

Environment, Food and Rural Affairs Committee

Oral evidence: Reforming the water sector, HC 588

Tuesday 25 February 2025

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Members present: Alistair Carmichael (Chair); Sarah Bool; Charlie Dewhurst; Helena Dollimore; Sarah Dyke; Jayne Kirkham; Josh Newbury; Andrew Pakes; Jenny Riddell-Carpenter; Tim Roca; Henry Tufnell.

Environmental Audit Committee member present: Anna Gelderd.

Questions 121 - 280

Witnesses

[I](#): Susan Davy, CEO, Pennon Group (South West Water).

[II](#): Nicola Shaw, CEO, Yorkshire Water; Paul Inman, CFO, Yorkshire Water.



Examination of witness

Witness: Susan Davy.

Q121 **Chair:** Good morning, everybody, and welcome to this session of the Environment, Food and Rural Affairs Committee of the House of Commons. We continue our accountability hearings with water companies. This morning we will hear first from South West Water, the Pennon Group, and then later from Yorkshire Water. I am very pleased to have with us Susan Davy, chief executive of the Pennon Group and South West Water. Susan, for the benefit of the official record and for those who are following our proceedings, can I ask you first to introduce yourself to the Committee?

Susan Davy: Thank you, Chair, and thank you for the opportunity to be here this morning. I am chief executive of Pennon Group plc. We are a FTSE 250 listed business, and we have four key operating subsidiaries: South West Water, the licence holder; Sutton and East Surrey; Pennon Water Services, the business-to-business retailer; and our renewables energy business, Pennon Power.

Q122 **Chair:** South West Water is a water and sewage company; the remainder of your group are water companies. Is that correct?

Susan Davy: Correct.

Q123 **Chair:** You are not just a chief executive of Pennon Group and South West Water; you have other interests in the wider industry. You are a board member of Water UK. Is that correct?

Susan Davy: Correct.

Q124 **Chair:** And you are president of the Institute of Water. Is that also correct?

Susan Davy: Correct.

Q125 **Chair:** So, you are not just a leader in South West Water; you have a leadership role within the industry as a whole.

Susan Davy: Yes, correct. The Institute of Water is celebrating its 80th anniversary this year, and that institute is very much focused on making sure that we have trained, qualified experts across the sector. That is really its focus—to make sure we have education and qualifications that are relevant to our sector. I am very pleased and honoured to be president of that this year.

Q126 **Chair:** I am sure it is an honour, indeed. Looking at the role that you play as controlling mind, if I can put it like that, of South West Water and the Pennon Group, talk me through the culture that you are seeking to create within the group and the company. You have been there since 2015 as CFO; is that right?



Susan Davy: I actually joined the group in 2007. I then had a variety of roles on the South West Water side. I took the Pennon CFO role in 2015 and then was CEO from 2020.

Q127 **Chair:** In terms of the culture within the group, how do you see the importance of environmental responsibility, transparency and customer engagement?

Susan Davy: Given the nature of what we do for our communities and for the region, we rely on the natural environment to deliver our services. We are a huge water recycler, in effect, and how we look after that natural environment and protect and enhancement and make sure it is there for us and for everybody to enjoy is absolutely paramount. Obviously I sit around the board table, and it is top agenda on the board every time we meet, second only to health and safety of my 4,000 brilliant colleagues across the group.

Q128 **Chair:** How important is customer engagement?

Susan Davy: I have a couple of things to say about customer engagement. Probably as a first in the UK, and certainly in our sector, we are a FTSE-listed business and we have embarked on a process of making our customers shareholders in the business. We have now some 80,000 customers who are shareholders. By number, they are four times as many as the institutional shareholders that we have, not by value but by number. Every couple of weeks, we engage, and I engage, with those customers who are shareholders but also customers more broadly. Last year, I must have met around 1,500 customers individually. It is something I really like doing. We go out on the roads. We do virtual meetings as well. So we meet customers all the time.

Q129 **Chair:** Do you feel you perform well in terms of customer engagement?

Susan Davy: There is a lot for us to do. There is a lot for us to improve. We have made some improvements.

Q130 **Chair:** Is that a yes or a no? I am struggling a wee bit here.

Susan Davy: We always have more to do in terms of engagement. When we look across the group, South West Water customer service scores are probably below average in terms of where they need to be. Bristol Water are top quartile in the sector. Sutton and East Surrey, which we just picked up last year when we acquired them, again are towards the lower end. There is more that we need to do in terms of our customer service satisfaction.

Q131 **Chair:** As a public-facing company or a commercial interest, how important is transparency to you?

Susan Davy: We are a FTSE-listed business, so we obviously want to make sure we are as transparent and as open as we can be with all that we do. If I look to some examples, a couple of years ago we launched our WaterFit Live website for Devon and Cornwall, which was all about giving



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information about the use of storm overflows, which is a huge concern not just across our region but more nationally. We launched that website to try and give our customers and our communities information about the assets and how we were performing and what was happening to those assets. As we got all the monitoring in 2022, we wanted to make sure that we could share that. So, there are areas where we have progressed in terms of being transparent with our information. We put a lot of things on to our website and into the public domain in terms of what we do.

Q132 **Chair:** There are some very well documented cases where you have been involved in court action as an accused, effectively—as a defendant, but you have also had a number of your customers taking you to the small claims court for loss of amenity as a consequence of losing access to waterways from sewage pollution. Is that correct? We have been told that South West Water has settled these: offering financial settlements in court but on the basis of them signing a non-disclosure agreement. Is that correct?

Susan Davy: The first thing to say is, I hear the concerns that my customers have had.

Q133 **Chair:** Can we just break this down? Is it correct that you have settled claims in the small court on the basis of NDAs?

Susan Davy: I would have to go and check that piece of information. I apologise; I don't have that here today.

Q134 **Chair:** You do not know?

Susan Davy: In terms of our customer service teams, when people who are dissatisfied with the service that we have given come through to our departments, occasionally we will offer them some financial compensation for any loss they have incurred, so I would have to check this particular aspect.

Q135 **Chair:** Given, though, what you have just told us, is that consistent with settling small claims cases on the basis of NDAs?

Susan Davy: I would have to check that specific piece. I am so sorry that I don't have that information here with me today. It is not something that we do as a matter of course, is probably what I would say. But I would just have to check that specific piece of information. I will come back to the Committee with that.

Q136 **Chair:** Could you come back to us on that?

Susan Davy: Of course.

Q137 **Chair:** Looking at some other instances involving court action and prosecution: in 2023 you were sentenced on 13 charges and fined £2.1 million for four years of environmental offences. Six of those were for illegal water discharge activities and seven for contravening environmental permit conditions. You had to pay costs of £280,000 and a



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£170 victim surcharge. Can we look at some of the things that were involved here? The company discharged harmful chemicals from treatment works on more than one occasion, causing significant environmental damage to sites at Kilmington on the River Axe and Crediton on the River Creedy. Thousands of fish died in the Axe, and the discharge included some protected species. You breached permit rules in Lostwithiel in July 2016 by pumping raw sewage into the River Fowey. Control room alarms showed there was an issue, but the discharge continued for more than 12 hours. Is this all correct? You can stop me if I am getting anything wrong here.

Susan Davy: No.

Q138 **Chair:** Alarms also went off at Watergate Bay treatment works in August 2016, but no action was taken, and sewage was illegally discharged into the coastal waters for more than 35 hours. E. coli levels were found to be 2,000 times higher than the level at which water quality would be classified as poor. You described these as isolated incidents. At what point do isolated incidents cease to be isolated and become a course of conduct?

Susan Davy: There are a couple of things to say. We, and I, absolutely regret and do not condone those instances and those pollutions that we had. We do not want to harm the environment. That is not the activities that we undertake every day. That said, we are a business that looks after critical national infrastructure. The network that we have on the water and wastewater side, if you laid it out, could be wrapped around the circumference of the world. We have hundreds of treatment works and we have thousands of pumping stations, and from time to time things go wrong.

Q139 **Chair:** We know that. Are you telling us that you have got more than you can manage?

Susan Davy: No; I am just highlighting that from time to time things do go wrong, and the important thing is that we learn from those lessons. With that particular set of cases and incidents, we were fined and rightly held to account. I personally wrote to Judge Matson, who presided over the case, and we set out an action plan that we put in place to address some of the findings that came from those instances because we do not want those instances to continue. But they do happen from time to time, but we want to make sure that we learn lessons from them.

Q140 **Chair:** Looking at some of those incidents that happen, as you say, from time to time, all sewage companies in 2023-24 were expected to have no more than 22.4 pollution incidents per 10,000 kilometres of sewer. Can you tell the Committee what South West Water's performance was against that target?

Susan Davy: I like to look at it in terms of absolute numbers of pollutions, because one pollution is far too many. A hundred and ninety-four.



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Q141 **Chair:** If I told you the information I have is that, against that target of 22.4, you had a 111.24 pollution incidence per 10,000 kilometres of sewer, would that sound familiar to you?

Susan Davy: That is correct. We had 194 individual incidents, and when you normalise it with the kilometrage, that is the number that you get.

Q142 **Chair:** You top that league.

Susan Davy: Correct.

Q143 **Chair:** Just out of interest, do you know who the second worst company would be and what their performance is?

Susan Davy: I am really focused on our performance, which is not where it needs to be.

Q144 **Chair:** As a matter of interest, Southern Water also come in at 58.9, so you are almost double the second worst performing company. What are you doing about that?

Susan Davy: Since my tenure as CEO, I have wanted to make sure we delivered on two priorities. The assessment around pollution incidents and impacts to watercourses is part of the story in terms of impact to the environment. The Environment Agency's EPA measures about 4% of pollutions. But pollutions happen when customers' homes get impacted by sewage—their gardens, their roads and highways. And so I set ourselves a task of reducing pollutions to customers' homes, and we have got that down by 60% since 2020, and to gardens and to roads, and we have got that down by a quarter since 2020.

In terms of pollutions to watercourses, if I think about the south-west and Devon and Cornwall, just over 70% of our asset base is coastal and faces into those watercourses and estuaries. That is where we have been focusing on making sure we can reduce the number of pollutions that hit a watercourse by working on our network, which is one of areas you can get pollution from, and on our pumping stations and treatment works. Since 2020, the number of network pollutions have come down by about 40% but we have work to do on our pumping stations and treatment works.

We were seeing a reducing trend. So, from 2020 to 2022, we went from 225 pollutions to a watercourse to 108; that brought it down and halved it. The network numbers came down, as I said, by about 40%. Not to say the weather is an excuse, but we did have 30% more precipitation over the last two years and 30% higher groundwater. That has put significant impact on our pumping stations and treatment works, and we are now looking at how we obviously mitigate and avoid that. We are making activities and efforts that will reduce and eliminate those pollutions. I am pleased with the work we have done for customers' homes. We are now down to 59 homes across the whole of those counties that are at risk of



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sewer flooding; one of the most awful things that can happen to a home is to get sewer flooding in it.

Chair: Fifty-nine?

Susan Davy: Fifty-nine.

Chair: Down to?

Susan Davy: Down to 59.

Q145 **Chair:** And that is a source of satisfaction?

Susan Davy: We want to eliminate them, but we have taken it down by 60%. We have got more to do; we want to eliminate that, but we have got those down.

Q146 **Chair:** Down over what period of time?

Susan Davy: Since 2020.

Q147 **Chair:** From what number to 59?

Susan Davy: It is down by 60%, so just over 130.

Q148 **Chair:** So, you had five years and these 59 homes are still affected?

Susan Davy: We have got them on the plan to take them out, but we—

Q149 **Chair:** But just to be clear, after five years these 59 homes are still affected?

Susan Davy: They are at risk.

Q150 **Chair:** If you lived in one of these homes, how would you feel?

Susan Davy: Which is why I was so focused on getting these numbers down. We are the best performer in the sector in this area, and we have been for some time because it is such an awful thing to happen to customers in their homes. So we are really focused on making sure that we can deliver on that plan.

Q151 **Chair:** You touched on precipitation. You have some of the highest storm overflow usage in the country, but Environment Agency data suggests that only 12% of them are due to increased rainfall. Why are you relying so heavily on storm overflow usage?

Susan Davy: We all want to make sure the use of storm overflows is reduced and eliminated where we can. In 2022, we put in monitors so we can see what is happening in our network now. Over the last 15 years, we have had a 2% per annum increase in flows coming into our system. Only 0.3 of that 2% is due to increased population, increased homes. So, we have had a significant rise in flows coming into our system.

If I just describe the south-west, the south-west, for Devon and Cornwall: waste treatment was put in for the first time in the majority of



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those coastal towns and homes in the 1990s and 2000s with our programme of Clean Sweep. Prior to that, the sewage from homes and businesses was collected at the bottom of the catchment and then released into the environment without being treated. So there was a real encouragement to get flows into that network because if you are going to release something like raw sewage into a beach or an estuary you want to make it as dilute as possible. So, we have a significant amount in our network of flow and runoff and diverted water culverts, diverted streams. So, we have a real job to take those flows out of the system. It will take us 15 years but we have a programme in place to start to take those flows out of the system and/or make sure that we can treat flows as they come around.

Q152 **Chair:** In the meantime, is stormflow management part of your overall management portfolio?

Susan Davy: Of course, it is, yes.

Chair: It is?

Susan Davy: It is, yes.

Chair: We will move on to major incidents and customer satisfaction.

Q153 **Jayne Kirkham:** I want to carry on with that a little. I am from Cornwall, which relies really heavily on our beaches particularly, for tourism, for our economy, for health, and yet South West Water has the worst performance among sewage companies for pollution incidents last year—hugely worse than other ones. We have surfers getting ill. We have the headquarters of Surfers Against Sewage in Cornwall. People come down on holiday to Cornwall. Porthluney Beach, for example, is among the top 13 dirtiest beaches in the UK. Would you bring your children on holiday to Porthluney Beach?

Susan Davy: I hear the concerns; I hear the issues. We have got our programme in place to eliminate pollutions—that is when things go wrong on our system—to make sure we can eliminate those. And then for storm overflows, we have got our 15-year programme to take those flows out of the system so that we can reduce impacts to the environment.

Q154 **Jayne Kirkham:** What will the impacts be on places like St Agnes and Porthluney that are not part of the initial programme to look at those storm overflows? How long will it take for those places?

Susan Davy: The one thing I would say in terms of bathing water quality is that I use the waters myself. I live in Devon; I holiday in Cornwall. I am always in the water as well, so I know how important it is to make sure that we keep those beaches as good as they can be, and excellent. If we look at bathing water quality—I go back 25 years—around 28% of beaches achieved the excellent standard. You map forward to where we are today, and we have got 98% of our beaches achieving good or excellent and 100% achieving the standards, so there is an improvement.



Q155 **Jayne Kirkham:** I can hear the whole of Cornwall almost screaming at me that it is getting worse. Last year, it got a lot worse than it had been previously. How come it is getting worse? How come there are these CSOs disposing on to beaches when it has not even been raining? What can we do about that quickly?

Susan Davy: We have already started our programme. We started a couple of years ago with our WaterFit programme. So I have got shareholder support to put money in to invest in beaches. If you look at the use of storm overflows through the bathing season from 2020 to last year, even though we had increased precipitation and flows, the triggers for bathing beaches and the duration of flows for bathing beaches have come down by a quarter. It is not enough; we have got to do better and to eliminate, but it will take time. We have got to take flows out of the system, and where we can't take the flows out of the system easily, we have to build storm storage so that we can store that stormwater to then put back around the system and treat it later. So it is going to take time. The other thing to note as well—

Q156 **Jayne Kirkham:** Could you give us a timeframe? In terms of somewhere like St Agnes, which is not on the initial programme, how long do you think it will be until they are not having sewage disposed of on their beach?

Susan Davy: I know St Agnes and Trevaunance Cove really well. I have been there quite a number of times. I know there is a stream and a culvert that goes right down through that area right on to the beach. There are many inputs to that watercourse. If you look at the information we have, not just for that watercourse but for others more broadly, we make up 12% of the issue for poor quality water; 88% is from other sources.

What we are trying to do is work. We have been to Trevaunance Cove and talked to the residents there in the community about what else we can do in the catchment to relieve some of the issues that we see. There is the very famous picture of Trevaunance Cove with what looks like a really brown slick and that is coming from up in the catchment, which is to do with the land management that is happening there.

Q157 **Jayne Kirkham:** There will always be problems with agriculture and other things; that is true.

Susan Davy: Of course, yes.

Jayne Kirkham: But you need to focus on what you can do about that.

Susan Davy: We absolutely do.

Q158 **Jayne Kirkham:** From your point of view, in terms of St Agnes, when will you be looking at the CSOs there?

Susan Davy: I will get back to you with where that one is on the programme. I know we have done work. There are two pumping stations



in particular that we need to look at, and one of them is quite tight in terms of putting in more storage for the flows that come in. We are looking at how we can take some of the flows out of the system upstream to alleviate the triggers for those storm water flows, but I will come back to you with the exact date for St Agnes.

Q159 **Jayne Kirkham:** But you can see my point: it is beaches all across Cornwall, and it is getting worse not better. It is really impacting on our economy as well as the health of the people who live in Cornwall. I had to pass that on today. It is very important that you understand from the people of Cornwall how much it is impacting.

Susan Davy: Of course, I do understand. I live in Devon; I go to Cornwall all the time. I use the water—I paddleboard badly—all the time. I really understand it. I understand how important it is to the region. We have focused on 49 beaches over the last couple of years. We have got all the other beaches to do; we are now up to 153 beaches that we need to focus on. So, I understand the concerns; I understand what we need to do. I want to reassure that if you look at the bathing water tests that we do, they are returning excellent conditions. One of the things that we have done as well is that we have got 16 beaches where we are sampling all year round, because the other issue that we've got is that we have got a bathing season, which is a bit of an anachronism.

Q160 **Jayne Kirkham:** Are you happy to help residents sample? At Mylor Creek, for example, which is having sewage spills at the moment, a lot of the residents want help to go down and take samples themselves. Is that something that you would be prepared to do?

Susan Davy: At the moment, we are testing 15 different beaches and we are using tests that are almost, for want of a better term, a litmus test for bacterial load to see what that looks like, alongside a much more clinical laboratory test to see if the results come back the same.

Q161 **Chair:** I am sorry to intervene here, but Jayne asked you a very direct question about your willingness to assist local groups.

Susan Davy: Of course we will. Apologies; what I was trying to articulate, and badly, was that we are testing these rapid bacteriological tests to see if they work.

Q162 **Jayne Kirkham:** You are offering that support. I want to move very quickly on to supply before I run out of time. In July, there were residents in St Eval without supply for two weeks. I had the same in my constituency in the Roseland as well. I think the hospital was even impacted by that. Over previous years, we have had problems with supply. We have had hosepipe bans—we had probably the longest hosepipe ban in history in Cornwall. What are you doing to improve on supply to hit those targets? I think they were caused by burst water mains. What are you doing to prevent that happening in future?



Susan Davy: As I articulated earlier, we do have a large infrastructure in terms of the network and from time to time those situations do occur. What is important is how we have resilience in the network to avoid customers being off and interrupted for their supply. Over the last four years we have reduced the interruptions that we have by around 20%. But one interruption is one interruption too many for our customers, and certainly communities get impacted by that. So we are looking at how we do two things.

First, we are looking at how to ensure we have resilience in the system, which we do have, to switch sources. You probably know very well that we have a Cornwall spy main, as we call it, which goes right down the centre of Cornwall, and then we have a resilience network that sits alongside as well. We have to make sure that we have also got more resilience into the network, and in our plans that we have got for the next five years there is investment to ensure greater resilience, so that customers should not be interrupted for long periods of time if something happens. If a burst happens, we get there quickly, we isolate it, and then we can resource for customers to get back on. That is one aspect of it.

The second aspect is around how do we support customers when we have a situation like that. We do give financial support but also practical support around delivering water, delivering a tanker to the hospital that was out of water as well. But we need to do better at that and we need to think about the impact it has.

Jayne Kirkham: Get them back online more quickly. It took a while to do that.

Susan Davy: Exactly. It did.

Q163 **Jayne Kirkham:** I have one more question about customer satisfaction. South West Water is very low on customer satisfaction levels, having been 12th out of 13 for the last three years, and Bristol is better. What are you doing about those low rates? How do you intend to improve them? Will you be learning from Bristol and improving, or will Bristol get worse?

Susan Davy: I am really pleased to say we bought Bristol in 2021 and it remains a top performer and is in the top quartile for all companies. The good thing about having these acquisitions in the group is that we can learn. We are making sure that we have got all our systems on the same basis, so when customers ring through, the teams dealing with them have a consistent basis to respond quickly and understand what is happening. So, we are getting everybody on the same system, which will be really helpful. We are learning from initiatives from Bristol across the rest of the group. There is a really great one called In Your Shoes, which is all about what it is like to be in a customer's shoes when something goes wrong.

Q164 **Jayne Kirkham:** Do you feel that it is getting better now or are you still



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waiting for that improvement to come?

Susan Davy: It will take us some time, I think, to ensure that where we have incidents and issues in Devon and Cornwall, we are responding in such a way that customers feel confident, first, with our approach to that particular incident, and secondly, that things will not go wrong again. We have more to do.

Q165 **Jayne Kirkham:** In terms of the incident I was talking about in Mylor, in the end they contacted me because they had sent many, many questions and they had not been able to get any response at all, so it still obviously is not where it should be.

Susan Davy: I am sorry to hear that.

Chair: Could you keep answers a bit shorter?

Susan Davy: Of course; sorry, Chair.

Chair: We have a lot to go over. Helena, you are going to raise questions in relation to the cryptosporidium outbreak.

Q166 **Helena Dollimore:** Susan, we have heard a lot about your company's failures in terms of sewage and flooding. We are going to come on to talk about an incident that landed your customers in hospital, it was so serious. But, apart from your last answer where you said you were sorry to hear something, I have not heard you say sorry to your customers for your company's failings. I have not heard you say sorry to Jayne's constituents that were left without water and having their beaches dumped with sewage. Will you say sorry to your customers?

Susan Davy: Of course. I say sorry all the time when we have incidents. I should say it more today, and I am sorry. I am always sorry where something happens either to our customers and impacts them or to the environment. I make an unreserved apology, of course.

Q167 **Helena Dollimore:** You have talked about how you, as a company, are committed to transparency. I have heard that when you have had ongoing major incidents, the local BBC and ITV asked for interviews with you and that you, as chief executive, have refused to be interviewed by the media, for example, during the cryptosporidium incident. Is that correct?

Susan Davy: So, for the cryptosporidium incident, first of all, can I just say—

Q168 **Helena Dollimore:** We will come on to the incident and the details of that shortly, but is it correct that you have turned down media interviews at times of extreme panic among your customers?

Susan Davy: What I wanted to do in that incident was make sure that I was supporting my colleagues and communities on the ground for what was happening and making sure that they were getting all the information they needed from my incident director.



Q169 **Helena Dollimore:** You were not able to speak to the media?

Susan Davy: I was wanting to speak to my customers who were on the ground.

Q170 **Chair:** Would not the media be a good way of doing that?

Susan Davy: What I wanted to make sure that we did was get all our information out to our customers and make sure that we were very clear with what was happening in that instance. I had my incident director and my customer services director who were doing that twice daily to make sure that information was very clear.

Q171 **Helena Dollimore:** How were they doing that? Were they speaking to the media?

Susan Davy: They were, yes.

Q172 **Helena Dollimore:** So, you had your team speak to the media but you, as chief executive, would not front that media in a time of severe crisis for your customers.

Susan Davy: I spent my time on the ground in Brixham and Kingswear and with the control room back at base, making sure that our teams were supported in doing what they were doing every day.

Q173 **Helena Dollimore:** Have you faced the local regional media since the incident?

Susan Davy: As I said, I have just focused on making sure—

Helena Dollimore: No?

Susan Davy: —through that incident that we could get the situation resolved for those customers.

Q174 **Helena Dollimore:** If you have future incidents of this nature, will you commit to speaking to the local media during the incident to give reassurance to customers who are scared about how they drink water?

Susan Davy: The best reassurances I thought I could give customers at that point was to make sure that they were getting all the information they needed from our incident director and from the customer services director.

Q175 **Chair:** I am getting a little bit concerned here that you are being asked fairly straight and direct questions but the answers are anything but. Helena's question was one to which you really could have given a yes or a no. Are you prepared to make that commitment? If you are not, then fine—just say so, and we will move on.

Susan Davy: I think it depends on incident to incident. There are things I regret around the Brixham incident. In retrospect, perhaps it would have helped if I had spoken to the media, but at the time I thought it was



the right thing to do to make sure that everybody had the information that they needed.

Q176 **Helena Dollimore:** Moving on to the cryptosporidium incident, which was a very serious incident last summer when up to 1,000 people in Devon were made sick by your company poisoning the water supply. There were failures of communication. We have heard from local MPs that the communication was severely lacking. We have heard that you refused to face the local media at the time to give people reassurance. Your company also severely failed to step in when you detected the cryptosporidium in the water supply. You did not issue the boil notice until 24 hours after discovering the parasite. How do you explain that to customers?

Susan Davy: The first thing I do need to say is that I absolutely understand how devastating it was for that community, and for the customers who were poorly. It was a really horrible time for them.

Q177 **Helena Dollimore:** More people got sick because your company took too long. Would you accept that?

Susan Davy: Perhaps if I can explain what happened, if that would be helpful. So, cryptosporidium occurs in the natural environment; it is always there. And as other water companies do, we get notification—perhaps two to five times a year—of potential outbreaks of cryptosporidium in our region. We have our testing that happens at our treatment works, and our treatment works is where all the raw water comes in, we treat it, and it is the final barrier before it gets into the network. Our sample—we were alerted on Monday 13th from UKHSA that there were cryptosporidium cases.

Q178 **Helena Dollimore:** At what time?

Susan Davy: It would have been late afternoon. As I said, this is not unusual; we do get a handful of these every year in terms of notifications, and hitherto, they had never been something that had been as a result of our water supply. What we do is, we check our samples. So, we are sampling for cryptosporidium in our treatment works all the time. The treatment works that serves Brixham is Littlehempston and that came back as clear. We then, as the rest of the sector do, into the networks, once the drinking water has left the treatment works it goes into the distribution network into hold service reservoirs so that it is there for use when there is peak demand through the day. And we checked for other pathogens there—E. coli and other nasties—just to make sure that there is nothing happened from final treatment works to service reservoir, and those came back clear as well. So the team checked that on the Monday afternoon.

Nevertheless, UKHSA told us there was an outbreak, so we stood up the team to go and do some more thorough testing for cryptosporidium after the treatment works—because we knew it wasn't there—into the service reservoir and into the network. Now, to test for cryptosporidium, you



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need a lot of volume of water because the cryptosporidium are little oocysts and you need to capture them in filters, so you need lots of water and the tests take a good period of time before they come back. So we set up the testing rig on the Monday afternoon, we were doing the testing, taking all the volume and tests that we could, and then the results came back on the Wednesday morning that said there was cryptosporidium in our network.

Q179 **Helena Dollimore:** When did you issue the notice?

Susan Davy: That was on the Wednesday morning.

Q180 **Helena Dollimore:** You have just outlined a lot of detail around the testing procedure but what seems to be the clearest takeaway from that is that your testing procedures failed, because the HSA told you there was cryptosporidium; you did your own version of testing and thought there was not; and you left it too long and then issued the boil notice when a lot of people had already consumed the contaminated water. Do you accept you need to change your processes for the future to make sure something like that does not slip through and make people sick again?

Susan Davy: We have already changed that now in terms of our procedures. So what we will do—

Q181 **Helena Dollimore:** You accept therefore that your procedures failed in this case, people got sick as a result, and you apologise to those people who ended up sick?

Susan Davy: I absolutely apologise to those people who were poorly.

Q182 **Helena Dollimore:** I am conscious of time because we have a lot of Members who want to come in as well, but we have just talked through a very specific failing with very serious consequences for customers. You took a decision weeks later to take a £300,000 increase in your pay package following such a failure. How do you explain that?

Susan Davy: I suppose the first thing to say is, my pay and remuneration is not set by me; it is set separately.

Q183 **Helena Dollimore:** You could have turned it down.

Susan Davy: I did not take my annual bonus.

Q184 **Helena Dollimore:** You did not take your annual bonus, but you added extra to your pay.

Susan Davy: Because we are a FTSE-listed business, we have share schemes. I have to hold a shareholding within the business, within the group, a 200%, and the share scheme had matured and that was the amount that it was equivalent to in terms of value. But I have that because I have a shareholding. That shareholding gets built up from those schemes maturing but also me putting my own money into the



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business as well. That was the share scheme; it was not a cash bonus in that sense.

Q185 **Helena Dollimore:** But you thought it was appropriate to take that dividend at a time when people had ended up in hospital after your company's failings?

Susan Davy: I thought it was appropriate not to take the annual bonus.

Q186 **Chair:** When you told us earlier that you see your customers as shareholders, the 28 properties that were told that their supply was safe when it was not were offered £75 compensation. Is that how you treat your other shareholders?

Susan Davy: Apologies, Chair—which incident was that one?

Chair: The cryptosporidium incident. There were 28 properties where the water supply was still unsafe, and they were told that they could drink it and then they got a message telling them that the boil order remained in place, and you offered them £75 compensation. Does that feel adequate?

Susan Davy: There are probably a couple of things to say for the cryptosporidium support that we gave customers. In terms of financial support—

Q187 **Chair:** Sorry, we are under serious pressure of time here.

Susan Davy: Of course.

Chair: I have asked you a very direct question. Does your £75 offer of compensation in these circumstances feel adequate now with the benefit of hindsight?

Susan Davy: All the customers who were impacted with that boil water notice where we had found cryptosporidium in their supply got the value of their annual bill in terms of compensation. They got it in different tranches, so every customer had between £485 and £550 of compensation. I think the amount you are talking about was one element of the compensation we gave those customers.

Q188 **Chair:** Just before we move on, Caroline Voaden, the local Member of Parliament in South Devon, has asked your company repeatedly to carry out a random testing of the domestic supply in homes in Higher Brixham and Kingswear. This comes to the point about customer engagement and restoring confidence. You have refused to do that. Why is that?

Susan Davy: There are two things about the cryptosporidium testing. The rigs that we have set up— During the event, we had a number of customers where we were testing at their taps. You need significant volumes of water to test for cryptosporidium at those taps and you need to permanently leave the tap running for us to collect the samples for that.



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Q189 **Chair:** We get that, but they are asking you to do it and you are saying you will not. Why is that?

Susan Davy: Because practically, it means turning on the taps of those customers constantly.

Q190 **Chair:** Is that a difficult thing to do?

Susan Davy: In terms of the litres of water you would be using, we need 1,000 litres for a cryptosporidium test. So, it takes literally litres and litres and litres and taps permanently running. Our experience—

Q191 **Chair:** Remind me how much you are losing as a company from pipe leaks and outages.

Susan Davy: It is 12%.

Q192 **Chair:** So, 1,000 litres does not look like much in that context, does it?

Susan Davy: A household uses, on average, 145 litres per day.

Q193 **Chair:** So, you would continue to resist the calls of residents to do that random testing?

Susan Davy: Our experience, for those customers where we were doing the testing through that cryptosporidium outbreak, is that they got very—in practical terms, it was very difficult—

Chair: I think we have got the sense here.

Q194 **Anna Gelderd:** Briefly, let us return to a vital question raised earlier by the Chair: can you confirm as CEO, did you know about the non-disclosure agreements signed by customers—yes or no?

Susan Davy: As I said earlier, I will have to find out the specifics of that particular case.

Q195 **Anna Gelderd:** I think it is quite unacceptable to come before the Committee without an answer to a question you would probably have been expecting to answer. Can you at least outline what areas those NDAs covered?

Susan Davy: I cannot. I am so sorry. I will have to come back to the Committee with that answer.

Q196 **Chair:** Sorry to interrupt, Anna. A non-disclosure agreement is a very serious matter. You are either telling us that you have signed this off and forgotten it, or else that this comes back to the culture of the company that you do not need to see these things. Is that correct?

Susan Davy: I do not know the specifics of that detail. I will have to come back to the Committee on that one.

Chair: Okay. Sorry, Anna: carry on please.

Susan Davy: I am sorry.



Q197 **Anna Gelderd:** Okay, moving on, we have already heard about serious concerns including incidents in Lostwithiel and across Cornwall and Devon. In 2022, the Environment Agency said that South West Water showed “Complacency” and “Were not honest, open and transparent with regulators about their drought projections and potential risks to security of supply.” On this important issue of water security, do you agree with that assessment? How are you improving regional water security three years on from that assessment?

Susan Davy: In terms of the droughts that happened in 2022, we set off in that year with relatively normal levels of resource across our regions. What happened through that 2022 year was that there were two things happening, really. Post the pandemic we had significant numbers of visitors and people staying in the region—more than we had ever had before—and if we recall, that was the year when there were still some restrictions around international travel. So, we had a lot of visitors and customers in the region and then we had one of the hottest, driest periods on record for our region that went from March to November—very dry.

Our region, Devon and Cornwall—I will focus on Devon and Cornwall because that was where the acute issues were—relies 90% plus for water supply on abstracting from rivers. The reservoirs that we have are there to back up the rivers and do not plug into our treatment works, and the rivers were really suffering through that period. So we were releasing water from March onwards to make sure that the health of the rivers was kept. We were following what, technically, we call our drought curves to understand where we had got to.

Q198 **Anna Gelderd:** Do you agree with the Environment Agency’s assessment that you were not being transparent with regulators?

Susan Davy: I would not have characterised it in that way.

Q199 **Anna Gelderd:** So, you don’t agree?

Susan Davy: It was unprecedented for us. It became what we would have assessed as a one in 200-year event. We were following normal drought curves and then we got into the kind of June/July time and we started raising the issues.

Q200 **Anna Gelderd:** This is another example of a concern around transparency: I have asked you a question about, do you agree with their assessment, and I do not feel that I am getting a transparent answer, similarly to my question around the non-disclosure agreements. As CEO, you would have been aware, or you should have been aware, and we are asking you a simple question. So, again on the transparency issue, do you feel that you were open, honest and transparent with the regulators?

Susan Davy: I would say that we were, but I understand there are different views on what we did. I think what we did through that drought again was unprecedented. As I said, we rely 90% on the rivers. We had



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all the releases going into the rivers to keep the biodiversity and the health of the river where it was. We served our customers but we had to put a hosepipe ban in place. We have invested significantly since that situation. In our region, as you will know, we have got disused mines and quarries and we have been repurposing those as kind of mini reservoirs and putting them into play so that, at times of need for Devon, we have a 30% increase in resource available to extract, and for Cornwall we are at 34%.

Q201 Anna Gelderd: A question on usage. I note that South West has failed to reduce water consumption per capita and efforts to reduce leakage across the Pennon Group have had mixed results, I think it is fair to say. Is this increasing the risk of future usage bans in the area?

Susan Davy: In terms of our leakage, we have reduced leakage across the group over this four years. We have moved from just shy of 18% down to around 16% of losses, so we are getting better. There are customer-side leaks in that as well so if you take those out, we are around about 12%. There is more to do in terms of leakage and we have our bit to play. In terms of water resources, we have obviously invested significantly since 2022 to put in the repurposed reservoirs and we have put in some transfer schemes, which will be helpful. The one area that we have to deliver on and we have not yet delivered on is around desalination. We have a small desalination plant on the Isles of Scilly, but we need to make sure that we have got that in our, let us call it, portfolio of resource going forward and that is something that we are still working on.

Q202 Anna Gelderd: Do you accept that your reporting methods for leaks and consumer usage figures are inadequate? If so, what are you doing to improve them?

Susan Davy: In terms of where we have got to, it makes sense for everybody for consumption to reduce. When we went through the drought, we were looking at water resources and what we could do to repurpose the mines and quarries. We put in Hawk's Tor and Blackpool Pit, which was great, and we extended what we could do with Park Lake and Stannon Lake which were two earlier disused quarries that we repurposed. But we were also looking at water efficiency for customers. We put in more effort into leakage than we have for some time during that period to keep our leaks down. For customers, it was about encouraging them around water efficiency because it is good for customers as if you use less, it will cost less and you will pay less.

We ran a number of really good schemes. We gave out lots of water efficiency devices like free water butts, which we are still doing, and we encouraged customers. You might have seen a campaign we had called Stop the Drop, which was stop the drop in the reservoir, and Cornwall really came together. We saw customer usage reduce. It varied between a 3% reduction and an 11% reduction from having those schemes in



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place. So, they were really helpful and useful, and we need to do more of that. We have started—

Anna Gelderd: Thank you; I think in the interests of time we will have to move on.

Chair: I am going to move on now to questions around your ownership model, financial performance, investment and the price review.

Q203 **Sarah Bool:** Susan, you have mentioned a few times that this is a listed company on the FTSE, but gearing levels in the Pennon Group are actually higher than are recommended by Ofwat, particularly for SES Water, which is spending over a fifth of its revenues on servicing debt. I understand its gearing is 79.1% when Ofwat says that over 70% is destabilising, so what plans do you have to actually lower the gearing levels across this group?

Susan Davy: In terms of policy for gearing levels for the water businesses, I think it is really important to have a stable balance sheet. I think in terms of gearing levels for water businesses, it makes sense to work within the range of 55% to 65% in terms of gearing, and that is something that we have had as a long-held policy and I think that gives us headroom to make sure we can invest when we need to and keep the costs for that efficient financing as low as it can be. In fact, for some period, we have had the lowest cost for our financing across the group. We want to make sure that the balance sheet gets to the right position. We have just undertaken a half a billion pound rights issue for the group, which brings more equity into the business to directly go into that investment. The gearing levels naturally will be coming down across the group.

In terms of the acquisitions, we have made three water-only acquisitions. Each water-only company that we bought had a stretched balance sheet. We bought Bournemouth Water back in 2015, brought that into South West Water and the balance sheet got repaired. We are going through the same process for Bristol and SES. So those balance sheets will be in a position where it is between 55% and 65% and I think that is a good place to be. If you look at the economic regulator and its previous price reviews and where it might land in terms of gearing levels for a notional balance sheet, it has tended to be around that 55% to 65% range.

Q204 **Jenny Riddell-Carpenter:** Thank you. I am conscious that we do not have a huge amount of time so I will cover off the final two questions, on this section at least. I noticed that SES has an underspend of 30% on the enhancement budget and that enhancement budget, as you will know, is intended to allow for investment in water infrastructure. So why has that been underspent and what are the consequences of that? Are we at risk of not seeing further improvements because of that underspend?

Susan Davy: As I said, with the water-only companies that we have acquired, we have done two things. We have brought them into the



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group, we have stabilised the balance sheets and we have then given headroom for investment. If you look at what we have done both for Bournemouth and Bristol when we acquired them, we have made sure that those balance sheets are available to invest. We took SES on; we bought it last January. We went through quite a lengthy CMA process and came out of that in the summer. So now we have the funding in, our focus is on making sure we can get the expenditure.

Q205 Jenny Riddell-Carpenter: Should we be concerned that with that underspend, investment is not happening to the critical infrastructure?

Susan Davy: Not now, no. We are really focused on making sure that that happens, and that we get back to where we need to be for Sutton and East Surrey, and that investment will be undertaken. Like I say, we have righted the balance sheet so we have headroom to do that.

Q206 Jenny Riddell-Carpenter: My final question, Chair. Ofwat's final determination in the PR24 provided an expenditure allowance of £3.8 billion, which I believe was £94 million less than you had asked for, less than you had hoped for. I appreciate that is £1.5 billion more than the previous PR cycle. How can you achieve your targets? Importantly, what will not be taken forward as a consequence of that slimmed down budget that you asked for?

Susan Davy: In going through any business planning process—I have been through quite a number because I have been in the sector for quite a period of time—you have to look at everything in the round. We pretty much got what we asked for in terms of the business plan. We put in a good quality plan. We had spent a lot of time with customers getting their priorities right. We spoke to over 30,000 customers in pulling all this together, which is why you will see in our plan there is as much on water investment as there is on wastewater, and the storm overflows work. We put all that together, worked through it, looked at the numbers, and we are confident that we can deliver against that. The best thing that we can do for our communities is get on and deliver.

Q207 Jenny Riddell-Carpenter: What did you not get?

Susan Davy: It is more of an efficiency. The economic regulator will look at your business plan and assess the costs for delivering what you say you are going to deliver, and it will make an assessment using its econometric models as to how efficient you need to be with that. Just before Christmas we received that determination, we have diligently worked through it as a team and we know where we can make some efficiencies and right shape ourselves to deliver it, so we are confident we can deliver.

Chair: Thank you, Jenny. Tim, we will let this run on a bit longer if necessary, so can you lead us through the questions, please, in relation to returns to investors and executive pay?

Q208 Tim Roca: Susan, your company approved £45 million in dividend



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payments for '24-'25, which was a 265% increase from the £12 million in '22-'23. Can you just talk us through how you can justify such a dramatic increase with the financial strain that households are facing at the moment?

Susan Davy: That was the dividend for South West Water. Just to be really clear with the Committee, we have not paid that £45 million so that was a declared not paid dividend, if that makes sense. The £12 million was the year before and it was paid, but we have not paid the £45 million. The reason we have not paid the £45 million is because, financially, South West Water has had significant energy costs and other pressures, and we want to keep the balance sheet where it needs to be, so that dividend has not come through.

Q209 **Tim Roca:** When did you decide not to pay the dividend? It was announced and then you decided that it was not appropriate to pay it.

Susan Davy: Correct, yes.

Tim Roca: When did those two events happen?

Susan Davy: I would have to check on the exact timing but as we always do, we look at the liquidity within the business, we see what we need to spend and the impact of that.

Q210 **Tim Roca:** Because the initial announcement was immediately after the cryptosporidium incident, which we talked about earlier, and the public were a little bit angry that you were announcing an increase in dividend immediately after that crisis.

Susan Davy: It would have been a declaration in terms of what was available to pay, but in the accounts, they would have already been done. So, it was not paid in that sense. It would have been before the cryptosporidium, so it was declared but not paid.

Q211 **Tim Roca:** Then in January, customers are facing, I think, a 28% increase in bills over the next period but there was a similar announcement of an increase in dividend again. Does that seem fair to you?

Susan Davy: There are two dividends that go on. There are the dividends from the water businesses to Pennon and then the dividends to our external shareholders. In terms of those dividends, we have just been out to the market and we have got in half a billion pounds of equity coming back into the business from our shareholders so the dividend has been rebased. There has been a 38% cut in the dividend per share, which will then grow by CPIH going forward.

Therefore, on a per-share basis, it has actually come down because more equity has gone into the business. We then have a dividend policy that we have set out to 2030 and each year as a board we will go through what we think is the relevant dividend to pay.



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Q212 **Tim Roca:** The intention is to increase the dividend payments with inflation by CPIH?

Susan Davy: After it has been rebased. So it has been rebased, dividend per share has come down by something like 38% and then it grows from that onwards. We have had an equity raise so we have had more equity in: half a billion pounds has come in so there are more shares.

Q213 **Tim Roca:** We touched on pay earlier, so I understand your overall package was £860,000 in '22-'23. Is that right?

Susan Davy: In '23-'24.

Q214 **Tim Roca:** And what is it this year?

Susan Davy: This year I have a base salary of £511,000, which is up from £492,000 from last year.

Q215 **Tim Roca:** Again, that is quite a large sum of money. Do you think that is fair remuneration for the work that you do?

Susan Davy: I don't set my remuneration; it is set by an independent committee with reference to the FTSE 250 and this sector more broadly. If you look at where I sit within that range, I am probably at one end of the range compared to the other. I think in terms of my role, I am well paid for what is a very responsible, accountable role. As I say, it is an independent committee that sets that.

Q216 **Tim Roca:** Of the measures the committee uses to set your pay, there are over 40 from what I could see but affordability to the customer of their bills was not one of them. Did that seem fair to you?

Susan Davy: That is an interesting question. In terms of the financials, what I think is really important is that what we try and do is to deliver as efficiently as we can. We have a water share scheme where we give back to customers and reduce their bills, or they can get shares in the business. If we outperform and we reduce our costs, then customers benefit from that.

Q217 **Tim Roca:** Do you think, then, affordability for customers of their bills should be one of the measures you are measured against when your pay is being set?

Susan Davy: Yes, there are two bits of affordability: there is the affordability in terms of keeping the overall bill level down, which is what I have just been describing. Keeping costs as low as they can be benefits customers.

Q218 **Tim Roca:** It is not explicitly in the criteria, is it?

Susan Davy: But in terms of your point around—

Q219 **Tim Roca:** There is financial efficiency of the company, of course—

Susan Davy: Of course, yes.



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Tim Roca: But there is no explicit measure for you to keep people's bills down in the way that your pay is set. Because if the company is incredibly efficient it might just return more money to its shareholders, might it not, rather than reduce cost?

Susan Davy: We have a water share scheme, so we share everything with customers as well, which is slightly different but I appreciate your point. That is something that perhaps I will feed back to the committee around affordability. But I just want to reassure the Committee here today that we really do focus on customer affordability. We have set aside some £200 million for the next five-year period to support customers. It is something that the teams really work hard on. At any one time, we are helping customers—we must have helped just over 100,000 customers at any one time over the last four years—who have really acute affordability issues.

Having drinking water and sanitation is a public right and we have to make sure that all customers have access to it and have an affordable bill. That is all really important. We have customers in our region who we support with a whole host of support mechanisms to help them afford not just their water bill but other bills. We go through their budgeting and we have set aside a significant amount of activity for that.

Q220 **Tim Roca:** These are large sums of money in terms of remuneration, which the public will obviously be concerned about. Ofwat criticised your policies for the performance-related pay and suggested they do not match expected company performance. Do you share that assessment?

Susan Davy: There are a couple of things to say. Obviously, the independent committee will be reflecting on those comments from the regulator, I know. I have shown over my tenure that yes, there are times when it is important to consider what is happening more broadly. For example, I did not take pay increases through the pandemic or through the cost of living. I have a history of not taking bonuses and annual bonuses; I did not take it last year because of the cryptosporidium outbreak. So, it is important to always reflect on that position. As I said, I don't set my pay; it is the independent committee, but I will make sure that these comments go back to it.

Q221 **Tim Roca:** Absolutely, because this is about rebuilding confidence.

Susan Davy: Of course.

Tim Roca: Ofwat said, "The company's proposed policy for executive pay does not meet minimum expectations." As the CEO, I would hope you would be reflecting back to the committee how important it is that we rebuild that confidence.

Susan Davy: Yes. Agreed.

Q222 **Chair:** We spoke right at the top of the session about the leadership role that you have within the industry as a whole. Are you satisfied that you



are meeting your obligations in that leadership role?

Susan Davy: I have worked in the sector for a long time—over 28 years. I think it is really important work that we do. I try to make sure that I am there for my 4,000 brilliant colleagues across my group, but also for the rest of the sector in terms of the work I do with the Institute of Water. There are always things that you reflect on and think you could do better, always, which is part of any learning on the job.

Q223 **Helena Dollimore:** You talked about how you have a very responsible and accountable role, which is what justifies the £800,000 pay packet, but you did not face the media when a major incident was unfolding, and you left that to your lower team members. Is that really showing leadership?

Susan Davy: For me, through that incident we had 800 colleagues who were focused on that incident 24/7.

Q224 **Helena Dollimore:** But you could not spend five minutes speaking to the BBC or ITV?

Susan Davy: I was spending all my time in Brixham and Kingswear. I went on Wednesday, Thursday, Saturday, Sunday, back at the control room—

Q225 **Helena Dollimore:** The BBC and ITV were in Brixham, but you could not take five minutes to speak to them?

Susan Davy: I was taking my time to meet customers to help understand from them their concerns about what was happening, to talk to them and reassure them about the work that we were going through. It took us eight weeks to clear the network of the cryptosporidium and I wanted to make sure that I was there, first, to support my brilliant colleagues who were doing what they were doing, and also to hear from customers directly. On reflection—

Q226 **Helena Dollimore:** You earn around five times what the Prime Minister earns, and you think it is okay to evade media scrutiny when there is a major crisis happening in your company. Do you think people would think it was acceptable if the Prime Minister just went missing during a major crisis and did not want to speak to the media?

Susan Davy: I wasn't missing; I was very much on the ground and I was very much supporting my colleagues. I have said it before and I will say it again, there are things that you regret, and perhaps—

Q227 **Helena Dollimore:** So, in future you will make yourself available to the media during incidents—yes or no?

Susan Davy: I think it will be on an incident-by-incident basis, but of course I am—

Helena Dollimore: So, no.



Susan Davy: —learning lessons from what happened with Brixham.

Q228 **Chair:** I think we are just about done. There is just one other thing that jumped out of the page at me when we were considering the background reports we have had. In 2022, you were fined £233,333 for providing water that was unfit for human consumption. The water in question was brown and had a strange odour, and the company response at the time was to tell customers to add a slice of lemon to remedy the taste. Was that acceptable?

Susan Davy: No, it was not.

Q229 **Chair:** Why did it happen? What happened to the person who gave that advice?

Susan Davy: We have worked really hard to make sure that we have learned from that incident, and that advice is not advice we would give.

Q230 **Chair:** That was on your watch as chief executive.

Susan Davy: No, it was prior to then. We went to court.

Q231 **Chair:** Sorry, I beg your pardon, yes, it was a fine in 2022.

Susan Davy: Yes, but I was still in the group.

Q232 **Chair:** You were CFO at that stage.

Susan Davy: I would have been CFO, yes. It was unacceptable and not something that we would want to repeat.

Chair: Okay, Susan, thank you very much.

Susan Davy: Thank you.

Chair: It has been quite an enlightening session. We have a further panel to go on to. We will run that for about an hour as well. Thank you for your attendance today and thank you for offering your evidence to us. Thank you.

Examination of witnesses

Witnesses: Nicola Shaw and Paul Inman.

Q233 **Chair:** We now have a panel from Yorkshire Water. Nicola, for the benefit of our official record and those who are following the proceedings, can I invite you to introduce yourself and your colleague who is in the room with us? We appreciate you joining us virtually. We know you are recovering from—or are maybe still in—a bout of shingles, which we all know is an unpleasant thing, so we appreciate you making the effort to join us.

Nicola Shaw: I am sorry I am not with you in person. I am still in pain so am very grateful you did not make me come on the train. I am the



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chief executive of Yorkshire Water and am joined by my colleague, Paul Inman, the chief financial officer of Yorkshire Water.

Q234 Chair: Could we get right into the meat of the matter in relation to your environmental performance and investment? In July, the Environment Agency downgraded Yorkshire Water from three stars to two. It pointed out an unacceptable and disappointing record. You are rated red for pollution incidents. How do you rate your performance and what are you doing to improve on it?

Nicola Shaw: I do not disagree with them: it is not the performance we want. We need to improve, and that is why we have been investing heavily in our network and will continue to do so over the next five years. We made a change in 2022-23 and said we needed to do more. We have invested £180 million just in the last two years from that point, and our programme will finish in March this year. It will have made a big step forward in the number of discharges from our most heavily discharging storm overflows, but there is a lot more for us to do. We have a network that has been struggling for a long time, and we need to make a step change in that.

Q235 Chair: You may have heard the previous evidence session but we dwelt there a little on the culture within the company in question, Pennon. How would you characterise the culture that you seek to foster within Yorkshire Water? How would you describe your company in terms of customer engagement, accountability and transparency?

Nicola Shaw: I joined Yorkshire Water in 2022 and recognised that there was a lot to do to turn around the performance of the company. In particular, I thought we needed to change our strategy and we needed people change and cultural change, as you are pointing to. There were also some things we needed to do in terms of process and systems.

The first thing we did was review our strategy and ask where we should seek to be, what we want to do in Yorkshire, and how we can align our culture and our organisation behind it. We want to achieve a thriving Yorkshire which is doing the right thing for our customers and the environment. We know we are not doing that at the moment, so we have set out that is our direction; it is what we want to achieve, and we are setting a culture to deliver against it. One of those parts must be compliance with all our obligations, which is not where we have been. We have been open about that, and we are working with our team to understand the way we need to change in order to deliver better. As I have said, that is partly through adherence to our processes, checking our processes are right, and making sure that we look after our assets in the right way. Asset health has been poor, which has required a lot of investment and clear thinking about the way we get the best bang for our buck. It is really important that we focus, given how much there is to do, and how we do not want to let our customers down.

Q236 Chair: In recent years, you have been fined several millions of pounds



for environmental, operational and customer service failures. It looks like you are going in the wrong direction at the moment as a company, notwithstanding what you have told us. You were fined £47 million for failing to manage wastewater, £150,000 for polluting the River Don, £19.85 million for missing targets on customer satisfaction, supply interruption and drinking water, and £1.6 billion for polluting a Bradford watercourse. How do you explain this trend in your engagement with regulators?

Nicola Shaw: As a slight correction—it does not make a difference to the overwhelming nature of what you have described—the Bradford Beck penalty was £1.6 million not billion. I thought I should correct that.

Q237 **Chair:** I beg your pardon; I think it does make a difference actually.

Nicola Shaw: It is a big number. Our performance has improved in some areas. We have focused on improving leakage, for example. We have reduced it by 15% over the last five years and will continue to improve that. It is really important as we were dealing with a drought only two years ago, so the things we are covering as an organisation are significant.

We try to be really open and very clear with our regulators about the areas we need to improve and what we are doing to improve. I am not saying that our performance is good enough; I know it is not, but we recognise that it takes a long time to make changes in infrastructure. The public are obviously dissatisfied—rightly so—and that is why we apologised in 2022 for having been too slow to respond to their disgust about sewage in waterways, which we absolutely were. However, it does not mean that we should not be seeing improvements. We have a lot to do, a lot of investments on the way at the moment and many of those are already delivering.

Q238 **Chair:** You are one of the worst-performing companies for sewage overflows, are you not?

Nicola Shaw: We are. We have about 2,100 across Yorkshire and they are discharging more frequently than we would like.

Q239 **Chair:** What does that come to in terms of an average day for discharging raw sewage?

Nicola Shaw: This is one of those areas where numbers are not always your friend. On average, we discharge 31 times per overflow per year. When you take into account the number we have and the number that we have monitors on, that is a reduction from 2021 of about 13%, but it is still a very large number. We have set ourselves a target of taking that down to 20 on average by 2030, and we are really focusing in some areas and already seeing some success. For example, we have been investing that £180 million in a number of places, one being Pateley Bridge where we have seen a reduction in the number of discharges this



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year, having made the investment last year. That is the sort of thing we want to see across the county.

Q240 **Chair:** Is there not a pattern emerging here in terms of Ofwat's description of your performance; that it basically all comes down to a failure to upgrade the assets as and when required? Ilkley Beach, for example, has the highest level of untreated sewage anywhere in the United Kingdom. You cannot be happy with that, surely.

Nicola Shaw: No, I am not happy, and that is why we made an investment. Last year, we built a new tunnel from the centre of Ilkley, under the main road, down to just across that main road from the sewage treatment works, and then across to the sewage treatment works, which added capacity to our storage ability. We are now adding about another five times the amount of storage at the sewage treatment works in Ilkley to make a real difference. We should finish that by March next year. That is about £75 million of expenditure in total.

I totally agree with you: we are not in the right place. I do not think it is only Yorkshire Water's fault. There are a number of players who have been involved in deciding what has been invested in all water networks over a number of years, including Ofwat, and it has been a real struggle for the industry when bills are lower now in real terms than they were 20 years ago. That has been a challenge, and the water industry has not been sufficiently confident in making its case for more expenditure and making sure that it was really aware of the long-term impacts to the environment and customers of not doing that.

Q241 **Chair:** How long would you expect to be rated red for environmental pollution?

Nicola Shaw: I think we will be rated red again this year and it will take us a while to make that improvement. Serious pollution is what leads to a red rating on the Environmental Performance Assessment from the Environment Agency. We need to get that down to zero, which is our objective. Serious pollutions are those that are categorised one or two, and we have had too many of those. We did a review of ourselves last year, looking at all our data on what was causing that to happen. Long rising mains close to a watercourse is our biggest factor. There are a number of others too, but that is the biggest. We have worked with Cranfield University to review the programme that we have put in place having done that analysis, and we are tracking our performance against that programme, but there is a long way to go.

Chair: Henry, you are going to take us through some questions on asset maintenance, major incidents and customer satisfaction.

Q242 **Henry Tufnell:** I wanted to touch on supply interruptions first. All water companies are expected to have an average interruption length of about five minutes and 23 seconds per property. In 2023-24, Yorkshire Water was about double that, at 10 minutes and 35 seconds on average. I was



wondering why that was the case and what you were doing to improve it.

I also wanted to touch on a specific incident in Goole. Effectively, Ofwat and the Consumer Council for Water said you had failed residents in respect of that instance and bottled water was only supplied to 44 out of 600 homes. Could you talk about why so little support was provided to residents and what you are doing about the supply interruptions?

Nicola Shaw: Shall we do Goole first? It was a very difficult incident for us to manage and for customers to experience. It lasted for a couple of weeks. We had low pressure in the network. It was a combination of a number of different bursts and challenges with water in our water tower. We had a number of homes in the area that were experiencing no supply, low pressure or discoloured water for different durations during that two weeks so it was very disruptive for people. That is something that really comes out of the work that Ofwat and the Consumer Council for Water did in looking at the impact of it. It was difficult for us because we were managing pressure valves that weren't giving us the information we were hoping for, so we were finding it difficult to give customers certainty about when the resolution would come. We have learned a lot from it.

Q243 **Henry Tufnell:** Why did you not set up any water stations?

Nicola Shaw: The 661 customers were those on our Priority Services Register. We did speak to them all and identified which ones needed water and which ones were asking us to bring them water. That is how we identified those 44 houses that asked us to bring them water, and we did so. We did not set up stations elsewhere because we thought there was still supply at the time. In retrospect, that was the wrong decision. We have changed our approach to that now and have seen improvements in the last few months when we have had outages.

Q244 **Henry Tufnell:** Why did Ofwat and the CCW have to intervene in April 2024 over payments in respect of compensation? Why were you not more proactive?

Nicola Shaw: Ofwat and the CCW did a review as part of their ongoing process of picking out different issues across the water industry to review. It was not because they particularly wanted to come and talk to us about whether we had been proactive enough. They did a review, they talked to some customers, and we and they learned a lot from it.

Q245 **Henry Tufnell:** Can we go back to your record of supply interruptions? Perhaps I should have phrased the questions one after the other.

Nicola Shaw: Yes. As you say, we have had challenges. There are places where we have not been providing supply, and that has led to high numbers of minutes, mostly in Yorkshire. We have what is called a network, so we can move water around the county and we can rezone if we have challenges, but on occasion we cannot do that. There are parts of the network that only have supply from one pipe, so we cannot ensure that people get water from elsewhere, and that is a resilience challenge for us. When we have a burst in the way you have been describing and



do not have water to supply, it can be difficult for us to get that supply back on in quick time. We are working hard to improve our processes and to get extra resilience into our network. For example, we have put more measurement devices into the network so that we can tell where there may be pressure issues or where something is happening so we can respond before it becomes a problem for our customers.

Q246 Henry Tufnell: Can I quickly touch on the internal sewer flooding incidence? You are above the level that all companies are expected to meet in terms of the incidence per 10,000 sewer connections. Ofwat has stated that you have not spent what you were forecast to spend over 2020 to 2025 on reducing that flooding risk. Why is that?

Nicola Shaw: First, yes, we are in the wrong place in relation to internal sewage flooding. Secondly, we have actually reduced it by about 16% over the course of the last five years. Thirdly, there is more that we need to do and we need to make sure we continue to invest in doing those things. Ofwat has absolutely called out that we need to do more and we agree.

Q247 Henry Tufnell: Lastly, before I hand over, I want to talk about customer complaints. The Consumer Council for Water has ranked you among the worst water companies at handling customer complaints, and there has been a rise. Complaints have risen by 90% and those referred to the CCW rose by 29% in 2023-24. Why have complaints risen so sharply and what are you doing to improve your customer relations?

Nicola Shaw: The good news is that last year we did a review with the Consumer Council for Water. They came to see us in Yorkshire and we worked through a number of specific cases and generic approaches. We made some changes and the good news is that the number of cases being referred to them has reduced. We saw there was an issue, we worked with them, and things are improving.

Q248 Jenny Riddell-Carpenter: I want to revisit the point around the Priority Services Register. Are we right in saying that you are one of the worst performers in terms of reaching the target set by Ofwat?

Nicola Shaw: Yes, you are. We have made an improvement, and I am expecting us to achieve that goal this year and get to the levels we should have been at.

Q249 Jenny Riddell-Carpenter: That is true for the last four years, correct?

Nicola Shaw: It is.

Q250 Jenny Riddell-Carpenter: Have you been aware of that yourself?

Nicola Shaw: I have, and that is why we have put in a new programme and are expecting to achieve the levels this year.

Q251 Jenny Riddell-Carpenter: If you were aware of it, why was the decision made to only supply 44 homes on the Priority Services Register at the



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outage in Goole? You would have known that you would be putting some of your customers at risk, knowing that your Priority Services Register was not sufficient.

Nicola Shaw: Yes. It is very difficult for us in those circumstances, and that is why I thought it was very important that we engaged further with them. I am sorry, I cannot see you now. Can you see me?

Chair: Yes, we are seeing you here.

Nicola Shaw: That is why we have changed our approach to the PSR and are really pushing to get up to the levels that we ought to have. We also work hard with energy companies to collect data from them and share it with our customers, and make sure that we have all our more elderly customers on our register as well.

Q252 **Jenny Riddell-Carpenter:** I understand that, and your customers will welcome that news, but I am questioning the decision making. You knew that your Priority Services Register was not up to scratch, and you knew as an organisation that it would not have been a complete register, yet you made the decision to only supply 44 households with bottles, knowing that you would be leaving vulnerable and at-risk customers without sufficient services. That is why I am questioning the decision making rather than the review of that list.

Nicola Shaw: As you say, when you do not know, it is very difficult to take action. What we have done—what we did in Goole first—is to communicate a lot, through the media, through social media and, as much as we could, directly with customers who were digitally engaged with us. We had messages out on our website and so on to make sure that anybody who needed help would communicate with us. We recognise now that that was not sufficient, but those were the things we had at our disposal at the time. We were also working with the local authority to see whether anybody else needed help.

Q253 **Jenny Riddell-Carpenter:** If that were to happen again, would you put aside the failures of your Priority Services Register, and would you commit to making sure that households receive bottled water and water stations, and not rely on data that was not sufficient to make appropriate decisions?

Nicola Shaw: Last November, for example, we had an issue in Doncaster. We did have three different water stations where we were supplying bottled water as well as going directly to those who were on our Priority Services Register.

Q254 **Henry Tufnell:** Yorkshire Water is the only major company in 2023-24 to see an increase in the per capita water consumption and your reduction targets were not being met. Why is it proving such a challenge for you in terms of that water consumption?



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Nicola Shaw: I accept that we had an increase but, on the other hand, we are the region with the lowest per capita consumption in the country at the moment. We did have an increase and we think it is most likely a combination of changes to the way people work in the office or at home. But we are working very hard to continue to improve; for example, we have a big smart metering programme over the next five years to help customers. We communicate with customers actively about how they can manage their water; you may have seen our three-minute shower videos and music plays. It gives people ways to think about how to consume less.

Chair: We will move on to questions surrounding your ownership, financial resilience and the price review. Paul, this may be your moment to shine. Josh, can I ask you to lead the questioning here?

Q255 **Josh Newbury:** As we know, Ofwat examines many areas of water companies' operations, and Yorkshire Water's financial resilience has concerned Ofwat for a number of years now. Why do you think the regulator has cause for concern, and what are you doing to improve that financial position?

Paul Inman: We have made a lot of progress, I think, over the last few years to improve that, particularly in this regulatory cycle, and we have recognised Ofwat's concerns. At the beginning of this regulatory price review, we had gearing at about 78%. I am pleased to say that we had reduced it to 70% by September of last year, so we are much more in line with Ofwat's guidelines. Indeed, we have made a commitment to Ofwat that, in a regulatory gearing perspective, we would be at 72% at the beginning of the next AMP and we are well on target to do that. We would then hope to maintain that position through AMP 8 and that is absolutely part of our plans.

Q256 **Josh Newbury:** Yorkshire Water is privately owned by several overseas investors. It is financed under a whole business securitisation model which I think anybody would look at and call complex. What do you see as the strengths and weaknesses of that particular model?

Paul Inman: It is a model that is common across a lot of the privatised companies within the sector. It was put in place back in 2008 when the four shareholders that we have, acquired the business. It is there to put a ringfence financially around the regulated business of Yorkshire Water and the elements that finance it. It has a number of financing subsidiaries that sit below the water company. It provides some additional protections for lenders to Yorkshire Water and therefore allows us to improve our credit rating compared to what would otherwise be the case. It then allows us to finance the business more cheaply, which is obviously in the interest of our customers. So it is effectively a wrapper that allows us to finance the business in a more cost-effective way.

Q257 **Josh Newbury:** Previously, Ofwat has investigated Yorkshire Water for the misuse of intercompany loans. They went as far as reprimanding you



for making loans within this complex business structure without their consent, as was required. Do you understand why Ofwat and your customers would have been concerned by that?

Paul Inman: Yes, absolutely, we do understand. This intercompany loan between the holding company and Yorkshire Water came into being around 2008-10. It increased its balance to £940 million over time, and we have been in discussion with Ofwat and agreed that we would reduce that loan. When Nicola and I came into the business, the loan sat at £940 million. We agreed with Ofwat that we would repay that loan over a period of time. To date, we have paid down £500 million of that loan; there is a remaining £440 million to pay. That balance is due to be paid by March 2027 and is a key part of our financing plans for the next regulatory period. That will then extinguish the loan and there will be no more intercompany loans between Yorkshire Water and its parent company.

Q258 **Josh Newbury:** Are you on track to meet that target in two years' time?

Paul Inman: Yes.

Q259 **Josh Newbury:** In the previous Parliament, this Committee took evidence on financing models of water companies and some witnesses suggested that this WBS model allows water companies to take on a higher level of debt gearing—which you mentioned—without damaging their credit scores. It could be said that that is essentially gaming the system so that, at least on paper, you remain within the investment grade boundaries of the licence. How can you justify that and how are you ensuring that the corporate structure you have supports financial resilience going forward?

Paul Inman: I would probably separate a little bit the overall gearing and financial resilience elements of Yorkshire Water from the WBS structure that you referenced. On paper, yes, the WBS would allow us to gear up the company more. I have already referenced the position we had at the beginning of this five-year regulatory cycle. We don't see that being the case as we move forward and I have explained that we have reduced our gearing to 70%, which is well below the level that would, in theory, be enabled by the WBS. We would expect to hold it in that position. We are very focused on making sure the financial structure of the business is resilient for the future irrespective of the WBS that was put in years ago.

Q260 **Josh Newbury:** Ofwat recommends that you hold the gearing at around 70%. Why would you not reduce it lower than that?

Paul Inman: That comes into decisions on the best way to finance the water company for sustainability and to ensure that we can invest for our customers. We have a regulated capital value of just over £9 billion. Our job is to make sure we can finance that £9 billion in a way that is resilient but most cost-effective to customers. There is always going to be an element of debt financing and equity financing as we seek to get that



balance right. Obviously, equity is more expensive than debt so we try to skew that towards a higher-leverage position than a 50-50 type approach and get that right balance. At that 70% level, we think we can continue to maintain our investment grade credit ratings, which is critically important for us, but also get the financing of the company right, being in the best interests of longevity but also cost to the customer.

Q261 Josh Newbury: In terms of raising that equity, we have heard from other water companies that their owners were looking at the determination from a priority view and, on that basis, deciding whether they were going to inject cash into the business or not. Is Yorkshire Water in that position, or are you confident that you will get the equity you need regardless of the price review?

Paul Inman: Yes, I think we are confident when we look ahead over the next five years. We asked for an investment in the business of just over £8 billion over the next five years. We were really pleased to see that Ofwat has supported us in our plans, so we are now setting out our stall to deliver on that plan over the next five years. That will include maintaining our gearing, as I have explained, and we will do that because we have the surety of our commitment to repay the intercompany loan. That £440 million that I mentioned, in addition to the interest that the balance of the £440 million is accruing, will mean that Yorkshire Water will receive about £600 million from the Kelda parent company over the course of the next couple of years. This really provides a strong underpin to our plans for the next five years.

Q262 Josh Newbury: Turning from raising money to spending it. Like most water companies over the last four years or so, Yorkshire Water has overspent on its wastewater and water allowances—your everyday expenditure. What is particularly concerning is that you have underspent your allowances for enhancement by 31%. Does that not expose an issue with the delivery of your investment programme, and is that underperformance exacerbating some of the environmental, financial or operational issues we have been discussing this morning?

Paul Inman: We had a slow start to AMP 7 in terms of our pace on the enhancement programme, but over the last two years, both Nicola and I have been very focused on accelerating that. We have seen the level of our capital investment in the business increase markedly. We will have CapEx of around £850 million into the business this year, which will be our record year. We have never invested as much as that in the network as we deliver the remaining obligations that we have for AMP 7.

We had a bit of a slow start, partly covid-related and partly other issues, but we have accelerated very quickly and will finish the AMP strongly. We will need to increase that level of investment—the £850 million—a little in order to deliver the full £8 billion programme for AMP 8 but it is not a step change for us. We are already running at a rate, and we are absolutely determined to have a fast start into AMP 8 and not repeat



some of the challenges we had in AMP 7 in terms of the delivery of our programme.

Q263 **Josh Newbury:** Are you confident that you will not see the same underinvestment in the following five-year period?

Paul Inman: Yes.

Q264 **Chair:** Before we move on, can I tease out a bit more on the subject of the gearing here? You are sitting at 70%—the point that Ofwat describes as being unstable—but you seem quite happy to sit there. The previous evidence, which you may have heard, said they were aiming at 55% to 65%, which still seems quite high to me. Why is this? Are Ofwat wrong in characterising 70% as unstable, or are you happy to have an unstable business?

Paul Inman: No, we are very focused on having a resilient business as we look ahead into the future. At the end of the day, it is a judgment call about what an appropriate level of gearing is for us as a business that we think allows us to finance our business as we move forward at a level that is most cost-effective to the customer. We are trying to get that balance right all the time. We believe we can do that at 70%; others have slightly lower gearing, and some have more gearing than us in the sector. We think that is a reasonable position for us to take.

If we look forward to the next AMP, we are investing in capital expenditure and we do recover that money from our customers over the longer term. Over the next five years, we will have an expenditure of just over £8 billion, of which I will recover about £6.5 billion in our customer fees. So I have about £1.5 billion to finance looking forward to the next AMP, £600 million of which will come in the way I have explained in terms of the intercompany loan, and we will finance the rest on borrowings, which will hold our gearing at about that 70% mark. We think that is a good position for us to be in in order to be confident that we can deliver our plans for the next five years.

Chair: We will move on to some questions surrounding returns to investors and executive pay. Tim, can I ask you to lead us on that?

Q265 **Tim Roca:** I will address it to you, Paul, in the first instance. Yorkshire Water's return on equity has been 6.2%, significantly above Ofwat's recommended 4% level. The shareholder return has been about 10% on average, despite the penalties and fines for the underperformance that we have certainly heard of today. Why do you maintain such high shareholder rewards in this context?

Paul Inman: To clarify, the dividend that Yorkshire Water has been paying during the course of this AMP has been around 3%; I am not sure I recognise the 10% number that you are referring to. We paid dividends of about £345 million during AMP 7 to the end of year four of the AMP, which is just under 3%. We would expect that to continue for the final year of this AMP and that is a return on the regulated equity that we have



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in the business. That is below what Ofwat would say a performing water company should pay as a dividend in terms of its allowed and assumed financing returns, but that is because—as Nicola has explained—we are not performing in the way that we would want to perform. But that is about the level of return we have been paying to the shareholders and the holding company over the course of this AMP so far.

Q266 Tim Roca: Talking about bill payers, the University of Greenwich suggests that a third of the average bill for a customer—about £442—is going away from frontline services and into debt or dividend payments. Do you recognise that figure?

Paul Inman: It is not quite as high as that. I would say that, of our average customer bill, about 49% of it goes to pay our ongoing daily operating costs, so the costs of energy, chemicals and the costs of our staff. About 28p goes into the repayment of capital investments that we have made in the past—as I explained, recovery of the capital expenditure into the network that our customers pay over time to match the usage of the assets—and about 23p in financing, so about 23% compared to the 33% that you mentioned. That is a mixture of interest on debt and our borrowings but also the allowed dividends that we make under the regulatory model.

Q267 Tim Roca: Linking to borrowing, obviously we have talked about gearing before. BBC analysis suggests that you have paid £2 billion in interest on debt and loans over the last seven years and that the total debt pile has increased from £4.8 billion to £6.2 billion, while only £1.2 billion has been spent on enhancement capital expenditure. Does that seem like an acceptable balance of spending and borrowing?

Paul Inman: Our debt is about £6.8 billion at this point in time. Yes, that has increased as the regulatory capital value of the business has increased and we have invested. We pay around £200 million a year in cash interest from Yorkshire Water and about £75 million of dividends, so about £275 million of financing costs compared to that £849 million of capital investment that I mentioned we will have this year. Clearly, those ratios changed a little when we were underspending—as per the previous question—against our allowances in the early part of the AMP, but you have to look at these things over the longer term. As we end this AMP, we are investing significantly more in the business than we are paying out on financing costs and dividends at this point.

Q268 Tim Roca: The level of debt within the sector overall is quite a sensitive issue to the public. I do not know if you have a comment on it because, overall since privatisation, something like £70 billion has been taken out in dividends but £60 billion of debt has been created as well.

Paul Inman: If you look at Yorkshire Water, from the point when our current shareholders took ownership of the business in 2008, we have paid just under £2 billion in dividends. That is a return of around 5% over that time period and is of an order of magnitude of return we might



expect to see. What is critically important, of course, is that we are able to show a return to the organisations that are financing the business. As I have explained, if you look at the regulatory model, we have to finance investment at the point we put the capital expenditure into the network and we recover that money from our customers over around 20 years. So we have a 20-year financing horizon that we need to think about, and we do that through a mixture of debt and equity.

Q269 **Tim Roca:** Nicola, can I turn to you to talk about executive pay, which is obviously very much in the media? It is a monopoly business; you have captive customers, so it is controversial. Last year, your base salary was £585,000. Is that right?

Nicola Shaw: Yes.

Q270 **Tim Roca:** There were taxable benefits of £13,000 and retirement benefits of £59,000, which you took in cash?

Nicola Shaw: Yes.

Q271 **Tim Roca:** Then on top—which is the controversial element, I suppose, although that is already a great deal of money—there is the EIP short-term element, which I guess is what people would consider a bonus of £371,000. Do you feel that is a fair approach to remuneration?

Nicola Shaw: My shareholders and the board of Yorkshire Water—through their remuneration committee—decided to set us really stretching targets in relation to a number of things, in particular that we improved and continued to improve on leakage and in relation to our staff engagement and safety. They wanted to reflect that in what had been a quite difficult year, but they also recognised that we had not done nearly well enough in relation to our outcomes in the environment and therefore removed any bonus relating to the environment. But I do accept it is a large number.

Q272 **Tim Roca:** It is a very large number and customers will be considering value for money. I do not want to misquote you, but after receiving the bonus, you defended the plan to increase bills by 41% by saying that shareholders wanted to make sure you were kept incentivised. Were you not incentivised by the £657,000?

Nicola Shaw: There is a real focus on trying to laser in on specifics. That is often how remuneration works in organisations like ours—making sure you are focused on particular metrics that the board views as the most important. That is what the board of Yorkshire Water decided through the remuneration committee.

Q273 **Tim Roca:** I feel like Abraham Maslow is probably turning in his grave that you would not be incentivised with that base salary. In the basket of measures the remuneration committee uses to look at whether you should receive the EIP, affordability for the customer of their bills is not part of that basket of measures, is it?



Nicola Shaw: No, that is correct.

Q274 **Tim Roca:** Is that something the remuneration committee might consider for the future, bearing in mind the way families are struggling with the cost of living at the moment?

Nicola Shaw: The affordability of our bills is something that we approach in two ways. First, we support our vulnerable customers significantly. In Yorkshire, we have some of the most deprived communities in the country, and we give more support to our customers who are in vulnerable circumstances than almost any other water company. We are the second most supportive water company across the country and we will continue to be supportive.

We have made an additional commitment through the next five years to do more, to support over 135,000 customers across the AMP. We know that, for some customers, there will actually be a bill reduction because they are in the most strained circumstances, so we are working really hard to make sure we continue to support those who need it from the bill. Secondly, the board will keep pressing for continued work with Ofwat on ensuring that we get the right balance for affordability over the long term.

Q275 **Tim Roca:** Nicola, are you alive, and are the board alive, to the concerns that the public have in this area? Fitch downgraded you in January. You were the second worst company for pollution in 2023, you were in the elevated concern category of Ofwat, and yet you have received an additional £371,000, taking your pay to £1,028,000. That might seem excessive to some.

Nicola Shaw: I am absolutely alive to it. As you recognise, there has been a lot of coverage of this issue and I have been asked questions directly about it. So, yes, I am very aware of concerns and the board has equally been made aware of them.

Q276 **Jayne Kirkham:** I wanted to ask about social tariffs because I asked about this at a previous session and it concerned me. You said you gave a lot of support to your customers. I was looking at Ofwat's PR24 determinations and they state that you are expecting to increase the social tariff provision from 2% of households to 5%, but that is still quite a lot lower than the 9% sector average. From what you said earlier, are you thinking about increasing that level of social tariffs? Would you support a national social tariff if it came in at the level of, say, 9%?

Nicola Shaw: Yorkshire Water is one of the few businesses in the country where our shareholders also contribute to the support for vulnerable customers because they view it as really important. This is impressive: we have also seen an increased willingness—a public perception that people want to support others around them during this difficult time. So we are able to provide more support for our customers than we were in the period 2020-25, and we will be putting that investment up from 2025-30. Do we support a national tariff? Yes, if it



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continues to work in a way that gives the support that we need to give across Yorkshire. As I said, we are one of the most deprived areas of the country and there are real challenges in making sure that any national tariff works to support customers actively in those areas where we are struggling.

Q277 Jayne Kirkham: Even if you increase it by the amount you are talking about—up to 5%—it is still just over half the average. Why so low? Why so few?

Nicola Shaw: The contribution that customers made towards vulnerable customers during the period 2020-25 was about £7 and it has gone up to £20, a significant contribution from the vast majority of the people in Yorkshire to support those on lower incomes as well as around a 30% increase in the support from our shareholders to those vulnerable customers.

Q278 Jayne Kirkham: So the amount has gone up for each customer rather than the percentage of households rising to the average, is that right?

Nicola Shaw: We are balancing that; it depends on your level of income. If you are among the lowest-income customers you will probably get a reduction in your bill, and then there is a gradation of that all the way through. But anyone on a low income will get some support from us if they apply, and we are encouraging everybody to get in touch. We are working really hard with Citizens Advice and local councils to make sure that, as much as possible, people are aware of the support we can give.

Q279 Chair: Just before we leave this, can I tease this out with you, maybe taking your own personal position out of the picture but looking at the position of the sector as a whole? The package Tim described to you, as you agreed, puts you on a base salary that is over three times what the Prime Minister is paid, and that seems to be in line with industry norms. Given the poor performance environmentally in terms of customer satisfaction across the whole piece, how sustainable is it for the industry to carry on operating in this way? Apart from your own position, look at the industry as a whole. The witness before you also took on a leadership role in the industry. Where is the leadership coming from here?

Nicola Shaw: There are multiple questions there, Chair. First, on pay, one of the challenges is how to adapt and move ourselves forward in a world in which things are very competitive. One of the challenges for, I think, all companies in the sector is how to get people in who will stay in those companies who will turn them around and will do so over time, collectively, with the regulators and their shareholders. That is really important.

Secondly, on your more general point about leadership in the sector, I am really looking forward to the work of Sir John Cunliffe in helping us address that. We have multiple regulators, multiple people with views, and multiple organisations across the sector, and it is very difficult for anyone to set out a stall and to make that then deliver through a number



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of years. In that very noisy environment, the work that Sir John Cunliffe is going to do to review the sector will be really useful.

Most regulated utility sectors, in my experience, have such a review every 10 years because the challenges in front of the sector change and therefore the way you need to address them changes. We have not had such a review in the water sector for over 30 years, so it is a real opportunity to look forward, look at what our challenges and objectives are over the next 10 years, and set ourselves up, as an industry, for success for our customers and the nation.

Q280 **Chair:** You are obviously across the brief; you are in control of your company and understand its workings, but what is it going to take to get back to a model where water companies are again low risk for low reward?

Nicola Shaw: First, we all need to deliver on the commitments we have made in the next five years. That is really important to give people the confidence that we are doing the right things. If we fail to do so, that won't help. Secondly, there needs to be a real sense that we all have a common direction which has to be, as you say, low risk and low reward; at the moment, that is not the case. We have rating agencies saying that it is not low risk. We are not AAA any longer as a sector; we are only A, and that makes a big difference for our customers over time. Keeping those costs as low as possible needs us to get to a place where we are low risk. We all have to deliver, but we also need an environment in which the perception of this industry changes.

Chair: We will doubtless return to this in the weeks and months to come and, as you say, Sir John Cunliffe's work—which we would hope to inform as a consequence of these accountability hearings—is an absolutely critical and central part of that. Nicola, Paul, can I thank you for your attendance here today to give evidence? We shall be speaking to some of your colleagues in other parts of the industry, but in the meantime, we are very grateful for your participation today and I conclude proceedings.