



Industry and Regulators Committee

Corrected oral evidence: Follow-up: Ofwat, the water industry and the role of the Government

Tuesday 13 June 2023

11.30 am

Watch the meeting

Members present: Baroness Taylor of Bolton (The Chair); Lord Agnew of Oulton; Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Clement-Jones; Lord Cromwell; Lord Gilbert of Panteg; Lord Reay.

Evidence Session No. 2

Heard in Public

Questions 9 - 20

Witnesses

[I](#): David Henderson, Chief Executive, Water UK; Stuart Colville, Director of Policy, Water UK.

Examination of witnesses

David Henderson and Stuart Colville.

Q9 The Chair: Good morning. This is the Industry and Regulators Committee of the House of Lords. We have conducted an inquiry into Ofwat and published our report. We are now doing follow-up work on that same issue. Our witnesses this morning are David Henderson, who is chief executive of Water UK, and Stuart Colville, who is director of policy at Water UK. Welcome to you both. I am sure you are aware of the work that we have done already.

In April, the Government published their plan for water and we are interested, as a committee, in your view on the policies that were set out there and, in particular, to what extent you think that these are going to be deliverable in practice.

David Henderson: We thought this plan was very welcome. We strongly endorse its aims and objectives. It was important to bring together all the disparate parts and the various facets that affect the water industry. It is worth paying tribute to your committee and to the Environmental Audit Committee in the other place, as well as the work of the Secretary of State and Minister Pow, to drive this agenda, because we know how much people care about water and it is quite a complex subject. There are many aspects of it. We are very happy with the plan.

In particular, we are happy with some of the concrete elements coming out of it that were new, such as the banning of wet wipes that include plastic, because they are a very big issue for sewerage undertakers. They are a big component in blocking sewage treatment works, which has untold cost and environmental elements that are obviously unhelpful. We are big supporters of the plan. Stuart has been studying it in a bit more detail, so I might refer to him on the specific aspects of where we are happy with it and where it could go further.

Stuart Colville: Good morning. In addition to the specific measures that my colleague has talked about, there were a few strategic developments that the plan put in place, which were really welcome. With the emphasis on catchment planning, there was a stronger commitment to that than in previous documents we have seen from government. With the commitment to streamline some of the plans that control the sector, it mentions something like 15 plans that we have to work around and integrate into our investment decisions and our operational decisions. The fact that it is looking at streamlining that is really important.

Finally, it looks right across sectors rather than just trying to slice off an individual problem, whether that is overflows, surface flooding or nutrients from sewage works, for example. For one of the first times, it has tried to look at the broad set of pressures that we face and approached them in a slightly more joined-up way. That was good to see.

The Chair: Sewage discharge has caused a great deal of public concern recently. It has really hit the headlines in a dramatic way because of the

extent of those policies. Do you think that what has been suggested is actually deliverable? What about the timescales that might be involved?

David Henderson: You are absolutely right; it has really hit the headlines in a way that none of us could have anticipated. That is why Water UK, on behalf of the whole industry, wanted to apologise last month when we announced our ambitious plan to invest £10 billion to address this issue as quickly as we can. We apologised because we had failed as industry to keep up with the public's changing expectations on how sewage works should operate vis-à-vis their impacts on the environment. We did not really keep up with how people now expect the environment to be able to be used. There has been an explosion in open-water swimming, cold-water swimming, use of canoes and paddlers in reservoirs and other waterways.

In order for that to be done as much as people want, there needs to be less sewage going into the rivers and into other waterways. As part of the £10 billion plan, which is in line with the Government's overall objective to see overflows reduced by 80% over a 25-year horizon, we are going to treble investment, subject to Ofwat's approval. That is about as fast as we can manage, given the constraints on the supply chain and elsewhere in the economy, to see the sorts of reductions that people now rightly require. That will, by the end of the decade, see overflows fall by 40% from a 2020 baseline, which still leaves a lot to do but is, in our estimate, as quickly as we can go.

That is deliverable. We have worked across the country in detail. There are hundreds of plans that will make up this £10 billion overall strategic plan. That is as quickly as we can deliver on time with confidence.

The Chair: The committee was somewhat surprised that there had not been more monitoring of storm overflows and the difficulties that have been caused. Ofwat is now suggesting penalties for companies that do not fully monitor. Do you think that will have an impact or will make a difference?

David Henderson: All companies are working as quickly as possible to ensure 100% monitoring of every one of the 15,000 overflows throughout England. We expect that to be fulfilled by the end of the year.

The Chair: Is that the end of this year?

David Henderson: Yes. That is really needed so that everyone can see what is happening to each of those overflows. Part of the commitment that we announced last month was to have a new national environmental data hub, where the data that comes from each of those monitors will be able to be seen easily and people can have confidence because it will be independently chaired. That will enable people to see, in nearly live time, what is happening to each of those overflows and make decisions about whether they want to go swimming or use the environment in other ways around those overflows.

We do not oppose the efforts that Ofwat has undertaken to increase penalties should those monitors not be in place, but we are confident that they will be by the end of the year.

The Chair: That might have a suggestion for penalties in other areas as well in the future.

Q10 **Lord Cromwell:** Can I just go back, David, to your initial statement? It almost seemed to imply that you had apologised, but it was the public's fault that they wanted to swim in rivers and stuff, and that is the problem. Surely, the problem is not that at all. I can remember my children swimming in rivers years ago. It is not that people want to swim in the rivers or use the water in different ways. It is that the water is being polluted by sewage overflows that have not been sufficiently controlled.

David Henderson: People are absolutely right to want to use the waters in the way they do, increasingly. This is a feature of the Victorian sewerage system. Some of these sewers are over 150 years old. Unfortunately, as great as they were in ending cholera, which was a plague on some parts of the country at the time, they mix rainwater with wastewater from houses and businesses. That means that, every time there is a big downpour of rain, the sewers are necessarily overwhelmed. The overflow mechanism provides for those instances to enable sewage that cannot be treated by the sewers to go into waterways.

Lord Cromwell: Forgive me, I know that, but the Victorian system reached its capacity in about 1960. We have left it rather a long time to wake up to the fact that something needed to be done. This is not my line of questioning, but I really must react to your opening statement.

David Henderson: No, you are right. We should have woken up earlier. That is why we are apologising. Across regulators, government, Parliament and the industry, none of us has paid sufficient attention to this.

The Chair: There were promises made 30 years ago when the companies took over the industry that this kind of problem would not arise and we would get blue badges for beaches and so on.

David Henderson: That has happened in terms of the beaches reaching "excellent" status. That has moved very much in the right direction. We are up to now 70% or so, when at the point of privatisation in England it was in the low teens, in terms of the proportion of beaches that had that status. I am not aware of any promise being made in the 1990s to end overflows. A wholesale engineering effort would be required to replumb all of England in order to end combined sewers. That would be an enormous undertaking.

Since the 1960s, as Lord Cromwell mentioned, these sewers have no longer been built. Milton Keynes, for example, does not have a combined sewer. Every time it rains there, there is no problem with the sewerage system being overwhelmed because the rain does not go into the sewer.

In the rest of the country where cities are older than that, we have this legacy that we are having to deal with. This £10 billion is the first step the industry is making, in recognition of the need to end overflows where possible, to treble the current rate of investment and to reduce by 40% the frequency of overflows being used by the end of the decade.

Lord Cromwell: Can we come back to the £10 billion? To clarify, £56 billion is announced in the Government's storm overflows reduction plan. Can you confirm that this £10 billion is additional to that £56 billion?

David Henderson: No.

Lord Cromwell: It is in the £56 billion.

David Henderson: Yes, the £56 billion is a central estimate of a range issued by Defra as part of its impact assessment that follows on from the plan. That range started at £43 billion and ended at £69 billion; £56 billion is its central estimate. That range is the top level estimate for an 80% reduction over 25 years. The £10 billion is a much more detailed effort to estimate what would be required to fulfil that objective for the first five-year period of it. It is within that overall objective set by the Government. We want to go as quickly as we can. If we can deliver more quickly than the Government has set out, we will.

Lord Cromwell: Just to be absolutely clear, because there has been a lot of talk about this being an additional £10 billion, are you now telling us that, actually, it is £46 billion plus £10 billion?

David Henderson: No, it is additional to what we have today, because we have investments set out in five-year periods, as agreed with Ofwat. Should Ofwat agree to this £10 billion plan, that will see a 40% reduction, which is in line with the Government's 80% reduction over 25 years.

Lord Cromwell: I am sorry; my maths is a bit noddy on this. I am trying to understand. Are we talking about £56 billion over the next 25 years, or £66 billion?

David Henderson: The £10 billion is to achieve the aim that the £56 billion is setting out to do.

Lord Cromwell: It is within the £56 billion, as I understand it now.

The Chair: It is not new.

Lord Cromwell: Not necessarily you, but some government people need to be careful to not announce that as additional, in that case.

Stuart Colville: When we talked about it being new money, this is what we were looking at. About £3.1 billion is being spent from 2020 to 2025 on things such as the Thames Tideway tunnel as well as smaller schemes. It is a tripling of that level of investment.

This is what we are trying to convey. When you look at the trajectory for the rest of this decade, going pretty much full bore on minimising the

number of spills by 2030, how much is that going to cost? What are companies willing to do? What can the supply chain bear? The figure we get to is about £10 billion, which is additional to the £3.1 billion we are spending so far but consistent with that £56 billion top-down modelling estimate. This £10 billion is bottom up: let us calculate the specific projects, where they will be and the cost associated with those.

Lord Cromwell: Thank you both. That is really helpful, because that is news to me, which may be my fault, not yours. The next question, of course, is where that £10 billion is going to come from. My understanding of stuff in the public domain is that there will be an impact on water bills. Is that correct, and can you quantify that at all?

David Henderson: There will be an impact. The precise impact is yet to be determined. Companies, as they are today, are funding by their own means some of the improvements to reduce the frequency of overflows. Some companies are moving from an average of 29 activations per year to 20, entirely funded from their own resources. The ambition set out as part of our plan by the end of the decade is still being worked through and will result in much more detailed plans being submitted to Ofwat, which will test the rigour of the efficiency assumptions therein and make a final determination.

Part of that £10 billion will be funded by companies. The large bulk, though, will fall on customers. The Government's estimate is that it will be in the order of £20 per household per annum. We do not have any reason to think that the Government's estimate is too far off the mark. We cannot be more precise at this stage, because it is subject to further detailed work and, ultimately, an assessment and decision by Ofwat.

Lord Cromwell: You will appreciate that that is not going to be terribly popular with customers, who feel that really they should not be funding this catch-up investment which the water companies should have been putting in themselves.

David Henderson: I would take issue with the suggestion that this is catch-up. This is additional investment to produce new things: new Olympic-sized swimming pool overflow tanks at sewage treatment works, new efforts to rip up concrete to replace it with grass and ponds in order to stop so much rainwater entering the system in the first place. That is all new activity. The mechanism we have in England at least is that, in order to attract that investment, which of course could go elsewhere, to other countries or to other elements of the UK economy, into water, there needs to be a return.

That return at the moment is very low, I would argue, at 3.8% on average in the last 12 months. That return facilitates the attraction of the investment, which is recouped ultimately in the main by customers, as you say. That effort, though, is absolutely noticed by companies. We understand how difficult people are finding it, which is why we are supporting more customers than ever before: 1.2 million families across England are being supported with their bills; £200 million extra this year

has been put in by the companies to facilitate even greater support, because we appreciate that a lot of families are finding it tough, as they are across the economy. We are determined to support them as best we can. We are doing that more than ever before.

Lord Cromwell: We could spend a long time talking about how dividends have been paid out and in what form, but that is not my bailiwick, so I will not.

Stuart Colville: I want to add something briefly, just in case it helps the committee. The way we look at this is that there is some activity that companies should have been doing to maintain their sewers to stop groundwater getting in, overloading the system and so on. Where there is an activity that companies have already been funded for or should have been doing, that is one category of question we can debate. We can look at exactly what they have been paid to do and so on.

Our point is that, with this £10 billion, this radical transformation of 100,000 kilometres of combined sewer, this enormous infrastructure programme, which is one of the largest we have delivered for decades, is an additional category of thing from the existing expectations of companies. This represents a significant change and as such will require new investment, which, as David has set out, will have to be funded significantly through bills.

Q11 **Lord Cromwell:** I have two last questions. First, investors, who we were talking about a moment ago, look for stable returns. They look for certainty and stability. Is there anything more the Government or Ofwat should be doing? Is the price review mechanism enough to work that? Secondly, is there further room for third-party competitive input? Tideway is the obvious example, but could a lot more of that be taking place?

David Henderson: Overall, the PRM model, broadly speaking, works. We could argue about whether it should be a little longer or a little shorter. Ofgem, it is worth noting, tried this. It moved away from a five-year price review period to eight years. It discovered that, in the end, it had to have a mini review half way through, and it has now reverted to a five-year model. Broadly speaking, a five-year price review period works. Some projects take longer than five years—large reservoir projects, for example. You mentioned the Thames Tideway. There are some things that could be done to facilitate even greater certainty. Stuart may be able to give some information on exactly how.

Stuart Colville: The model overall offers stability, certainty and lower cost of capital and, therefore, cost to the consumer. Overall, it is a good system that has delivered £190 billion in investment and kept bills £120 lower than they would have been under other models, according to Ofwat. The question then arises about mega-schemes such as the Thames Tideway tunnel or, indeed, certain reservoirs or water transfer schemes. They are of a scale and complexity that means that we have to think of alternative solutions. Ofwat would say that you could reduce cost

by up to 40%, using a competitive element in the tendering out of the finance, design, construction, operation, maintenance and so on.

There are currently two ways in which we can explore a competitively tendered solution to some of these large projects. For projects of at least £200 million in lifetime cost, there is this scheme called direct procurement for customers—DPC. There are three pathfinder projects going through that mechanism at the moment. Nothing has been delivered yet through that competitive process, so we have to wait and see whether it delivers on the promise of greater efficiency. Certainly, this is a direction Ofwat is pretty committed to. I would expect more projects to be taking this competitively tendered approach. In terms of the results, let us wait and see.

We then have an even bigger potential change to the way we do it, which is to use the so-called SIPR—the Special Infrastructure Projects Regime—which was put in place for the Thames Tideway. It is a particular mechanism under the Water Industry Act whereby a new legal entity can be licensed and directly regulated by Ofwat. The argument is that this results in an even lower cost of capital and therefore, again, an even lower cost to the consumer.

The DPC and SIPR models both have promise. I think we will see more and more use of DPC and direct procurement. The SIPR could be really useful for the largest of projects, the really big reservoirs and so on, because there is a transaction cost with it. There is an administrative overhead with setting up mechanisms of that size. We should explore that.

There are legislative barriers at the moment to enabling more use of that regime. There is a particular test that if a water company wants to use that mechanism, such as Thames Tideway, it has to be of a scale that would prevent the water company delivering its ordinary services or disrupt its normal operation. It has to be extremely big. We would see an argument for looking at that test. Is that really necessary or could we perhaps consider, where the scheme is very large, making more use of that SIPR? We would have to look at the detail, but there is potential opportunity there.

Q12 Lord Agnew of Oulton: Lord Cromwell covered most of the things I was going to ask you, so I will ask you a slightly different question. You now know that you are going to put £10 billion into this programme. We know there are 330,000 sewage outfalls a year at the moment. How quickly will that £10 billion reduce that number of outfalls?

David Henderson: It is important to say that this is a proposal. It is subject to approval by Ofwat. Should it be approved, our estimate is that it will reduce overflows by 40%, so by 140,000, at the end of the decade. If we assume it will be a straight-line reduction, it would be 20% of that each year, so 28,000 per year.

Lord Agnew of Oulton: When are you hoping to hear from Ofwat?

When can you actually get going?

David Henderson: Our PR24 timetable is such that companies will submit their proposals in October. Ofwat then takes a lot of detailed effort to study them in focused detail and we would expect a decision by early next year or the middle of next year. It takes some time. These are very complicated, very large and detailed proposals. At the end of that period, around the middle of next year, if approval is granted we can then get on with the work.

Lord Agnew of Oulton: Are the water companies, in anticipation of the approvals, working up their own plans now, so they are working in parallel, not just waiting for a green light to start?

David Henderson: Ofwat has provided support for some companies to bring forward the activity on storm overflows. That work is being carried out today.

Stuart Colville: Yes, there are two things happening in anticipation of that slightly laborious process. First, some investment has been accelerated. Ofwat has allowed an early start to some of the projects that companies want to get on with, particularly where they are very likely to survive the scrutiny that Ofwat rightly applies to these. Where it is very likely they would have come out of the process anyway, companies are just getting on and starting some of that. Around £1 billion has been earmarked to do that before the next price review even gets under way.

Then, as we have talked about, companies are also doing the detail planning on the remaining overflows that will require investment, both in the price review that takes place from 2025 to 2030, and, indeed, in the price review after that, in order to achieve the various targets that government has put in place.

Q13 **Lord Reay:** Our recent report called on water companies to commit to providing public, open and up-to-date information on the environment and the performance of the sewerage network. We very much welcome Water UK's recent announcement of a new national environment data hub. You addressed this in your opening remarks, committing to provide within-the-hour information on sewage overflows throughout the country, as well as the state of our rivers and coastal waters. You have mentioned that this will be in place by the end of the year. Can you provide us some more details on how precisely it will operate?

David Henderson: We are still working with every company on the exact nature. Our hope is that there will be a single place, a website, first and foremost, where it will be very easy for anybody to see anywhere in England where the 15,000 overflows are located; what is happening to them in terms of whether they are operating; and in particular what is going to happen to them as we make these investments and in the following price review periods. What will happen as part of the £10 billion? If it affects that particular overflow, how it will affect it?

That is our expectation. Thames Water, for example, does this in the main already for its area. We are hoping to replicate that somewhat across the whole of the country so that anyone can go and see the status of any overflow, what is happening to it and what will happen to it as a result of this investment.

Lord Reay: How will the operation be monitored and how will water company compliance be enforced?

David Henderson: It is important that it is independently overseen. We want people to have trust and confidence in this data, as people rightly expect with just about any data that they experience and want to see. It is our commitment that it will be independently overseen. It will draw in information provided by the companies, which is subject to the usual regulatory audits and inspection, to give people further confidence over the veracity of the data.

Lord Reay: When you say “independent”, do you mean the Environment Agency?

David Henderson: As I understand it, the data is already subject to scrutiny by the Environment Agency. Of course, there are other audit obligations on these entities too. Then we would want to subject it to further oversight through an independent chair, to give people additional confidence in the national collation of that information.

Lord Reay: The website would be jointly run by the water companies, would it? Is that the idea?

David Henderson: In terms of how it is exactly run, we need to do further work on that.

Stuart Colville: We are talking to green groups and other stakeholders at the moment. Rather than pre-announcing exactly how this thing is going to work, we want to design it with groups such as the Rivers Trust that understand data, understand what their users want and so on.

In broad terms, it will extract data from event duration monitors across the 15,000 overflows, as David has said. Each one of those monitors will have regulatory requirements to ensure data integrity—that it reports in a certain way to certain specifications, is sited in a particular place within the overflow and so on. The source data we can guarantee the integrity of. It will then pull that in and integrate it from all the English WASCs into a single visualisation layer, which is essentially a map, but we would hope to be able to allow you to do other whizzy things with it as well.

We will try to integrate water quality data as that comes online in the second half of the decade. That was an obligation in the Environment Act, to install water quality monitors. Again, we want to pull those into the map. Then we also want to provide information, where we are able to, on our plans to improve things. If you are living in a local area and you see a spill going off, not only will you be aware of that; you will also be able to see the impact on the local water body. Our hope is also to be able to tell

you, "That's happening today, but in X years here's the plan to sort it out and what we think the result will be".

That is the ideal end product. Exactly how independent oversight will work we will be saying more about later this summer, once we have had an opportunity to properly talk to the various groups that we know are really interested in this.

Lord Reay: Will it be the relevant water company or the EA that will be responsible for making sure that the monitors are operational or working properly and have not broken?

Stuart Colville: In the first instance, it is up to the companies to do that. They will have regulatory obligations to ensure the availability of that data and they will be penalised. If a monitor just stops working for a year, the regulator will step in and they will be penalised for that. That is what I mean by these monitors having regulatory control.

Q14 **Baroness Bowles of Berkhamsted:** Ofwat has recently published plans to tighten its scrutiny of executive pay, which would enable it to step in to ensure that customers do not fund performance-related pay when regulatory expectations have not been met. What is your view of those plans, and to what extent will water companies take responsibility for this themselves and not award bonuses while there is poor environmental performance? Will they just wait until it is forced on them by the regulator?

David Henderson: Companies have already taken action in response to their recognition of the strength of public feeling on this wider issue. In England and Wales, the CEO of no water and sewerage company has received any bonus that has been paid for out of customer bills. Indeed, half of them are taking no bonus at all. Of the few that are paying bonuses for an environmental element of performance, that is only those that are at the top Environment Agency rating.

Companies are already acting and in recognition of issues as you have laid them out. We do not oppose what Ofwat is doing on this topic. We feel there should be a strong link between performance and pay. The decisions made by the independent remuneration committees of these companies have taken that into account, which is why this year, as I say, no customer bill is being used to fund any bonus of any CEO of a water and sewerage company in England and Wales.

Baroness Bowles of Berkhamsted: Of course, the important words there are also "customer funded". There will be bonuses funded by other means. What will those other means be and why, if performance is still poor in delivery, would they get bonuses funded by other sources?

David Henderson: The CEOs of some of these companies are CEOs of other entities as well, such as the parent company, which may be involved in a range of commercial activity—the leasing of property, the running of other businesses, energy production and supply, and so forth.

Each company is different. The independent remuneration committees will take into account a range of factors as they assess overall performance. That will not be just for the performance of the regulated activity that is subject to the scrutiny of Ofwat and the Environment Agency. Those decisions will be made by those committees, as I say, weighing up that range of factors. Companies are setting targets for CEOs that cover a huge amount of activity. Storm overflows was not actually an obligation set by the regulators; I think it will be in the future. It is those funds that will be used, generated by those other activities.

Baroness Bowles of Berkhamsted: Those may still well be assets that basically originated within the water industry. I accept if it is completely different, but it still has its origin in what is their regulated activity.

David Henderson: As I understand it, one or two companies have other elements of their corporate structure, such as the running of a chalet near a reservoir or lake. These assets are not in any way connected to the regulated activity of providing water or dealing with wastewaters.

The Chair: When you say that bonuses have been declined, is it not the case that certainly one person who declined their bonus got a very substantial pay increase?

David Henderson: No bonus is being paid at all by the use of customer funds and half of the CEOs of the water and sewerage companies across England and Wales are paying no bonus at all.

The Chair: They are increasing salaries quite significantly in some cases.

David Henderson: You may be referring to the news reports of one or two CEOs who have received payments for leaving previous places of employment. If those reports are true, that would not be for what they are doing in their day jobs as CEOs of these companies. In any case, it is the independently appointed remuneration committees that make the decisions concerning remuneration on behalf of the shareholders.

Baroness Bowles of Berkhamsted: There is also the issue of dividends. Ofwat wants to also restrict payment of dividends according to water company performance. Will that basically be abided by, or will there be mechanisms to get around that and pay dividends either internally or by another name? There will be linkages there, perhaps, to the bonus issue as well.

David Henderson: Companies will always seek to comply with whatever obligations are placed on them by the regulators. On dividends, as I mentioned earlier, it is important to note that three companies last year made a loss, and on average the dividends being paid in England of water and sewerage companies was 3.8%. That is less of a return than you would receive if you put a few hundred pounds in a high street bank on a fixed-term deposit right now. These are not high amounts.

Stuart Colville: To the specific question, there is a regulatory ring-fence around the regulated entity, which the regulator, Ofwat, controls quite

carefully. The straightforward answer to the question, "Will it be abided by?", is yes, because there is regulatory enforcement of that ring-fence.

Baroness Bowles of Berkhamsted: It does not sound as if the principle and the morality of it is accepted. They are saying, "We'll go by the letter".

David Henderson: As I was saying earlier, some of these entities have within their wider corporate structure, far beyond the regulated entity, other commercial activities, just completely separate.

Baroness Bowles of Berkhamsted: Maybe they spend too much time on those instead of on the water. Should that not be taken into account?

David Henderson: The set-up of the regulation is for the regulated entity. That entity complies with the rules as set by the regulator and will comply happily, concerning dividends or any other matter.

Baroness Bowles of Berkhamsted: We have reached an impasse there.

Q15 **The Chair:** Let us move on to perhaps just exploring further customer bills, because we did not really go into that. You mentioned a figure of £200 million for support, which in this overall scale of the water companies is not a massive figure. I have two questions, really. First, given the current cost of living crisis, do you think that is enough? Secondly, the committee called for the introduction of a single social tariff. Would you like to comment on that, to make sure that all customers can get the support that they need?

David Henderson: On the £200 million, it is important to note that is additional to the support that was already being provided. That is enabling 1.2 million families across England to receive support in recognition of the fact that many have it tough, given the cost of living pressures, as you say.

Bills, on average, have fallen in real terms. Since 2010, had bills merely risen with inflation, they would be 18% higher, almost £100 on average, than they are today, because they have been falling in real terms. None the less, we accept that people have it tough.

The Chair: They have been falling because Ofwat thought you were not investing, in your terms.

David Henderson: Ofwat has been rightly focused, to some extent, on keeping bills as low as possible. That is a very laudable aim. Everyone wants bills to be as low as possible, while still providing the services people demand and expect. Now, as we know we need to address people's concerns considering the environment, additional investment will be required and further support will be provided to customers too.

On a single social tariff, it is important to note that every company has a social tariff as it is. The committee has recommended unifying that tariff

across the whole country. There are pros and cons to that. We support the committee's desire that, should that occur, there would be no detriment to any recipient of any support. That is right and proper. If we were to unify all the same social support across the system, that could involve other costs. The more important thing to focus on is the support getting to where it is needed and to ensure that we are maximising the support available to people who are finding the cost of living very hard.

The Chair: You would not at this stage support a single social tariff, or would you want to move towards it? Do you have some thoughts?

David Henderson: More investigation is needed on the full implications of what moving to a single social tariff would involve.

The Chair: You have not done work on that.

Stuart Colville: We have done work on that with government. We have done some modelling work, for example, to look at some of the high-level implications. Plenty of people and companies in the water industry would be quite supportive of a national social tariff. The problem at the moment is that we are running into the next price review from 2025. There probably is not enough time to introduce a national social tariff in time for that price review without introducing it half way through the cycle, which would cause an additional layer of complexity. There are plenty of people who would be supportive of it, but there are some practical difficulties that are potentially in the way as well.

As David says, not only are we supporting more people than ever before with other measures, but you will see that trajectory continue. In the absence of a national social tariff, if government chooses to continue with its current policy, there will be plenty of other measures in place to help people because, as the committee has rightly observed, if bills do go up, particularly given the pressure that households are feeling at the moment, we have to make sure that there is plenty in place to help them, whether that is help with the debt that they are accruing, payment breaks or reduced tariffs. All of those are available from companies, and will continue to be available and, frankly, built on as we look to future years.

David Henderson: It is important to note that the water industry will never cut off somebody's supply of water in any circumstances. We will never do that and we will never break into somebody's home in order to install a meter. There is a range of unique levels of support provided by the industry, which see people continue to enjoy the benefits of water as they need, and that will never change.

- Q16 **Viscount Chandos:** The committee's report recommended a greater role for nature-based solutions to water pollution alongside more traditional approaches. I should maybe flag an interest that is in the report: I am a trustee of the Esmée Fairbairn Foundation, which funds non-profit institutions working in this area. Both the Government and Ofwat have also called on companies to increase their use of nature-based solutions.

What steps are water companies taking to implement this and how do you see your association's role in promoting that?

David Henderson: We are a very large supporter of nature-based mechanisms to deliver the outcomes for customers and the environment. We see our role, as Water UK, as a voice of the industry to champion the role that nature-based mechanisms can play, do play and increasingly are playing. There are a number around the country. There is one that Anglian Water is overseeing at Ingoldisthorpe, which involves the use of filtration by plants as a final stage of the sewage treatment works. That is excellent. It is reducing the need for concrete, steel and chemicals.

We want to see much more of this. We are keenly supporting this. We want as many of the possible barriers to their delivery removed as can be. We see our role as Water UK to champion this as much as we can, which is why we are regular advocates of nature-based mechanisms.

Viscount Chandos: What are those barriers?

Stuart Colville: Just building on David's comments, there is activity and potentially barriers at both regional and national level. At a regional level, going into the next price review, we are seeing more activity between water companies, green groups, local communities and so on than, frankly, in any previous price review. I am pretty confident that, when plans eventually emerge—the draft plans will be available in October—we will see an inflection in the number of nature-based schemes being incorporated as part of the programme. I am hopeful about a reasonably significant increase in that because, frankly, not only companies but regulators and Defra understand the importance of these things. That is happening at a regional level.

There are some practical pressures about the day-to-day delivery of the designs of programmes in a way that brings in community and other groups that may not be used to dealing with these kinds of things. They are being overcome and we are ensuring that best practice is being spread between water companies that are dealing with some of these smaller groups.

The national level is more significant, in a way, because everyone is committed to the principle of nature-based schemes. We all see the value in them, but there are occasionally some regulatory barriers that get in the way. Traditionally they have been principally economic regulation barriers, because there has been an incentive to traditional concrete solutions and away from biological systems that would require ongoing maintenance. To be fair to Ofwat, it has taken steps in the right direction to reduce the disincentive on nature-based schemes and that has been successful.

What then remains is the perception of risk. If you are an environmental regulator or even Defra, there is some degree of nervousness about the inherent uncertainty in biological systems. If you want to hit a specific nutrient number, so many milligrams of nitrate, say, it is very hard to be

absolutely confident that a particular wetland, woodland or whatever is going to hit that mark. There is sometimes a slight aversion to allowing those schemes to take place. Some of the problem we see is with the way that targets are set.

If you look at the phosphorus target set under the Environment Act, for example, by the Government, that is specifically to reduce phosphorus from treated wastewater as it emerges from the sewage works, thereby preventing us using nature-based solutions elsewhere in the catchment, for example, and similarly with the Levelling Up Bill.

Lord Agnew of Oulton: Hang on. I do not follow that, because I have seen one that takes the phosphorus from eight down to one. You have to get it to 0.25. Why can nature not do the heavy lifting down to the one and you take over from there?

Stuart Colville: That is precisely our point. Our lawyers' interpretation of the way the phosphorus target has been designed suggests that we cannot use a combination of physical processes and nature-based solutions to reduce the amount of nutrients in the catchment as a whole.

The Chair: Why not?

Stuart Colville: It is an output-based target that measures the phosphorus that emerges in the treated wastewater from the sewage works, not the phosphorus in the catchment.

Lord Agnew of Oulton: Are you lobbying to get that changed?

Stuart Colville: That is our position, yes. We have asked government to look at that. I am raising it as one illustration of how the setting of targets in a way that reduces risk in the eyes of government can sometimes nevertheless preclude solutions that would in the round be more beneficial.

The second example I was going to give briefly is in the Levelling-up and Regeneration Bill, which has recently gone through the Lords. There is a debate about nutrient neutrality and the Government amendment to that bill again places a very specific, technically achievable limit on the wastewater treatment works, thereby principally promoting concrete and steel solutions at that works, rather than allowing us to use catchment-based, nature-based solutions, again stopping us working with farmers, for example, or using different schemes elsewhere in the catchment.

Viscount Chandos: In summary, quantifiable is the enemy of the good.

Stuart Colville: Precise quantification is the enemy of the good, yes.

Q17 **Viscount Chandos:** Can I just go to the slightly broader question of how you see the role of your association? What comes over is that the industry is pretty reactive: "Goodness me, consumers want to be able to go swimming in rivers"; "The regulator is pushing us in this direction". A trade association needs to represent its members but at the same time

provide leadership about the sort of culture and approach that they take. Regulation should really be the last resort. Can you talk about how you approach that?

David Henderson: Yes, I would be happy to. I am new. I have been in this job for just over three months and the chair, a former member of another place, is new too.

Both of us are really keen to ensure that Water UK does not focus on reacting to events around it, but, rather, that it can anticipate those events and, ideally, be so connected to society, its passions, fears, hopes and aspirations that we are acting in a way that is ahead of any significant shift in sentiment and expectation. We want an industry that can provide people with the enjoyment of the environment they want tomorrow, the day after that and the year after that, rather than what they wish had been in place many years ago. This is a shift for Water UK that we are very keen to pursue, and we are actively putting in place the steps that will enable us to do that more than we have already.

Last month's announcement, where we apologised on behalf of the industry and set out a very ambitious plan to treble investment, to have a data hub, which will give people confidence over the data that we put out, and to support up to 100 bathing areas in England. That is a first step on that path to moving us more towards where people want us to be. I hope that in time we can move far beyond that so that we are not seen by people as potentially harmful but as beneficial to their lives.

Q18 Lord Cromwell: I am obviously with you on wanting to get to where people want you to be. Would you accept that it has largely been the public and non-government organisations that have highlighted this problem of sewage overflows and the like, and that now the monitoring system may be catching up with that? It was not the agencies or the companies that were highlighting this. It was actually Surfers Against Sewage and all those other non-government bodies that brought this to light. How did that come about?

David Henderson: I want to pay tribute to those groups that you have mentioned. They have done an amazing job. By any measure, anyone who is involved in looking at political campaigns would have to see that this has been remarkably successful in raising the public's awareness of these issues. I suspect surfing in the sea has enabled people to see first-hand the issues they are talking about. I would also say, though, that the monitoring that has been installed, following government requirements, which have shifted over the last decade, have enabled them to have the proof, the demonstrable evidence, to back up their case. I would not say it is one or the other. Both have contributed to enabling a really strong evidence-based case for this issue needing to be addressed.

Lord Cromwell: You would accept that the water companies did not raise it first. It was the public.

David Henderson: That is why we said sorry, yes, absolutely. We should have noticed this much earlier and we regret that bitterly. I have been

very humbled by the evidence that has been brought forth by various campaigning groups and highlighted very clearly by the media. That is why we said sorry.

The Chair: I am sure the campaigning groups such as Surfers Against Sewage would be very touched by your tribute to them. Do you understand why there is a degree of cynicism here? The water companies for 30 years have gone down that path, taken their dividends and so on. Now they are saying, "Sorry, we got that wrong. We're all new and it's going to be different in the future". That generates a degree of cynicism.

David Henderson: I understand why people are frustrated and why they are cynical. All I can do is promise them that we get it and we really do mean what we say. We have unveiled this very ambitious, comprehensive plan to tackle the issues that people have rightly raised. I would ask people to see what we have done in the time we have had. In the future, I am very confident they will start to see demonstrable changes to the environment.

Stuart Colville: If I look at the last 10 or 20 years, what went wrong is that we were very focused on the narrow issue of the direct ecological impact of overflows, rather than recognising the societal concern and the amenity disbenefit of these things. We would look at the fact that they are responsible for 4% of the reasons for rivers not achieving good ecological health and, therefore, direct our investment towards beaches, which have improved in the way that David has outlined, or sewage works themselves, where the introduction of secondary and tertiary treatment has brought down pollution by up to 75% on key parameters such as ammonia.

We were focused on that and we missed the fact that the public just do not like these things. They want them gone, and rightly, frankly, because they are unacceptable in the 21st century. We need to stay focused on the fact that the public have rejected these things for understandable reasons and stop going back to this issue of direct ecological impact, which was directing our investment for several decades.

Q19 **Lord Clement-Jones:** I want to come to future water supply and demand. That was another area where the committee expressed its concerns in respect of both. Starting on the supply side, do the plan for water and the national policy statement for water resources infrastructure provide sufficient clarity and impetus to ensure future water supplies? Specifically, will reservoirs and water transfer schemes be able to progress more smoothly through the planning system as a result?

David Henderson: In short, yes. We welcome the fact that this plan for water, through the incorporation of the national policy statement, is identifying that, along with the other two elements of water: namely, the use of water and the need to reduce leakage. We are confident that there is sufficient attention now being paid to the need to have more reservoirs. We have not had a large one built in many decades. That is a problem with a growing population and the effects of climate change,

which are very obvious to all of us. This plan is a really important step towards streamlining the planning requirements for building reservoirs.

We have had reservoir applications in the past be knocked back. There is now an acceptance, with the benefit of hindsight, that they were probably not the correct decisions. Now we are confident that through this plan for water and the national policy statement we will see approvals come more quickly for the construction of these much needed reservoirs.

Lord Clement-Jones: Going forward, are you planning on the basis of that streamlining and a much quicker delivery of, in a sense, new reservoirs? After all, there have not been any new ones in the last 20 years.

David Henderson: Yes. There are seven currently in the pipeline.

Stuart Colville: The first of those is already under construction down in Havant near Portsmouth. It is not just about reservoirs; it is also about strategic water transfer schemes. There are seven reservoirs and a similar number of strategic transfer schemes—using the old canal network, for example—to bring water, down from north to south. Collectively, the investment we are planning for future years comes to about £14 billion. The regulator has put in place various reforms to speed up the regulatory process. Once you add in the more efficient planning side of things, we are really hopeful that these will be coming on at an accelerated pace and will be prioritised in the next price review.

Lord Clement-Jones: These planned new reservoirs have not just suddenly sprung up in the mind's eye since our report, I am assuming. They were in the pipeline, but you are now much more confident about the speed and the actual delivery.

Stuart Colville: The national policy statement for water resources will make a big difference. We were really pleased to see it, yes.

Q20 **Lord Clement-Jones:** Coming on to demand, again, you have expressed yourselves as happy with the national plan for water. Does that go far enough on reducing water demand? As you know, the committee recommended making water metering compulsory, whereas the Government have not gone for that solution. What is your view on that?

David Henderson: We are very happy that demand was a component of the plan concerning water. At Water UK, we are running comprehensive efforts every year, which touch 20 million households, on tips for conserving and using less water. We would like to see more standards concerning appliances, particularly those that are very heavy consumers of water such as washing machines. There is more work to be done there.

We know metering works. Metering saves the average family £150 per annum once installed. It is currently at 60% and rising. It may not be appropriate everywhere. There is a cost element too in the installation and the time taken, but overall we support the further implementation of

meters. Customers on average benefit very much when they have them installed.

Lord Clement-Jones: You have not quite answered the question. Would you prefer to see it compulsory?

David Henderson: We would rather there be no need for compulsion. In any policy, if we can get there without a need for compulsion, that would be preferable. Metering is increasing. We are seeing it going up year on year. More and more of the meters we have are being converted into so-called smart meters, which provide additional assistance in finding out exactly when water is been used during any given day.

Lord Clement-Jones: When, for instance, do you anticipate getting to 90% covered not by the smart meters necessarily but by actual water meters?

Stuart Colville: We do not know, but companies are currently drafting their water resource management plans, which will have forward trajectories for meter deployment. That will give us a better indication of where we will be in 10 or 20 years' time. Those plans are submitted as part of the business plans that we expect in October, so that will give us more data.

Lord Clement-Jones: To date, you have not done anything that tells you when you might get to a certain percentage on your ordinary meters, on your smart meters, and where you would have otherwise got to if meters were compulsory.

Stuart Colville: We have done some work on smart meter penetration historically. That shows that smart meters plus a label, which the Government have committed to on appliances, is one of the biggest and most important changes you can make. The switch from a dumb meter to a smart meter is more important, in some ways, than the installation of a meter in certain places. That is what we are focused on. We do not have an up-to-date trajectory on metering rollout, but we will know more once these water resource plans are published.

Lord Clement-Jones: How much of your demand planning is built on the rollout of smart meters? Have you any quantification of that?

Stuart Colville: Of the 4 billion litres of additional water we will need by the second half of this century, roughly a third is posited on reduced consumption. Then metering will be a component of that. I do not have a figure in front of me, but I can certainly provide that after the session, if that would be acceptable.

Lord Clement-Jones: It would be useful to know what element of your demand planning is dependent on metering of different kinds. Then one could make an even better assessment of our recommendation about the compulsion aspect.

Stuart Colville: Yes, we will do that.

The Chair: Just out of interest, is there much scope for use of grey water? Is that something that is looming?

Stuart Colville: We have looked at that. When we have done modelling work and looked at international examples, it has contributed somewhat less than the three main interventions, which are minimum standards, a water information label and smart metering. Those were the three things that made the biggest difference. It can be a contributor in certain places and some developers are taking up new technologies that do that kind of thing. I suppose we would not see it as a principal contributor to the demand picture, certainly over, say, a 10-year horizon, even if ultimately it becomes more important.

The Chair: Thank you for your evidence. The message that we would want to send back to your industry is that public accountability might have been less than it should have been for many years, but in the future the water industry has to be aware that there will be a great deal of investigation, concern and monitoring of what it is doing in order to deliver the kind of plans you are talking about. Thank you very much for your evidence today.