



Environment, Food and Rural Affairs Committee

Oral evidence: Reforming the water sector, HC 588

Tuesday 11 March 2025

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Members present: Alistair Carmichael (Chair); Helena Dollimore; Josh Newbury; Andrew Pakes; Henry Tufnell.

Environmental Audit Committee member present: Ellie Chowns.

Questions 430 - 549

Witnesses

I: Heidi Mottram, Chief Executive Officer, Northumbrian Water; Andrew Beaver, Senior Regulation Director, Northumbrian Water.

II: Peter Perry, Chief Executive Officer, Dŵr Cymru (Welsh Water); Samantha James, Interim Chief Financial Officer, Dŵr Cymru (Welsh Water).



Examination of witnesses

Witnesses: Heidi Mottram and Andrew Beaver.

Q430 **Chair:** Good morning everybody, and welcome to this meeting of the Environment, Food and Rural Affairs Committee. We continue this morning with evidence to our inquiry into reforming the water sector. We are pleased to be joined this morning by representatives of Northumbrian Water and later on, Welsh Water. Heidi Mottram and Andrew Beaver, welcome to the Committee. For the benefit of those following our proceedings and our own official record, can I please ask you to explain to the Committee who you are and what your role is?

Heidi Mottram: I am chief executive of the Northumbrian Water Group. For information—because we are slightly unusual in our make-up—we operate as a water and wastewater company in the north-east of England, and we operate Essex and Suffolk Water in the south-east of England, where we provide water-only services. That is largely the group.

Q431 **Chair:** Slightly unusual, but by no means unique.

Heidi Mottram: Not unique but probably a little unusual. Our name can sometimes be misleading because it implies the north-east, so I thought it was worth clarifying.

Andrew Beaver: I am the regulation and assurance director at Northumbrian Water. My responsibilities tend to include developing forward-looking business plans, strategy, those sorts of things.

Q432 **Chair:** Am I right in thinking you were previously a director of strategy at the water regulator, Ofwat? Is that correct?

Andrew Beaver: Yes. I left Ofwat in 2016 and went to work in a professional services business for four years. I was out of the sector for a little while and joined Northumbrian Water in 2020.

Q433 **Chair:** Does that make you a gamekeeper turned poacher, or a poacher turned gamekeeper?

Andrew Beaver: I think it is an advantage to have worked across both sides because we need to bring those different perspectives.

Q434 **Chair:** Heidi, can I offer you the same opportunity as other water companies that have given evidence? Tell us a bit about how you run the company. What culture do you see as being important? How important are the environmental impacts and things like customer engagement and public transparency?

Heidi Mottram: I will begin by saying I feel very proud to work alongside over 3,000 people who are very passionate about what they do and work incredibly hard—often in very challenging circumstances—to deliver services to customers. Collectively, we set ourselves a vision—taken very seriously in the business—of being industry-leading across all



HOUSE OF COMMONS

the metrics we know are important to our customers. I would certainly not say we are perfect in all those metrics. We try very hard and are leading in a number of them, upper quartile in others, and there are areas where we need to improve, but it does drive us.

To your point about culture, there is a very strong understanding of what is important. It is derived from what our customers tell us is important: customer service, environment, clean water, being a good citizen in our communities, keeping our employees safe and being a great place to work. All these things are part of that, but there is a very clear line of sight in the company as to how everybody contributes.

One of our strong values is to be one team and to go about doing business in a very ethical way. If you were to come and visit us and talk with our employees—I would be happy if you wanted to do that—they would talk about that; how it drives them and how they want to be the very best they can be. That is what has led to the company performing towards the upper quartile, if not in the upper quartile, and leading in many respects, but it also drives us to get better and learn when we are not doing things right.

Q435 Chair: Can I first look at the corporate governance within the company? Can you tell us who owns Northumbrian Water Group Limited, which is the parent company of other companies? Talk us through the ownership of that.

Heidi Mottram: Until very recently, it was simple because the company was wholly owned by Cheung Kong Infrastructure, which is part of the wider Cheung Kong Hutchison group, a Hong Kong-based listed entity. You are probably aware of that. They were 100% owners. About 18 months ago, 25% of the business was sold to KKR, which is also a listed entity.

Q436 Chair: Listed in New York?

Heidi Mottram: Yes. It is a simple structure; we have gone from being wholly owned to being 75:25.

Q437 Chair: Give me the percentages, if you can.

Heidi Mottram: It is 50% to Cheung Kong Infrastructure, which is the controlling part. Cheung Kong Infrastructure has also invested in electricity and gas distribution in our country; it is an infrastructure specialist. The other part of the ownership is the wider holdings part, and that is just the way it makes sense in Hong Kong for those to come together.

Q438 Chair: Northumbrian Water Group plc wholly owns Northumbrian Water Limited and NWG Commercial Solutions Limited. Is that correct?

Heidi Mottram: Yes. We do some work outside the regulated business, but the majority of our business is the regulated companies I introduced at the beginning. We operate some PFI operations on behalf of Scottish



HOUSE OF COMMONS

Water and did similar work in Ireland until recently, but Ireland has taken that back under public control. Somewhat unusually, we also operated the water services on Gibraltar in partnership with the Government of Gibraltar. This was a legacy contract from about 20 years ago, but it has also recently gone back into public ownership. About 10% of our operations are in that group entity, but 90% are in the regulated Northumbrian Water Limited.

Q439 **Chair:** Do they in turn have a number of financing subsidiaries and trading subsidiaries? We are taking this from your annual report.

Heidi Mottram: There is one entity, which is a mechanism to move money between us and the owner. That is all.

Q440 **Chair:** Just one subsidiary?

Heidi Mottram: Yes.

Q441 **Chair:** That is very helpful. Looking at some of your financial positioning, you have a gearing that has been consistently around 70%. The forecast for your own business plan is for that to rise to 73%. Ofwat says you should have a gearing level of 55%. Is your business sustainable?

Heidi Mottram: We would definitely take the view that a gearing level around 70% is normal in infrastructure businesses. I can see that Andrew wants to talk you through the notional company versus gearing and give you a bit more information about that, but we would say it is a sustainable level that you would see in a lot of other infrastructure businesses.

Q442 **Chair:** We know because we have seen it. However, 55% is the Ofwat target, and you are sitting—as others do—around 70% and going north of that. Does that tell us something about the relationship between a company such as yourself and the regulator, Ofwat?

Heidi Mottram: I am not sure what is beneath your question.

Q443 **Chair:** If Ofwat tells you that you should be at 55% and you say you are at 70% and quite relaxed about going to 73%, you do not seem to be very bothered about the views of the regulator, do you?

Heidi Mottram: Ofwat has established something called the notional company, and I am conscious that Andrew wants to explain the concept. That is what the 55% relates to. Do you want to come in and explain?

Q444 **Chair:** Andrew, if you were in your old job and you saw this continued discrepancy, what view would you have taken about it as a regulator?

Andrew Beaver: Heidi is right. Ofwat uses a notional company to set price controls, and that is a benchmark that Ofwat has set at 55%; you are correct about that. What I would say is that benchmark is quite unusual in comparison to what other infrastructure businesses are leveraged at. Thames Tideway Tunnel and Heathrow are both at 80%. There is room for a sensible debate about what the right level of gearing



HOUSE OF COMMONS

is for water companies. As you say, at the moment, our gearing is at 70%, 1% above the industry average. Until a few months ago, it was well within the range that rating agencies would give for a Baa1 credit rating, which Ofwat uses when setting the price controls. I personally do not feel there is an issue about the financial resilience of our business.

Q445 **Chair:** When Ofwat says that your company is in the elevated concern category, is it wrong?

Andrew Beaver: It is fair to say we are 1% above the average gearing in the sector.

Q446 **Chair:** We get that; we have heard that from other companies. What I want is an explanation of your performance against the Ofwat target.

Andrew Beaver: What I am trying to say is we do not see 70% leverage as a financial resilience issue. We talk about it regularly at board, and if we did see it as an issue, we would be doing something about it as a business. We are trying to de-lever because the ratios get tighter the higher up you get, but what I am trying to say is I do not think 55% is either a target or necessarily the right number.

Q447 **Chair:** In what sense then is that 55% a meaningful target?

Andrew Beaver: It is used to set the price control. It does have an impact on companies because the further away you are, the more problematic it is.

Q448 **Chair:** What impact does it have when you go from 70% to 73%?

Andrew Beaver: It encourages us to think about how far away we are from it.

Q449 **Chair:** You have that conversation with yourself and say, "Well, that's fine, we are getting further away from the target." What does that say to you?

Andrew Beaver: The business plan requires us to get £400 million of equity from our shareholders. We had very active conversations with them about that for a number of years as we were working through the determination process, which finished in December. That is an example of what you are talking about: making sure we are investing enough equity in the business to maintain that financial resilience. What I am trying to say is Ofwat's 55% number is not the definitive answer on what is the right financial resilience of a water company. I would look at what the rating agencies say; they are independent experts in this area as well. I would also look at other information. There is room for a sensible debate about what that number is, but I am not sure it is 55%.

Q450 **Chair:** Having been on both sides of the fence, does it not raise some concern about the relationship between the companies and the regulator?



Andrew Beaver: It is absolutely right that the regulator is challenging the companies to improve, whether that is on gearing, service performance, cost or whatever. That tension always needs to be there.

Q451 **Chair:** You mentioned—we will come back to Heidi on this—that your PR24 Business Plan is contingent on securing £400 million equity investment. How likely are you to achieve that?

Heidi Mottram: As Andrew said a moment ago, this has been an active discussion with our investors—our shareholders—for a number of years. They are anticipating this move and we are having a debate about when the most appropriate time to do that is. That is an active and positive discussion. You will also be aware that we have asked Ofwat to refer our final determination to the CMA. The shareholders will also be interested in that dialogue. They stand ready to make this happen at the appropriate time. We do not have any concerns that it will be forthcoming and the business will be able to deliver its plan. Do you want to add to that, Andrew?

Andrew Beaver: Whenever someone is investing money, obviously they need to make a reasonable return on that investment. That is one of the fundamental questions we have referred to the Competition and Markets Authority, because we do not feel that an equity return of 5.1% plus inflation when you could get 6.2% on a corporate bond is necessarily going to be very attractive. That is one of the challenges, particularly if we are trying to put this sector on the right long-term investment footing and are probably going to need a lot of equity capital, not just now but in five and 10 years and so on.

Q452 **Chair:** Do you think you are on that trajectory?

Andrew Beaver: The building blocks are there. Some decisions in the final determination might be okay for five years but will not necessarily support us for the next 25 years.

Q453 **Chair:** You have taken your reference to the CMA on the basis of a determination that came in at 3% lower than your ask. Is that correct?

Andrew Beaver: The number you are quoting is the total expenditure allowance, and that is clearly an important figure. What we are asking the CMA to re-determine and look at goes beyond that. I mentioned the appropriate investment return, but one of the two bigger areas we are concerned about is asset health, where we have made a targeted case for more investment because, in our opinion, we are not spending enough in maintaining the asset base as an industry at the moment. That case was refused.

The other is looking at the impact of extreme weather driven by climate change. We see far more severe weather events, and those have a big impact on the performance customers receive. We asked for some targeted investment to make our assets more resilient to those types of severe weather events, and in both cases, Ofwat has not provided the



HOUSE OF COMMONS

funding. We think they are important issues to resolve for the next 25 years, not just the next five years.

Q454 **Chair:** We are going to come onto the questions of asset resilience, so I am not going to dwell on that for the moment. Heidi, to come back to you, you have overspent your allowances in the current price review period. You have now been permitted to spend £6 billion in the next five years, but only £5 billion is going to be coming from bill increases. Where is that extra £1 billion going to come from?

Heidi Mottram: At a very high level, it is quite interesting to note those two figures, which we were talking about just a couple of days ago. The difference will broadly come from additional equity, which we talked about a few moments ago, and also we will have to carefully measure and manage debt. We will be trying to get the right balance between equity, debt and customer revenues.

Q455 **Chair:** The extra equity is £400 million. What about the remainder?

Heidi Mottram: It will come through us balancing the way we are borrowing and paying money back.

Chair: We will leave it there for the moment. Helena, can I ask you to lead the questioning on asset resilience and water security?

Q456 **Helena Dollimore:** I wanted to pick up particularly on issues around water supply and how well your company has maintained its assets and ensured supply to customers in recent years. Particularly in the area of your Essex and Suffolk Water operations, we know there are massive supply issues; it is described as one of the most water-stressed areas in the entire country. Have you done enough in recent years to make sure you are preparing for water supply issues?

Heidi Mottram: If we start with Essex, you are quite right to say East Anglia in its broadest sense is one of the driest areas of our country. If you look at the history of Essex Water, we began having concerns about the amount of water that was needed in that part of our operation 20 years ago. We all recognise the related planning issues.

Q457 **Helena Dollimore:** You did not start planning any reservoirs then?

Heidi Mottram: Yes, we expanded an existing one by 60%, which was a massive increase and resolved the issue.

Q458 **Helena Dollimore:** It did not resolve the issue, though, because you still have major water stresses.

Heidi Mottram: I will come on to that. We plan over the long term, in partnership with the Environment Agency and local authorities, to see what is needed and how we might manage that. There was a belief that expanding a reservoir near Colchester called Abberton would give long-term resilience. That was £140 million worth of investment. Interestingly,



HOUSE OF COMMONS

it was one of the few reservoir investments in our country for quite a while, but it was making an existing reservoir significantly bigger.

Since then, the Environment Agency has begun to take a different view about abstraction from the environment and the potential impacts of climate change. Those views are also driven by the Government's changing position on climate change. Having made that investment, the new changes in how we look to the future are beginning to put more pressure on us again, which means we have now started to plan our next moves. There will be some moves in Essex—albeit of a relatively minor nature—towards additional treatment processes. The biggest challenge is actually more to do with Suffolk.

Q459 Helena Dollimore: I am a bit confused. As a water company, when you are thinking how to forecast your supply over the next few decades—like any company would be thinking about their future demand from consumers and the community—do you rely entirely on the Environment Agency? Do you do your own forecasting? Because you seem to be blaming the Environment Agency.

Heidi Mottram: No. There is a well-formed process called water resource management planning. It works throughout the country and is an established and formulated process that we all work on together. Obviously, we have a role in that. The Environment Agency prescribes some elements of what we build into that model, and then we take, for example, the information on planned growth in households and businesses from local and central Government, because obviously they have that knowledge. This all goes into a model that allows us together to look at what needs to be done, and then we put forward a plan, which the Environment Agency, local authorities and ourselves believe is the right plan, to the business planning process with Ofwat. It would then agree with us on the most efficient way of doing that. This is an established process that is going on in the whole country; it is a partnership process.

Q460 Helena Dollimore: I appreciate that, but do you feel the process is sufficient given that we are now in 2025, you have run the company for 15 years, and we are in a situation where businesses in the area we are talking about are being told they cannot have new mains connections until 2033, so their growth is being inhibited? We have had a lot of complaints from local businesses and farmers who are feeling that lack of planning and foresight on water supply, and predicting that going into the future. Whoever is responsible for that, it is having a really big impact on those communities and holding back economic growth.

Heidi Mottram: We are very aware of that, and we are working with the businesses under the auspices of the chambers of commerce to see how that can be managed better, to help those businesses be more efficient in their use and share that water around. It is in process, and what is happening in Suffolk is quite interesting. We are continuing this dialogue;



HOUSE OF COMMONS

I will be meeting with the chief exec of the EA next week to see if we can look at this formula and model a bit differently to ease some pressures.

Q461 **Helena Dollimore:** You have been at the company as chief executive for 15 years. With hindsight, do you wish you had done more to plan for these issues and build more supply into the system?

Heidi Mottram: We worked with the information we had. If I start saying we need to build in more and more resilience based on the evidence of local authorities about what they expect business growth to be or what the Environment Agency expects on abstraction, the process does not allow for a water company to say we need to do more. That would be deemed an inefficient investment for the customers to pay for because we could potentially end up providing too much that does not get used.

We were using the very best information. I know it is not a good outcome because things changed significantly and we are now using different information, but that is the reality of what happened in a very small area in Suffolk. In our other operating areas, it worked well and is what allowed us over a period of time to plan for and invest in Abberton. In the north-east, we have a very good water supply. It works well but is a very collaborative process that relies on multiple sources of information, not just the water company.

Q462 **Helena Dollimore:** There are some clear takeaways for us as a Committee from that on the way the process works. It is not working the best it could.

Heidi Mottram: The degree of redundancy or resilience allowed in that process might be something the Committee wants to think about.

Q463 **Helena Dollimore:** In light of the fact that this area is one of the most water-stressed in the country, there are issues in your company over the amount of water mains that are bursting and leaking into the environment, while at the same time businesses are being told they have to cut down on their water usage and that you cannot put any new mains connections on. People might find that contrast strange. On the one hand, you have mains bursting all over the place because the pipes have not been maintained, and on the other hand is the information that businesses and residents are being told.

Heidi Mottram: I would challenge your characterisation of burst mains all over the place. In our Suffolk operation, leakage levels are among the lowest in Europe; we have a very low level of leakage. The Essex and Suffolk area combined has the lowest level of leakage in the country. We work really hard; our teams work incredibly hard. We have a good record, and we are never complacent. We are continually looking at new satellite technologies to drive that down.

A really interesting innovation that we brought into the industry in partnership with an innovative company and is now being adopted is a



HOUSE OF COMMONS

revolutionary way of fixing pipes from within. This is driving that already very low level of leakage even lower. We are in a very good and strong position in Suffolk, even though our teams will always try to improve because it is the best in this country.

Q464 Helena Dollimore: In some areas of your operation, the record is worse. We were told about an incident where Chester Road in Sunderland had to be closed and the residents lost their power twice within six weeks because of a burst main.

Heidi Mottram: Yes, I am aware of the incident. When the pipe burst the first time, in the process of fixing it—I am trying to avoid getting a bit techy here—you can sometimes create a pulse or vibration that causes another burst a little further on. Unfortunately, we did get two, but that is quite an unusual thing. We were really sorry for the residents of that road. We went in and did a lot of work with them to make sure that businesses were compensated.

Q465 Helena Dollimore: What compensation were the residents and businesses given?

Heidi Mottram: I will have to come back to you with the exact details of that because they were bespoke to individual companies, but they were not off the water supply for very long at all. These things can happen. One thing you might have seen in the records about Northumbrian Water and have heard Andrew talk about is the fact that we have been making an argument quite strongly that there needs to be more investment in mains renewal beyond where we are. We are exceptionally good at keeping people on supply; we are industry-leading at that.

One thing we have realised is that customers are interested in staying on supply, so even when we have bursts, our first action is always to keep people on supply. We can do that by re-zoning water, laying temporary piping, or we have special vehicles we can take to site, all of which will keep people on supply while we fix the burst, as opposed to having to wait. That has led us to be the industry leader in supply interruptions.

Q466 Helena Dollimore: We have talked about your supply issues and planning for the future. Obviously, you have admitted there is going to be a lag in when you can create that extra capacity, get more reservoirs online, and supply the people who need to be supplied at the moment. In that interim period, we have heard suggestions from you that you will be making more use of water recycling schemes. You are already using water demand management, and we have heard about the economic impact that that is having. How do you feel about that going forward? How do you plan to engage with those communities?

Heidi Mottram: We have already engaged hugely. In the business community, we formed a business group so that we could work together collaboratively to see who is using what water and how that could be managed. That has already had some really good success. It is nobody's fault, but we found businesses that were using water in a way that could



HOUSE OF COMMONS

potentially be improved upon. We have a lot of expertise in this area and are working with them and sharing that knowledge, which is really positive.

The driest area in Suffolk—in the bottom end and not the top—is called Hartismere. We are putting smart meters into that area. We are now at about 85%, and in a couple of weeks will be at over 90%. When we do that work, we do not just show up and start putting meters in. We have a community vehicle that goes around. It is quite a rural area—I do not know if you are familiar with it—and we talk to our customers about how they could use water better because not everybody thinks about it. It is not necessarily at the front of their minds, and they are very interested in how they can use their water more efficiently. We explain that we can do things in their property to help them use their water more efficiently and share information. It has been a really positive event.

Q467 Helena Dollimore: What a lot of people take away from this is that a lot of onus is being put on customers and local businesses and not so much on future planning and forecasting. Whatever the process you have outlined, a lot of people would expect it to sit with the water company.

I am conscious of time and know we need to move on. Andrew, I wanted to ask you about your role at Northumbrian Water. As the Chair touched on, you previously worked at Ofwat. I know a lot of concern has been expressed about the trend of people taking roles in the regulator and then moving into a water company or going back the other way. It has been referred to as a revolving door. Do you understand why people are concerned?

Andrew Beaver: I understand the concern. In my own case, I left Ofwat in 2016. For the first two years after I left Ofwat, I was subject to the business appointment rules that constrained the work I could do. I went to work in an infrastructure business that was working in all sorts of other sectors in all parts of the world and had a great time doing that for a few years.

When I came back to Northumbrian Water four years later, there was a very big gap, and I do not believe that any advantage was conferred. If you look at the amount of litigation Northumbrian Water has been under since I arrived, it is probably more than my predecessor. Far from an advantage, I would say there was almost a disadvantage. I understand the concern. The constraints and rules there work, and as I said at the beginning, there is a need for regulators to understand better what it is like in a company and vice versa. That would actually be very helpful in some challenges that we have. What we see with our regulator increasingly is almost a focus on, "My model says the answer is X," and less of a calibration to what is going on in the real world.

Q468 Helena Dollimore: My final question while we are touching on other roles. Heidi, I was reading that, as well as being CEO, you are on the CBI board and a non-executive director of Eurostar International. Do those



HOUSE OF COMMONS

roles take up a lot of time?

Heidi Mottram: I am afraid what you have been reading is out of date; I am not currently in either of those roles.

Q469 **Helena Dollimore:** So you are fully dedicated to your water role?

Heidi Mottram: I definitely participate in operating areas we find useful. For example, I am chair of Net Zero North East England, which works collaboratively with the mayoral combined authority and businesses to look at how the whole region can move itself towards net zero. We contribute hugely to that. It is really important that we play that wider role in society and help in other things.

Q470 **Helena Dollimore:** People would look well on things that are playing a role in the community, but there has previously been concern expressed about the amount of time other commercial roles take up when you are the CEO of a full-time company and how you juggle those roles, which previously you were.

Heidi Mottram: No. I want to be transparent with you. Although I am not currently doing those two roles, I am on the board of another company. It is not unusual for chief executives, and I only have one non-exec role in another commercial company. It helps me have a broader perspective on how companies operate. We can best practice exchange. It is in a similar, infrastructure-related sector, so I find it very useful. I learn things. I also take best practice from my company into theirs. Diversity of thought and challenging your own potential norms are very positive things, but only within reason. That is why I only do one of those.

Q471 **Helena Dollimore:** You do not see any conflict of interest?

Heidi Mottram: I would not be allowed to have a conflict of interest in that scenario, so there is no conflict of interest. It helps chief execs have a better perspective and think about doing things differently rather than just one sector one way.

Q472 **Andrew Pakes:** To pick up on one answer I heard during Helena's questioning, two things did not seem to sit well as far as I could work out. That was the acknowledgment of a moratorium until 2033 matched with the statement that you thought it was working well. There were lots of great words, such as collaboration. I do not live in Essex or Suffolk, but I live near enough for it not to be a surprise to me that we live in a region that has water stress, so to me, it is not a new thing. Generations of my predecessors would have known that as well.

How can the system be working well if we have this big time lag? Is it an issue with your business model? You talked about not being able to build predictive investments as it would not be regarded as good value for money. Where is the blockage? Is the blockage your business model, regulation, or did you not have the data to realise there would be a problem and now you have a problem?



Heidi Mottram: Because you focused on it, this is potentially a really interesting area for the Committee to look a little further into. The water industry is working on a system that has effectively been devised by Government, and we are all working in exactly the same way to it. I am not saying it is anybody's fault, but there is an agreed legal process that we are all following in order to decide how to predict water need in the future. The water company is one part of that, but there are other parties in it. It is not necessarily the wrong system; it is trying to gather up all the best possible information at a moment in time to be able to model and predict what might happen over a longer period of time.

You are quite right; this is an area where we know there is water stress. When we were doing the water resource management plan before the one we are currently in, which has triggered this particular problem, people were looking long distance and making predictions. The Environment Agency, the local authorities and we were populating that model. These models are working in exactly the same way everywhere else in the country. That is why I say it might be an area of interest; you might want to explore a little more how the model works. It is a very technical model, and we are required to follow it in a particular way.

Q473 **Andrew Pakes:** In your experience, was the model wrong? Did the model show that we would end up where we are now?

Heidi Mottram: Effectively, the assumptions have changed. The Environment Agency changed some assumptions about the impacts of climate change, derived from Government predictions and the abstraction from the environment. Water that we previously would have assumed we could use, the Environment Agency said, "No, you can no longer use that." That was one element that put stress on the model. The non-household demand also rose more than had been predicted. So those two things created the stress that we now have, and we need to deal with that. That is what we are trying to work through now as fast as we possibly can, but it has been a function of the Water Resource Management Planning process, so you might want to explore that a bit more. That is what has driven it. Did you want to come in and add something?

Andrew Beaver: The issues that have created the deficits that are driving the problem have come from reductions in the amount we can extract from the environment and increases in demand. There were some other things—climate change data got a bit better and so on—but those were the two key things that drove the deficits. It is worth asking whether we could have had better information in those areas. Could we have better predicted it? That is a reasonable question. Sometimes, you cannot predict the future. Sometimes, you get better information and therefore you get the problem. It is probably a bit of both.

Q474 **Helena Dollimore:** Is it the model of your company that might partly explain this? They always say, "A stitch in time saves nine." Maybe it would have been better to plan ahead and create that extra capacity. I



HOUSE OF COMMONS

appreciate what you said earlier, Heidi, about not wanting to create more water supply than was needed, but perhaps the calculation made within the company was, "We do not want to create more supply than is needed because it will cut profits."

Heidi Mottram: No. What we are trying to explain is that there is an established model in the country and we have to follow the model. We are required to follow the model.

Q475 **Helena Dollimore:** You are actually not allowed to go beyond that?

Heidi Mottram: No, we have to follow that model. Everybody has worked hard—I am not pointing the finger—to try to use that model as a method of predicting this. We would run into a wall if we tried to add more things that were not allowed within the model, because we would then have to go to Ofwat and say, "We want to do something outside the model," and Ofwat would typically follow the model, as would all the other government regulation bodies. I understand it is a problem; we are not happy either, but it is a change in assumptions and scenarios from one model to the next that is causing this.

Now we think our job is to work as fast as we can with the businesses to see what they can do, get smart metering in and make sure that does as much as it can. You are quite right on leakage; we are very low, but we will push harder and then we will run as fast as we possibly can to build new resources. We are hopeful that the changes in the planning system will help us move faster on that.

Q476 **Chair:** Have you been shouting from the rooftops, "Dear God, if you do not allow us to do this differently, we are going to have customers who will not get a connection until 2033?"

Heidi Mottram: I am not sure I would characterise it as shouting from the rooftops.

Chair: If it was my business, that is what I would be doing.

Heidi Mottram: We think the right thing to do is talk to the people involved—in particular the Environment Agency and local authorities—to see if there is a better way of doing this. We would probably have to come outside the model to do something different at the moment, and we do not have the authority to do that.

Q477 **Chair:** Does this come to the structure and culture of the whole industry? It is all about process, not about outcomes for your customers.

Heidi Mottram: The processes have been very well thought through and defined, and typically served well. Sometimes, when things change more rapidly, they have not, and this is a case in point with Suffolk, where the system has not worked as well as it could have. We are very keen to work with Government, regulators, local businesses and MPs—the whole system—to see if we can do something with this particular situation to make it work better.



HOUSE OF COMMONS

Chair: It looks like we are heading back to that part of the map marked, "The operation was a success, but the patient died." Sorry, Helena, you wanted to come in.

Q478 **Helena Dollimore:** Heidi, I am looking at Ofwat's response to your plan in 2013, the draft determination from Ofwat. That is within your time as CEO, because you have been in post 15 years. They say, "We cannot find evidence in the draft plan that the company has consulted local authorities on its population forecasts." That does not seem to be a collaborative process where everybody around the table puts their hands up and admits. That seems to be Ofwat saying you could have done a bit more digging and forecasted a bit better.

Andrew Beaver: This predates me, but I would not conclude from that single reference that it did not happen. That is saying Ofwat has not seen it, so I do not know what happened after that; maybe we could follow up, but I am pretty sure the business will have consulted local authorities about the population forecasts.

Q479 **Helena Dollimore:** For the Committee's record, the work to increase the reservoir in size was done in 2013.

Chair: That was the Abberton reservoir.

Heidi Mottram: Yes, which had been in planning and thought for a considerable amount of time before that; it was started in 2013 and completed in 2015.

Q480 **Helena Dollimore:** Hence the need for changes in planning.

Heidi Mottram: It is a very slow process, so we are very supportive of that move. It needs to be done right because there was quite a lot of environmental impact assessment done for that. Everybody will agree that we want to do things properly, but it could definitely move quicker, and we would like to work collaboratively with you on that.

Chair: We have indulged ourselves here, but this is a very important area. I need to move on to questions surrounding your environmental performance. Josh, can I ask you please to lead off our questioning in this?

Q481 **Josh Newbury:** It is fair to say there is a slightly less rosy picture when we look at the company's environmental performance. Northumbrian Water is not close to meeting its environmental performance targets. Unlike quite a few other water companies in the sector that are starting to make glacial progress, you experienced a 65% increase in pollution incidents in 2023-24. Ofwat plans to fine you for your management of sewage overflows. How has Northumbrian Water got to that point and what are you doing to try to turn that situation around?

Heidi Mottram: You have picked two separate subjects; is it okay if I answer them independently? The first was about pollution incidents. I would begin by saying that you are pointing to category 3 pollutions,



HOUSE OF COMMONS

which is an important category, but I would like to remind the Committee that as a company we have not had any serious pollutions—category 1 or 2—for quite a number of years. That is evidence of good environmental stewardship. Category 3 pollutions are where there is environmental harm but not at the level of category 1 or 2.

This is an area where we have been working incredibly hard. If you looked further back in your data, you would see that our numbers were coming down significantly. Then, in 2021, they started to creep up again. The Environment Agency made a change in its policy then—it is within its gift to do; I am not suggesting it should not—to put the onus on us regarding power supply. This is quite challenging. You might have heard from other companies in the north of England, but as a general point, the power supply in the north of England is typically held above ground on poles, and in the south it is typically underground. We are having more storms and wind, and this system is being interrupted.

So a number of pollution events came to us, which would have been as a result of those kinds of incidents in which previously the regulator would have said—as many other regulators say—bad weather is, if you like, put on one side. So we started to go up. I am not trying to say that should not have happened, but it is predominantly driven by that. Now we have to work out how to protect our assets against this variability of power and storms. I am sure you can appreciate it is quite a difficult thing for us to do, but we are doing our damndest to do it and to turn that tide back, but it is power we are going to have to do something about. There are a few other things, but power is broadly driving it.

The second thing was about sewage overflows. Again, this is an area in the country where what has caused this problem to increase over time is well understood. We are very keen to put this right and work hard. As part of AMP8, we have a big and ambitious plan to work on it, but I can share two very positive things. When the results are published for 2024, we expect you will see a reduction in Northumbrian Water spills. We are very pleased that even in a year that was wetter than the three-year average, we have managed to get the number down with our work.

We are just about to go live with a system that uses digital twins, artificial intelligence and moving water around. It is a system we have worked with some American partners on and has been used in some American cities. The one we have installed in Newcastle will be the largest in the world, and we expect that to drive things. We are really on top of this. Our shareholders allowed us at their expense to bring forward some money into last year to start that work, which means we have made greater progress, so we were really pleased about that. I am hopeful that you will start to see some very positive news from Northumbrian Water; not glacial, but moving forward.

Q482 Josh Newbury: You referenced the weather and the impact it is having. In 2023, it was reported that you spilled raw sewage into waterways over



HOUSE OF COMMONS

280,000 hours, which was double that of the year before. We are often told that heavy rainfall and the wetter weather we are seeing in general is because of climate change and is the cause of a lot of those overflows, but provisional data suggests that only 14.5% of your overflows that spilled more than 60 times were due to exceptional rainfall. To what extent do you think an underinvestment over a long period of time is actually behind that?

Heidi Mottram: You are looking at data that is possibly a bit inconsistent in the way companies categorise, because we chose to answer those questions differently. You need to combine excess rainfall and hydraulic incapacity because different companies class it differently. In essence, the problem has largely been driven by climate change and more water entering the system, which we recognise and is why we have the new plan that we are moving forward with. We have undoubtedly got more water in the system than we used to.

It might be interesting to know that we have done some really innovative work over a number of years in partnership with all the local authorities in the north-east. We established something called the Northumbria integrated drainage partnership. It started with one or two local authorities and now has all the local authorities in the north-east. It is independently chaired, and together we work on schemes to try to remove surface water from the system, which is largely the problem.

Obviously, in highly urbanised areas, it is not always easy to do because the water has to go somewhere responsible, if you like, but we have done some fantastic schemes in Newcastle where we remodelled a golf course in partnership with the EA in order to allow a swale to be built to store a lot of water. That was the first scheme we did. It won a lot of awards and lots of people have seen it as a very good thing. Subsequently, we did something similar with a recreational lake that sat in the middle of a housing estate. We were again able to make that lake a bit deeper to store some water.

Quite interestingly, in the middle of all that, we found that in building the housing estate back in the day, the local authority had diverted several rivers into the sewer, which was not particularly helpful. We managed to get some out and into rivers, but this is really complex stuff because the water has to go somewhere responsible. We cannot just block it up and allow it to go where it might otherwise go, so in urban areas, it is very challenging. That drainage partnership has quite a number of schemes on its books that we have worked on together and want to deliver, and of course we have put those into our business plan as we move forward. That is a good way of working.

Q483 Josh Newbury: You have mentioned quite a few new investments there. Previously, you have underspent your allowance for enhancement expenditure by 28%, which, to be fair, is similar to many water companies. Given your environmental performance—you have talked to us about the improvements you want to make around that—how do you



justify that underspend? Are you looking to rectify that for the next five-year period?

Heidi Mottram: You are going back over 10 years, and in that particular block of time that you are looking at, we did all the work that had been planned more efficiently. You can see that we were doing a really good thing. Subsequent to that, we have carried on spending the full allowance. We have upped our expenditure and carried on moving forward to do more and more work, for example, with the smart sewer network in Newcastle, which is why we are able to use a lot of the underground storage we invested in in that same timeframe. We can now use it more actively than it was previously being used. Did you want to add something to that, Andrew?

Andrew Beaver: If you look back over the last 25 years at the capital maintenance allowances we have had, we have overspent those allowances by about £160 million. If you look at total expenditure, we have overspent that as well. That is a company that—at the moment—Ofwat would say is the fourth most efficient water and sewage company based on the models they used in the last price review. We are a pretty efficient company.

Last year, Ofwat told us we were the best asset manager, and we have overspent those allowances. At the moment, we replace about 0.2 of 1% of our water and wastewater mains a year, and that means we are expecting those pipes to last about 500 years. That is almost double what the rest of the industry does as an average, so we are doing more than others, but as a whole, industry is just not spending enough. The allowances are insufficient, and that is one of the reasons we are making this case to the Competition and Markets Authority.

When we saw the Cunliffe Review call for evidence, it was really reassuring to see this issue well positioned as an issue for consideration. We think it is a very important issue, but fundamentally, it is not underspending in one AMP versus another; it is that the overall pot is just not big enough.

Q484 **Josh Newbury:** The final question I have for you is around transparency. It is fair to say that Ofwat is quite hesitant in being robust with criticisms of water companies, and yet, last August, it found that Northumbrian Water lacked adequate and routine processes to monitor environmental impacts and only took corrective steps in response to their investigations. Earlier last year, you had to be ordered to release data on sewage overflows from a pumping station at Whitburn. Why did it take an investigation or a court order for you to release that information and take your environmental obligations seriously? Do you not owe your customers more transparency than that?

Heidi Mottram: Again, you have two separate things there. If I could answer both of those but begin by saying we put a lot of our information in the public domain. You will be aware there is an interactive daily map



HOUSE OF COMMONS

on spills that people can access. As a company, we lead an industry open data collaboration called Stream. We chair it and it has put about 80 different datasets into the public domain. We would say we have a good record of being open and transparent.

The first comment you made relates to the draft notice that Ofwat issued last August in its investigation. We are not able to speak in this Committee because Ofwat requires us to be confidential, but those conversations are going on, and we would not recognise that characterisation. Those issues have moved over time and are not concluded yet.

With regard to the second, we have two customers who came to us with a very big list of things they wanted us to put into the public domain; some that we do put in the public domain—maybe not in quite the same way—some that we do not collect, and some that we do collect. It was quite an onerous package. We had a conversation with the Information Commissioner about what the right response would be. The Information Commissioner considered some of those requests vexatious, but ultimately, he said some were not unreasonable.

The one I think you are referring to—that in the end we were asked to do—is one where we are effectively inferring what might be happening in the network because the customer is asking us for information that we would not routinely collect, either for our operations or for a regulator. We could calculate what might be happening but it is not necessarily accurate. It is probably not unreasonable; the customer was particularly interested in that information, so we provide it, but it is inferred as opposed to being measured.

Q485 **Chair:** I am sorry, I am really struggling to follow that.

Heidi Mottram: Sorry, I can try again.

Q486 **Chair:** I understand that that release of information came from the first-tier tribunal. Is that correct?

Heidi Mottram: It came from?

Chair: The first-tier tribunal, not the Information Commissioner.

Heidi Mottram: That came from the Information Commissioner.

Q487 **Chair:** Well, wherever it came from, the data released in June 2024—as we have been told; tell us if we are wrong here—was that the Whitburn pumping station discharged 1 million tonnes of raw sewage in 2023. Is that correct?

Heidi Mottram: That is inferred. This was the debate that was going on. With the Whitburn system, we provide a lot of regulatory—

Q488 **Chair:** When you say it is inferred, is that another way of saying you do not actually know?



HOUSE OF COMMONS

Heidi Mottram: We managed the system in a different way—using different information—from how that customer specifically wanted.

Q489 **Chair:** How much discharge did you think there was on the basis of the figures you hold?

Heidi Mottram: Not as high as that.

Q490 **Chair:** How much?

Heidi Mottram: Would it be okay if I came back to you with the exact number? It is not as high as that.

Q491 **Chair:** Are we talking a tolerance of 5%, 10%, 50%?

Heidi Mottram: I do not want to guess because I do not think that would be fair on the Committee. It is not 90/10, but there is a difference.

Q492 **Chair:** So there is a difference. How easy would it be for a customer to find the information that you think is the accurate figure using the interactive maps and the rest of it that you have spoken about?

Heidi Mottram: The currency the country is using—if you like, the data the country is using—is typically spill numbers and spill duration, and that is on those maps. For any storm overflow on any day, customers can see when it last spilled and how long it spilled for, and we also publish that data in its entirety in a big file. Any customer can look at that any time.

What was going on in this debate was trying to decide how much water might have gone out because of course sometimes it will be lower or higher depending on the rainfall. We are regulated on the number of spills and their duration. That is the regulatory information that we are typically working with, and the whole country is trying to bring the number of spills down with the Storm Overflows Discharge Reduction Plan that we are now all working to.

Q493 **Chair:** In terms of what you are describing, though, you say you have had conversations with the Information Commissioner. I am not hearing you talking about conversations with your customers.

Heidi Mottram: We talk with the same customer as well; we have met with him many times, along with the local MP. He is very active in his interests, as of course he has every right to be. We meet with the customer on quite a number of occasions.

Q494 **Chair:** We do not really have time to dwell on this, but Ellie, did you want to come in at this point?

Ellie Chowns: I am just conscious of time, and we have moved on.

Chair: We have dealt with it. In that case, we will move on to look at questions of ownership, returns to investors and executive pay. Andrew, can you lead the questioning, please?

Q495 **Andrew Pakes:** I will try to be brief and mindful of time. I hope you can



HOUSE OF COMMONS

understand why we are asking these questions around environmental performance and financial performance. These are big issues for our constituents and the public, rightly so, and it does sometimes feel like these discussions are a bit like play your cards right: higher or lower. We have lots of imprecise information, and it frustrates the public as much as us that it is very hard to get precise answers.

I am going to read a couple of statements out and just see how you respond to them. In 2022, Northumbrian paid out £105 million in dividends to its overseas owners while spilling a not insignificant amount of raw sewage into the sea. In 2023, Northumbrian paid out £159 million in shareholder dividends despite a £50 million pre-tax loss. Can you tell us how you respond to that and how dividends are justified given this environmental performance?

Heidi Mottram: Again, if I could take it in two separate parts. I would encourage you to look at the dividend profile across the five years because there are also years in which we did not pay a dividend, so we are looking at things in the round and over the long term. We have a very transparent and published dividend policy, which anybody can look at at any moment in time, and it looks at how we make those decisions about what is appropriate and against the performance we are delivering to our customers at the same time. Across the five years, you would see we have a dividend yield of about 5.3%, which is more or less in line with Ofwat expectations. This is a regulated sector with regulated returns, and we are broadly in that scope with some ups and downs over time.

When we are publishing those actual numbers—all very transparent; you can find them on our website—you will also see the dialogue that sits behind that about why we think our performance is improving. Our customers will tell us that the environment is important, but that customer service is also important, as is clean, clear drinking water. The goals and targets we have set our decisions against are wider, and we look at that performance in the round.

You might come on to pay, and you may have seen recently that Ofwat has not typically challenged that we are following our dividend policy correctly in any of that period of time, or that we are not making reasonable decisions with regards to pay, but that we are setting stretching targets in line with customer expectations and matching up to them. There are ups and downs, but it is about 5.3% over the period of time, which is in line with regulatory expectations.

Q496 **Andrew Pakes:** So it is long-term regulated as opposed to in-year performance? Your answer in a slightly less gameshow, more “Yes, Minister,” way of answering was that it is regulated, therefore that does not matter.

Heidi Mottram: No.

Q497 **Andrew Pakes:** At what point would your environmental performance matter in terms of the dividends you are paying?



Andrew Beaver: The dividend policy links the dividend paid to service performance delivered for customers directly. We cannot pay a dividend. It would be very difficult to pay a dividend in a circumstance where we were overspending materially against the allowance, getting big service performance penalties in the round, and having to raise finance at higher rates than had been allowed in the determination. A much lower value would certainly be allowed under the policy.

The reason we have been able to pay a dividend at that level is that service performance to customers has been met. For example, in the service performance area, we look at the ODI, Ofwat's Outcome Delivery Incentive position; that is meant to reflect customer preferences in the valuation for those, which then feeds through to the dividend, so there is a direct link. If we had really bad service performance years in the round, that would come off the dividend.

Q498 **Andrew Pakes:** How does that relate then? What is the direct link in that answer to hundreds of thousands of litres of raw sewage being pumped out? Is the direct link that the performance measure is so low that it does not matter, or is it that the direct link is not direct?

Andrew Beaver: The direct link is we look at service performance in the round. To Heidi's point, that includes environmental measures as well as other measures, such as customer service and so on.

Q499 **Andrew Pakes:** Let us be really specific. We have all talked about really significant sums of raw sewage. We can say that is part of a basket of environmental measures. Does the amount of raw sewage that gets pumped out by yourselves as a company have a direct link to how you pay dividends?

Andrew Beaver: I would probably say no.

Q500 **Andrew Pakes:** Do you understand why people are really angry in this country at big profitable companies such as yourselves taking out huge dividends that can then sit here and just say no to something of national significance?

Andrew Beaver: As I have said, the dividend is directly linked to all the other service performance metrics that customers care about, which were set in 2020, the last time prices were set. To Heidi's earlier point, we are doing everything we can to try to improve performance in that area, including a lot of additional investment funded by shareholders beyond what was allowed. That does come off the dividend.

Q501 **Andrew Pakes:** Heidi, as chief executive, you have just heard a colleague on behalf of your company say it does not matter; it is not taken into account. How comfortable are you at looking us and the public in our eyes and saying, "In our model, it does not matter how much sewage we pump out; that is an irrelevant factor to the amount of dividends we pay out?"



Heidi Mottram: What we are trying to say to you is that we have been taking all the services we provide into account rather than one particular thing. Although I understand the strength of feeling around spills, if we ask customers what their most important thing is, they typically tell us it is the reliable provision of clean, clear drinking water and customer service, so there are other things. Rightly or wrongly, we have been taking everything into account rather than, say, one criterion, everything goes. We think it is important to listen to all customers' views and take them into account in the round. Obviously, over that time, the issue of sewage spills has become more prevalent.

Prior to that, our bigger focus on this pressure on the sewage system was whether properties were flooded, and we have reduced that number by 70% in this corresponding time, which is a really positive thing. This is a system under pressure because of the rain. First, we went to try to fix it in properties and then started to look at when it comes into rivers as well, which is also important. We are on a journey with this, which is why we have more investment coming in the next five years to work more on that, and why our shareholders said to us, "Get going on that early, on our expense," and that is what we are doing.

I would like the Committee to understand that we worked very hard to reduce flooding in properties. We then observed that that pressure was still going on and water was coming out elsewhere. We started working on that early. So we are very much on this journey and working very hard to get ahead of the game because we do recognise the issue. We also recognise that other service provisions are important to customers, and it is important to listen to those and not just to say it is all about one thing; it is about all these things that we have to do. I do not want to look at one and forget others because that would not be right, and you would not want us to do that; we look at them all.

Q502 **Andrew Pakes:** I do think complex organisations like yourselves can look at more than one metric at one time, so let me rephrase. Personally, as chief executive, from this day onward, now that you have said it has been recognised, do you believe the amount of sewage that you put out should be factored into dividends and your executive pay?

Heidi Mottram: Because of our dividend policy going forward, that is absolutely how it will play.

Q503 **Andrew Pakes:** So why was it not included to this point?

Heidi Mottram: Because we are transitioning from looking at a broader set of criteria to having that element in that criterion as well because of the way the public feel about it; that is absolutely right. I still do not think it was wrong to have other service criteria in that decision-making process as well because if we do not keep all those things in balance, something else will not go right, and nobody wants that, right? We can multitask but we are giving greater weight now to that than we did previously because of the direction of travel we have gone in. As I said,



HOUSE OF COMMONS

going back five, six, seven years, we were definitely focused on property protection first, then storm overflows, and I would still argue that property protection is really important.

Q504 Andrew Pakes: In November 2024, it was reported that Northumbrian Water executives received £315,000 in bonuses despite sitting on Ofwat's elevated concern watch list. Is that right?

Heidi Mottram: The Chair asked us the question about elevated concern earlier and we explained how we believe the level at which we keep our gearing is sustainable for an infrastructure company, so we have probably touched on that. Regarding our bonuses, we set very stretching targets. As I said right at the beginning, we are aiming to be industry-leading. On more than one occasion, Ofwat has commended us that our targets are stretching because we do not only set them at the regulatory level; we set them higher to push our people to be industry leading, and we are all moving in that direction and doing well together as a team. Our bonuses are linked to performing either at a regulatory level or better.

Q505 Andrew Pakes: But not linked to the amount of sewage you are pumping out?

Heidi Mottram: I should remind the Committee that this is managed by an independent committee to the executive; we do not manage this process. You will find that very common in many companies. We have an independent remuneration committee that has chosen the broad suite of indicators that it believes is indicative of what customers want the company to do. You can see this; as I said, it is incredibly transparent. Ofwat has looked at them and said, "Yes, they're aligned with what we believe customers want, they're a balanced scorecard, and the targets are stretching." We have to then meet them.

Q506 Andrew Pakes: Moving aside from the independent committee, you are personally comfortable with having criteria for a bonus that will be quite literally more than most people in this country earn in a year. You are comfortable with that not having any performance-related element around the amount of sewage you are pumping out.

Heidi Mottram: I have explained the process we have gone through. In that bonus, more weight would be given to internal sewer flooding because we believed that was the most important thing for us to focus on first. I think the remuneration committee—I am not in control of this and its making of these decisions—will transition to now going to spills because we have managed a 70% reduction.

Q507 Andrew Pakes: That is an answer to a different question. The question I asked was whether you, as a senior British business leader, are comfortable receiving a bonus payment based on criteria that do not reflect the environmental performance of sewage, which is one of the major products and anger points. You are personally, as an individual, comfortable with that not being a measure of your success in your



bonus?

Heidi Mottram: But it is a measure because the environmental elements in our bonus take into account the performance of the sewer network, particularly in relation to the impact on properties. We have to manage the network such that we do not have impact on properties, which is right. We also have a boundary for the environmental criteria that unless we get three stars in the EPA assessment, which covers a whole range of environmental factors, we cannot access that either. So we are focused on the management of the sewer network—particularly related to properties and I think the remuneration committee—because we have managed to reduce that significantly, which we should all say is a really good thing. People are not suffering impacts into their homes, which nobody would want. We are now transitioning that to spills.

Q508 **Andrew Pakes:** With respect, the frustration is that you describe it like you are being successful on this, but you are taking record levels out in bonuses. In 2022, your total package went up 11%, which I imagine is more than what your staff got in a pay deal, unless I am wrong. I imagine not many people were getting 11% at that point. Meanwhile, there are record levels of pollution, and your answer is that the system is working fine.

Heidi Mottram: No, I am trying to explain why the system has been devised the way it has by the remuneration committee and there is some merit in that. The starting point is what customers say is important to them, and we have a lot of research about that. Is the executive group charged at meeting stretching targets for all those things? You can see this all written down and see Ofwat agrees with the list we have and the fact that we set stretching targets. There are things to do with the sewer network in there, albeit it was focused on customers' properties. The reason it has been going up is we have been getting better at that. I only get the pay award that the staff get, but if we improve, the performance bonus could potentially make that look a bit bigger.

Q509 **Andrew Pakes:** The total package was 11%, including the bonus increase.

Heidi Mottram: Yes, because the performance bonus is increasing, but my base pay only increases by the same as the employees' base pay.

Chair: I fear we have probably got as much out of this as we are going to today, although clearly some questions remain. Heidi, Andrew, can I thank you for your attendance this morning? As you know, this is part of an ongoing inquiry. We will return to it with some of your colleagues immediately, in fact, but in the meantime, I thank you for your attendance and participation today.

Examination of witnesses

Witnesses: Peter Perry and Samantha James.



HOUSE OF COMMONS

Q510 **Chair:** Good morning, and apologies for having kept you; it is just sometimes how it works. The previous panel required a little more interrogation. Welcome to the Committee, Peter and Samantha. Just for the benefit of those who are following our proceedings and for our own official record, can I ask you to introduce yourselves and explain your role in Welsh Water?

Samantha James: Good morning, everybody. I am the interim chief financial officer for Welsh Water.

Peter Perry: Good morning. I am the chief executive officer at Dŵr Cymru, Welsh Water.

Q511 **Chair:** As you know, we have been hearing evidence from a number of other companies in your sector. Can I ask you—as I have asked others—to give us a thumbnail of how you see your business operating? What is important to you? Is it financial performance, environmental performance, transparency or customer engagement? What is the culture that you seek to foster within Welsh Water in the execution of your duties?

Peter Perry: Thanks for the opportunity to address you today. From the board through the whole organisation, our approach is very much one of a public service ethos. If I had our water treatment colleagues alongside me, it would be one of public health, and if I had our colleagues from our environmental business—our wastewater business—it would be very much around protecting the great environment we have in our operating area.

In terms of openness and transparency—Glas model—the not-for-shareholder model has emphasised that from day one. A good example to bring this to life is the issues we had with leakage reporting. That was something we found ourselves and immediately went to our regulators with. We have done this on numerous occasions, and we try to make sure that that openness and transparency runs from the board right through the whole organisation.

In terms of our people, we have just had our 2024 employee engagement survey, which scored 75%, and I pay tribute to our people because they deliver service for us on a day-to-day basis. The whole emphasis is on openness and transparency. We knew we were off the pace, and some of our performance is not where it should be, but it is one of always remembering, despite winds and weathers—we see a fair bit of that in our operating area on the western side of the UK—it is a public service ethos.

Of course we run the business as a commercial entity; we have to do that and behave in a responsible way but overarching that is one of service and trust. Our vision for the company is to earn the trust of our customers every day. Although some of our measures are not where they should be, we were pleased that in the Consumer Council for Water



HOUSE OF COMMONS

survey for trust of companies, we came out first in 2024. We have always been in positions one, two or three. In the Ofwat customer satisfaction measure, we have tended to be in the top four companies. Again, that ethos of the business runs through the whole organisation.

Chair: I am going to look first at the company's environmental performance. Henry, can I ask you to lead the questioning here?

Q512 **Henry Tufnell:** You have touched on the environmental performance being one of your key metrics and of real importance to Welsh Water as a company. It has been reported that there has been an increasing amount of pollution incidents over the last four years. In the last reporting year, there were seven serious pollution incidents. You were rated by NRW with two out of four stars, which said it was one of the worst performances to date. What is going wrong and why is there such a difference between what you just set out there and the reality on the ground?

Peter Perry: The first thing I would say is we are absolutely disappointed with our environmental performance. We are not comfortable at all where we are and are doing something about it. In terms of the drop, we were four-star back in 2020, and we dropped to three-star and then two. The way the environmental performance assessment is pulled together is it allows a certain number of pollution incidents. If you look at the serious incidents in the last couple of years—category 1 and 2—half are actually linked to a number of strategic assets that we are due to replace in the new AMP period, which starts in April.

Where we have had serious incidents, we have a very clear investment plan. To bring this to life, about two or three of the seven occurred on something we call the southeastern coastal main, which is a pumping sewer from Chepstow to Newport. That runs through a SSSI; I am sure you understand what that is. If we get a leak on that sewer, it does not have to cause any environmental harm for it to be categorised as a serious incident. Thankfully, we have not had any fish kill incidents on that particular asset. So that is the one aspect of it, and we have investment to tackle that to pull pollutions back.

The other element is the things we are doing operationally and we are now in the process of developing. We have great monitor coverage; just under 100% of our overflows are monitored. We are putting artificial intelligence into our wastewater network through something called StormHarvester, which is being deployed at a significant rate at the moment so we can actually get ahead of blockages and pollution incidents. I am not going to miss the opportunity, if I may, to ask parliamentarians to do all you can to ban plastic wet wipes because somewhere in the order of around 80% of our first-time pollutions on the sewerage network are linked to wet wipes.

We are uncomfortable with where our performance is, but we have a clear plan in respect of category 1 and 2 pollution incidents, much of which is linked to future investment. In general, in terms of less serious



pollution incidents, we are deploying operational strategies to get on top of that.

Q513 Henry Tufnell: I would like to just touch upon the sewer overflows and the spills per storm overflow. It gets quite complicated because the measurements that NRW provide are different in respect of the industry, so the figures are difficult to compare. You can correct me if these figures are wrong: I have 53.5 spills per storm overflow compared with 33.1, which is the sector average in England. I hate doing these comparisons with England, but it helps for the present purposes. The average spill duration was 8.6 hours but the average in England was 7.8, and then if you look at all storm overflows in Wales—I appreciate there is a difference in respect to that—it is 19%, so 382 spilled between 100 and 299 times, and less than 1% spilled more than 300 times. If you then compare that to the average in respect of the industry, it is 7.4% over 100 times. There is a quite a big discrepancy there, and I was wondering whether you could explain that to the Committee.

Peter Perry: This is something we are disappointed and not comfortable with, but I have to set out that the approach to storm overflows in Wales is very different from England, and it is different in terms of improvement. You will hopefully know that river quality in Wales is better than in England if you measure it under the European Union urban wastewater treatment directive. The focus we have in Wales—through Government and our regulator in Natural Resources Wales—is to focus on harm reduction, not spill numbers.

If I try to explain our infrastructure, we have 825 wastewater treatment or sewage works. Over 750 of those actually serve communities of less than 1,000 population because of the sparsity of the population. When you talk of overflows in Wales, these are very often from less than 4 in or 100 mm diameter pipes. To compare it, we have more CSOs per kilometre of sewer than probably any other water company or utility in England and Wales.

Tackling CSOs in Wales is a pretty challenging one for us to explain to our customers and more generally, but we are tackling harm because if we went for a spill number reduction per se, we would not see the improvement in ecological harm in rivers. As I say, we are in a very different comparative space to what is happening in England. Our AMP8 investment is £1 billion, the biggest CSO programme we have ever seen, and those improvements will be made to improve river quality and not reduce spills.

If there was a government policy in Wales and a regulated policy to go after spill reduction, of course we would follow that, but our AMP8 plan is focused on river quality improvement, and because we have the advantage of rivers in Wales being of higher quality, we want to continue that. That has been the thoughtful process led by Welsh Government that we have followed with our investment. I absolutely get that it is difficult



to try to explain that our focus is on quality and not on spills. Very often spills occur when rivers are in full spate.

There are two other things to mention about Wales and CSOs. First, it rains a lot, and I am sure you will have experienced that. Secondly, we have about a 60% combined drainage system in Wales, which is one of the highest levels where you have fell water and surface water connected. Hopefully that gives you the background to why the numbers are very different.

Q514 Henry Tufnell: The problem I am struggling to understand is that you are regulated by Ofwat, and you asked Ofwat for a bespoke harm reduction. Every other water company that has come in here is also regulated by Ofwat. Ofwat did not allow you to have that because you did not provide compelling evidence as to how that would lead to additional benefits for customers and the environment beyond the common spills performance commitment. So there is a sort of disconnect between what you are setting out in respect of saying, “We are slightly different because we sit within Wales. We have a different structure there,” but the reality is you are regulated by Ofwat, which is asking you to reduce your spills and you seem to not be providing it with a coherent strategy about how to do that.

Peter Perry: We agreed a spills number with Ofwat, which is 30 by 2030. Last year, we were at 47, so we have a challenging reduction. We also have to look at reducing spills through operational means through our maintenance and that is an area that we need to improve. Overarchingly, we have a Welsh Government policy on harm reduction, but we absolutely recognise that Ofwat is right in saying that we need a spills reduction target. Moving from 47 currently to 30—bearing in mind those other factors I have mentioned about the infrastructure, the weather and the inherited infrastructure—is quite a challenging number of reductions over the next five years.

Q515 Henry Tufnell: I would like to go into some specific instances. The Cleddau Project, which operates in my constituency in Pembrokeshire, demonstrated that Picton in Haverfordwest is running at 80% capacity. That is 56,000 cubic metres—17 tankers a day—that should be going to a sewage treatment plant. Instead, it is going to a special conservation area in the Cleddau. Would you like to apologise to the residents of Haverfordwest for this happening?

Peter Perry: Absolutely, and it will not be the first time we have apologised either. We have done that locally with river groups in that part of Pembrokeshire. Again, coming back to the culture of the organisation, Picton—a sewerage pumping station—was an issue that we discovered. We self-reported it to Natural Resources Wales, agreed a programme and a timescale to get it fixed, and we did it just ahead of the programme. The whole idea of the sewerage network is that we are increasing the amount of monitoring we have on the system, and this is not just the case for Dŵr Cymru.



HOUSE OF COMMONS

Traditionally, there has not been mass coverage of our treatment works and pumping stations. We are now working through that to get the best level of monitoring we can, and wherever we discover something proactively, we do not conceal it; we openly report it, which is what we did at Picton. But again, I apologise; we are sorry for what happened in that instance. It took us a while to fix it because the equipment we needed was specialist; we had to import it. We did not fix that as quickly as we would have liked, and I would re-emphasise the fact that we self-reported and that is the way we will always conduct ourselves in these circumstances.

Q516 **Henry Tufnell:** I appreciate you saying it took you a while, but to be clear, it took you from July '22 to February '24. What steps are you taking to restore the environmental damage that has taken place?

Peter Perry: That pumping station is now working within its allowed permits and we have had no problems since we have fixed it. On the Cleddau more generally, we are investing £60 million in the next investment period between 2025 and 2030. The most significant pollution issue on the Cleddau is nutrient pollution, which you probably know. By 2030, we will have reduced 90% of our phosphate load on the Cleddau, as we are going to do on all the special conservation rivers across Wales.

Q517 **Henry Tufnell:** Are you confident that you are not going to see an incident like this happen again?

Peter Perry: We have improved our monitoring at Picton; we have dealt with that. If I go through the other main assets in that area, we have done the same. We are now putting much more emphasis on ensuring we are delivering what we call full pass forward flow. That is now a weekly review for the organisation, so absolutely yes.

Q518 **Henry Tufnell:** You are confident this kind of incident will not happen again?

Peter Perry: With 36,000 km of sewers and 800 sewage works, there will always be an emergency of some form. But in terms of the things we can do proactively, I do not think we have ever been in such a continuous improvement place as we are now. We will do all we can, barring an emergency that we cannot foresee.

Q519 **Henry Tufnell:** I am conscious of time, but there is reporting from the Wye and I want to detail some other specific instances. In the Wye in 2023, it was estimated that 23% of phosphorus in the Wye came from your own wastewater treatment works. To give you credit where credit is due, this is reporting from your organisation. In October '23, you admitted to illegally spilling untreated sewage at dozens of treatment plants for several years, and there has been extensive work done by Windrush Against Sewage Pollution. Do you think this is a pattern in terms of these events?



Peter Perry: If I can split those two issues, certainly on the River Wye—an iconic river in our operating area—in the last five years, we have invested over £80 million to reduce our phosphate load. In terms of the partnership approach we try to operate within the company with other sectors, we have funded, free of charge, pollution source modelling on all the special conservation rivers in Wales, including the Wye. We have shared that, and it was independently verified, so this is not us saying these figures are produced by us.

On the Wye, we have brought forward investment that should have started this year, but we delivered last year—a year ahead of schedule—£80 million worth in total. If you look at the impact of pollution on the Wye, it comes from nutrient pollution, not storm overflows. Again, I am going to go back to my original answer on storm overflows and say to you that we are very conscious that we have a high number of CSO spills when you compare it to England, but again I come back to that policy of tackling pollution in agreement with our Government and our regulators.

Q520 **Henry Tufnell:** I have talked about The Cleddau Project and mentioned the Windrush Against Sewage Pollution campaign and the work they have done. I was wondering whether you want to take the opportunity to commend them for their extensive continuing work in order to improve the water quality right across Wales.

Peter Perry: Absolutely. To give you some idea of that openness that I touched on at the beginning, we are working with over 30 citizen science groups. The Windrush Against Sewage Pollution group is credible; it has certainly produced information. It highlighted the issues we had down at Cardigan back in 2023, and we have no truck with the information it put forward. We welcomed that information because if it allows us to improve what we are doing, we are open to using credible data to make things better.

Q521 **Henry Tufnell:** I have two final questions. The first is about transparency. You said at the beginning to the Chair that transparency is incredibly important, but very recently in December '24, it was reported that you were facing a large fine for not properly monitoring discharges from sewage and water treatment works. NRW—Natural Resources Wales—states you have committed the offence at 300 sites across Wales, which would lead to significant financial penalties. Could you comment on that?

Peter Perry: This is something we regret and are concerned about. To give some perspective on this, it goes back to covid. We undertake something called operator self-monitoring, where we monitor our sewage works and pass those results on to NRW. In 2020-21 with the impact of covid, we missed about 1% to 2% of the samples that we should have taken, and that is what that relates to. Since then, within six months of knowing we had those problems, we recruited more people, and we now have the operator self-monitoring right up to literally 100% coverage. So



we put our hands up; it was a mistake we made that has now been remedied. People will recall it was at a very difficult time during covid.

Q522 Henry Tufnell: You have touched on customer satisfaction and how important that is. I appreciate that you are comparing it with your competitors at a positive level, but the point that is quite concerning is the score is declining. Do you think that is in relation to your environmental performance and that it is affecting your customers' satisfaction?

Peter Perry: Potentially. There is much more focus these days on the environment, which is right and we welcome it. As we try to operate as transparently and openly as we can, there is much more information in the public domain, and that probably is the case. There will be some specifics; there will be some other areas of dissatisfaction like the supply interruptions, or where people receive poor service. I do not think it is entirely down to the environment, but the environment will play a part in that, I agree.

Q523 Henry Tufnell: There is one bit that I missed out in my questioning, so if you will forgive me. The Cardigan plant spill that we talked about, according to Windrush Against Sewage Pollution, the number of days is something like 1,146 days from the start of 2018 to 2023. If you could just cover this off, why was that allowed to go on for so long?

Peter Perry: I cannot speak on behalf of Natural Resources Wales, but I know through dialogue with their senior team, we would agree that if we were faced with something like Cardigan again, we would have tried to condense that timescale. We applied the regulatory process at the time because what we found at Cardigan, which is a coastal town—Cardigan Bay in west Wales—is that at the treatment works we were having saline intrusion from the seawater into the treatment works. That was affecting the treatment process. We have a membrane plant there which relies on bacteria, and the saline water getting back into the treatment works was killing the bacteria so we were not getting the treatment, and we were spilling more.

The regulatory process determines that the first thing you do is to try to go through a process of fixing that problem. So the first thing we did was to try to stop the saline intrusion coming in; we tried to seal sewers in and around Cardigan. That did not work, so the next thing we did was try to fix the treatment process by applying increased levels of maintenance to the plant. That worked for a short while, but ultimately we have to rebuild that plant, and I am glad to say that in December we were granted planning permission and are now investing £20 million to fully upgrade Cardigan sewage works.

When you look in from the outside, the time delay seems excessive, but what we did during that process is work through the regulatory process to try to fix the problem. You have to do that from an economic basis—to prove that what you are doing is the most cost-effective way of trying to



fix it. We did that and we followed process, but it did not work so we have had to rebuild the works. That is what has taken the time.

Q524 **Henry Tufnell:** Why did you not do that before it took place? Why was there not a more proactive approach?

Peter Perry: There was. All the way through that time we were trying to—

Q525 **Henry Tufnell:** But before 2018—before the spills took place—why was there not a more proactive approach in order to prevent that from happening in the first place?

Peter Perry: Again, we self-reported this when we found it, and then we agreed a timescale with Natural Resources Wales to fix it; that is how it works. This is an engineering construction job that took time. So, unless I am misinterpreting what you are saying—

Henry Tufnell: No, that is fine. Thank you for indulging me, Chair.

Chair: That is what I am here to do. Ellie, welcome to the Committee, guesting today from the Environmental Audit Committee.

Q526 **Ellie Chowns:** Thank you very much, Alistair. It is good to be here. I should declare an interest as vice-chair of the All-Party Parliamentary Group on Water Pollution. We are segueing quite nicely into my questions, which are around asset health resilience, impacts on customers, investment and so forth. Welsh Water is meeting some targets in relation to assets—for example on asset outages—but is not meeting targets relating to mains repairs, and customers are experiencing some of the worst rates of supply interruptions in the whole sector. Mr Perry, what explains this variability in performance?

Peter Perry: Again, I apologise to our customers who suffer supply interruptions because you are absolutely right: we are at the wrong end of the league table, and we are doing all we can to try to turn that around.

One of the issues that heavily influences our supply interruptions are assets in west Wales, and in part in the north, which have essentially got to a place where we have seen them deteriorate in the last few years. We now have an investment plan from April this year to 2030 to address them. If you combine west Wales, in terms of our total customer minutes lost, they account for 50% of our mains bursts and nearly 50% of our unplanned interruptions on assets that need replacing. We have done quite a bit down there to control pressure because we have high pressures in Wales due to the topography, but this is broadly an asset replacement issue. The water network has historically had better monitoring: clever things like pressure management, the idea that we have data loggers that tell us when we have a suspected leak, and we will continue to deploy those sorts of issues, but that is it by and large.



HOUSE OF COMMONS

More latterly in January this year, we had a major supply interruption in north Wales at our Bryn Cowlyd treatment works, which affected just short of 80,000 properties. Again, I apologise to our customers for that. It was a catastrophic burst on a pumping main. We have carried out a very thorough investigation and the pipeline burst in an emergency situation. Through monitoring, we picked up a change in operating pressures and flows, but when you are dealing with 170 metres head of pressure on a pumping main, that main burst instantaneously. With hindsight, you could ask why we did not have two mains and why we were reliant on one. The main had no burst history, so with the available funding we have, we apply that in terms of supply interruptions to places where we can see deterioration and risk, and we did not see that at Bryn Cowlyd.

But I entirely accept your point that we are off the pace in terms of supply interruptions. We are expending every effort, whether it is going to be investment or technological use. In the worst served areas, we also have repair teams round the clock with water tankers waiting for burst mains, essentially. We are getting to them faster, but there is much more for us to do in this space, and we are not in a good position; I fully accept that.

Q527 **Ellie Chowns:** I wanted to ask about the Conwy incident because obviously it was disastrous for the households and businesses affected. You were saying this was not one that you were expecting to burst, which in a way is even more worrying because you are presumably putting contingencies in places for things where you know the infrastructure is a little flaky.

Peter Perry: Yes.

Q528 **Ellie Chowns:** But if you can get such catastrophic incidents as this, that perhaps widens the scope of what you need to be preparing for. On the question of responding to unexpected catastrophic incidents like that, what lessons have you learned in terms of response?

Peter Perry: There is a range of lessons we have learned. From the Bryn Cowlyd incident in Conwy, we have now reassessed all our risk assessments of what we call single pipelines in those circumstances, so where they cross rivers, railways or major roads. What happened with Conwy was the pipe failed in the bed of the river. If we were building that pipeline today—not back in the early '90s—we would never have constructed it. Our asset standards have improved from what they were at the time that pipeline was in place.

We are now particularly assessing the ones where the embankment has moved due to river flows that have changed and are going through a process of re-evaluating similar circumstances, and we will reassess our prioritisation. We have around £10 million of investment planned for those strategic crossings in the next period. We will now apply the lessons learned from Bryn Cowlyd, but that was very much an asset build



issue as the specification at the time was nowhere near what we would build today, and there were probably some workmanship issues as well in terms of the way that pipeline was constructed.

Q529 Ellie Chowns: I want to come back to the capital investment point in a minute, but just returning to the issue of the response to the incident, I understand there were some households without access to drinking water for several days. You have offered some compensation of £30 per household affected per 12 hours and £75 for businesses. Do you consider that is appropriate? What lessons have you learned in terms of speed of response and ensuring that people are able to access clean water as quickly as possible in an incident like this?

Peter Perry: Again, I absolutely apologise to our customers. To have lost water for a number of days is something that should not happen and we very much regret that. In terms of compensation for domestic customers, for those worst affected, the level of compensation at £30 per 12 hours will actually mean that their water charges for 2023-24 will be written off, so we will more than compensate for their whole year's charges. For businesses, £75 is the guaranteed standard. I will draw Sam in on this in a second. What we have now done is worked through all the business claims and we are actually paying their loss of profit, so the £75 was purely a guaranteed standard. The actual compensation was much more significant.

Samantha James: You have covered it perfectly well, Pete. As Pete explained, we have a process for businesses that when they can demonstrate loss of earnings, we will compensate them for that. We have had that with other incidents as well.

Q530 Ellie Chowns: Moving on to drinking water discolouration, Welsh Water has twice the level of the industry average in terms of complaints about discolouration. How are you tackling the problems that cause these complaints?

Peter Perry: I will come on to the solution, but it is worth having this very brief background on our infrastructure. We have about 28,000 km of water mains and broadly around 10,000 of those are actually cast iron historically, and if you combine that with our soft water, that is where the problem comes from. In the AMP8 period from April 2025 to March 2030, we are investing significantly in the root cause of that discolouration. There is around £20 million to £25 million going into water treatment works where we have naturally-occurring manganese that gets into the mains and causes discolouration. We are looking to get to just over one by 2030 from the two we are currently at, and we have investment based on either root-cause treatment, removal at treatment or mains replacement. We will be replacing over 600 km of mains in the next five years. In part, that will be targeted at water quality improvements to reduce discolouration, but going back to your supply interruption point, we will try to maximise the benefit of that investment to get the best return we can on both those failing areas.



HOUSE OF COMMONS

Q531 **Ellie Chowns:** What is your replacement rate currently? What are you expecting it to be in five years' time?

Peter Perry: It is broadly just over 1% and it will move to just over 3%.

Q532 **Ellie Chowns:** That is significant, yet I understand you are underspending your allowances for enhancement expenditure currently.

Peter Perry: Yes, and there are reasons for that. I will draw Samantha in in a second, but just to set the scene, historically, we have spent up and over. In terms of our base maintenance, we have actually spent over. On enhancement, we are short of where we should be in AMP7, but we will be making that up. Let me hand over to Samantha.

Samantha James: We are overspending on our total allowances, but a lot of that is our base maintenance spend—for example, the covid pandemic and the additional costs we had there, such as increased costs of power, and there have been the costs of addressing leakage, so we are over on our base maintenance. As you say, we are short on our enhancements, so that is what we are investing in. Predominantly, we are some way short in the water element of our investment plan. Again, we had some impact of covid where programmes were delayed, and we have experienced other delays that are not related to covid. Those schemes will move into the next AMP period. Most of them are on track to be completed by the end of the first year so they will be delivered, but we recognise that we have been underspending in this AMP.

Q533 **Ellie Chowns:** Is there a bit of a chicken-and-egg problem? If you are not investing in the renewal of the infrastructure, you are going to have to spend more on ongoing maintenance, so why have you allowed yourselves to get into that situation?

Samantha James: I would not say it is a question of allowing. When you have a significant investment programme—we are spending over £1 million a day investing in our assets—things will happen where you have to make changes to schemes, and we have experienced that. We also recognise that in the first year of the AMP, we were significantly impacted by the covid lockdown restrictions with a number of our schemes.

Peter Perry: I will just add that one of the things that happens when we evaluate our investment—whether it is in mains or treatment works—is we want to make sure we are getting the best value. We will make the investment; it is not as if we will not spend the money, but a couple of the schemes on enhancement that we had to delay by only a year was because the desktop-type analysis we did when we put the original investment plan in place has been improved. We are now changing that investment. So the delays are not to avoid the spend, but to make sure the investment gives us the best return.

Q534 **Ellie Chowns:** Briefly, one final question. Recognising the impact of climate change on the environment in which you work, and certainly I see it face-up in my constituency of North Herefordshire all the time in terms



of flood resilience, can you talk a bit about how you are taking into account the increasing frequency and severity of extreme weather incidents, and how that is affecting your choices about investment in infrastructure, in particular, managing flooding?

Peter Perry: First, for a couple of investment periods, we have assessed all our assets in terms of their criticality, and that is what we are focusing on. We are working through a programme that targets areas which, for example, if they were flooded would mean mass outages of water or an environmental impact, and that is well over £150 million to £200 million in the next period to remove that flood risk. But we are finding that we cannot engineer our way out of this; the scale of some of these challenges is so big.

A good example: you will remember Storm Callum, which hit about two or three years ago. It hit the mid and west Wales area the worst. During that period, around 50 wastewater treatment works were completely flooded. We will never harden them. One of our strategies is fixing them after they have flooded.

What do we do? A good example is the treatment works in your constituency at Whitbourne. We carry critical spares because we know we cannot build flood defences high enough to stop the Teme flooding that site. The solutions are a combination of hardening—where it is appropriate—by flood defences and storage of critical space so we can fix plants quickly. That is probably going to be one of our main climate change responses because we will not be able to build flood defences big enough to stop some of these assets getting out of operation.

Chair: We are going to move back to water security.

Q535 **Henry Tufnell:** Let us build on this point of resilience and particularly around the drought in 2022. About 3% of your infrastructure captures the rainfall—correct me if I am wrong. What did you learn about the resilience of Welsh Water in 2022 with that drought, and how has it affected your water security strategy?

Peter Perry: The drought in 2022 was one of the worst droughts in living memory. We had around 60,000 properties, predominantly in Pembrokeshire, that were affected by our Llys-y-frân reservoir. Just to reassure you, this was unlikely to have been a loss of water supply to customers, but it was due to us putting the restrictions in for a number of months to protect the environment. I just wanted to be clear on that, so you have that background. What we have done there subsequently is rebuild our main pumping station so it takes water much more effectively from the Cleddau. We have dealt with the issues at Llys-y-frân and could deal with another 2022 situation in that part of the world should it ever occur; I am sure it will at some time in the future.

Going back to one of my starting comments, in Wales more broadly, we have a lot of rainfall; we do not have a long-term supply issue. What I



HOUSE OF COMMONS

mean by that is that it is very unlikely will we need to build new reservoirs in Wales, so what we have to do is manage demand. We manage demand through leakage reduction. There is likely to be a significant increase in customer metering in the next period. So for us in Wales, we have a 25-year water resources management plan with no requirements to build new sources, but there is definitely a requirement for us to reduce our leakage, and there are other ways through smart water metering that we will reduce demand. That is where we are with supply.

Q536 Henry Tufnell: On that leakage point, it has risen by 15% since 2019, which I think is one of the worst performers in the industry. What steps are you going to be taking in order to get that back on track?

Peter Perry: We will be taking considerable steps. I touched on this a bit earlier: we discovered a problem with our leakage calculation through our second line audit. We reported that to Ofwat, and subsequently we have done what we can to get back to a level of leakage that complies with the rules on how you account for it. In the last two years, we have spent an extra £150 million on leakage to try to get to a point where our leakage matches the targets now set by Ofwat.

In the last year alone, we have reduced leakage by about 20 megalitres, which is a pretty significant amount in that period. We are unlikely to hit the leakage target for 2024-25, but we have plans in place through pipe renewal, new assets, which I talked about quite a bit earlier on, and all the clever stuff around managing pressure, more monitoring, getting to leaks faster and fixing leaks on private supplies. All those things are in our future plan.

Q537 Henry Tufnell: I am glad you have mentioned Ofwat because in December last year, the chief executive of Ofwat—who has given evidence before this Committee—said it was indefensible that for five years, you misled customers and regulators on your record for tackling leakage and saving water. You have talked about transparencies to this Committee and set out how important it is. To what extent do you agree with that assessment from Ofwat?

Peter Perry: We hugely regret what happened with our leakage calculation, but I will take you back to the fact that we found it; it was not something that was discovered by a regulator and it was not covered up. As soon as we became aware through our second line auditing, through our own procedures, within a day or so, we reported that to Ofwat. So the transparency is that in many ways we regret the fact that we under-reported leakage, but as soon as we became aware of it, we did something about it. If I could turn the clock back, we would have found it sooner, but the second we did find it we reported it. We have made amends since by compensating customers, reducing bills and putting significant levels—over £100 million—into reducing leakage.

Q538 Henry Tufnell: Finally on this water security point, there has been an



HOUSE OF COMMONS

increase in water consumption by over 3% when you compare that to the baseline. To what extent do you take responsibility for that?

Peter Perry: What do you mean?

Henry Tufnell: The three-year average target for 2023-24 was 130 litres per head per day.

Peter Perry: Per capita consumption by customers is pretty difficult to control because ultimately it is what customers use in terms of water.

Q539 **Henry Tufnell:** But there is a big discrepancy between the target and what you are actually achieving.

Peter Perry: Yes, I will try to explain that. This is the amount of water people actually use. Since covid and home working, we have seen water consumption increase because habits have changed with that working practice. The other thing we are doing is running a number of national campaigns to promote water efficiency. We carry out free-of-charge water efficiency surveys, but ultimately, it is down to the amount of water people choose to use, so it is probably one of the most difficult measures for us to control because it is down to people's individual use of water habits.

Chair: Finally, we are going to move on to some questions around the subject of your ownership, financial performance and executive pay.

Q540 **Andrew Pakes:** I have a couple of questions for you. I might pass the baton back to our Welsh colleague as well at some point, so be nice to him. Thank you for the candour and the level of detail you have given us. I am going to ask you a couple of things and hope to get the same level of candour in terms of the challenges you are facing. Welsh Water's financial performance at least seems to be better than many other water companies we have seen. Is there anything in the DNA of you being a not-for-profit model that we could learn from?

Samantha James: I take it you are talking about our gearing level of 60%. It goes back to the formation of Glas Cymru. Going back to 2001, the former Welsh Water business was on the brink of collapse. The model was set up to effectively focus on driving best value and better service for customers and keeping down the cost of financing through raising debt. We have tried to build our reserves in the organisation since then.

You could think of this a bit like a mortgage on a house; it is a very simplistic analogy, but it does fit the bill. As your house grows in value, you could borrow more against it, and at some point, you have to pay on that increased borrowing. What we have done is as the value of our house has gone up, we have tried to keep our borrowing as low as possible by keeping, effectively, money in the business. That is a model that has worked for us. It has helped us brave some considerable financial headwinds over the last 20 years, to fund investment in social



HOUSE OF COMMONS

tariffs and respond to additional investments that have not been funded through the allowed price controls.

Q541 **Andrew Pakes:** Welsh Water was penalised under the ODI, the outcome delivery incentive. I have trouble saying it so I had to write it down because I always want to say ODA, which would be a different thing for you. In terms of the outcome delivery incentive leading to a loss in revenues and contributing to a negative return on some of your regulated equity, can you tell us a bit about the impact this has on your ability to deliver services, improve the environmental outcomes we talked about and service your overall debt levels?

Samantha James: When we plan for each five years as they come up, we are very prudent in the way we do that planning. We anticipate a certain level of ODI penalty. We think it would be imprudent to assume we will get an incentive because it is actually built for the majority of companies to pay a penalty. So by planning that carefully and then planning the cost of our operations, which is the strength of the model, it allows us to withstand some financial headwinds and a certain level of ODI payment, which we have been able to manage well within our plan.

Peter Perry: Can I just add that if you think of many of those performance improvements, they are tied into regulatory commitments we have in the investment plan, so we do not miss those. If there are targets set that we have to deliver schemes that have been set by the Drinking Water Inspectorate, Natural Resources Wales or Ofwat, we will have to deliver those. So there is not a linear link between the penalties and reduced service.

Q542 **Andrew Pakes:** Forgive me, I represent a Midlands seat in England. Do Natural Resource Wales and the Welsh Government give you a greater level of scrutiny than perhaps companies this side of the border would face?

Peter Perry: It is an additional level. We attend Committees here in Westminster, but the Senedd has Committees as well. The predominant one in the Senedd is badged up as the Climate Change Committee but only last week we were there talking about our response to Storms Darragh and Bert. So for us, there is an additional level of scrutiny through the Senedd, but because we are regulated through England and Wales, we probably have two levels to deal with.

Q543 **Andrew Pakes:** I am really interested in that because we often have conversations about how we get more granular scrutiny. In Anglian Water, which is my area, we do not have a similar devolved structure, and we should not because we do not have the identity that Wales has to do that.

I have another question around Moody's and its downrating of your credit rating. There is a curious thing we have noticed as a Committee that I would like to get your comments on. Taking a look at some of Moody's writing, it noticed that "Welsh Water will accrue £62 million of ODI



HOUSE OF COMMONS

rewards if it delivers its [leakage] performance forecast, compared to a £112 million penalty for the same level of performance at the draft determination stage.” Why are you now being financially rewarded for performance when you previously would have incurred a penalty? What is the change from £112 million bad to potentially £62 million good?

Peter Perry: We may need to clarify this outside today, but I believe the issue here is the leakage recalculation that we did when we discovered we had a problem reset our leakage targets. Now we have the real level of leakage fully compliant with the Ofwat governance, it means that if we deliver those targets, there is a possibility for us to get incentives. I am not sure what the date of that Moody’s report is. If it followed the final determination or was before the final determination, we are probably more in a break-even, neutral position on leakage, not one of gaining incentives. But the fundamental point is that it is comparing two sets of leakage targets, one of which was post our restatement of leakage and the other was pre the restatement of leakage.

Q544 **Andrew Pakes:** I think it is clarity between Moody’s resighting for the final price determination versus the previous draft.

Samantha James: We will confirm it.

Q545 **Henry Tufnell:** I would like to just ask one final question on pay. In 2021, Peter, your total remuneration was £892,000, and last year, you took a bonus of £91,000. If you take into consideration what we have talked about today around water security, environmental performance, and water quality with the public health element to it, do you think that level of pay is justified, and do you think it is in alignment with your not-for-profit model?

Peter Perry: In terms of exact remuneration, one thing Glas Cymru has always done is that we do not have the term bonus; we have the term variable pay. Variable pay puts at risk potential earnings based on performance. If you go back to 2021, that was at a time when we had four-star environmental performance. Last year, my £91,000 bonus only paid out 25% because 100% of our variable pay is entirely based on performance. We have a system that is reflective of performance, and it pays out on that basis. I personally have no influence over my own pay; it is decided by an independent committee of the board. It is significant—I cannot say anything else about that—but it is very much linked to performance, and if we do not perform, we do not reach our earnings potential.

Q546 **Henry Tufnell:** Except that there were 56,000 cubic metres of sewage being pumped into the Cleddau from 2022 to 2024. I appreciate there was no uptick in pay in 2023 but there was still an uptick in pay in 2024. During that time, there was the environmental performance and the effect on my constituents in Pembrokeshire, the impact on the Cleddau and the river quality, and the pay was still being reflected in terms of that increase in variable pay. You can call it what you like but it still amounts



to the same thing.

Peter Perry: That variable pay did not pay out on the environmental measures and has not since 2021 or 2022.

Q547 **Henry Tufnell:** In terms of the public perception and the level of impact on people across not only my constituency but across Wales, the environmental degradation, and the importance of bringing the public back on side in respect of water quality, public health and resilience of the system, do you think you as a company—especially when you are in a not-for-profit model—should be more in tune in respect of when you deal with the executive pay, irrespective of whether you say that is one metric or another? The point is the public sees it as a whole, and it is not in line with the overall performance.

Samantha James: I wonder if I can just come in. You talk about our not-for-profit model. Just to give a little of context, and it probably follows from Andrew's points earlier. This was something that was given a lot of consideration when Glas was originally formed about how you balance the need to have the right people with the right experience in the organisation and balance that against customers' concerns, which is understandable because these are not insignificant sums, we absolutely acknowledge that.

Where we landed was that there was to be a fixed and variable element of pay. If you look at the fixed element of pay, it is one of the lowest in the sector, and the variable only pays out when the business achieves certain levels of performance against key criteria about customers, operational performance and strategic deliverables. As Pete says, it has not paid out on environmental performance for some time. It was paid out at 25% of the overall total last year. It is a far smaller proportion of the other overall variable bit so is considered part of how Glas operates.

Q548 **Henry Tufnell:** The chief executive of Pembrokeshire County Council, for example, is on £212,000. He is operating with a significant budget and has nearly 6,000 people working for him. The chief executive of Cardiff Council has a budget of £1.9 billion and is paid £229,000. When you compare that to the level in 2021 of £891,000, you can talk about the fact that the environmental performance bonus was not hit and so on, but they are wildly different figures for very similar levels of responsibility and impact over people's lives and livelihoods.

Samantha James: We recognise these are large sums. Pete does not set the salary; it is set by an independent committee of our directors. It is then scrutinised by our 60 members every year who perform the same role as shareholders do in a PLC, for example. It gets a huge amount of coverage, probably far more than any PLC does except they are not in significant numbers. It goes through a lot of scrutiny.

Q549 **Andrew Pakes:** Just one quick, hot pursuit because I heard some things in your answer that are actually different words than colleagues in other water companies have said about the structure of the bonus, the low



HOUSE OF COMMONS

start, in effect base-load package. Would you be in a position to write to us and explain what the structure of that model is? Clearly, do not reveal the commercially sensitive amounts.

Samantha James: Yes.

Andrew Pakes: Chair, it might be useful to understand what best practice would be in a remuneration model.

Chair: I am beginning to think that an evidence session involving some of the independent remuneration committees might be an informative one, so if you were able to provide us with that information that would be enormously helpful.

Peter and Samantha, that concludes the questions we have for you today. Can I abuse the position of the Chair and thank you on behalf of the Committee for the very direct and clear way in which you have answered our questions. We genuinely appreciate it. We have another two companies that will be appearing for us tomorrow, and by then we will have seen nine of the water companies. I think we will then be able to come forward with a report in due course. In the meantime, we are grateful both for your attendance and indeed the manner of your engagement.