



Public Accounts Committee

Oral evidence: Work of Ofwat, HC 70

Monday 27 November 2023

Ordered by the House of Commons to be published on 27 November 2023.

[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Mrs Flick Drummond; Ben Lake; Anne Marie Morris; Sarah Olney.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Richard Davis, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1-49

Witnesses

I: David Black, Chief Executive, Ofwat; Iain Coucher, Chair, Ofwat.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]



Examination of witnesses

Witnesses: David Black and Iain Coucher.

Chair: Welcome to the Public Accounts Committee on Monday 27 November 2023. Today, we are talking to Ofwat. In 2020, this Committee warned that Ofwat, as well as the Department for Environment, Food and Rural Affairs, which we will be seeing in our next session this afternoon, and the Environment Agency, had “taken their eye off the ball” in ensuring a reliable water supply in the years ahead.

There has obviously been a lot of discussion in the news about Ofwat’s work. In October this year, water companies had to submit their business plans to Ofwat to cover the period from 2025 to 2030, so it is a timely moment for us as a Committee to pick up on our previous work and question Ofwat on how that process will work. Some of the concerns that have been reported are around under-investment, the impact of pollution and so on, and how customers’ bills will absorb all these pressures relative to other investment.

I welcome our witnesses. We have David Black, the chief executive of Ofwat—welcome back to you, Mr Black—and Iain Coucher, who is the chair. Without further ado, I am first going to ask for any declarations of interest, which I think we have from Sir Geoffrey Clifton-Brown.

Sir Geoffrey Clifton-Brown: I draw attention to my entry in the Register of Members’ Financial Interests: I am a practising farmer and a chartered surveyor.

Chair: Thank you very much, Sir Geoffrey. Sir Geoffrey, the deputy Chair, is going to kick off for us.

Q1 **Sir Geoffrey Clifton-Brown:** Good afternoon, both of you. Mr Coucher, I have the Chair’s permission to refer to your letter to me about Primrose Court in Moreton-in-Marsh. To describe this for everybody in the room today, it is a fairly smallish settlement area, and when it rains, raw sewage is pumped on to this area, which is surrounded on three sides by houses. You can imagine that, for the people living in those houses, it is a pretty unpleasant sight and smell.

You have been very helpful, Mr Coucher, in replying to my letter. The critical bit, if I may quote it back to you, is this: “As far as I can tell, the treatment works has a permit from the Environment Agency that allows for these eventualities. That said, the spill to open land is quite unusual. It is normally released into some watercourse where treated water goes.” This is a pretty unpleasant situation, and I am hugely grateful to you for your help.

That permit, issued by the Environment Agency, goes back to 1986, and I think the norms, in terms of the acceptability what went on then, were very different from today. While, as you say in your letter, those involved



HOUSE OF COMMONS

may or may not be complying with that permit, I think the issue is whether that permit is still correct. Would you care to comment on that?

Iain Coucher: Thank you, Sir Geoffrey. When I spoke to Thames about this, they said that they had been looking at it for a lengthy period of time and that the intervention to fix it permanently would cost about £5 million. They said they would see whether they can include it in their business plan as part of PR24 and would prioritise it if there were challenges meeting all obligations. I have not yet seen whether they have included that in there.

I did go back to Thames to question why this would be £5 million—that seemed to be a disproportionate amount of money for the scheme as described to me when I spoke to them. I will go back to make sure and to have a look at what they have done with regard to that investment as part of the business plan.

Q2 **Sir Geoffrey Clifton-Brown:** First, I would ask you to see if they have included that in their plans. I had my half-yearly flooding meeting on Friday, and it was quite clear that, even with the one or two things that Thames did have, they did not mention this in their plans. They told us openly that they would do them at the end of their plans. I wonder whether, when you scrutinise water companies' plans, you could in some way ask them—where you feel it appropriate to do so—to prioritise things towards the beginning, middle and end of a plan.

Iain Coucher: That would normally be the case. We would look at what they have in the entirety of their programme. With Thames, for example—we will get on to this later in the course of the meeting—a phenomenal amount of investment has to go on over the next five years. It is a huge programme, and this is just one scheme of many in there. I do not know where it sits in the priority list, but I will go back to them and do as you indicate, to see where it is in the list.

Sir Geoffrey Clifton-Brown: That is very kind. Now, moving on to a completely different thing—

Chair: Before we move on, while we are on the subject of Thames Water, I will bring in Sarah Olney.

Q3 **Sarah Olney:** This is about the Mogden sewage treatment works, which is close to my constituency in Richmond Park. It discharges more untreated sewage than any other Thames Water site but, rather than increasing its capacity to handle sewage spills, Thames Water wants to build a pipeline for treated sewage into the river at Teddington, which is on the boundary of my constituency. What conversations can you have with Thames Water to persuade them to extend their storm tanks at Mogden, to abandon the direct river extraction scheme and to pursue alternative projects, which could deliver four times more water without harming the river?

David Black: I think you might be referring to Thames's water recycling scheme—

Sarah Olney: Yes, I am.

David Black: This is one of the schemes that Thames is looking at to address the need for increased water resources in London and the Thames valley area. It is part of a process of water resource management planning. A number of options are looked at as part of that process, which is overseen by the Environment Agency, which selects projects based on a combination of the environmental impacts and the wider consequences. If the scheme goes through that process as per the Government's strategic direction to Ofwat, we will make that part of their business plan. While we appreciate that it does, no doubt, have adverse consequences, it is about a choice between a number of schemes. It is very important, as this Committee has noted previously, that London has a resilient water supply, so it will be considered as part of that process.

Sarah Olney: Thank you.

Chair: Thank you for now, Ms Olney.

Q4 **Sir Geoffrey Clifton-Brown:** If I may stick with you, Mr Black, and talk about Thames Water for a minute, I have a BBC News report here from 5 September 2017. It shows that £2 billion was borrowed by Thames Water between 2007 and 2010, to be used for the "benefit of the bank". It was used for the benefit of the bank, because the bank simply took the money out and loaded the company with debt. Could that happen today?

David Black: The answer is that we have changed the rules. In 2021, the Government gave us new powers to change company licences. The first change that we made to company licences was to introduce new restrictions, in particular on dividends out of the regulated water companies. That gives us the ability to step in if companies pay dividends or seek to make other types of transfers out of companies above and beyond what would be a reasonable return and one that reflects their performance for customers and on the environment.

Q5 **Sir Geoffrey Clifton-Brown:** When Macquarie bought Thames Water, they bought it with £2.5 billion-worth of debt. What happened to that £2.5 billion?

David Black: The debts of Thames Water now amount to around £14 billion—

Sir Geoffrey Clifton-Brown: Fourteen?

David Black: Yes, on a £19 billion asset base. I should confirm those figures, but—

Chair: Nineteen billion?

David Black: Yes. The point I am trying to make is that there has been a substantial increase in investment by the company over that time. Most of that investment has been funded by debt raised by the company, which is why the company now has, in our view, weak financial resilience—in other words, too much debt and not enough equity in the business. The shareholders recognise that, so there is a process where they have



HOUSE OF COMMONS

injected some money into the company, and they are proposing to inject further money into the company.

In our view, all companies need to have sufficient shareholder backing behind them to be financially resilient and to absorb the ebbs and flows of their performance and things like the weather as well. We have noted concerns about Thames's financial resilience in recent years. They have been at the top of our worry list, so we are pleased to see shareholders take action to inject money into the company. We think further action is required, but I also want to be very clear that it is not just about shareholder funding; the company needs to turn around its performance. Its performance is nowhere near what it ought to be for both customers and the environment, and it is partly the consequences of that poor performance that are adding to their financial issues.

- Q6 **Sir Geoffrey Clifton-Brown:** Mr Black, let me see if I have understood this correctly. Does this mean that when you are requiring Thames to undertake any major investment—I don't want to steal others' thunder about water resilience, reservoirs and so on; we will come on to that in a minute—these are largely, if not exclusively, going to have to be paid by the bill payer?

David Black: Large capital schemes are financed up front by investors, and the costs are recovered from customers over time. That model remains the same, regardless of the financial circumstances of the company itself. As part of the investment process, companies charge an amount to the regulatory capital accounts. That is funded by either shareholders or debt holders up front, then those costs are recovered from customers over time. That model is the same for Thames Water and it is the same for Severn Trent United Utilities. Investors are there to provide the up-front financing and, over time, there is either interest paid on debt or dividends paid to shareholders.

- Q7 **Sir Geoffrey Clifton-Brown:** Can one of you describe how, in this process of setting the next five years of investment, you are balancing the need for huge investment in some cases—in Thames's case and no doubt for other water companies as well—to clean up our rivers, to stop leaks, to provide water resilience and so on? There are huge demands on the water industry. How do you set the balance between increasing customers' bills and the need for this investment, and how is that balance going to shift in the next five years?

David Black: There is an investment planning process, and it varies by the type of issue that we are looking at. As far as water resources go, that is the function of the water resource management planning process. That is a process that looks at water resource supply and demand balances over the next 25-plus years. Similarly, on the waste water services, there is the water industry national environment plan as well. As part of the PR24 process, we have asked companies to submit a long-term delivery strategy, which sets out the investment plans for the company as a whole over the 25 years. We are looking to strike a balance for current



HOUSE OF COMMONS

customers in terms of driving better service, and for future customers in terms of both their quality of service and the bill they get.

There are statutory obligations that companies are under, which are placed on them by the Environment Agency in England and Natural Resources Wales in Wales. That drives a large proportion of the investment set in company business plans. There is about £41 billion of investment to enhance or improve service in the companies' business plans for PR24, and a substantial proportion of that—around £23 billion—is coming out of the water industry national environment plan.

We take account of these plans as part of our decision-making process, but you are absolutely right: there is a balance to be struck between affordability, the speed that these improvements are delivered at, and the improvements that we are going to secure for customers and for the environment.

- Q8 Sir Geoffrey Clifton-Brown:** There are lots of questions that I could ask you, but I have just one final question. In your briefing to us, you say, "Thames Water will return to most customers, with the final determination of £73.8 million." Rather than returning it to customers, wouldn't it be better to retain it and limit the price that customers are going to have to pay for increased bills next year?

David Black: That reflects the fact that Thames have not delivered services that customers have, effectively, paid for. As part of the PR19 settlement, we set up companies with an amount of revenue and a set of performance commitments against that. If they fail to deliver on those performance commitments, we think that it is right that they return that funding to customers, and we think that that also sets the right incentives for investors. We will obviously look at those issues in terms of the arrangements that we put in place as part of the next price review.

Sir Geoffrey Clifton-Brown: Thank you very much.

- Q9 Sarah Olney:** To pick up on Sir Geoffrey's question about investment and customer bill increases, will you be issuing guidance to water companies about what level of dividend is appropriate, given that we hear of water bill increases of up to 40%?

David Black: Yes is the short answer. As I said, we have changed the rules about setting in order to give ourselves the ability to step in and enforce if companies do not align their dividends to performance for customers and the environment. As part of the price review, we will set what is called an "allowable return on capital", which is the return that customers pay on investment. That amount will be set as part of the price review process. We have set out an early view, ahead of the company business plans coming in and, if a company is performing reasonably well, we think that dividends could be paid in line with that amount. However, we also acknowledge the level of investment that is required, which might mean that companies need to retain more money inside the business than they might have done in previous price review periods to finance the increase in investment. So, unlike previous price reviews, companies will



HOUSE OF COMMONS

face a huge increase in investment, and that must ultimately be funded up front, either by shareholders or by companies raising debt.

- Q10 **Sarah Olney:** Thank you. Are there any water companies that Ofwat might have considered putting into special measures over the last couple of years? Are any companies currently under consideration?

David Black: There are no companies in special administration. The special administration process is designed for when a company is either insolvent—unable to pay its debts—or has very serious performance issues such that it cannot meet its statutory obligations to customers. The approval of the Secretary of State is required in both of those situations, so those are not just decisions for Ofwat to make.

As I said, that is very much a last resort; what we would like to see is companies turning around and performing better for customers and the environment. First and foremost, we are looking to drive better performance for customers and the environment, and we will use the tools that we have at our disposal, as a regulator, to secure that.

A special administration process essentially involves a team—it might be an accounting firm or some specialist in insolvency—coming in to try to restructure the debts of the business and resell that business to further investors. That process is appropriate if the company is insolvent; the question is whether that will deliver better outcomes from a customer and environment perspective. That is rightly seen very much as a last resort; the first and better outcome is to see a company getting the backing of its shareholders, putting in place improvement plans and getting the management team it needs to drive better performance.

- Q11 **Sarah Olney:** Finally, there is an ongoing investigation by Ofwat and the Environment Agency. People are coming to me to say that they want to get information, particularly around dry spills, but that the investigation is being used as a reason why that information cannot be released. Are you able to give us a status update on the investigation? Also, can water companies be compelled to release the data?

David Black: On the first point, we have enforcement action under way against six companies and open investigations against the other waste water companies, and we are making good progress. We have been through a process of collecting sets of data from companies, and we have gone back to them several times to clarify what they have provided and follow up on that. We are making good progress. I will not comment on when or where we will make decisions on that, but we are conscious of the importance and urgency of this work, so we are proceeding as rapidly as we are able to, and I hope to be able to provide a further update at a future point in time.

On companies' reasons for not disclosing the data, we have encouraged companies to be open and transparent. We do not think that the investigation itself is a good reason for companies not to provide data. They have some legal obligations to disclose information, and there is a process for working that through. That process does not involve Ofwat



directly, but we would encourage companies to be open and transparent about their environmental performance.

- Q12 **Anne Marie Morris:** Coming briefly to water supply, Mr Black, when you and I have talked about it, you have been as concerned as I that supply is as important as dealing with waste and pollution. It is clear that at the moment there are fewer specific targets on the supply side than on the waste and sewage side.

Now that you are looking at the current water plans, without the incentive to ensure that provisions in them make proper provision for water supply, what sort of checks are you doing to make sure that it is appropriate? One of my concerns is that the assumptions about reduced water consumption—from 145 litres to 115 litres—are unrealistic and should not be relied on, because the average consumer has absolutely no idea and no guidance as to how to achieve that reduction because there has not been a national campaign. How robust are you being, and how much effort are you putting in, to challenge water companies on their supply-side plans?

David Black: Having a resilient water resource supply is vital. It is right at the heart of what companies are there for. Prior to PR24, we set in place a process to fund companies to develop a range of 15 major new strategic water resources. These are large new reservoirs and large water transfer schemes that will form the basis for schemes coming through the next price review. Companies have developed and taken forward a number of our proposals. As part of the water resource management planning process, they have been identified and will ultimately form part of the final determinations that we make for companies as part of their 2024 price review. We will see an unprecedented level of investment in major new water resources.

That is vital, but it is also vital, as the National Infrastructure Commission has pointed out, to make further progress on reducing leakage and on helping customers to bring down the level of water use. Major new reservoirs are expensive—we are perhaps talking about £2 billion or more for a major reservoir—so it is absolutely right that we look at the demand side as well. As part of the 2024 price review, therefore, we are establishing a £100 million fund to help customers save water. We are trying to look at a full range of options, including demand reduction, further reductions in leakage—we hope to see leakage reduce by 30% over this decade—and major new water resources.

We need all these things. You are absolutely right that we need to make sure that we do not depend too much on any one element of this and that we have resilient supplies so that, if the demand reductions do not come through, there are alternatives. Part of the planning process is about looking at things on a more dynamic basis, so that as we track demand and supply over time, companies can bring forward schemes should demand reductions not materialise, or push them back if they do.

- Q13 **Anne Marie Morris:** Are you saying that Ofwat, as a regulator, has a pot



HOUSE OF COMMONS

of money that it will use to help water companies get the message out about saving water?

David Black: Yes. We are establishing a fund of £100 million for the next price review period—funded from customers—to help the sector get to a much better place on water demand. We have not seen progress by the sector in the current period or in previous periods. The Government set challenging targets, and we think the sector needs to rise to the challenge of delivering on those. If that works, it will be cheaper than the alternative of building major new sources of supply.

Q14 **Sir Geoffrey Clifton-Brown:** Can I come in there? Given the importance of what you have just been talking about with Anne Marie Morris—demand-side management and reduction—is £100 million really enough to convince the entire public that they need to reduce their water consumption?

David Black: I am sure that in itself it is not, but we think it is part of the mix. Clearly, companies have a role in this process. Rightly, they are charged with helping customers to use water more wisely, and we have seen some action in that space, but more needs to be undertaken. There is then the Government's broader role of regulating water-efficient devices and making sure that new homes are water-efficient.

The fund is one element, but we think it is important that strong efforts are made to help. Many customers are interested in how they can save water, so we need to harness that energy.

Q15 **Sir Geoffrey Clifton-Brown:** It is going to involve a massive public information campaign, is it not—to bring about that transformational change?

David Black: Yes.

Sir Geoffrey Clifton-Brown: Okay.

Q16 **Anne Marie Morris:** I think probably Sir Geoffrey and I are a little sceptical because for years there has been an obligation on water companies to get the message out and it has singularly failed. The Government have been asked to launch something nationally and they have refused. Why do you think that this extra sum, which I assume will actually be paid for by the bill payer, is going to make the slightest bit of difference?

David Black: Other countries have shown that you can help customers to use less water, so the water consumption in England and Wales stands out as being markedly higher than in a number of other countries around the world—

Q17 **Anne Marie Morris:** We all understand that of course it should be possible, but we have tried and failed. What is different about this time?

David Black: We have not tried anything like this scale.

Q18 **Anne Marie Morris:** Well, I can tell you that my own water company—



HOUSE OF COMMONS

South West Water—has tried, and it has failed miserably. So please give me an example of a water company that has successfully put out a campaign that has actually reduced consumption levels. Most importantly, how are the companies—or indeed you—measuring it?

Iain Coucher: If I could say a few words, Anglian Water has been leading the charge in this regard. It has been very aggressive in trying to drive down water consumption. It has had quite a few successful areas. I think that the city of Newmarket, possibly, has got down to about 85 litres per person per day. Therefore, although I share some of your suspicions, we sort of know the types of actions that it takes to get consumption down—how to target it and the sums of money involved in doing that. What Anglian Water is saying is that, once you get it down to those sorts of levels, you cannot take the foot off the gas, as it were; you have to continue to reinforce it, because over time it will drift back up.

There are isolated examples of where companies have really gone after this, so we do have some insight. Absolutely—is £100 million enough? No, but that is not the only source. That is to try to co-ordinate a national programme or to do something other than what water companies would be doing in their own specific areas. They are incentivised to do it, and that programme is on top of that as well.

Q19 **Anne Marie Morris:** That is very helpful, Mr Coucher, and I hear what Mr Black is saying. However, the plans are being set based on where we are now, not on where we will be if you are successful. Therefore, are you taking into account, when you look at what the water companies have to put in, whether they actually provide enough to build those reservoirs and so on that we will continue to need until that campaign works?

David Black: It is important to highlight that as part of the water resource management planning process, the Government have raised the level of drought resilience that we are looking for from the sector. At the moment, it is done on a standard based on a once-in-200-years drought; that is moving up to a once-in-500-years drought by 2040. Another key reason driving the need for water resources is to reduce abstraction from valuable chalk streams. You are absolutely right that resilient water resources are vital, and we are seeing a huge step forward in investment in the space.

I think that the challenge is not so much about the level of investment required but getting major infrastructure projects from conception to being built. There have been attempts to build large reservoirs before. We are very mindful of ensuring that the planning processes are going to move as smoothly as they can and that there is a strong case and evidence base for seeing these water resources go ahead. I want to assure you that very serious efforts are being made to increase the provision of new water resources at the next price review, and those will continue over the years to come.

Anne Marie Morris: Thank you.

Chair: Thank you. Briefly, Sir Geoffrey?



HOUSE OF COMMONS

Q20 Sir Geoffrey Clifton-Brown: I will just come back to that point about resilience and water provision. As you say, things like the Abingdon reservoir take time. It has been on the stocks already for 10, 15 or 20 years, and it will probably be another 10 years before it could possibly be built. Will your next five-year plan indicate any investment required to build that reservoir? Coupled with that, there is a Severn to Thames transfer scheme that could be completed much more quickly, hopefully involving the Cotswold canals. Will you consider that in your next five-year plan for investment?

David Black: All these schemes are being considered as part of the water resource management planning process. There is a national framework, and there are regional plans and the company plans. We see a mixture of transfers and reservoirs likely to go ahead at PR24 but, obviously, we will take those decisions as part of the PR24 decision process.

Q21 Sir Geoffrey Clifton-Brown: As Ms Morris says, in London we are seeing a huge rise in population. We have not yet got that reduction in water consumption. With the Olympics, we were very close to having standpipes. If we are not careful, we will get back to having to have standpipes in London, unless we consider this water resilience problem seriously.

David Black: We completely agree. We think it is vital that new water resources come forward. As I say, we have been championing funding and money going into that since 2020, and we will continue to see a continued push for these schemes to go ahead. The exact, precise mixture of which scheme belongs where and at what time is a function of the water resource management planning framework.

Q22 Mrs Drummond: On a more positive note, Havant Thicket reservoir is being built at the moment. However, there is some criticism about the consultation on the water transfer pipeline, which we are also getting, between Havant Thicket and Otterbourne through my constituency. I was wondering what you do about listening to complaints. How seriously do you take them? What impact can you put on water companies, so that they listen to their customers?

David Black: There are probably two aspects to this that are worth bringing up. One is about the approach of water companies to dealing with customers, and the other is the planning process that this would ultimately go through. That is obviously not for us to deal with, but we want companies to engage with customers and stakeholders. We are very aware that all these schemes have an impact at a local level. It is really important that water companies understand the concerns and, where possible, seek to mitigate those concerns where it is reasonable to do so. As part of the planning process, there will need to be consideration of whether the benefits from the scheme for the wider public outweigh the consequences for local stakeholders.

Q23 Mrs Drummond: But when you get complaints, how much clout do you have with the water companies? What can you do about them?



HOUSE OF COMMONS

David Black: The complaints process, in terms of customer complaints, goes through to the Consumer Council for Water. It oversees the complaints process for the sector. That is the primary vehicle for addressing complaints. Obviously we can and do engage with companies where we are concerned about their performance in dealing with customer issues; we have intervened and will intervene where we think that their service is not what it should be.

Q24 **Mrs Drummond:** Presumably, you as the regulator should be listening to customers' complaints. You then put that pressure on the water companies.

David Black: Indeed. As part of the 2024 price review process, for the first time we have introduced a process called "Your water, your say". We invite any MPs to engage with that as well. It has just been through its second round. It is where companies present their plans with an independent chair of the session. Members of the public are invited to submit questions, both in the session and in advance, and the questions and challenges are responded to by the company live. We will also follow up on those sessions when we make our draft determination next year. We are also seeking customer feedback on business plans now. If customers have views, we ask them to share them with us; we will take them into account in our draft determination process.

Q25 **Mrs Drummond:** Thank you. There is another massive issue that fills all our inboxes, which is about the sewage outflows and things. The point is that they count only every time one is done; they do not actually count the quality. They monitor the quantity of the outflows, not the quality. Sometimes there may be a tiny bit of sewage, and that is included as a major incident. When are you going to bring in some better monitoring or force the water companies to monitor what is going out, as opposed to the quantities going out?

David Black: That is a very good point. Event duration monitors, as they are called, monitor the existence of discharge and the time period of discharge, but they do not monitor the impact on the river or the water quality. As part of the 2024 price review, the Environment Agency is specifying that companies roll out more monitoring of the impact on water quality. That involves installing monitors upstream and downstream from outlets. The costs of that are very large, so the idea is to target monitors at the outflows that are most likely to be creating issues. This is a really important point to note: one discharge is not necessarily the same as another in either its ecological impact or the impact on human health. We really need to see a much better sense of what those impacts are to help drive the design of the programmes to reduce sewage discharges.

Q26 **Mrs Drummond:** If you have much more information on what is going out, you can push the water companies to do something else. The monitoring is quite weak. I know that it is very expensive to monitor that, but we need to put some pressure on the water companies to do that so that we can be much more advanced in what we do from an ecological point of view.



David Black: Yes, and this is part of the Government's storm overflows plan. They have set out requirements as part of that.

Q27 **Mrs Drummond:** Lastly, can I ask your opinion on water recycling? Obviously, that is a massive issue for drought areas, particularly in the south-east. Are you pushing the water companies to look at recycling as opposed to desalination, which has huge ecological issues?

David Black: The short answer is yes; we think water recycling has to be part of a mix. Reservoirs, transfers, recycling and desalination are the potential sources of water. Desalination obviously has environmental impacts. It also has high energy use and an associated carbon footprint. Particularly in areas with lots of waste water treatment, we see water recycling as an opportunity and a potential resource to be harnessed. Clearly, customers have questions and perceptions around that, so it is vital that the sector works to address those and that customers are completely assured of the wholesomeness of drinking water. That is absolutely important and that is part of the work that we are doing.

Q28 **Ben Lake:** Mr Black, I would like to take you back to the price review process, specifically how Ofwat sets the amount of allowable investment for different water companies. If I understand it correctly, a whole range of factors are taken into account, including the number of leaks and how to reduce them, as well as pollution from waste water services. How did each of those companies perform against the specific targets set for them in the last price review process?

David Black: We have had three of the five years of performance to date. The answer is that we have identified a number of companies—six, from memory—as lagging behind the sector. They are meeting less than half their core performance commitments. The brief answer is that, overall, it is disappointing. We rightly set challenging performance targets. These performance targets were set to require companies to improve their performance. I want to be clear about that. They include, for example, a 40% reduction in supply interruptions, a 30% reduction in pollution incidents and a 16% reduction in leakage. They are a set of challenging targets. Some companies have risen to those challenges, but too many have fallen short too often. In particular, they have made progress in reducing pollution incidents, but not fast enough. Water supply interruptions are concerning. I imagine that you are well aware of some companies whose performance in that space is poor. Those are some key highlights.

Q29 **Ben Lake:** Turning our attention to those companies that are lagging behind, is that on account of their failing to deliver the plans that they presented to you, or were their plans inadequate at the very outset?

David Black: It is probably a combination. We have set challenging but achievable targets. We would say that the companies have not stepped up to deliver. The companies would argue in some cases that the weather was unfavourable or that various circumstances intervened. While it is right to be sceptical about that, we are conscious that these numbers fluctuate in any one year. I think you get a truer picture as you look at it



HOUSE OF COMMONS

over time, but we have three years of data and the picture looks unsatisfactory for some of those companies. Where companies have been identified as lagging behind, we are not just stopping there; we are calling them in. At the moment, Iain and I are meeting every company that is lagging behind to hear about its service improvement plans. Our drive is that the companies identify what is going wrong, address the root causes and then come up with a plan that will get them back on track.

- Q30 **Ben Lake:** I am very pleased to hear that because you will know that one of the companies of concern is Dŵr Cymru. Between 2020 and 2022, it only managed to reach 69% of its investment target. After you bring a company like that in for discussion, what measures can you take against it to encourage better performance?

David Black: Incentives were built into the price review. That will return money to customers where companies fall short in their performance. Companies may be allowed to recover money if they exceed or outperform their performance targets. We think that provides a framework for doing that. We also have enforcement powers: where they fall short of their legal obligations, we will take enforcement action. In between, we sit down with companies to ask hard questions about what is going on and why they are falling short. We then get them to produce a plan that we think can remedy those issues.

- Q31 **Ben Lake:** To date, have you had to take any legal enforcement action against any of these companies?

David Black: We have open enforcement action in terms of waste water performance against six companies. We also have open enforcement action against two companies on their reporting of leakage and per capita consumption targets. That includes Dŵr Cymru.

- Q32 **Ben Lake:** In terms of those particular examples, how quickly would you expect these companies to respond in a positive manner and to resolve the issues highlighted?

David Black: We look to respond rapidly, but we also recognise that it takes time to turn around performance, and that will depend on issues facing the company. We also acknowledge that we have said they are already halfway through their next year, so with the steps that they put in place we hope to see the impact as soon as possible, but it may take a number of years for companies to go from lagging behind to turning around performance. For companies that have really serious performance issues, the time period might be longer, but we look forward to seeing companies go from that trajectory of performance declining to one where they are improving and starting to close the gap on their comparator companies.

- Q33 **Chair:** Can I just be clear about the point of intervention? When do you go public with it? Is there any point when you are having private conversations, or is all of your discussion in the public domain?

David Black: We do engage with companies. I meet the chief executives regularly to talk to them about how the company is doing and their



HOUSE OF COMMONS

performance. There is a company performance report that we produce annually—publicly—and set out our view of lagging companies. We get data from companies quarterly for those lagging-behind companies and engage with them on their performance. So we have regular engagement with all of those companies, not just the public.

- Q34 **Chair:** Short of the public document, how often do you go public about a company that is underperforming? You have a challenge, because you have to make sure that shareholders are not withdrawing their investment, but you also have the very big responsibility as a champion of the customer to make sure that we have a good water supply. Which takes priority?

David Black: We think both need to be delivered. We are trying to have a regime where shareholders' interests align with good performance for customers and the environment. Companies that perform well for customers and the environment will get better shareholder returns. Those that do not will suffer the consequences.

- Q35 **Chair:** So you are never under pressure not to name a company.

Iain Coucher: Just by way of an example, we are doing exactly what David said. When we see a company that is underperforming, we bring them in and make it very clear that they are to explain why they are underperforming so that they understand the issues and have a recovery plan to get back on track. If we are not satisfied and we do not believe that what they are saying is necessarily the best way of doing it, we can enforce. There has been an incident recently where we went through that process and opened an enforcement case against South East Water, because we still believe they are falling short of their obligations. Then we make that public.

- Q36 **Chair:** So you are not frightened. There is no political pressure—when I say “political” I mean in the broad sense of the word—to do anything.

All witnesses indicated assent.

- Q37 **Chair:** I see nods, just for the record. You mentioned a couple of times, Mr Black, the length of time it takes to get planning. That is obviously a hot political topic, but as this Committee looks at the effectiveness of issues, you will be about to set the new plan with companies that have put their business cases in. You are about to agree those, or not. Do you lobby Government on planning issues? Are there any particular barriers that you are thinking about when you talk about challenges and planning for this area?

David Black: We welcome the Government's national policy statement on water. We think that is really important. Clearly, the planning process is an important process. Local people are affected by all of these developments. There are also environmental impacts, so it is right that there is an exhaustive process that works through that. But we are mindful that companies need to deliver on these investments over time. Although it is right that there is a vigorous, robust planning process, it is



HOUSE OF COMMONS

important that these issues are addressed as best they can be. We see the national policy statement as important in this.

Q38 Chair: Talking of delivering, we have had some good evidence that has just been published, or just been agreed to be published, so I would have a look at that. The Royal Society for the Protection of Birds has highlighted the Water Act 2014 and the resilience objective. We have talked a lot about the cleanliness of water and the infrastructure, but a huge issue often debated in this place is about the environment. How much are you hearing? Where does the resilience objective fit in the suite of issues that you will be looking at as you look at the new business cases coming forward?

David Black: Resilience is vital. We have a statutory duty to promote resilience. We have taken steps to do that.

Q39 Chair: But you also have challenges, as we have discussed, with planning to get things moving and with infrastructure. Do they clash too often?

David Black: Resilience is about companies understanding the risks to their service and getting a good grip of that. That is not just about building things; it is about companies really understanding the risks and then taking steps to mitigate those risks. We have engaged with companies in places where we have been disappointed and dismayed by the lack of grip on their understanding of resilience. It is not just about water resources. For example, last summer there were companies that had the water resources but struggled to treat the water and distribute it to customers at the speed that customers require. It is a complex, multifaceted issue that goes to the sector's understanding of and data on issues that will impact on resilience. There is a learning process with that, so we are keen to encourage companies to engage with that.

Rightly, the Government have a role in this space in setting the overall standards, in terms of our drought resilience. That gets reflected in the watercourse management planning process. We see major steps being taken actually, both at the previous price review and with Havant Thicket, and at the next price review we see substantially more investment going into getting resilient systems and services.

However, then we also need to consider the obvious impact of climate change, which will make the job harder. And there is interplay with things like land use. The more that surfaces get paved over in cities, the more water that will wash into sewers, and the more likely that there will be problems with both flooding and sewage discharges or sewage flooding. It is about companies getting an understanding those issues and then being able to work together with other stakeholders to address them.

Q40 Chair: It is just less than a decade ago that this objective was introduced in the Act, and it was added to an existing regime. Do you think that sometimes means that companies are just a bit behind on the curve on the environmental resilience issues in particular?



David Black: I think the duty recognised the importance of resilience, and the experience since then has only confirmed that. I think we are starting to see the fruit of that process, in terms of the major new investments coming forward. I understand that that probably takes too long from most people's perspective, but I think we are starting to see the changes.

As I say, I think there is the less well-known impact of climate change on our waste water services and water services, and we need to continue to work with the sector to make sure that we develop our understanding of that, and we are taking steps to mitigate those things.

Just to give one example, going back to the issues of water resources last summer, it wasn't so much drought as high temperatures that were impacting on both water networks, in terms of impacting on leakages and mains bursts, and on the demand from customers. It is about making sure that companies have a good understanding of those factors and that we are building that into the planning process for the next price review.

Q41 **Chair:** A last one from me. We had some interesting evidence from Mencap. When we previously had the regulators here in front of us—I think it was you, Ofcom and, forgive me, I cannot remember the third one—it was interesting that there was a different approach to dealing with vulnerable customers. With all the big infrastructure and environmental issues, you can see that this could be a small focus, but it is obviously important for the people involved. When you are looking at these new business plans, will you be challenging the water companies on the help they provide to the most vulnerable customers?

David Black: Yes is the short answer. I talked about the licence change powers we have gained since 2021. The first licence change was about dividends and financial resilience. The second licence change, which we are introducing now, is about service to customers, and it is about making sure that, particularly where things go wrong, companies are stepping in and helping the most vulnerable.

It is important that it is dealt with within the price review, but it is also important that we are thinking beyond that. We are very keen to work with wider stakeholders and the sector in making sure that companies recognise those concerns.

I think it is very easy for utility companies to have a one-size-fits-all approach, which might work for most customers but not for some, so it is really important that they are able to target and differentiate their service, and to recognise the needs that are out there.

Q42 **Chair:** And how will you monitor that?

David Black: Obviously, one of the tests is when incidents happen and how companies respond to those. The customer complaints process is another. But working particularly with the voluntary organisations that work with our vulnerable customers is a better way in terms of understanding what the needs are and—



HOUSE OF COMMONS

Q43 Chair: How will you practically do that? What steps does Ofwat take? Do you have people going and looking at the complaints process, or who sit with people dealing with customers—

David Black: We do talk to companies about what they are doing and how they are planning to address it. At the last price review, for example, we looked at their priority service registers in terms of their understanding of customers and found that that was well short of where it ought to be, so we have set them targets to improve that. As I say, we are bringing this licence condition into place. That is being done not just with the companies but with wider groups, as well.

We are obviously involved with other regulators, as well. There is the UKRN work in this space also. It is about using all of our contacts and connections and making sure that this issue—

Q44 Chair: And how transparent will that be to anyone wanting to see how well the water companies are doing? Will it be in your annual reporting?

David Black: The priority services register statistic is disclosed, and customer satisfaction, which obviously reflects all customers, is another measure. It is likely that, as a sector, we need to get better at understanding how companies are performing for different groups of customers, and that probably needs further work.

Chair: In our session with several regulators, it was quite interesting that there was even a variation in the definition of a vulnerable customer, so we will be interested in keeping an eye on that.

Q45 Anne Marie Morris: Can I ask you about rural communities and flooding? Typically, when there is a flood, the assumption is that it is the Environment Agency and the local flood authority—usually the county council—that are primarily responsible for prevention and the clean-up, but I understand that the water companies are responsible for the adequacy of the pipework to supply and take away water. Increasingly, they are getting involved in putting the damage right in terms of clean-up, but they are not doing so much in terms of prevention.

Flooding is sadly becoming more frequent. In the plans, are you beginning to look for appropriate provision in water company accounts, first, to pay for clean-up and, secondly, to do some proper work to upgrade the infrastructure, particularly in rural communities where it is often Victorian— it is not made of modern building materials and has a very small pipe size? Otherwise, we will be continually dealing with the problem reactively, as opposed to proactively preventing it. What do you see to be the water companies' responsibility and liability, and therefore what financial provision are you looking for in those plans?

David Black: You are right that the lead agencies are the Environment Agency and local councils. Obviously, water companies are interested in their own assets, which are often exposed to flooding risk. That is where we have seen companies put forward investment in previous price reviews, and we expect that provision will be made in this price review so



HOUSE OF COMMONS

that companies understand the risks and take appropriate steps to protect their assets and, ultimately, their service to customers.

Water companies also potentially play a broader role. As you say, they often have an important role in local communities, and they have an understanding of where the water is going and where it is coming from. They are keen to play that broader role if they are able to do so, but we need to be mindful that customer bills fund water and waste water services; they are not a source of funding for broader flood protection.

- Q46 **Anne Marie Morris:** The water company has a liability. If it is not going to be funded by the bill payer—I absolutely get what you say, and I agree—where will that money come from? At the end of the day, it is a responsibility. Flooding is an increasing problem, and rural areas—particularly the old Victorian villages—are in a desperate state. One of my villages, Kenton, has over 30 properties affected by flooding several metres high. The school was completely underwater and will never be usable again. People are living with concrete floors; there is no prospect of carpet—there is no point because there will be another flood the next time there is a big storm. Surely we need the water companies to recognise that, alongside the joint responsibility of the other bodies, they have a responsibility to proactively work to ensure that state of affairs is not the norm—it should never have become the norm.

David Black: Yes, we think water companies should engage and work constructively on those issues, but equally there are limits to their role, as set out in statute. It is obviously up to Parliament whether it wishes to change that role. They have responsibilities particularly where sewers are flooding customers' premises. More generalised flood protection is an important issue, but it is not best addressed by the water company.

- Q47 **Sir Geoffrey Clifton-Brown:** Not for the first time, I am on the same subject as Ms Anne Marie Morris. If water companies were more efficient at sealing their pipes and dealing with leaks, they would not need to invest so much in upgrading or renewing their sewage treatment works. A senior officer at Thames Water told me at one of my previous flood meetings that one misconnected patio is equivalent to about 100 houses' normal waste water flow. This is a serious subject.

What are you doing to ensure that water companies meet their targets? I had my flood meeting on Friday. Thames Water told me that they had done no sealing of pipes this year. They cited environmental conditions, but I am told that technically you can do it in almost any environmental conditions by cutting off the pipe. It seems to me that water companies need to be chased up on this subject.

Iain Coucher: There are a couple of things going on here, and I absolutely agree that this needs to be sorted out. The first thing is related to dry-weather spills, which Anne Marie mentioned earlier. You get a lot of dry-weather spills when you get groundwater flowing into sewage pipes. The second thing is when you get big floods. You have sewage pipes underground and they flow back into houses, so flooding is a big problem for water companies because it gets into houses as well.



HOUSE OF COMMONS

Sealing the pipes is possible but it is expensive. When you talk to the water companies about it, what they will say—rightly or wrongly, and we have not tested this but there may be some truth in it—is that a lot of the pipes underground are part owned by the water companies and part owned by the households and/or private supplies. You get water ingress from those connections as well, so to seal a pipe, you also end up having to seal a whole swathe of stuff that is not necessarily yours. There is a bit of a mess, like many things in the sector, about ownership and where the water is getting in. They say that about 10% of the surrounding water gets into the pipes, so quite a lot gets in there. It is certainly something that we would look at. If somebody came to us with a scheme, as some companies do, to invest in waterproof, sewage-proof pipes, they could invest in that, and we would support it.

- Q48 **Sir Geoffrey Clifton-Brown:** But with modern sealing techniques, it is possible to seal them—at a price—particularly where you have high groundwater levels where there is a lot of ingress of water from the surrounding land, which then has to go into the sewage treatment plants. Surely this is an area you need to look at in terms of investment.

Iain Coucher: It is an area we are looking at. When we have looked at it, people say that it is often the private connections into public pipes that are loose. There are solutions. Southern Water has three trials and South West Water has a trial going on, so there are quite a few people looking at how we can protect existing sewage pipe networks to prevent ingress from groundwater and/or flooding.

- Q49 **Sir Geoffrey Clifton-Brown:** I have one final question because I can see that the Chair is getting itchy about the time. Probably neither of you have had a chance to see this, so I want to quote it for you to get your reaction to it. We have had evidence from Blueprint for Water. They said that “in summer 2023, a deeply concerning steer was issued from the then-Secretary of State asking water companies to explore the deferral of many environmental projects under the Water Industry National Environment Programme until after 2029”. They said that “all non-statutory environmental action is now at risk of being stripped from business plans, essentially capping environmental ambition.” They went on to say that the “steer risks projects that make use of catchment and nature-based solutions...to tackle issues such as water quality being cut from business plans”. In the constituency, we have been using some nature-based solutions—leaky dams and so on—quite successfully, to hold water back. Do you have a comment to make on Blueprint for Water’s evidence?

Iain Coucher: I will have a go and if I get it wrong, David will tell me. When you look at the volume of work contemplated for the next five years and beyond to meet the demands of population growth, the environmental aspirations and climate change, that volume is enormous. We were very concerned, given the capacity of the water company to deliver all this work, that it was simply too great—it is like trebling the activities in some areas. It would be an enormous stretch for any company to go up from the level at the moment, so we are concerned about deliverability. We are



HOUSE OF COMMONS

also concerned about the impact on bills and, to some extent, on financeability, but I will put that third one to one side.

We are very concerned about whether the companies could actually do all this work. We said, "If you are capacity-constrained by your supply chain to do all this, you might like to consider deferring some non-statutory stuff." It was not an instruction to take it out, but where they had deliverability constraints, the things that perhaps ought to go were non-statutory stuff.

What we did not want to see happen was people prioritise something that was non-statutory at the expense of doing something else on the core asset. When it comes to nature-based solutions, we absolutely think this is the way forward. It is possible that some of those will take a little bit longer than building concrete tanks and pipes and stuff like that, so we are prepared to see some of those timescales slip, working with the right agency. It was not an instruction to take it out; it was saying, "If you can't deliver all this work because you haven't got a supply chain and/or the impact on bill payers would be too great, the ones you might like to look at are non-statutory environmental schemes."

Sir Geoffrey Clifton-Brown: Thank you very much.

Chair: There is so much more we could go into here. We are only a small cog in the general discussion about how you are managing these business plans. We recognise you have a lot to juggle, but I think you have heard some of the concerns today, and I know there will be plenty more lobbying. I commend and thank those who have provided evidence and commend it to Ofwat to have a look at, so you can read those concerns in more detail. I thank you for your time. The transcript of this session will be available on the website uncorrected in the next couple of days. Many thanks to our colleagues at *Hansard* for that.