Water Framework Directive.¹⁸

Recommendation 2

The Mayor should lobby for, and Thames Water and OFWAT agree to, a full programme of ageing water mains replacement. This programme should include details of the levels of likely costs and the sources and mechanisms of funding and be publicly available. It is expected that this programme will have a 25 year timeframe and the details should be in place by March 2007.

- 2.7 We recognise that even if a higher level of investment had been agreed that water mains replacement can cause significant disruption to our transport network. We welcome efforts through the Water Resources Group to ensure that mains are replaced as rapidly as possible whilst minimising problems to the road network.

Recommendation 3

The Mayor should work through Transport for London with the water companies and the boroughs to minimise the impact of the necessary road works for the current mains replacement plans, whilst allowing the most rapid programme that is practically possible. Thames Water and other companies should engage in timely consultation and negotiations with the boroughs well in advance of works taking place.

- 2.8 Thames Water is currently considering a programme of water pressure reduction, partly in response to the problems with high loss through leakage. However, reduced water pressure may drop the quality of service for customers, particularly those living in medium or high-rise accommodation. The London Assembly Health and Public Services Committee is investigating the repercussions of this programme and is expected to report back in Spring 2005.

Reducing water usage

- 2.9 Minimising water leakage will not be enough to address future problems with water balance in London and the South-east¹⁹. Water use is continuing to rise²⁰ even though appliances and fittings, such as washing machines, are becoming more water efficient. The water saving nature of new technology is obviously being outstripped by changes in consumer behaviour suggesting that technical solutions are not the only answer.

¹⁷ *Future water and sewerage charges 2005-10: Final determinations*. OFWAT 2005

¹⁸ The Water Framework Directive is EU legislation covering environmental issues on river basin management and starts to come into force in 2008.

¹⁹ Dr Peter Spillett, op cit

²⁰ *ibid*

- 2.10 Current plans by the water companies to reduce water usage include an expansion of the number of metered properties, education and awareness campaigns and distribution of water saving devices.²¹ In addition, the not-for-profit sector, local authorities, central government and its agencies, already play an active part in encouraging householders and businesses to use less water. This includes information leaflets and websites on good practice²².
- 2.11 The Committee welcomes existing work to reduce water demand, but considers that we all must do more because current initiatives are not producing the results that are needed. The scale of water demand programmes should be increased, water companies and local authorities may distribute thousands of water butts and 'hippos' (devices to limit excessive water use during flushing), but there are over 7 million residents in London.
- 2.12 Education and economic measures should be used in a co-ordinated manner to raise awareness of this important issue and reward water efficient behaviour. Action on this should be comprehensive and coherent and take place alongside improving the equipment we use and the buildings we live and work in. Initiatives on reducing water consumption include:
- £# intensive education campaigns for business and domestic customers
 - £# improved consumer information on water efficiency of equipment e.g. mandatory labelling showing relative performance
 - £# incentives for switching to water efficient technologies e.g. VAT reductions, stamp duty or council tax rebates
 - £# use of water pricing to reward low water usage e.g. major expansion of domestic metering and differential pricing
 - £# support for the marketing, production and installation of water efficient equipment and fittings
- 2.13 The Committee would like water companies to embrace their potential role as water service companies and lead on water conservation, rather than simply supplying each household with a given amount of water. A water service company would provide its customers with water, but would also offer services to support them to conserve, collect and reuse water e.g. by supplying efficient appliances and rainwater harvesting systems. This would be in keeping with their new responsibilities under the Water Act 2003.
- 2.14 Clearly, any work to reduce water use is not the water companies' sole responsibility. The government would have to lead on any economic measures, whether these are using pricing to modify water use or fiscal means such as reducing VAT on water efficient equipment. We would suggest that the water industry could learn from initiatives in the energy sector on energy efficiency and from the waste disposal industry on recycling. The Committee is in favour of the establishment of a Water Saving Trust, which is being considered by Department of Environment, Food and Rural Affairs and the Environment Agency at present. This would create a single organisation to research and promote good practice on water conservation and encourage joint working. This would be on the same model as the existing Energy Saving Trust.

²¹ Three Valleys Water, written evidence Oct 2004 and Thames Valley, written evidence, Oct 2004

²² Examples include: www.envirowise.gov.uk/, and www.defra.gov.uk/environment/water/conserve/
www.environment-agency.gov.uk/savewater

Recommendation 4

The Mayor, water supply companies, Department for Environment, Food and Rural Affairs, the Environment Agency, local authorities and the water industry regulator must improve their efforts to reduce water usage because current programmes are not having the required impact on consumer behaviour. Thames Water should lead on the production of an action plan for demand reduction in the London area. Proposed actions by London water supply companies should form part of the review of water resources by the Environment Agency in March 2006.

- 2.15 Witnesses considered that uncertainty over precise levels of effectiveness of initiatives to reduce water use discourages water company investment in these types of initiatives²³. The problem is less over acceptance that initiatives reduce water demand and more about the precision and predictability of the reduction. This is worsened by the fact that investment to date has been small scale and piecemeal, making measurement of precise impact more difficult to establish. In comparison, investment in increasing supply produces a far more quantifiable result.
- 2.16 The small proportion of households with water meters further increases the difficulty of measuring changes in customer behaviour, again limiting certainty about the exact impact of new practices or policies. This problem was highlighted during the Committee's visit to Gallions Ecopark, Greenwich. We were told that the precise impact of the water saving nature of fittings and equipment could not be measured because residents had moved from non-metered properties²⁴. The Housing Association for Gallions Ecopark is now monitoring to compare the estate with similar households elsewhere.
- Changing attitudes and behaviour*
- 2.17 Londoners' low level of concern about water use²⁵ is not helped by the general perception of Britain as a wet place with plentiful water. How many people would realise that London has similar rainfall to Istanbul²⁶, and how many have noticed that we are currently in a winter drought?²⁷
- 2.18 The study for Thames Water showed that customers surveyed massively underestimated average water use as 68 litres per day rather than the correct average of 163 litres per person²⁸. This, and the perception of water being free and abundant, increases the challenge of changing people's behaviour.
- 2.19 Something that may strengthen our misconceptions is that despite the precarious water balance in London, customers have had no drought restrictions in 14 years. In the same study half of Thames Water customers believed there had been hosepipe bans within the last three years suggesting that customer awareness is low. We agree with the Environment Agency that restrictions on hosepipe use, because of drought, can be useful at raising awareness about limits to our water resources²⁹. These should not automatically be thought of as failure of service.

²³ Peter Bowler, evidentiary hearing 12 Oct 2004 and RSPB written evidence submitted Oct 2004

²⁴ Information provided during Committee site visit October 2004

²⁵ Customer survey, press note Thames Water 15 September 2004

²⁶ Dr Peter Spillett, evidentiary hearing 12 Oct 2004

²⁷ Monthly average rainfall November 2004 – February 2005 has all been below average

²⁸ Press note, Thames Water 15 September 2004

²⁹ *Maintaining Water Supply*, Environment Agency, July 2004

- 2.20 In the Committee's view Thames Water, and to a lesser extent the other companies, do not have business plans that place sufficient emphasis on changing customer behaviour. We accept that Thames Water has rightly given priority to mains replacement and leakage reduction as part of demand management. However, we feel there should be more emphasis on education campaigns; installing water meters; and supporting customers in installing water efficient equipment and appliances, such as spray taps.
- 2.21 All companies are increasing the number of properties with meters so that the customer pays according to the amount of water supplied. As mentioned above, this can reduce consumption by 5 – 10%³⁰ as people become aware of their water usage and are billed on water used. Interestingly the higher awareness this brings and which leads to lower consumption levels also seems to improve household response to drought measures³¹. In addition, the installation of meters allows the next step of differential charging for customers, with incentives for low use.
- 2.22 Thames Water plans for installing water meters will only bring the level in London to 27% by 2010³². We do understand that this is partly because of the types of homes with a resulting higher cost and difficulty for installation³³, but this is still a far lower rate than we would wish to see. The other London supply companies have better levels of households with meters³⁴, again partly because of the type of housing that they serve.
- 2.23 Where meters are introduced, particularly if this were to be followed by differential charging, there has to be protection for vulnerable groups against water poverty. Thames Water and other companies already have some measures in place for dealing with customers who have problems paying their rates. Further intervention should be relatively straightforward because types of measures and approaches are well-developed in the energy sector, there is a government review on water affordability and water is likely to remain a relatively cheap resource.

Recommendation 5

The Mayor should lobby the Government to legislate for the phasing in of water meters on all properties on a mandatory basis where technically feasible. In the meantime, the Mayor should work with the water companies, the industry regulator and local authorities to secure a target of 50% of London homes fitted with a water meter by 2015.

Recommendation 6

The Mayor should lobby for, and Government should introduce, economic measures to create incentives for water saving behaviour. This should be brought in alongside programmes to safeguard low-income families from initiatives likely to increase water pricing. The Committee supports calls for a Water Saving Trust to be established to encourage water efficiency through these and other measures.

³⁰ Written evidence, RSPB October 2004. Variation largely due to house and household type.

³¹ Southampton University news release 9975

³² Thames Water Final Business Plan, Public Summary

³³ Dr Peter Spillett stated that costs in London could range from £100 to £1000. Evidentiary hearing, 12 Oct 2004

³⁴ Three Valleys, written evidence submitted Oct 2004

Improving water efficiency in buildings

- 2.24 Although technology is not the only solution it can result in substantial reductions in water use – the Government estimates that new developments are expected to have 25% lower consumption³⁵. Thames Gateway, and the scale of new developments, creates opportunity for change, but is also a threat because of the major increase in population and household numbers. Clearly new housing and businesses will only have lower consumption if they are water efficient and use techniques such as rainwater harvesting to minimise piped water use.
- 2.25 There is doubt over ability of current planning control systems to foster the creation of the innovative schemes that will be required to create a step change in average water usage for new dwellings. During research by Green Alliance, local authorities stated that a major barrier to ensuring water efficient developments is that demand for water resources is not one of the issues that they can take into account during the planning process³⁶.
- 2.26 However, Planning Policy Statement 1 on Delivering Sustainable Development release in 2005 specifically refers to the sustainable use of water resources and policy 4A.11 of the London Plan requires consideration of the impact of proposals on water demand. This suggests that for London at least, there is a legal basis for considering water resources, but it may be that planning officers have not yet been fully trained on recent changes to legislation. The situation should improved by strengthening and clarifying national level policies on the impact of water use on capacity along with training for planning officers. Strengthened national policy would be particularly useful in advance of the revision of local authority development control policies until they come into conformity with the London Plan.
- 2.27 Building and product standards and regulations are existing compulsory mechanisms to ensure that water efficiency of new technologies meet a required efficiency. These can be improved progressively by raising standards as technology improves. However, recent research suggesting that new build is frequently failing to meet existing building regulations on energy efficiency³⁷ suggests that higher levels of enforcement are needed. Consumers would benefit from improved labelling on equipment and fittings in order to make an informed choice on which product to buy. This could follow current practice on energy efficiency labelling.
- 2.28 Regulation can only influence new developments or renovations by raising minimum standards. In order to encourage individuals, water companies and industry to renovate their buildings and equipment and invest to enable high water efficiency there should be an expansion of incentives, again modelled on energy efficiency. Examples of these are Enhanced Capital Allowances and VAT reductions on efficient products.

³⁵ *Sustainable Communities building for the future* ODPM, 2003

³⁶ *Better Buildings: Designing for water efficiency*. Green Alliance, March 2005

³⁷ Of 100 new homes built under 2002 Building Regulations, 32% of the homes failed to meet a given standard. Energy Efficiency Partnership for Homes report on Energy Efficiency Impact on Building Regulations Compliance. December 2004

Recommendation 7

Developers should make more use of existing good practice to reduce water use in new residential and commercial developments and renovations. To aid this, the Mayor's forthcoming Supplementary Planning Guidance on Sustainable Design and Construction, which is due out in draft in March 2005, must provide clear guidance on reducing water use in developments and the Committee urges the Mayor to finalise this document by Autumn 2005.

Recommendation 8

The Mayor should lobby for, and government bring about, changes to national planning policy and building regulations and improved levels of enforcement. The changes should provide much clearer and more specific planning policy on the impact of development on water resources, and modification of Part G of the building regulations, to ensure that new development and buildings do not make excessive demands on local or regional water resources and include high standards of water efficiency.

Recommendation 9

The Mayor should lobby for, and Government introduce, fiscal measures such as capital allowances for investment in water saving equipment and rainwater reuse, stamp duty and/or Council Tax reduction for resource efficient homes and incentives for landlords. Again, the Committee considers that the establishment of a Water Saving Trust would be the best way to encourage water efficiency through these and other measures.

Recommendation 10

The Mayor should lobby for, and Government should bring in, mandatory labelling of and standards for the water efficiency of equipment and fittings. The Committee supports the call by Green Alliance for changes to and expansion of the equipment covered by the Water Supply (Water Fittings) Regulations (1999).

Creating new supplies

- 2.29 As mentioned above, the South-east's water supply is highly used so any new supply tends to be costly and is less likely to be resource efficient. Of the water companies only Thames Water has plans for significant new supplies including plans for a major new reservoir to allow greater storage of winter rainfall and a desalination plant in Newham.
- 2.30 Thames Water plans for major new supply sources are controversial and have yet to receive planning permission³⁸. Land in the South-east tends to be highly populated, limiting the possibility for storing winter rainfall because land either has an existing use or is important for wildlife. The new reservoir on the upper Thames is likely to suffer substantial local opposition because of the loss of land and potential impact on biodiversity.

³⁸ The Thames Gateway Water Treatment Plant application is expected to go to Newham's Planning Decisions Committee on 16 March 2005. If approved by the Committee, the decision will then be referred to the Mayor of London who may direct the borough to refuse permission.

- 2.31 With the desalination plant there is predominantly disquiet over the amount of energy required for producing purified water using this method. There are also concerns about the impact on biodiversity from the intake of water from the Thames and because the pipe, to storage reservoirs from the plant, runs through Epping Forest and important sites for wildlife³⁹. Thames Water stated it has no alternative options under consideration in the case of refusal.⁴⁰
- 2.32 The Committee recognises that Thames Water has made considerable effort to ensure that the design of the desalination plant is as energy efficient as possible given the nature of the process. However the Committee is concerned that the plant will still result in increased greenhouse gas emissions. This is because the process requires more energy for purification than abstraction, or even water reuse⁴¹ and only a minor proportion of the energy used will be from renewable sources. Furthermore, as stated above, increasing supply only tackles one side of the problem rather than resolving the longer term issue of rising demand.
- 2.33 In addition to the importance of preventing the increase in the overall amount of water we use, there are also changes that could be made to how much piped water we need. Approximately 35% of household water is used to flush toilets⁴², and at present this is costly drinking water. The Committee would like to see more investment in schemes to harvest rainwater that once filtered could be used as non-drinking water. Filtered rainwater can be used for flushing toilets, washing clothes and externally for such things as washing the car and watering the garden. These schemes cost from £2000 per house for a system which would reduce average household use by around 14%⁴³. More ambitious schemes to collect water from public spaces or buildings should also be encouraged. Examples of installed systems of varying sizes can be found on the Environment Agency website.⁴⁴
- 2.34 Rainwater harvesting has the additional benefit of reducing flooding because it can minimise the impact of storm events. It would therefore also assist Thames Water because it would reduce the problems of under-capacity in London's sewage and drainage systems⁴⁵.

Recommendation 11

The water companies should invest in rainwater collection schemes on new developments, in the public realm, and should support their customers to install systems in their homes and businesses, in order to reduce the need for piped water and reduce surface water flooding. The supply companies should develop a time-bound action plan of joint work with local authorities, developers and the London Development Agency for the installation of rainwater collection schemes. The Mayor should use his influence, particularly through discussions with developers, and his planning powers, to ensure these types of schemes are incorporated in new developments.

³⁹ GLA Environment team. Pers comms October 2004

⁴⁰ Dr Peter Spillett, evidentiary hearing op cit

⁴¹ Energy use: proposed plant 1.92Kwh/m³; effluent re use 1.75Kwh/m³. Thames Water, Feb 2005

⁴² Conserving water in buildings fact cards. Environment Agency, Sept 2001

⁴³ http://www.environment-agency.gov.uk/subjects/waterres/286587/511050/?version=1&lang=_e

⁴⁴ http://www.environment-agency.gov.uk/subjects/waterres/286587/487004/487033/?version=1&lang=_e

⁴⁵ For further information on the problems of London's sewerage system see Public Service Committee Report *London's water supply* October 2003 and the Health and Public Service Committee investigation into sewerage overflows held in September 2004.

Recommendation 12

The approach to reducing potential deficit in the supply-demand balances should be prioritised as follows:

- i. water leakage rates reduced to the economic level
- ii. demand management through publicity and education, financial incentives, and water saving technologies in construction and appliances
- iii. widespread introduction of rainwater harvesting schemes
- iv. major water supply projects, with significant environmental impacts, should be considered only where the above measures have been implemented. The social benefit must be demonstrated to outweigh significantly likely environmental harm.

Recommendation 13

Developers should make more use of existing good practice to reduce the need for piped water in new residential and commercial developments. To aid this, the Mayor's forthcoming Supplementary Planning Guidance on Sustainable Design and Construction must provide clear guidance on rainwater harvesting. Part H of the Building Regulations should be modified to ensure that new developments are more innovative in the collection and use of rainwater.

3 The regulatory system

- 3.1 At present the price charged for water services by the water supply companies is regulated by OFWAT whilst the Environment Agency regulates their environmental standards. WaterWatch and Green Alliance believe the economic regulatory system favours large new projects over maintenance “There is little encouragement for innovative small schemes, schemes that do not involve huge capital expenditure”⁴⁶. This is partly because investment tend to be paid for by loans from parent companies which can charge interest. water companies make an internal rate of return on capital projects. [with] fixing the leaks and replacing the pipes, the way in which OFWAT, as I understand it, allows for those costs ... pound for pound rather than having an internal rate of return. So from a company point of view, which would you do?⁴⁷
- 3.2 OFWAT and the water companies denied this bias. Bill Emery stated: we do not see ... systematic bias in the process ... companies deliver all that is required of them by law and what is set for them in the regulatory expectations at least cost⁴⁸
- 3.3 However the difference in treatment of spending on capital as compared to revenue projects and the fact that capital investment tends to create a greater increase in a company’s asset value does suggest an in-built bias.
- 3.4 We are not suggesting that environmental considerations are not taken into account. As Bill Emery put it “the least cost appraisal systems which are built into developing the water resource plan take account of environmental [needs]”, i.e. water use planning decisions already include environmental issues as part of the analysis of which is the best option. However, the current regulation system seems to create good economic management to given environmental standards, rather than good resource management.
- 3.5 Broader duties on sustainable resource use will be placed on the new regulatory body which replaces OFWAT from 1 April under the Water Act 2003. We look forward to improvements because of these wider duties, and those of the water companies from the same act and await further guidance from Government on how these changes will be implemented.

Company profitability

- 3.6 At present there is no incentive for a water supply company to supply less water – they charge according to what they supply whether indirectly through the rates or directly with metered properties. As private companies they therefore operate to maximise supply and the service level of that supply. However in water scarce London, a different approach is required. Water companies should therefore have economic incentives to reduce water supply rather than duties on water resource use. The energy industry now has incentives within its pricing structure for the energy companies – this should be used as a model for encouraging demand reduction initiatives⁴⁹.

⁴⁶ Peter Bowler, WaterWatch evidentiary hearing 12 October 2004

⁴⁷ Peter Bowler, evidentiary hearing, 12 October 2004

⁴⁸ Bill Emery, OFWAT. Evidentiary hearing 12 October 2004

⁴⁹ OFGEM price proposals for Distribution network operators December 2004

Recommendation 14

The Mayor should lobby for, and the water industry regulator and the Government act to introduce, financial incentives for water saving programmes by water companies, using energy sector incentives as a model.

- 3.7 Whilst we recognise that business success is based on profitability, we believe that when there is such a substantial need for urgent investment the levels of premiums and bonuses must be appropriate. The situation has improved since 1998 when 24% of an average bill went to water company shareholders, but we are still concerned about levels of profits⁵⁰.
- 3.8 In the five years since 1999, the period in which leakage rates have exceeded targets, Thames Water has had a turnover for their water supply business of £2.4 billion and made a profit of £456 million and shareholders dividends totalled £645 million.⁵¹ The capital investment by Thames Water over the same time period in water supply was £1.37 billion.⁵² Thames Water's level of return on capital employed is above the industry average over the five years, but the dividend as a percentage of capital value is lower⁵³. RWE group, Thames Water's parent company, will be increasing its 2004-05 dividend by 20%.⁵⁴
- 3.9 We were concerned to be told at our hearing that even when Thames Water was put onto special monitoring for failure to keep its leakage rate to acceptable levels they continued to pay bonuses to their Directors. We recognise that the bonuses are linked to all performance measures and that Thames Water, and the other companies, have successfully improved water quality. However in the year that leakage rate peaked, their Chief Executive received £1.4 million in pay and bonuses⁵⁵ and in 2003-04 the bonuses paid to Thames Water Directors excluding their non-executive Chairman, totalled over £1¼ million⁵⁶.

⁵⁰ Hansards Column 1169 31 Mar 1998

⁵¹ p22 and p33 Financial performance and expenditure of the water companies 2003-04 report. OFWAT p48 *ibid*

⁵² 7.1% return on capital rather than 6.8% and 5.6% as proportion of capital value rather than 6.8 % *ibid*

⁵³ RWE Press note 24 February 2005

⁵⁴ Financial reports Thames Water 2003

⁵⁵ Thames Water Annual report 2003

4 Conclusion

- 4.1 It seems to the Committee that water companies invest in increasing supply as a known way of changing the supply-demand balance rather than more innovative approaches that improve sustainability. However, the high level of use of water resources in the region means that supply solutions are costly and will only provide short-term answers. Long-term the solution must be to manage demand even though this will be difficult with current trends of increase in population and usage per person.
- 4.2 The current situation with Londoners facing higher bills and being asked to accept short-term solutions must not continue and overuse of our available water resources must be solved in a way that does not store up problems for the future. The Committee welcomes the water companies' plans for improved infrastructure and those initiatives they have to tackle increasing water demand, but does not feel the plans go far enough. Londoners should have a supply system which provides:
- £# better maintenance, replacement and improvement of existing infrastructure
 - £# improved water resources planning, including innovative ways of increasing water supply
 - £# clear mechanisms of financing (for water supply infrastructure: pipes, appropriate supply sources and storage)
 - £# water efficient buildings and technologies.
- 4.3 It is clear, from both the Environment Committee's work on water supply and the Health and Public Services Committee's work on sewerage, that further investment is vital in order for London's water infrastructure to cope with expected demands. A fully costed and timetabled programme needs to be negotiated and likely funding mechanisms agreed. The funding options are:
- £# reduced private sector profit
 - £# increased water rates
 - £# or investment by central Government
- 4.4 The Committee would like to see far greater contributions from both water companies and central government. One, or a combination, of these options must be agreed in a sufficient time frame to ensure that Londoners get the service they need and are not paying for water to be purified, only to have it wasted.
- 4.5 However, resolving the problems with our water service is not only the responsibility of the companies and government. It will be important for consumers, domestic and business, to reduce their water consumption and needless waste. The water supply companies and all levels of government should work with their customers to change behaviour and improve use of technologies towards efficient water use.

Annex A – Recommendations

Recommendation 1

Thames Water, and the other supply companies with ageing infrastructure, must step up their efforts to get under control the unacceptably high level of water leakage in the London region and should aim to reduce water leakage to at least 1999 levels. The companies should commit to using any efficiency savings made during the replacement programme to increase the rate of repair and replacement.

Recommendation 2

The Mayor should lobby for, and Thames Water and OFWAT agree to, a full programme of ageing water mains replacement. This programme should include details of the levels of likely costs and the sources and mechanisms of funding and be publicly available. It is expected that this programme will have a 25 year timeframe and the details should be in place by March 2007.

Recommendation 3

The Mayor should work through Transport for London with the water companies and the boroughs to minimise the impact of the necessary road works for the current mains replacement plans, whilst allowing the most rapid programme that is practically possible. Thames Water and other companies should engage in timely consultation and negotiations with the boroughs well in advance of works taking place.

Recommendation 4

The Mayor, water supply companies, Department for Environment, Food and Rural Affairs, the Environment Agency, local authorities and the water industry regulator must improve their efforts to reduce water usage because current programmes are not having the required impact on consumer behaviour. Thames Water should lead on the production of an action plan for demand reduction in the London area. Proposed actions by London water supply companies should form part of the review of water resources by the Environment Agency in March 2006.

Recommendation 5

The Mayor should lobby the Government to legislate for the phasing in of water meters on all properties on a mandatory basis where technically feasible. In the meantime, the Mayor should work with the water companies, the industry regulator and local authorities to secure a target of 50% of London homes fitted with a water meter by 2015.

Recommendation 6

The Mayor should lobby for, and Government should introduce, economic measures to create incentives for water saving behaviour. This should be brought in alongside programmes to safeguard low-income families from initiatives likely to increase water pricing. The Committee supports calls for a Water Saving Trust to be established to encourage water efficiency through these and other measures.

Recommendation 7

Developers should make more use of existing good practice to reduce water use in new residential and commercial developments and renovations. To aid this, the Mayor's forthcoming Supplementary Planning Guidance on Sustainable Design and Construction, which is due out in draft in March 2005, must provide clear guidance on reducing water use in developments and the Committee urges the Mayor to finalise this document by Autumn 2005.

Recommendation 8

The Mayor should lobby for, and government bring about, changes to national planning policy and building regulations and improved levels of enforcement. The changes should provide much clearer and more specific planning policy on the impact of development on water resources, and modification of Part G of the building regulations, to ensure that new development and buildings do not make excessive demands on local or regional water resources and include high standards of water efficiency.

Recommendation 9

The Mayor should lobby for, and Government introduce, fiscal measures such as capital allowances for investment in water saving equipment and rainwater reuse, stamp duty and/or Council Tax reduction for resource efficient homes and incentives for landlords. Again, the Committee considers that the establishment of a Water Saving Trust would be the best way to encourage water efficiency through these and other measures.

Recommendation 10

The Mayor should lobby for, and Government should bring in, mandatory labelling of and standards for the water efficiency of equipment and fittings. The Committee supports the call by Green Alliance for changes to and expansion of the equipment covered by the Water Supply (Water Fittings) Regulations (1999).

Recommendation 11

The water companies should invest in rainwater collection schemes on new developments, in the public realm, and should support their customers to install systems in their homes and businesses, in order to reduce the need for piped water and reduce surface water flooding. The supply companies should develop a time-bound action plan of joint work with local authorities, developers and the London Development Agency for the installation of rainwater collection schemes. The Mayor should use his influence, particularly through discussions with developers, and his planning powers, to ensure these types of schemes are incorporated in new developments.

Recommendation 12

The approach to reducing potential deficit in the supply-demand balances should be prioritised as follows:

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Recommendation 14

The Mayor should lobby for, and the water industry regulator and the Government act to introduce, financial incentives for water saving programmes by water companies, using energy sector incentives as a model.

Annex B – Terms of Reference

Water rates are due to rise significantly yet Londoners can expect to face water shortages due to: increasing domestic demand per person; expected increase in households; expected increase in population; expected increase in commercial demand; and climate change.

The London Assembly Environment Committee will examine:

- £# the predicted scale of the problem
- £# what key organisations are doing and intend to do to combat expected water shortages:
 - ↳ to reduce demand and improve efficiency of usage
 - ↳ to increase supply – including by reducing leakage
- £# whether the right balance is being sought between increasing supply and reducing demand
- £# whether sufficient funds are available to bring about the scale of improvements that are required
- £# what action the Mayor and the GLA's functional bodies have taken to address this issue, the value that this has added and if/where he could do more

The Committee therefore investigated:

- £# Are water companies making the right decisions to provide enough good quality water for their customers in the future, without harming the environment?
- £# What is preventing reduction in demand for water, considering that technology (e.g. water use of washing machines) has improved markedly?
- £# What else should organisations, including the Mayor and GLA, be doing in London to tackle expected water shortages, especially in the light of predictions and plans of huge growth in London over the coming decade?
- £# How can private consumers and commercial consumers be helped to reduce the amount of water they use, including through provision of information and publicity campaigns?

Annex C – Evidence

To obtain any of the evidence listed, please contact Anna Malos at City Hall, e-mail anna.malos@london.gov.uk

Oral evidence

The Committee held an evidentiary hearing on 12 October 2004 with the witnesses listed below. Transcripts of the hearings can be downloaded from:

<http://www.london.gov.uk/assembly/envmtgs/index.jsp>

Peter Bowler, Waterwatch

Tony Denton, Local Government and Community Affairs Manager, Thames Water

Dr Peter Spillett, Head of Environment, Quality and Sustainability, Thames Water

Mike Pocock, Asset Strategy Manager, Three Valleys Water Plc

Bill Emery, Director of Costs & Performance Division & Chief Engineer, OFWAT

Stuart Homann, Water Resources Planning Manager for South England, Environment Agency

Ed Morris, Director, Sector Development, London First

John Duffy, Mayor's Policy Director for Environment (GLA)

Kevin Reid, Senior Planner/Strategist (Policy & Partnerships, GLA)

Written evidence received from:

Bioregional

Environment Agency

Essex and Suffolk Water

Friends of the Earth

Government Officer for London

Greater London Authority

London Development Agency

Office of Water Services (OFWAT)

Royal Society for the Protection of Birds

Sutton and East Surrey Water

Thames Water

Three Valleys plc

WaterVoice Thames

Waterwatch

References

Conserving water in buildings fact cards. Environment Agency, Sept 2001

Energy Efficiency Impact on Building Regulations Compliance. Energy Efficiency

Partnership for Homes December 2004

Environment Agency Press note 1 March 2005.

Securing water supply, Environment Agency 2003

Maintaining Water Supply, Environment Agency, July 2004

Better Buildings: Designing for water efficiency. Green Alliance, March 2005

OFWAT Press notes 28 July 2004 and 15 December 2004

Financial performance and expenditure of the water companies 2003-04. OFWAT

Future water and sewerage charges 2005-10: Final determinations. OFWAT 2005

Sustainable Communities: building for the future ODPM, 2003

RWE Press note 24 February 2005

News release 9975 Southampton University

Thames Water Press notes 15 September 2004 and 25 Jan.2005

Thames Water *Final Business Plan, Public Summary* 2004

Financial reports Thames Water 2003.

Annual report Thames Water 2003

Annex D – Orders and translations

How to order

4.6 For further information on this report or to order a copy, please contact Anna Malos, Assistant Scrutiny Manager, on 020 7983 4207 or email to anna.malos@london.gov.uk

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4.8 If you, or someone you know, needs a copy of this report in large print or Braille, or a copy of the summary and main findings in another language, then please call us on 020 7983 4100 or email to assembly.translations@london.gov.uk

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Annex E – Principles of Scrutiny

The powers of the London Assembly include power to investigate and report on decisions and actions of the Mayor, or on matters relating to the principal purposes of the Greater London Authority, and on any other matters which the Assembly considers to be of importance to Londoners. In the conduct of scrutiny and investigation the Assembly abides by a number of principles.

Scrutinies:

- ☞ aim to recommend action to achieve improvements;
- ☞ are conducted with objectivity and independence;
- ☞ examine all aspects of the Mayor's strategies;
- ☞ consult widely, having regard to issues of timeliness and cost;
- ☞ are conducted in a constructive and positive manner; and
- ☞ are conducted with an awareness of the need to spend taxpayers money wisely and well.

More information about scrutiny work of the London Assembly, including published reports, details of committee meetings and contact information, can be found on the London Assembly web page at www.london.gov.uk/assembly.

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