HOUSE OF LORDS

Industry and Regulators Committee

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

Tuesday 18 July 2023

10.30 am

Watch the meeting

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

Evidence Session No. 5 Heard in Public Questions 58 - 79

Witnesses

I: Rebecca Pow MP, Parliamentary Under-Secretary of State, Minister for Environmental Quality and Resilience, Department for Environment, Food and Rural Affairs; Davide Minotti, Deputy Director, Water Services, Department for Environment, Food and Rural Affairs.

Examination of witnesses

Rebecca Pow MP and Davide Minotti.

Q58 **The Chair:** Good morning. Welcome to the Industry and Regulators Committee and to our inquiry today on the water industry, Ofwat and the role of the Government. We are delighted to welcome Rebecca Pow and Davide Minotti from the department. We look forward to raising a number of issues that have happened since we published our report. You will recall that we published a report in March 2023 entitled *The Affluent and the Effluent: Cleaning Up Failures in Water and Sewage Regulation*. There have been quite a few events since that was published that highlighted some of the concerns we raised.

That report set out a chronology of problems that had arisen over the past 15 or more years, starting with the significant amount of addition of debt on to many water companies and the structuring that enabled them to extract a very significant amount of money to the benefit of shareholders and some executives.

The second problem that has arisen over that period is the increase, now at record levels, of storm overflow spills of sewage, which have blighted many communities around the coast and inland in rivers.

The third problem that has arisen is the significant underspend of capital investment to address the problems that have led to storm overflows, and that continue to lead, in some companies, to leakage levels of around 25% or sometimes 30%. The industry has moved from being a quiet—dare I say—backwater to being on the front page of most newspapers. It is not surprising, because the cost arising from the incompetent way the industry has been run and regulated over the past 15 years will all land on the bills of consumers. They will no doubt feel very aggrieved at the incompetent way the industry has been regulated.

Minister, could you explain to me why, over quite a long period of a very rocky road, the Government failed to intervene in any significant way? Why did they not take note of the problems arising from huge levels of debt and the problems, well known in communities, about sewage spillages, which apparently were only known to Ofwat, so we were told, in 2021? Why did the Government not intervene? You have oversight of the industry. You are a sponsor or regulator of the Environment Agency and Ofwat, but you too were late to the party. Perhaps you could explain the background for us.

Rebecca Pow MP: Thank you for inviting us here. As you know, I spoke to the House of Commons last week on a similar issue. I would say that lots of very useful information was imparted there.

What I need to say to start with, just to get it off my plate, is that since I have been in Defra we have done more than any Government have ever done on water. That is why you are hearing so much about it. Another reason why you are hearing so much about it is the monitoring that is being done by this Government. It was this Government who really started to up all the monitoring, so that we have a much clearer picture of what is happening. I am not going to defend the water companies, but only 7% of rivers were monitored previously under the Labour Government. We started to ramp that up, and 93% of rivers are now monitored. It will be 100% by the end of the year with the storm sewage overflows, so we have a much more accurate picture of what is going on.

I can go over all the things we have introduced that are making the difference, but your first question was about debt and gearing. As you will know, it is quite normal practice for private companies to raise funds through debt. They raise them through debt and pay the interest, or through equity and they pay the dividends. That gearing escalated during the 2000s, but interest rates were very low then. That, again, was under the Labour Party. It then stabilised. On all the work we are doing now with Ofwat, if you step right back you can see a step-by-step approach by the regulator. Remember, it is an independent regulator that was set up to oversee the water industry and to make sure that it delivers what the nation needs for a clean and plentiful supply of water, while getting the balance of cost to the bill payers right. All its focus is on that.

It has only been recently that, of course, interest rates have started to escalate, so that has brought debt into sharp focus. That is why Ofwat itself has upped everything that it is doing to oversee what the water companies do. Despite talking about debt and equity, we need our water companies to be able to invest. We need them to be able to attract investment and, since 2020, they have attracted £2.2 billion of investment. Despite all the things that you mention, we have still been attracting significant investment. Obviously, we need to do that to build the infrastructure that we have.

Under privatisation, £190 billion of funding has been invested. Nowhere near that amount of funding was available when water was nationalised. I have talked to lots of people who have been involved in the industry for many years about what it was like before and what it is like now. They all say that water just could not compete with hospitals, schools and all the rest of it, so although there are things to improve, and certainly water companies' performance in many cases has to be improved—I make absolutely no bones about that, because some of their activities have been unacceptable—Ofwat is working on that now.

One of the game-changing things that we have been able to do through the Environment Act, which I was very proud to bring through Parliament, was to change the licences. Water company licences can be changed so that they cannot pay out dividends unless they are financially resilient; they have to prove that through their credit ratings and demonstrate that they are not doing any damage to the environment.[1] Those are two huge changes that have now been brought in and that

[1] Note by the witness: The Minister would like to clarify that the Environment Act does not change water company licences, rather it gives Ofwat the power to do that without the companies consent. The government has given Ofwat increased powers to modify water company licence conditions without the water companies' consent, to improve water companies' performance.

Ofwat is using. Shall I stop there? There are lots of other measures that I would like to mention that we have now introduced.

The Chair: My question was really about the longer view. Why did Defra not intervene early on—for instance, on monitoring? Local communities did the monitoring and pointed out the problems way before 2021, which is when Ofwat woke up to the fact that it was not being properly monitored. On the funding levels and the debt levels, yes, companies borrow, but most of them borrow prudently and do not put themselves into a position where, as Thames is now, they do not look viable as an enterprise without significant investment of funds. Why did the Government and Defra not intervene five or 10 years ago when the signs were already clear that this industry was heading in the wrong direction?

Rebecca Pow MP: I think we have to be careful about saying things like "Thames Water is not viable". It has just had its accounts signed off, and it supported that with £750 million-worth of extra funding, knowing that it would have to get a further £2.2 billion. It had letters of support from its shareholders for that, so its turnaround plan is underway. Ofwat is working very closely on that. It is the very fact that we have a flagging system whereby Ofwat does annual resilience reports every year so that we know what is happening—it was flagged to us back in December—that we have followed this so closely since then. It is the same with all the water companies.

We ramped up the monitoring, and it was way before 2021. It was actually Lord Benyon who triggered that, was it not, Davide?

Davide Minotti: In 2013.

Rebecca Pow MP: He started to switch on the ramping up, and we have escalated it. That is why we have the data. It is also why Ofwat and the Environment Agency were able to start a detailed investigation of hundreds of permits that were being used illegally by the water companies, so criminal cases will be brought. We have upped the fines and penalties. Davide, do you want to add anything?

Davide Minotti: I confirm that two investigations have been started. One is by the Environment Agency, and it is indeed a criminal investigation. Obviously, we cannot pre-empt that investigation, which is ongoing. Ofwat has also started an investigation. Six water companies are going through enforcement cases at the moment. Again, we cannot pre-empt the result of that investigation. It will be announced in due course.

The Chair: The bottom line is that you are pretty comfortable with the performance of Ofwat over the last decade.

Rebecca Pow MP: It is right that Ofwat has ramped up transparency. It increased the transparency of the water companies some years ago, when Michael Gove was the Secretary of State. That was absolutely right. All the measures that it has taken, step by step, are the right measures. I think you have had it here to speak for itself about what it is doing. We work very closely with it. That is why, when we see things that are not working properly, we set out to change them. In our latest strategic policy statement issued in summer 2022, we put financial resilience and the environment at the top of the agenda. It has had to demonstrate that both those houses are in order. We also stated that dividends could not be paid if it companies could not demonstrate those things.

Q59 **Baroness McGregor-Smith:** Good morning. Could you explain how, if A water company had to go through the special administration process, it would actually work? What would that do to costs to the taxpayer?

Rebecca Pow MP: We make it very clear that there will be no impact on customers. With a special administration order, obviously the Government have powers—as does Ofwat, with the consent of the Secretary of State—to request that the court place a company in special administration. I must stress that, although the power is there, we are nowhere near that with Thames Water. The fact that the accounts were signed off last week with that support for extra funding gives more certainty about the company and its turnaround plan.

There is a measure that could be used, either on insolvency grounds if a company is unable to pay its debt, or on enforcement grounds if a water company is in serious breach of its principal statutory duties or an enforcement order. Those are the reasons for doing it. It would put an administrator in charge of the process. It is really a holding tool so that a new company can be found to take over the business. When that happens there will be no disruption to the customers.

Baroness McGregor-Smith: To go back to the point about what it would cost if a company went into special administration, you said that it would not cost the customers any more, but what about the taxpayer in general? Surely, if you were to go through that whole process, there would be a considerable cost in doing so. There is always the risk that it could cost more to be run through that process than it would in private hands. Would it not cost more?

Davide Minotti: On the cost, as the Minister said, we are nowhere near that situation. Thames Water has issued a statement pointing out its liquidity and the £4.4 billion access to finance, so we are nowhere near that point. If there was a special administration regime, we would have to consider how to extract any cost from a new investor that might come in at that point, but we are nowhere near that point. It would be a decision for the future.

Baroness McGregor-Smith: But you agree that it could cost more. It would be uncharted territory.

Davide Minotti: It depends very much on the offer from the new investor when it comes in and buys the company.

Baroness McGregor-Smith: On that point, with the additional monitoring, which absolutely should be done, together with increased regulatory interventions, do you not think there is a danger that, with more of that, it could make investors not want to be in that market? What evidence do you have that investors will continue if the pressure of more regulatory intervention continues? I am just trying to understand what an investor gets out of this if it puts its money in. You say that Thames, for example, has letters of support, et cetera, but at what point do the regulatory pressures or the concerns get so much that investors get more concerned about investing? How do you strike that balance?

Rebecca Pow MP: It is a balance that has to be struck and is very much what Ofwat is concentrating on. In my view, investors want certainty and clear guidance. They want to know that what they are investing their money in is well regulated. From all the evidence we have seen so far on what Thames is going through, it has had a number of its key shareholders committing extra funds. Straightaway, USS has put money up front, as have a number of others. The same has just happened in Southern Water and Yorkshire Water, and we are continuing to attract international investment. As I said, there has been £2.2 billion since 2020. I think they want clear guidance to know what they are investing their money in. It is a very long-term investment for them, which is why they like the water industry.

Baroness McGregor-Smith: I appreciate that you have raised £2.2 billion, but that is only a fraction of what is going to be needed. Given the amount of money that is needed, what are investors saying at the moment about the attraction of the water industry to them?

Davide Minotti: I think Ofwat issued a statement only a couple of weeks ago that the sector continued to attract international and national long-term investors. That is its assessment. It was only issued recently, so there is no reason for that to have changed.

Rebecca Pow MP: From some conversations that I have had, including one with one of our Business and Industry Ministers, they want certainty, so talk of SARs, when actually we are nowhere near SARs, is very unhelpful to investors.

Q60 **Viscount Chandos:** Minister, a week ago in the *Observer* the former investment banker John Nelson, who was involved in the privatisation of utilities in the 1980s, argued that the Government needed to introduce a new regime of regulation by Ofwat to encourage companies to invest massively in infrastructure and capacity in the sector. You said to Lord Hollick that the companies have borrowed extensively in the debt market, but that has almost exactly matched the dividends that the private equity owners have paid themselves, and that debt has not financed the necessary investment in the infrastructure. Do you agree with Mr Nelson?

Rebecca Pow MP: Every year, as I am sure you know—well, not every year, because we have the price periods and they last for five years—water companies have to put in their price plans to Ofwat. In those price plans they have to show how they are going to deliver the required infrastructure under government strategic policy statements: for example, our water resources management statement, which sets out clearly what will be required. Then the water companies factor in how they are going to pay for that and how long it will take them. Ofwat then sifts through all that to make sure that they can deliver it as efficiently as possible, being mindful of the cost to the bill payers.

That is how the system has worked. They are now going through the next price review period, so those plans have not been signed off yet. There are some significant asks in there of water companies, including up to 2050 the £56 billion to be invested in the storm sewage overflows. A lot of that work has already started. We have got it going in this price review period. Those are all considerations, but each water company is an independent organisation. They factor in how they are going to do it and how they are going to raise the money. They are mindful, too, of Ofwat's direction to lower their gearing. I think the overall gearing of the water industry is 75%. It is around about that.

Davide Minotti: It is 68%.

Rebecca Pow MP: So it is lower. Ofwat's notional gearing is 60%. It is working towards changing that, but we feel confident that the water companies will be able to deliver the infrastructure as set out in their plans, which will be agreed by Ofwat.

Lord Agnew of Oulton: Would you clarify that gearing figure you gave us? It uses a rather misleading figure—the debt to asset value—which is something nobody else uses.

Rebecca Pow MP: I refer to Davide.

Davide Minotti: The current average gearing rate across the sector is 68%. That is the difference between the value of the regulated assets, which are the assets that the company owns that Ofwat has a regulatory duty on, and the amount of gearing that the operating company has.

Lord Agnew of Oulton: What is the ratio of debt to equity value of these businesses? That is the figure that most normal people use.

Davide Minotti: I can come back with that. What Ofwat regulates on is the gearing level, which is the percentage of debt over the value of the regulated assets.

Lord Agnew of Oulton: If you could come back with that, I would be grateful.

Q61 **Baroness Bowles of Berkhamsted:** Ofwat has announced new controls, as the Minister has already covered, to link the payment of dividends by water companies to their performance. How confident are you that the companies will not be able to use complex financial structures, debt instruments and other things to avoid those restrictions—essentially providing rewards by other means?

Rebecca Pow MP: I will let Davide come in. First, we are confident with the new measures that we brought in and the changes that Ofwat has made so that dividends cannot be paid if there is any problem with financial resilience or the environment. We have also made it very clear, or Ofwat has—it was only announced on 29 June—that customers will not fund any executive pay bonuses where they are not justified. All the measures that Ofwat has taken are to improve transparency of all its financial arrangements. I think you might be referring to intercompany loans and so forth, so I will get Davide to come in.

Davide Minotti: All I really want to add is this. The Minister referred earlier to the measures that Ofwat has taken, making use of the power that the Government granted it in the Environment Act, to strengthen the financial resilience of the water companies. Those measures include cash lock-up. They cannot share dividends if their credit rating is below a certain level, which Ofwat has also increased. We are confident that those measures will deliver the security that the questioner was asking for. Dividends used to pay for intercompany loans will be captured by the same measures that I referred to earlier, so we do not see the possibility of those things happening again.

Baroness Bowles of Berkhamsted: If they happened because they had managed to skirt round whatever Ofwat had said, would that be called in and prevented?

Davide Minotti: Yes, indeed. Ofwat can exercise the power on dividends, even if those dividends were used to pay intercompany loans, yes.

Baroness Bowles of Berkhamsted: It might not be dividends. They might do it through another means.

Davide Minotti: Other disbursement, yes.

Baroness Bowles of Berkhamsted: There might be other ways round it. We have strayed into bonuses, which were going to be my next question. I think the Minister said that bonuses will have to be justified. What counts as a justification for bonuses? We have captive bill payers. Are bonuses to be paid for sweating assets instead of investing fast enough?

Rebecca Pow MP: I thought I said that bonuses would not be paid, and customers would not be funding bonuses, where companies could not justify them. We have a whole system of targets that water companies are supposed to be reaching. They are set, and if companies do not hit those targets, they have to pay money back to the customers. If they do not hit their leakage targets, for example, they pay money back. Actually, significant sums have been paid back recently. Ofwat calculates all those things, so companies certainly would not be paying themselves any dividends if something like that had been found to be happening.

Q62 **Baroness Bowles of Berkhamsted:** We are on to bonuses now. Will there be a ban on bonuses if there is a serious pollution incident?

Rebecca Pow MP: Ofwat introduced its new measures in December 2022, as I said, to make shareholders pay for bonuses, not the customer. Where there is poor performance from 2022 to 2023, no water and sewerage company in England and Wales is paying a CEO bonus out of customer money, while half of the CEOs are actually taking no bonus at all, and rightly so. It is the first time that this has ever happened. I believe it reflects the industry's recognition that the public expect better. I definitely fully support it. That is why we have been so strident in all these measures to make sure that it is transparent and that people are not getting money, basically, for bad practice.

Baroness Bowles of Berkhamsted: I accept that. It is a good thing. Maybe there is a certain amount of restraint going on at the moment. We need to know that, going forward, there is a framework such that serious pollution incidents will be reflected in there not being bonus payments. Things will calm down a bit; restraint might happen for a little while and maybe the odd personality changes, but then exuberance tends to break out again. That is the way of the world. One needs to have some framework there. I am saying that it has to be "Never again".

Rebecca Pow MP: It will be never again. That is why, in 2022, Ofwat introduced this new measure whereby shareholders pay for bonuses and not the customer. If there is poor performance such as serious sewage ollution incidents, all of which are recorded, other steps that are taken against those sewage incidents. If companies contravene their permits, the EA comes in. If there is a criminal offence, they can be taken to court. If it so wishes, Ofwat has the power to fine a company 10% of its turnover. Truly, the framework is now there to do the very things that I believe you are, rightly, asking for, and which have I been asking for.

Baroness Bowles of Berkhamsted: I hope so. I hear what you say about the shareholders paying the bonuses. You are saying that if the shareholders are daft enough to pay bonuses because they are scared of a change of CEO or so forth, that still may happen, but it is out of their pockets.

Rebecca Pow MP: I reiterate that half of the CEOs are not taking any bonuses. I do not need to defend the water companies, but that is, in fact, what they are doing. Actually, on dividends, only last week Southern Water of its own volition, and not because we or Ofwat directed it, said no dividends. It was flagged by one of its credit raters, Fitch, so it said no dividends.

Q63 **Lord Cromwell:** To go back to what you said to Baroness McGregor-Smith, Minister, you said there would be no impact on customers if, and we all hope it will not happen, a water company went into administration. Can I assume that means that there will be no impact on customers' supply of water, but not necessarily the pricing of that supply?

Rebecca Pow MP: Absolutely. Supply of water is the critical thing.

Lord Cromwell: My second question is this. You said that there would be no dividends or bonuses if there were any problems with the environment. I think I am quoting you. It is very hard to know when you have reached that holy grail. It sounds like there would never be dividends or bonuses paid—ever. It needs a lot of quantification of what the benchmark is.

Rebecca Pow MP: You are right about that. That is why enforcement and monitoring are so critical. It is good that we have a better picture now. That is why we came up with our storm overflow reduction plan to work on that, and the £56 billion of investment that has to happen.

Lord Cromwell: I am sorry to interrupt but, in the interests of time, can you envisage a time when there will never be any problems with the environment?

Rebecca Pow MP: Wouldn't that be lovely?

Lord Cromwell: It would be if I was hoping for a bonus.

Rebecca Pow MP: On that issue, of course the more we know, the more we find. With every passing day another chemical comes to light, such as the PFAS in sofas. We thought it was all great to put fire retardant over our sofas 20 years ago. All of a sudden, we find that, gosh, it is a for-ever chemical and we need to be on that—firefighting things. That is why it is so important to be vigilant and to work with the EA and have very strong enforcement, and to work with the Health and Safety Executive, which we work with very closely. Thank you for your question.

Viscount Chandos: Could you explain to me how shareholders' money is somehow nothing to do with the customers? The shareholders make money, make a profit and get revenues from serving the customers. Paying the bonus out of shareholders' funds is still, ultimately, paying it out of what customers pay. It is reducing investment. It is money that could have gone into investment. It seems to me that it is a completely Jesuitical distinction.

Rebecca Pow MP: I just point out, of course, that the companies are independent businesses. They have their own boards that will be deciding these things, so that is for them to decide, but I will bring Davide in because I think we are almost confusing issues.

Davide Minotti: Absolutely. Just to clarify, the policy that Ofwat has announced is that any bonus executive pay needs to be linked to performance for the customer and for the environment. It and the Environment Agency track the performance of the water company. The Environment Agency published only last month the result of environmental performance for last year. The link is between performance for the customer and the environment and executive pay. Ofwat publishes some guidance on that. If there is no link that can be demonstrated, the envelope that Ofwat allows for a water company to charge a water bill payer will be reduced to take on board the executive bonus that was taken but not commensurate with the performance of the company. That will be taken off the bill that the water companies are allowed to charge.

The Chair: When she came to see us, the Secretary of State showed an understanding and a grasp of this issue, which is that the funds are essentially fungible and that all moneys and all funds that come in come from bill payers. How it is then disbursed is, as you say, to do with what the companies say and what the plan says about the level of investment. As she explained to us, investment was at a relatively low level because she wanted to keep the bills down. We are now in a position where hundreds of millions have to be invested, and it will fall on the bill payers. I think she showed some grasp of the dynamics of the accounts, but let us move on.

Q64 **Lord Reay:** Earlier this year, Minister, Water UK publicly apologised on behalf of the water companies for not acting quickly enough on sewage spills and pledged investment of up to £10 billion this decade, subject to Ofwat's approval. What is the Government's response to the industry's apology? Is that level of investment likely to be sufficient to achieve the targets set by the Government?

Rebecca Pow MP: Thank you for that. Water UK's announcement basically showed that it was just responding to what the Government had already asked companies to do, which was to increase investment and be more transparent about use of storm sewage overflows. It mentioned the figure of £10 billion, but that is not new money; it is money that we had already set out in the draft industry national environment programme that companies would have to spend. Those plans are being finalised right now. It is part of the much bigger £56 billion that I referred to earlier to reduce the storm sewage overflow discharges by 2050. I think that is all I can say about that.

Lord Reay: The £10 billion over this decade is less than the £56 billion that the Government say is needed over 25 years, so you are unimpressed by the statement Water UK made about the £10 billion.

Rebecca Pow MP: It is good that the companies are being more up front and open, and taking on the responsibility that they have to do something about themselves, but it was not new. It was what we had already directed them to do.

Lord Reay: What will the Government do to support the huge increase in investment necessary to improve environmental performance and ensure future water supplies? Are the Government still opposed to using public money to encourage private investment in the sector?

Rebecca Pow MP: Obviously, they have their price plans in which water companies have to factor in the demands. That includes water supply issues. Obviously, water companies' obligations are set out by government in legislation and guidance. Where companies have statutory obligations, Ofwat will fund and deliver them. It is not really for Ofwat to allow or disallow their statutory duties. They have to do those. Ofwat's role is to challenge water companies on the efficiency of their investments and the value for money, so that customers do not pay twice for things. It is government's and Parliament's role to determine what we deem affordable for the public and for businesses, to get that balance right in the long term.

I give the example of the Thames Tideway tunnel, which was a public/private partnership arrangement. That is due to come into operation next year. The cost is going on to bills, but over a very long time. That was all agreed up front. I think the public are pro that. All these things will be factored in and balanced out so that the impact on customers is manageable.

Lord Reay: Do you believe that the rates of return in the water sector are sufficient to enable the necessary increase in investment?

Rebecca Pow MP: If they were not decent enough, they would not be attracting investors. As we said, we are continuing to attract international investment because people consider it as long term. To go back to dividends, for the dates I have, of 2021-22, they were 3.8%. We are continuing to get investment, which is obviously what we need. We need to make it function properly so that they can do that. It would be hard to attract all that money from anywhere else to get the huge investment we need, if I am honest, with the changing demands that we have for society and the environment, with water companies pulling their weight.

Q65 **Lord Agnew of Oulton:** I am interested in your views of the effectiveness of Ofwat over the last 10 years. I tend to judge people and organisations by what they deliver and not what they say they are going to deliver. We have seen Ofwat preside over this engorgement in debt. You mentioned in your opening remarks to Lord Hollick that, yes, we have had a period of low interest rates, but if you look at the base rate going back to 1880, the average interest rate has been 5%. We have had water companies paying their chief executives £1 million or more a year just to run up the debt on their balance sheets, and Ofwat has presided mutely over that.

In the evidence before we published our report, we saw a complete lack of join-up between Ofwat and the Environment Agency. My question to you is this. You mentioned that the industry had attracted £2.2 billion of new capital over the last couple of years, but you also said to Lord Hollick, if I understood correctly, that Thames Water alone needs £2.2 billion. I would agree with you on that, given that it has £14 billion of debt. How are you going to hold the regulator to account over the next few years? I believe there is going to be a debt crisis in the water industry. As their fixed rate debt comes to maturity, they will have to go back into the markets and pay two or three times as much. What are you going to do to hold Ofwat to account?

Rebecca Pow MP: Since I have been the Water Minister, I can give you the step-by-step changes that have been introduced, which include the Environment Act, where Ofwat is able to modify the licences for water companies. That is critical because, before, it could advise on how it wanted to modify the licence conditions, whether it was to do with financial resilience, the environment and so forth, but a water company could argue with it and then it would not do it, whereas now the licences can be changed and the water companies have to do it. That is one way in which we, as a Government, are demonstrating that we have taken strong action. We have listened to those who understand a great deal about regulation. That is one really significant change that has occurred.

Our role is to make sure that Ofwat is doing its job. We need a fully functioning water company. I am not going to defend any of those people in the past, especially before I got here, who took what I call far too much money. You are right about that. I do not think that sits well with the public either.

You touched on the EA and Ofwat. In my view, there is now much more of a join-up between the EA and Ofwat, and rightly so, on the whole enforcement procedure and the roles and levers that each has for enforcement. The EA can tighten permits. There is now much more scope for tightening the permits and so forth.

Davide Minotti: In addition to working very closely with all the regulators, the Government have increased the funding to those regulators to make sure that they carry out their job properly. For example, we have just trebled Ofwat's budget for enforcement to make sure that it is on the case. In the Environment Agency, we have allowed for more inspections, for example in farms, to make sure that it goes round and checks. That is all I wanted to add.

Rebecca Pow MP: On the Ofwat/Environment Agency point, those two organisations launched the largest criminal investigation that we have ever had into water companies. That demonstrates really strong action in what they are doing. Similarly, Ofwat is taking action to hold poor-performing companies to account. Last year, 11 water companies received penalties of £132 million, which is being returned to customers. It is right that Ofwat and the Environment Agency do these things, and it is right that the water companies know that there is no hiding.

Lord Agnew of Oulton: When we met the Secretary of State originally, the overriding impression I received from her was one of yawning complacency on this sector. I hope you can reassure us that that is no longer the attitude in Defra. There is the whole approach to wet wipes, for example. I believe you have announced yet another consultation on that, when it is obvious to the most stupid person that they are desperately destructive. You need to help the water companies as well as hitting them. They have to be hit because of all the past, but, to Lord Reay's point, the wet wipes fatbergs put enormous financial costs on the water companies, which you could deal with, literally within months, if you had the will and the focus to do it. Why are you not doing that?

Rebecca Pow MP: I certainly have the will. I have never been a woman who uses wet wipes. Actually, we were the Government who launched our plan for water, which sets out step by step the game-changing transformation for everything to do with water, from demand to supply to pollution. We said in that plan that we would progress the ban on wet wipes—in particular, wet wipes containing microbeads. In fact, I was the Back-Bencher who started the campaign to ban plastics in wet wipes, which we have done.[2]

We are already working on how we can bring forward the consultation rapidly to do exactly as you are saying. As with everything that one does, of course, there are businesses that are not quite so happy with the idea of banning wet wipes, but they cause fatbergs. It is also about educating the public. There have been some very good voluntary campaigns, and "Bin the Wipe", which have gone a great way towards educating people not to chuck wet wipes down the loo. The Secretary of State wrote to the relevant producers of wet wipes saying, "Could we put labelling on saying whether they are flushable or not?"[3] Actually, in my view it would be best not to flush any of them down the loo.

An interesting fact is that South West Water did a big survey of the hospitality industry. Over a third of all bathrooms do not have a bin in them, so that is why people are chucking them down the loo. There is a lot of education, but under my hat I would like to ban wet wipes containing plastics and bring forward our ban on these things. That is what we are endeavouring to do.

Lord Agnew of Oulton: Will you give us a date when that will happen?

Rebecca Pow MP: All I can say is as soon as possible.

Lord Agnew of Oulton: That is not very reassuring, but thank you very much.

Q66 **Baroness McGregor-Smith:** This is just a follow-up to my question earlier on investors. With the increased regulatory environment that you have talked about, with the increased number of criminal investigations into the sector and with the renewed pressure from Ofwat on the water companies to invest more, I am still trying to understand why you are going to attract more investors in this environment. Even with Thames Water at the moment, yes, it has published its annual report, but everything is caveated on its business plan this summer. How do you give investors the right balance? None of the messages I hear sound great for investors in this market. I am trying to understand why you think they will all be really happy with this.

Rebecca Pow MP: This is for Ofwat to handle, because it is about getting the balance right.

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[2] Note by the witness: The Minister would like to clarify that there is not yet a ban on wet wipes, as this is still subject to consultation. Such a ban would apply to all wet wipes containing plastic.

[3] Note by the witness: The Minister would like to clarify that the Secretary of State wrote to wet wipes manufacturers and retailers to ask how they will address her concerns on flushability labelling. The Minister would also like to clarify that policy decisions are subject to the upcoming public consultation on the proposed ban of wet wipes containing plastic, as per the UK Government's commitment in the Plan for Water.

Davide Minotti: I go back to the question earlier about the return on capital that is allowed by Ofwat through the price control setting. It gets set at every price control, so for 2025-30 it will be set over the next 18 months. That is a guaranteed stable return for investors.[4] If you have the type of investor that we want to attract to the sector, which is a long-term investor that wants security, the system as it is currently set up guarantees that rate of return.

Q67 **Lord Clement-Jones:** Good morning. I want to come to the crucial issue of customer bills. To what extent will investment in infrastructure need to be funded by increased customer bills? I am sure it is a matter of some concern to you because of public anger at the industry's poor performance.

You have talked about significant investment. Of course, there has been a great deal of speculation about customer bill price rises from the next price review. For context, the chair of Ofwat indicated that it will be for companies and their shareholders to meet any costs caused by the inability to meet their commitments, but it will be for customers to fund improvements beyond existing standards. The question is whether that is a realistic distinction. How will it be assessed? What proportion of the investment needed do you expect to be funded by customers and companies respectively? What are your expectations on the price rises?

Rebecca Pow MP: Obviously, water companies fund investment through borrowing and it is then paid back via customer bills, albeit over a long period, as I explained in the Thames Tideway example. There will be no immediate rises to bills. They are capped until March 2025, so there is no short-term expectation of bills rising, although they are subject to inflation.

Post 2025, it is for Ofwat to set the price for customers and the services that they will receive. It will all be calculated during the price review process. The draft plans are all going through now and are under discussion. It is for Ofwat to balance the interests of the consumer with the ability of the company to finance them and to meet the Government's objectives and priorities and the legal obligations. I have been assured by Ofwat that customers will not be paying twice for things that the companies are already funded to do. We now know that any fines, penalties and such will not come from customers. The customers will not be funding poor performance.

Lord Clement-Jones: But how do you assess that? How realistic is it? Can you make a distinction of that sort? We have heard about the fact that it is all ultimately paid for by the consumer in any event.

Davide Minotti: Just to be clear, yes, we can make a distinction. Ofwat and the regulator are looking at precisely that. For example, on water supply, if a new reservoir scheme or new water transfer scheme is going

[4] Note by the witness: The Department would like to clarify that while the rate of return is guaranteed, it is linked to water company performance and therefore can be increased or decreased depending on how well the company performs against set targets.

to be built, that is a new asset that will be delivered, and the water bill payer will have to pay over time, as the Minister explained. That is clear. Meeting the new target that the Government have set in the storm overflow plan is a new requirement for the water companies that will generate new investment. That will be funded by the water bill payer. That is clear.

When there are breaches of existing permits—the Minister referred to some of the investigations earlier—or existing regulatory duties that the water companies are not living up to, anything to do with the fine and the remedial action to deal with those breaches would not be paid by the water bill payer.

Lord Clement-Jones: Is that a realistic approach to companies that are not in particularly good financial health?

Davide Minotti: What is the alternative? Do you excuse a company in breach of a permit, and do you allow them to continue to breach just because they have got themselves into an uncomfortable financial situation?

Lord Agnew of Oulton: I can answer. The alternative is to support them in removing unnecessary costs from their organisation, such as trying to deal with wet wipes. That is the whole point. You have to look at both ends of the spectrum.

Davide Minotti: And the Government are doing precisely all those things.

Rebecca Pow MP: That is why it is in our plan for water, very clearly.

Lord Clement-Jones: But you are clearly saying that you expect the companies, if they put up prices by £450 to £680 on average or by 25% or even 39% in some estimates, to put all that increase towards new assets and your plan. That is your expectation. Nothing will remedy past poor performance from the customer in terms of increases.

Davide Minotti: Nothing will remedy illegal behaviour from the past.

Q68 **Lord Clement-Jones:** Not just illegal but poor performance in the past. Thank you.

Can we come on to the question of the single social tariff? This committee called for the introduction of a single social tariff, and previously it seems that the Government were supportive of that. I think we have that on record. In your response to the committee's report, you dismiss that recommendation. Why? Why have you changed your view, and what are you going to do to mitigate the kinds of price rises that are clearly anticipated?

Rebecca Pow MP: We are obviously always mindful of vulnerable customers. That is why there are schemes across all water companies to help those who have problems paying their bills, and a whole range of different measures come into play to help them; for example, I think that 1.3 million people have taken advantage of the WaterSure scheme and have been helped through that.

The Government have said that we will obviously explore options for improving the systems that already exist throughout the water companies. We make it very clear to water companies that they have to look after their vulnerable customers. We are looking at standardising what they offer, for example. In fairness, each water company has a different system, according to their population. They are all different. Some may have many more retired people in their patches, for example. They have different demands.

Lord Clement-Jones: How proactive are you in dealing with the issues for vulnerable customers? Are you absolutely on the case there?

Rebecca Pow MP: Yes, totally on the case. I will give an example. If we have an emergency, an outage, where the water supply is cut off, we have red alerts for our vulnerable customers. They are top priority for helping first and foremost with water supply systems and bottled water. Every time any emergency occurs, they are our top priority. The water companies know who they are. They have systems in place. We are looking to improve systems where possible. That is why we are looking at possibly standardising the tariffs and universal eligibility criteria, because there are different criteria across the different water companies. We expect the water companies to make their customers aware that there are schemes that they can apply for.

Lord Clement-Jones: I am sorry to interrupt again. We need to make a distinction between the standardised social tariff and a single social tariff. Is that right?

Rebecca Pow MP: It is more like guidance that we would be giving the water companies.

Davide Minotti: I can clarify that. A social tariff already exists now.

Lord Clement-Jones: In individual—

Davide Minotti: In individual water companies; that is correct. The Minister said what we are looking to do, and we are working with the water companies on how we make it more effective and provide a more standardised level of eligibility criteria, and level of support. For example, in the current set of social tariffs, water companies provide support from £62 to £292. You can see that some water companies are really helping their customers a lot, and others less so. Can we come up with a minimum level of support through guidance, as the Minister said? That is the work we are actively engaged in at the moment.

Q69 **Lord Reay:** Before I ask my main question, I want to ask a question on debt again. Maybe this is one for Davide. In the *FT* today, the Canadian pension fund is writing down its equity value by 30%, £2 billion, for Thames Water. The debt level it quotes is £16 billion. Do you think that level of debt is sustainable, and are you confident that taxpayers will not suffer loss if a debt restructuring is eventually required?

Davide Minotti: On today's *FT* article that you refer to, first, it is a private matter and a decision for the shareholders. What they have done in downgrading the value of their shareholding is very much for them. The Government do not get involved with that.

The Government and Ofwat are very concerned about the amount of debt for Thames Water, as the Minister said. We are obviously preparing for all situations there. We want the company to look at all possible options. That means shareholders coming up with more cash, which is what they announced when they published their accounts. It continues to mean every other possible option, which might include restructuring.

Q70 **Lord Reay:** My main question, Minister, is this. Do you believe that water companies have the capacity to deliver the scale of investment and projects needed to reduce storm overflow discharges and ensure resilient water supplies?

Rebecca Pow MP: We have done a significant piece of work on storm sewage overflows, as you know, through our storm sewage overflow reduction plan. We have set out that we need the £56 billion of capital investment by 2050. We believe that we have divided it into doable chunks, which means that by 2035 water companies have to improve all their overflows discharging into or near designated bathing waters—concentrating on those first—and near protected nature sites, to improve 75% of them. That is what they have to factor into their current price plans, which they are already working on.

We asked for an action plan on every storm sewage overflow to be on the Secretary of State's desk by a week or so ago. We have those action plans, and officials will be working through them to see that they have the right measures in place, that they really understand what they have to do and are factoring it in. I do believe that they can do it and that they have to. We have the evidence and the data that they are using these discharges in many cases too frequently and contravening their permits, which is why we have set out the plans. We are shortly making our targets legal as well. Anything else, Davide?

Davide Minotti: The question was on deliverability, if I understood it correctly. The regulators and the Government are indeed engaging with water companies to understand the issue of deliverability, because we recognise that the next price review period, from 2025-30, will require a significant increase in investment on the previous price review period. We are engaging with water companies to understand exactly those challenges.

Rebecca Pow MP: In our plan for water we actually said that we would potentially explore more innovative financing models, which companies could look at and which might enable them to get different tenders for jobs and so forth.

Lord Reay: I was going to come on to that. The Government's response to our report indicated that they are working with Ofwat on increasing competition in the delivery of water infrastructure. How are those conversations progressing? Will the Government act on the recommendations of Ofwat and this committee to reduce the thresholds for using special purpose vehicles to deliver projects, as in Thames Tideway?

Rebecca Pow MP: Yes, we noted your work and are exploring those models. There are two different models, and I will get Davide to explain them in a bit more detail, but certainly work is under way on that. It very much depends on the size of the project. Thames Tideway is an enormous project, but there are other smaller measures and special purpose vehicles that could be used.

Davide Minotti: Absolutely. We noted your recommendation. There are already two systems to allow more competition in the sector. There is direct procurement for the customer, which is already being used by water companies. A number of projects have already been started on that. We also looked at your recommendation on specified infrastructure projects, or special purpose vehicles, as you just defined them. We understand that we need to look at the feasibility of changing the regulation if we want to allow more projects to go down that route, and we are doing just that.

Lord Reay: Can you give a time when you might be announcing something on the use of SPVs?

Davide Minotti: I would not be able to commit to a time now, but we are looking at that.

Rebecca Pow MP: But we have what we call pathfinder projects running, which are exploring those options. United Utilities is running a billion-pound project to restore all the six tunnel sections of the Haweswater aqueduct. The procurement process was launched in June 2022 and is expected to close in early 2024. Construction will last eight years. Southern Water has a water transfer project for the planned Havant Thicket winter storage reservoir. Welsh Water is doing a new water treatment works to serve 1.4 million people. All are exploring this new method—it is not exactly new, but it is a method we are exploring—and whether it is viable to use it more for water industry infrastructure. Hopefully, those projects will give us a lot of information about whether it is a good road to go down.

Q71 **Lord Cromwell:** I am fascinated by the idea, which you mentioned earlier several times, of a guaranteed return to investors, no matter what happens and who stands behind that.

Let us move on to happier ground: nature-based solutions. Everybody likes those, or they say they do, as a means of pollution control and flood management. How much difference can they really make? How much money can they really save? Do you have or can you get us any figures on either of those? Otherwise, it is just chats without stats.

Rebecca Pow MP: Thank you. Yes, good point. Everyone is talking about nature-based solutions. Through our plan for water, we are very much focusing on a catchment-based approach to decision-making for the whole water supply system and the environment, and nature-based solutions will be part of that. We have conveyed to Ofwat, which is making it clear to water companies, that we want to see a step change in the use of nature-based solutions in their next plans. But it is very important, and that is why we are working with the Environment Agency and Ofwat, through these WINEPs, to make sure that they are outcome-focused. You need to know that they will deliver what you hope they will deliver. It is about gathering the data to prove that. The Environment Agency is already collecting data for us on that and—

Lord Cromwell: I am conscious of your time, so forgive me for interrupting. Are we really to understand that there is no data at the moment on how much difference they could make or how much they could cost?

Rebecca Pow MP: There is data, and the Environment Agency has a great deal of it. Maybe we could get you some more information on that.

Lord Cromwell: That would be very helpful.

Rebecca Pow MP: It is a key point regarding the certainty of what it is going to deliver on your investment. We will get you some more of the actual evidence on that.

Q72 **Lord Cromwell:** Thank you. We have heard that the approval and the implementation of these sorts of solutions involves too many bodies, targets and processes, which holds things up and disincentivises their implementation. Do you agree? Do you recognise that as a problem?

Rebecca Pow MP: In terms of integrating nature-based solutions into—

Lord Cromwell: Just making them happen. There are too many. There are the phosphorus targets, there are all sorts of targets and different bodies involved in approving them.

Rebecca Pow MP: We have just set up a catchment plan group that reports to me, because, as I have said, our main focus in the plan for water is to work on a catchment basis. We are bringing all those people together more than ever before—the EA, Natural England, Ofwat and Defra—to work jointly, because we need a joint approach on all this. If catchment plans are ever going to work, everyone has to join in, including the people who deal with flooding and flood risk. It all has to come under one hat. That is really what our plan for water is: it is a holistic plan.

Lord Cromwell: I wish you luck with herding those particular cats.

Rebecca Pow MP: We are going to be herding a lot of cats.

Q73 **Lord Cromwell:** Finally, the National Infrastructure Commission has suggested that water companies and local authorities need to sit down together and come up with a joint and fully costed plan for the flooding targets, in particular, or non-flooding targets, perhaps I should say. Is that something you will be supporting?

Rebecca Pow MP: Are you talking about flooding targets?

Lord Cromwell: Yes.

Rebecca Pow MP: We have our £5.2 billion flood budget and we have our criteria on numbers of properties protected, which is what we flagged to the EA. Are you referring to surface water drainage in particular?

Lord Cromwell: Yes.

Rebecca Pow MP: Yes. That is a huge focus now. In fact, a third of our flooding budget is going on schemes to do with surface water, because it is a really big issue. We noted your interest in surface water, rightly so. We are obviously working for better management of surface water. We have done a review of that, but we are going to consult on the implementation of Schedule 3 to the Flood and Water Management Act, which will help us with our surface water.

Lord Cromwell: What I am underlining is the role of local authorities and water companies working together on this to come up with a joint or a single plan that both will implement.

Rebecca Pow MP: Yes, I will bring Davide in.

Davide Minotti: Yes, we have noted the NIC recommendation on that. We are not going to pre-empt the response here and now. The Government will provide a response to the NIC report. We will address their recommendation in detail. We are not going to pre-empt it now.

Q74 **Baroness Taylor of Bolton:** Minister, you mentioned that enforcement is critical. In current public perception, most people would agree with that. It is rather alarming that our national newspapers carry diagrams and maps of beaches not to go to during this summer holiday. Enforcement really matters. You have recently given the Environment Agency more powers to lift the limit on penalties. If that is necessary, how much do you think it will be used? Will it have a real impact? This area concerns a lot of people who feel that the water companies are actually getting away with too much.

Rebecca Pow MP: That is precisely why we brought out our plan for water. Water companies have to be clamped down on; hence, all the measures I have already mentioned today, which are all to get that house in order. Pollution on beaches is unacceptable, although I must say that under this Government our bathing waters have excelled. Almost 93% of our bathing waters are good or excellent. People forget to say that. That has changed immeasurably over the last 10 years, but if there is any sewage going out into bathing water, people want to know about it, and it is unacceptable.

That is why we have introduced this new measure, which actually comes to the Floor of the House today—the variable monetary penalties. We said we would bring them forward in the plan for water. Previously, penalties were capped at £250,000, so we are taking that cap away and it will be unlimited. It will be used because we will have the evidence in the data from all the monitoring. Obviously, the most serious cases can still go through the criminal courts, but this will come under the environmental permitting regulations that the EA can use; it is a civil sanction and it will be able to use it, but even that will need to be balanced, so there will be some sentencing guidance on exactly how much it fines or it is proposed to fine. Quite clearly, we and others realise that many water companies just thought they could pay the fine because it was less than putting the situation right. We removed the cap so that that will not happen again.

Baroness Taylor of Bolton: We asked them whether they thought that it was just part of the price of business and, therefore, the price would be costed in. What about the position of directors who allow these situations to happen time and again? Disqualification of directors is a situation where Ofwat has more powers than the Environment Agency, but we are talking about companies that are repeat offenders. There are people who do not understand why directors are sitting there, for many years sometimes, taking their dividends and so forth. Does more action need to be taken there?

Rebecca Pow MP: The Environment Agency can prosecute company directors—it has the power—and other senior officials under the environmental permitting regulations, but it needs a very high standard of proof. It has to be beyond reasonable doubt that it was that one person, which is, I would say, why we are focusing more on the company. Also, the courts have powers to fine directors and other officers if they are convicted of polluting rivers and coastal waters, when it can be absolutely proved that the offence was committed with the consent and the connivance of the officer or the director, and through neglect. That can be done. Ofwat can make applications to the High Court for a director disqualification order if the individual has breached competition law. The court can consider whether the conduct of the director makes them unfit to be considered with that business. There are powers to do that.

Baroness Taylor of Bolton: There is concern, even when there are powers, that the cuts to the regulators' budgets have meant that they have been less able than perhaps they would have liked to act, or should have been acting, on enforcement. Has there been enough action on enforcement in the past?

Rebecca Pow MP: Davide has quoted the statistics on enforcement and the fines that have been meted out, including £3.3 million on Thames Water just the other day, and £90 million on Southern Water. There have been some significant fines. Now, with these new powers, the variable monetary penalties, there is the opportunity to have unlimited fines.

There are many ways of going about enforcement now and it has been tightened up.

Baroness Taylor of Bolton: Do the regulators have sufficient resources to give the public the kind of reassurance and service they need?

Rebecca Pow MP: Ofwat has just had another £11.3 million for enforcement. I definitely think that signals that it means business.

Baroness Taylor of Bolton: And the Environment Agency?

Rebecca Pow MP: Yes, it has had more funding for enforcement and more inspectors.

Baroness Taylor of Bolton: It has had cuts in the past. Is it catching up?

Rebecca Pow MP: Yes, definitely. It has many more farm inspectors, with 4,000 inspections taking place. I talk to the EA about that a great deal. Those are under way and being well used. They are a very important part of the process, particularly working with farmers, because when we talk about pollution it is not just water companies. The EA works with farmers to correct things, first, with advice and help from our different grants, such as our slurry grants, for which we trebled the funding. It is a combined process of finding out what the problem is, holding to account and enforcing, as well as having the tools to put things right.

Baroness Taylor of Bolton: Thank you. If it is all so good, I wonder why it is all so bad.

Q75 **The Chair:** Minister, are you satisfied that your own department has sufficient resources with sufficient professional skills—for instance, financial acumen, and engineering and project management skills—to hold Ofwat to account?

Rebecca Pow MP: Certainly, we have very much upped the staff we have working on water in Defra, particularly through all our work on the plan for water. There is a big focus in Defra on this. We have specialists in all departments. Davide can probably expand on that. Defra does not necessarily have to be an expert in project management, although we oversee a number of big projects; we have a role in Thames Tideway, a distant role, for example. It is for Ofwat—Ofwat is the independent regulator—to oversee those things.

The Chair: People look to the Government to hold regulators to account when they have a poor record of delivery. Dare I say it, I think the water industry has run rings round Ofwat and the department over the last 15 years. We are now facing a very significant investment—£56 billion—which will have to be paid for by bill payers. Surely, the Government should have the resources to hold those projects to account and to interrogate Ofwat and the companies satisfactorily, so that public money is properly and well invested.

Rebecca Pow MP: Yes, you make a good point. But that is why we have brought in all the measures that Ofwat has to play its part in. That is why we have increased the financial monitoring framework, and why Ofwat has to be more transparent about everything it does; it is not only what the water companies do, but what Ofwat does, which is why it is working more closely with the EA and why we brought forward the new measures that Ofwat can use as its criteria on which to judge the water companies. It is critical that our department makes sure that the regulator is working satisfactorily to deliver what we need as a society.

I will also say, Lord Hollick, that you are giving the impression that everything is bad. Drinking water out of our tap is considered virtually the best in the world. The service to the consumer, in that respect, has been extremely good.

The Chair: Okay.

Q76 **Lord Burns:** Minister, does the plan for water go far enough in reducing water use? In particular, what are the main reasons against compulsory water metering where it is possible? We know from experience that metering reduces the use of water, partly because it highlights where leaks are on customers' premises. Why is metering not being made compulsory to the greatest extent possible? Is it another issue of cost for companies and customers?

Rebecca Pow MP: In our plan for water, we have a whole section on reducing demand. We know that, as a society, we have to find either a quarter as much water by 2050 as we are using today or we have to go about reducing our demand; we need to have more supply and to reduce our demand. That is why we have set a target for reducing demand by 20% per person per day by 2038. We want to get it down to 110 litres per person per day. At the moment, the average is 143 litres per day.

Metering is one area that can help. We have already written to all the water companies highlighting the case for smart metering. They could not bring them in as a mandatory measure unless the area was considered water stressed. You can only put in a meter automatically if the owners change, so then you can whip in and put in a smart meter. It is definitely an area that we are encouraging. Lots of water companies are moving a long way towards it, particularly South West Water and, I think, Southern Water and South East Water.

We are doing a range of other things as well. Mandatory efficiency labelling will be a key way to help us all to use less water. That will be by 2025. We are reviewing the building regulations to get tighter water standards into new builds. A lot of developers are doing it already, and some planning departments are specifying that you get your water efficiency right down. We are also conducting a call for evidence on things like leaky loos, because if you have a leaky loo it wastes a huge amount of water that we do not need to waste. Most people do not realise that they are paying for wasting water. All those things are under way to reduce our demand. The smart metering issue is very important. Ofwat has just brought forward something like £260 million of infrastructure up front to install something like 462,000 smart meters by 2030. The programme is definitely accelerating.

Lord Burns: I worked in the water industry in the 2000s. I was chairman of Welsh Water. I know, from experience, that it does not feel as though it is in the interests of water companies to reduce the use of water at this stage. There has never been great pressure on them to introduce metering, although, as you say, there are arrangements. It still escapes me why more pressure is not put on metering. It is the one thing that we know helps, particularly for identifying leaks that people have, as you mentioned. Other things seem really very small, relative to the benefit that you can get from metering. I do not understand why there is not more pressure from the companies if one really wants to get demand down. It is a very old-fashioned idea, but the price is the thing that very often makes the biggest difference. If you are not paying for the amount of water you use and are just on a standard charge, where is the pressure?

Rebecca Pow MP: It is an interesting point, although I might play devil's advocate and say that it might encourage some people to use more water, because they think they can pay for it, so they wash the car every week.

Lord Burns: That is not the experience, but we have experience of what they use.

Rebecca Pow MP: Interestingly, one water company raised that with me. It is exactly what occurred in one of the very hot periods we had recently. We have to get our data right for this to know that it will achieve the right outcome. Certainly, we are encouraging water companies to go down that road, but there are a lot of other measures. I mentioned water efficiency, but it is also critical, as you will know from running a water company yourself, to get the leakage rate down. That is why we have set targets for reducing leakage, because that is a big way to cut down on wastage. We have set a 50% leakage reduction target and a 15% reduction in non-household water use by 2050. We are going about it from many, many areas.

Q77 **Lord Burns:** I will not press it much further, but metering is one of the ways of reducing leakage, because it helps to identify where the leaks are taking place.

I will move on to some of the issues to do with large projects, such as reservoirs and water transfer schemes, as other means of seeking to protect us against future demand for water. Can the construction supply chains cope? Is the infrastructure there to deliver them? Will we be able to move smoothly through the planning processes? The record in both of those areas, reservoir construction and water transfer schemes, is not very good. They get held up with all kinds of planning problems.

Rebecca Pow MP: Yes, we are building new water supply systems. I am just trying to find my notes on that. Often, there is a lot of information out there saying that we have not built anything recently, but actually we have an awful lot under way. I want to mention some of those, because we get a lot of bad press for not dealing with that. We have a lot of schemes under way and I will name a couple of them. For example, United Utilities has a water transfer scheme from Manchester to Liverpool, called the West East Link Main. You might know about these. Last year, South West Water—I have just visited this one—brought on stream, because it has had drought issues, an old clay pit called Hawks Tor as an emergency measure. Now, they are going through the process of getting it permanently permitted. There is the new Abberton reservoir near Colchester, our fourth largest reservoir, and the company is expanding that. There is a lot of work under way that companies are quite clearly able to do. I think you asked a question about construction.

Lord Burns: Construction and planning problems—two things.

Rebecca Pow MP: Of course, in construction for all infrastructure, there is an issue in having enough people to do the work and the right materials. There is a piece of work currently under way on that to make sure that we can cover all of it. We have published the *National Policy Statement for Water Resources Infrastructure*.

You referred to planning, which is a really good point. It was also raised by the infrastructure commission. Can we get these projects through the planning? I have some really good notes on this; it is really important. Basically, we have given better pointers in that statement as to what a planning inspector should be—not fast-forwarding exactly, but not holding up, not going to an inquiry over. That was very much needed, because we have to get these projects through. That new policy statement will help deliver a lot of the schemes that we need as we go forward.

Q78 **The Chair:** Thank you. The *Times* reported two weeks ago that in order to meet the pollution targets—no more, no less than that—the water companies believe they will be asking for an average annual water bill increase of 50%, so between £450 and £680. That is not including all the leakage problems or anything else, or replacing the Victorian infrastructure. Is that an increase you can contemplate and agree with?

Rebecca Pow MP: The *Times* is obviously trying to attract readers.

The Chair: No. Sorry, let me repeat. It was reporting on what water companies have said.

Rebecca Pow MP: Right, but I go back to the point that these are all things that will be calculated through the price review process. It is under way right now. Ofwat has to go through with a fine-toothed comb what is required by it and by government as statutory requirements. Then it has to factor in what the increases in bills will be holistically to deliver what we need as a society.

The Chair: On the question of what is delivered to society, what is Defra's view of the increase needed to fund this investment? As the Secretary of State explained, only the bill payers' bill can pay for it. The bill is very, very large and has to be paid. Have you now worked out the size of the increase that is needed to meet the job in hand?

Rebecca Pow MP: Obviously, through our plan for water and all the demands in it, all the requirements and all the other things I have mentioned, we are working out what the costs would be. That is why choices will have to be made. Is it sensible to eliminate all storm sewage overflows right now, or would it be better to do what we said and set the target for 2035 just to work on bathing waters and protected nature sites first, because they are the most critical, so that it is realistic for the water companies to deliver and realistic for us to have on our water bills?

In fairness, water bills have remained pretty much static, if you factor in inflation. I have some data that I could send you. For example, in figures I had from 2010 to 2011, our average water bill was £427. In 2020 to 2021, with inflation factors in it, it was £426. We have to be realistic about what we need to deliver and what we are going to charge the customer, but I stress that we will always look after the vulnerable customers we discussed earlier.

Q79 **Lord Cromwell:** What you must be hearing loud and clear from our Chair's question, Minister, is that there is anxiety as to what impact this is going to have on the customer, not as regards water supply but in the pricing. Somebody needs to be bold and come out with a number and say, "This is likely to be it". That was not going to be my question, but I was inspired by your not answering his question. I may come to mine, but I only have a moment.

Rebecca Pow MP: Every water company will have a different bill. At the moment, they are all different; they will still all be different.

Lord Cromwell: We look forward to hearing what they actually are; some figures would help. My question comes back to what Lord Burns was asking about the metering. Whose decision is it? Is it the water companies? Is it Ofwat? Would the Government consider mandating water meterage? You talked about mandating getting rid of wet wipes. Why not mandate to have water metering? Is that too politically explosive for you?

Rebecca Pow MP: We are mandating water efficiency labelling, as I said. It is very much that we are encouraging rather than mandating. I cannot say any more than that. Most water companies are going down that road.

Lord Cromwell: But it is their decision, not Ofwat's or yours.

Rebecca Pow MP: Yes, a water company decision.

The Chair: Minister, thank you very much. It has been a helpful and revealing session. We wish you well in your visit to the House of

Commons. Thank you very much indeed.