

27 May 2025

## EA consultations: Cost of Service and Enforcement Levy

### Background and objectives

Water UK is the trade association for the UK's water industry. We represent all regulated water and wastewater companies in England, Northern Ireland, Scotland, and Wales.

This response covers both ongoing consultation on a proposed increase in the cost of service<sup>1</sup> and a new enforcement levy<sup>2</sup>.

On the **cost of service increase**, the consultation's background document explains that, because overall costs of employing staff have increased and because of inflationary pressures, the cost of services must be revised. As a result, the Environment Agency is proposing an increase in 2025 to some of the charges in the Environmental Permitting Regime (EPR) and waste miscellaneous charging schemes. For the water sector, the increases range between 7.5% and 14%. The Environment Agency is also consulting on its proposal to increase the service cost annually, following inflation from 2026 onwards.

Furthermore, the EA proposes a **new levy** on certain water discharge activities by water companies, designed to recover the costs of the Environment Agency's enforcement activities relating to the water industry. The levy is composed of a fixed element, which is applied to each discharge permit held by the company and common for all water companies, and a variable element based on the volume of wastewater treated by each water company. The levy applies only to the Water and Sewerage Companies and new appointments and variations (NAVs) appointed by Ofwat that provide sewerage services and hold permits with the Environment Agency. The EA proposes to recover costs for enforcement activities that have not previously been recovered, such as follow-up to inspections and non-compliances identified, which are not covered by charges income and enforcement activities related to unauthorised discharge activities from parts of the network that do not require permits, such as burst sewers or broken rising mains.

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<sup>1</sup> [Environment Agency charge proposal: cost of service - Environment Agency - Citizen Space](#)

<sup>2</sup> [Environment Agency charges consultation: Water industry enforcement levy - Environment Agency - Citizen Space](#)

## Water UK's view

Water UK strongly supports the EA having the correct resources to fulfil its role. It acknowledges that the water sector, like other regulated sectors, needs to fund the agency's activities that touch upon the water company's environmental responsibilities. Notwithstanding this, we have some concerns about the proposed increase in the cost of service and the new levy, which we describe below.

### *The financing needs are unclear*

On the enforcement levy and without further details, the background document refers to £21 million needed for 2025-2026. We would welcome more transparency from the EA on the costs of its activities, the share already funded by other costs of service mechanisms, what remains outstanding, and what the proposed levy is intended to cover in terms of existing enforcement activities.

While the consultation document states that only essential activities have been accounted for in the costs, there are no details on these activities and the associated costs (apart from the one-off value of £21 million). More clarity and transparency would, once more, be welcome.

The Environment Agency indicates in the consultation background document that the levy is being proposed following the introduction of the Water Special Measures Act 2025. The Act foresees that the Environment Agency can fully recover the costs of regulating the water industry, including existing and new enforcement activities. The proposed levy covers only existing activities and, from exchanges with the Environment Agency, we understand that there will be a further consultation later in 2025 to update the levy to cover new enforcement activities described in the Act. Once more, clarity on the activities funded and how funds are allocated is needed.

### *Polluter pays principle*

We welcome the mention of the polluter pays principle in the background document of the enforcement levy and agree with the Environment Agency that an appropriate application of that principle would have been to charge the costs of enforcement activities **after** the events and **only** to the concerned companies. The levy pre-empts and assumes all enforcement activities will be equal. The Environment Agency states that the levy "facilitates upfront funding to put in place a trained and skilled workforce to assess the scale of offending and address the public's demand for an improved water environment."

We welcome clarification on how the Environment Agency will keep track of the income received and how it funds different companies' enforcement activities. We would also like to understand better what the Environment Agency proposes to do to return the enforcement costs to companies not concerned with enforcement activities. We consider it may be appropriate to introduce a rebate system to ensure companies do not overpay.

### *Water companies need certainty*

Ad-hoc and unplanned increases are very challenging for water companies to handle, mainly when, like this one, they occur outside of the price review process and are not accounted for in water companies' business plans and, in turn, cannot be considered by Ofwat when it sets the level of efficient expenditure Ofwat companies can recover from customers.

The impact of the cost of service increase is estimated to be in the region of millions of pounds, ranging from £1-£4 million per water company per year. The impact of the enforcement levy is similar, with costs ranging from £1-3.5 million per water company per year. Although the value is small in percentage of overall turnover, it can only be funded by water companies out of the base expenditures, already overstretched. This comes within the broader challenge to water companies to be efficient and cut costs as much as possible.

### *The cost of service increases need better explanations*

Clear and comprehensive justifications must accompany cost increases. The consultation background document provides vague reasons for the proposed increases, leaving room for uncertainty. For example, while it is provided as a justification for the rise, the consultation documents do not include further details on the government-approved pay award for water companies to better understand the broader context of the cost of service increase.

Furthermore, no details are provided on the extent and justification for increased corporate service costs and IT systems development costs, which are included as areas for higher costs than expected. Some transparency on this, including how the budget has been spent so far, and details on the tasks for which further resources are needed, would be beneficial. The Environment Agency should lead the establishment of financial key performance indicators and report against these to the regulated communities. This will enable a more transparent and accountable assessment of these cost increases alongside actual progress.

We are also unclear how an increase in the cost of services will help reach the government's challenge to reduce administrative costs to businesses by 25% by the end of the current parliament. Indeed, the reasons given to justify more costs are that an upgrade to an IT system is needed to reduce administrative burden and costs to the business. The argument is circular and unconvincing. Last year's increase used the same reasoning. While it could be that IT costs are more significant than initially anticipated, there is no information provided to help us understand the broader context.