



Cost recovery and water pricing

This briefing is meant to summarise different EurEau position papers on cost recovery for water services, water charges, investment capacity and affordability mechanisms. Furthermore the current relevance of the tariff setting is described. The original EurEau papers are referenced in Annex I.

The human right to water and sanitation

The United Nations General Assembly officially acknowledged the human right to water and sanitation in 2010. To realise this right, water and sanitation must be **available, accessible, affordable, acceptable,** and **safe.**

Water tariffs and affordability mechanisms

In order to strike the right balance between **availability** and **affordability**, pricing policies and affordability mechanisms play a fundamental role. In countries where these mechanisms are needed, EurEau recommends measures targeting persons facing affordability problems by social policy instruments.

In fact an artificially low level of water prices would not only lead to the depletion of water resources, but fail to secure investments in infrastructure maintenance, leaving a heavy burden of investment for future generations.

Maintaining water tariffs artificially low would generate a vicious cycle of underfunded services, inadequate investment and aging infrastructures: the quality of water services would decrease and future users will not be able to enjoy the same level of quality at a similar degree of affordability.

This should be considered in the context of decreasing water consumption that entails a reduction of income for water utilities - where a large part of water operators' income is linked to the level of consumption - and may constitute an identifiable risk to the medium term and long term future of the European water services.

The situation could lead to a "perfect storm" scenario in which the desire for either no water charges or artificially low water charges, would basically disregard the need for adequate income to allow water service operators to provide for ongoing and future investment.

While affordability is an important topic, the focus of the political debate should rather be larger and refer to the sustainability of water services as required by EU Directives and national legislation, leaving affordability considerations to be



addressed by social policy instruments. The traditional approach to affordability, focusing mainly on the social dimension of water pricing, can be considered restrictive. A more complex approach would be needed, including both the financial and economic dimensions of affordability in water policy implementation under art.5 of the WFD requiring an economic analysis of water use.

Tariffs setting and the cost recovery principle

Setting water tariffs is a responsibility of national and local authorities. However, the Water Framework Directive (2000/60/EC), establishing a "Framework for the European Community action in the field of water policy", lays down the principle of cost recovery for water services in Article 9, including environmental and resource costs. Inter alia Article 9 requests that Member States ensure by 2010 that:

- Water Pricing Policies provide adequate incentives for users to use water resources efficiently and
- An adequate contribution from each category of water user to the recovery of costs.

However, the ECJ¹ indicated that Member States may, subject to certain conditions, opt not to proceed with the recovery of costs for a given water-use activity, where this does not compromise the purposes and the achievement of the objectives of that directive.

This could lead to a scenario where Member States decide to levy either very low or no domestic water charges or fund water services solely or largely through central government subvention. Under such a scenario, the need of the water services for a long term, stable and reliable income in order to allow them raise funds for future investment would be undermined.

The users of water services must be charged the full cost of the service thus allowing the costs to be recovered and let water bills finance investments in water infrastructure, ensuring adequate funding for the water service provider. Furthermore the price signal is important in the efforts to control water consumption to limit the pressure on water resources.

Costs to be recovered from consumers should in principle include depreciation, renewal and maintenance costs, as well as the cost of financing long-term investment, so that the benefits are shared between current and future generations in a sustainable manner. The revenue which water operators receive needs to cover the totality of these costs, in one form or another, be it received from customers, from various water users or from governmental

¹ Commission vs Germany: Judgment of the European Court of Justice (ECJ) C525/12 of the 11 September 2014



organisations².

The charges should be set on the basis of the investment needs of the water infrastructure. To this end water operators are subject to strict regulation, since they render their services in a monopoly regime. In some cases independent regulators or other accountable public authorities set and approve the tariffs. In other cases water utilities set the tariffs supervised by an independent public body or organisation.

Any moves to undermine the model that allows water services to be financed through tariffs will, inevitably, result in the decline of the level of service provided to the consumer and increased risks to the environment and public health due to lack of maintenance and investment in water infrastructure. This in turn will have as a negative consequence the loss of job opportunities in the water sector.

There may be a need for the cost recovery principle, which is currently stated in general terms in the WFD, to be further strengthened in the upcoming revision of the legislation, given the uncertainty due to the implications of the implementation of Art. 9.4 of the WFD following the ECJ ruling C525/12 of the 11 September 2014 and the recent developments in Ireland.

Any future review of the Water Framework Directive should also take into account the "3Ts" methodology developed by the OECD – bringing together Tariffs, Taxes and Transfers³. The 3Ts approach represents a powerful tool in unlocking our understanding of the sources of the funds which underpin sustainable water services.

Increased transparency of the financing of the services and facilitating the reporting obligations on the cost recovery principle under Article 9 of the WFD constitute central elements for well-performing water services.

Current relevance of the principle of tariff setting

The Irish case gives a representation of the difficulty to invest in water infrastructure and the consequences in terms of risks to public health and the environment in the absence of water charges, while relying entirely on the financing through the general State budget.

² EurEau Position Paper on "Requirements for Financing Investment in the Water Sector" (July 2010)

³ EurEau Manual on 3Ts:

http://eureau.org/administrator/components/com_europublication/pdf/c07380bba7534abb100c60fce5fd3257-2356-3ts-manual-eureau-wwf6-final-report.pdf

EurEau short guide on 3Ts:

http://eureau.org/administrator/components/com_europublication/pdf/fb69eb6241c68b968ca4d63878f194e4-Eureau-3Ts-Short-Guide-final-120229-v-internet.pdf



In Ireland the lack of any consistent policy for replacing old water mains and sewers led to a very low replacement rate in the period before the creation of Irish Water. For water mains the replacement rate was up to 800 years and 1,000 years in the case of sewers. Dublin City still has large percentages of water mains that are sixty to one hundred years old, with high leakage rates and low headroom, and sewers that are up to 150 years old.

Prior to 2014, water services in Ireland were delivered by 34 local authorities, with a total annual cost of about €1.2bn (combined capital and operational cost). This annual spend was made up of €1bn funded by the exchequer and the balance from charges to non-domestic customers.

Ireland's bulk water abstraction per inhabitant is the second highest in Europe and its potable water network has significant levels of leakage (47% at the end of 2015, reduced from 49% in 2014), nearly twice the level of the UK. While drinking water quality is generally good, a significant proportion of customers are served by schemes which are at risk of failing key parametric standards. There are about 7,000 people on drinking water restriction notices (Cryptosporidium or lead risk) and the EU initiated a pilot infringement case in respect of breaches of the THM standard.

Ireland's wastewater treatment and EU directive compliance does not compare favourably with other EU Member States and is the subject of a major EU Infringement case based on acknowledged breaches of the Urban Wastewater Treatment Directive (UWWTD) affecting 83 agglomerations over 2,000 PE, many involving multiple breaches, due to inadequate plants and collection systems.





Annex I

EurEau sources

EurEau Position Paper "Transparency in water governance and water services". 27 May 2016.

http://eureau.org/administrator/components/com_europublication/pdf/457a4c2e59027282026f397861333416-20160527-PP-Transparency.pdf

EurEau Position Paper "Cost recovery in the WFD". 9 May 2014.

http://eureau.org/administrator/components/com_europublication/pdf/e277f706587cf6d7d100237d86f5e918-2014.05.09_PP_on_cost_recovery_and_environmental_costs_in_the_WFD.pdf

EurEau statement on the European Citizens Initiative "Water and sanitation are a human right!" 12 February 2014

http://eureau.org/administrator/components/com_europublication/pdf/dd89025146c6c92fb82addba90bc156d-2014.02.12_EUREAU_statement_on_ECI_Right2water_final_.pdf

EurEau "Methodological guide on Tariffs, Taxes and Transfers in the European Water Sector". 15 December 2011.

http://eureau.org/administrator/components/com_europublication/pdf/c07380bba7534abb100c60fce5fd3257-2356-3ts-manual-eureau-wwf6-final-report.pdf

EurEau short guide on '3Ts' Tariffs, taxes and transfers in the European water sector. 29 February 2012

http://eureau.org/administrator/components/com_europublication/pdf/fb69eb6241c68b968ca4d63878f194e4-Eureau-3Ts-Short-Guide-final-120229-v-internet.pdf

EurEau Position Paper on "Requirements for Financing Investment in the Water Sector". July 2010.

http://eureau.org/administrator/components/com_europublication/pdf/00ceb66c9707bf78860e51788cae5e53-2010.06.30_EUREAU_PP_Financing_investments.pdf

EurEau Position Paper on "Demand management and incentives pricing". 8 February 2006.

http://eureau.org/administrator/components/com_europublication/pdf/79



[d73f8a11831aefb4ce7b382b3dee4b-2006.02.17 EUREAU PP wfd demand management and incentives pricing.pdf](#)

Other sources

UN Media Brief “The Human Right to Water and Sanitation”

http://www.un.org/waterforlifedecade/pdf/human_right_to_water_and_sanitation_media_brief.pdf