HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Work of Ofwat, HC 1636

Thursday 22 January 2026

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Watch the meeting

Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Anna Dixon; Sarah Green; Lloyd Hatton; Rupert Lowe; Catherine McKinnell; Sarah Olney; Tristan Osborne.

Gareth Davies, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Anita Shah, Director Regulation VFM, National Audit Office, and Edward Pinney, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1 - 93

Witnesses

I: Chris Walters, Interim Chief Executive, Ofwat, Helen Campbell, Interim Executive Director, Delivery, Ofwat, and David Hill, Director General, Strategy and Water, Department for Environment, Food and Rural Affairs.

Examination of witnesses

Witnesses: Chris Walters, Helen Campbell and David Hill.

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 22 January 2026—almost one month has gone by in this year. The Committee reported on the water sector regulation in July last year, concluding that the water system had been left to sink for far too long—I don't know how water can sink; I meant to change that bit—with customers expected to shoulder the burden of water companies' failings. Over the last few weeks, we have seen tens of thousands of households and businesses left without access to water for days across the south of England. It is estimated that the sector needs to spend almost £290 billion on improvements to the water infrastructure sector over the next 25 years, with an additional £52 billion to meet supply challenges.

The Independent Water Commission, chaired by Sir Jon Cunliffe, published its findings from a review of the water sector in the summer of last year, outlining a need for a fundamental reset of the system. Following the review the Government announced the abolition of Ofwat and the creation of a new, singular regulator for water functions, which I am sure we will hear much more about today.

Earlier this week, the Government published their White Paper, "A New Vision for Water", which sets out the Government's plans to reform the water sector and the wider water sector—whatever that means. Today's session will be an opportunity to examine what progress there has been since the Committee's inquiry in July last year, including the plans set out in the White Paper, and to address concerns about financial resilience and consumer trust in the sector.

To help us with this pretty broad and convoluted sector, we are very pleased to welcome David Hill this morning. David, as everybody knows, has appeared before this Committee many times. David, would you like to introduce yourself, please?

David Hill: Morning, Chair. I am David Hill, and I am director general for strategy and water in DEFRA.

Q2 **Chair:** Chris, would you like to introduce yourself, please?

Chris Walters: Good morning, everyone. My name is Chris Walters. I am the interim chief executive of Ofwat.

Q3 **Chair:** Thank you. Helen?

Helen Campbell: Good morning. I am Helen Campbell, and I am the executive director for delivery in Ofwat.

Chair: Welcome to both of you, because you have not been before the Committee before. We are very keen to hear what you have to say. I am optimistic that what you are doing will lead to huge improvements, so I hope my optimism will be confirmed by you both. To start us off, I ask Lloyd Hatton to begin.

Q4 **Lloyd Hatton:** All three of you will no doubt have seen the recent media reports in *The Guardian* that the bosses of Wessex Water, a water firm that serves my constituency, received some £50,000 in previously undisclosed extra pay from a parent company last year. That has obviously drawn a lot of public interest in the light of the fact that we are meant to have a bonuses ban. I would be really keen to hear from Chris and David about how we make sure, particularly with a new, single water regulator, that water companies with complex corporate structures cannot side-step the bonuses ban and use those structures to put undisclosed extra pay behind their bosses.

Chris Walters: Thank you very much for the question. There are provisions in the Water (Special Measures) Act 2025 that give powers to Ofwat, as well recommendations in the Independent Water Commission report that will be given effect by the White Paper, that deal with those things. David, could I turn to you for the Water (Special Measures) Act, and then Helen for the implementation of those powers in Ofwat?

David Hill: The Water (Special Measures) Act introduced the ability for the regulator to proscribe bonuses in certain circumstances, whether that—

Lloyd Hatton: Which did happen in the case of Wessex Water.

David Hill: Which did happen in the case of Wessex Water, alongside another five companies. In total, about £4 million worth of bonuses across the sector were banned for the previous reporting year. Bonuses cannot be paid in circumstances where a water company is found to be in breach of a principal statutory duty or to have insufficient credit ratings, or where it is convicted of certain criminal offences in the sector or a serious environmental failure—so, a category 1 pollution incident, or it is a 1 star rated company under the Environment Agency's performance methodology.

That is what applies to the regulated companies. In the specific case that you have highlighted, I understand that the payment in question was made to the individual in their capacity as the chief executive of a holding company, which has a broader range of responsibilities, and that's—

Q5 **Lloyd Hatton:** I don't think that's quite correct; I think you are referring to the former chief executive.

David Hill: I beg your pardon. The former—

Q6 **Lloyd Hatton:** I am talking about another case that was reported just days ago in *The Guardian*, where the current chief executive and the current chief finance officer both received well over £20,000 in previously undisclosed extra pay.

I am aware of why bonuses bans are put in place; I know that you have given us the reason. I am sure that most of the Committee are aware of the reasons why bonuses bans are implemented. What I want to know is why we have to wait for a report in *The Guardian* to understand exactly how water companies are operating, and how they use those complex corporate structures to put extra pay behind their bosses, because at the moment we find out more from *The Guardian* than we do from either Ofwat or any of the other existing regulatory bodies that are meant to be looking at how the water sector operates.

David Hill: Forgive me. I thought that in your original question I heard reference to the former chief exec's position as well—

Lloyd Hatton: I have got all that as well; we can go over that, too.

David Hill: No, I understand. I thought that that was what I heard in your opening question.

I might ask Helen to come in, because Ofwat actually polices this. What I would say is that Ofwat has specifically highlighted this lack of transparency around other forms of remuneration, and I understand that it will explore what further measures can be taken around that lack of transparency.

However, I think the Secretary of State made it very clear yesterday in the House in her oral statement that Ministers expect water companies' senior executives to respect the spirit of the law, as well as the letter of the law.

Helen Campbell: That is absolutely right. Public trust, which you have just talked about, will only be restored when there is transparency and when the decisions taken at board and remuneration committee levels clearly reflect the interests of customers and the environment.

In the specific case that you are talking about, it was not in relation to the regulated company, and it was not a payment that was linked to performance. Therefore, it did not fall under the Water (Special Measures) Act that we have—

Q7 **Lloyd Hatton:** Isn't this the exact problem? We see these water companies just happening to be one part of a complex and opaque web of companies. Therefore, the Act as it stands is perhaps not tough enough. I really would like to know what Ofwat is absolutely able to do to look at the whole web of companies and have a clear picture of whether or not bonuses are being paid. They may not be labelled as bonuses, but that is essentially what they are, and right now, billpayers in my constituency are finding out more from journalists than they are from the actual regulator that should be looking into this.

Helen Campbell: Absolutely, and companies have a responsibility to be as transparent as possible.

What we did after the publication of the executive pay report, which Ofwat publishes every November, is that we called on companies to increase their transparency, and to make it very clear where there are payments made to executive directors on behalf of group companies, and that the values of those payments and the rationale behind them are clearly reported.

Q8 **Lloyd Hatton:** In your judgment, do you think that happened in this Wessex Water incident?

Helen Campbell: There is more to do.

Q9 **Lloyd Hatton:** So, in your judgment that didn't happen, despite the calls of the regulator, with Wessex Water, and it was actually operating in quite a secret and shadowy way?

Helen Campbell: There is definitely space for more transparency, and we called in the report for companies to be more transparent.

This week, I met all the chairs of the remuneration committees to have exactly this conversation. They recognised that there is a need to be really clear about the decisions they take, how they relate to performance, and how they support delivery for customers and the environment.

Q10 **Anna Dixon:** Briefly, I just want to follow up on that example. I represent Shipley, which is served by Yorkshire Water, where the situation is very similar—there are nine holding companies that make up the wider group of Kelda Holdings. The CEO of Yorkshire Water is Nicola Shaw. In addition to what to most people are very high levels of pay, despite leading a failing company that is breaching—whether it is pollution charges or other things—there is a very similar model to the one you described, whereby she received £1.3 million over two years, in addition to her already very substantial salary.

You spoke about transparency; the justification for that pay, coming from the shareholders, was that it was for shareholder-related work. I have worked as a chief exec. Working with the board of trustees is part of the job; it is not additional work, and I do not think that those are justifications for basically getting around, as you say, the spirit of the Water (Special Measures) Act bonus ban. I am keen to hear what further action you believe you can take under the current law, or whether you think you need stronger powers to crack down on—I don't think you can call this anything other than what it is—the water companies evading the bonus ban?

Helen Campbell: We regulate the regulated company, and our powers extend to the payments that are made in relation to that. What we have done is to require companies—and we will consult on the reporting that they put in place—to be really clear and transparent in the annual reports that they send to us, and in their own reports, about any payments that are made for parent company activities or for activities that sit outside of the regulated company. There is also provision in the Water (Special Measures) Act relating to the complex financial structures that your colleague referred to. Companies have a responsibility to explain what those structures are, why they are in place, and what their purpose is. That will again be something that we are looking for in the sector: to see a step change in explanation.

Q11 **Mr Betts:** Yorkshire Water is a failing company and we had hosepipe bans all summer, then people see the scandal of the chief executive simply getting paid the great sum that she does, and then getting this extra, hidden away on the side, from a parent holding company. In the future, is the totality of pay to officials working for the water company—whether it comes from the company directly or from bits and pieces on the side—going to be regulated and controlled? What we have here is effectively an example, in a water company, of brown-envelope payments behind the scenes, and it is not acceptable.

Helen Campbell: The powers that we have sit around the regulated company. We do not regulate the parent company.

Q12 **Mr Betts:** Right. So even in the future, parent companies, or holding companies, will not be regulated?

Helen Campbell *indicated assent.*

Q13 **Chair:** David, you can hear the Committee's dissatisfaction, and I have greater dissatisfaction than anybody, because most of my constituents are served by Thames Water. Our constituents are fed up with the water companies setting up these very complex corporate arrangements; they have been doing it virtually ever since privatisation. Will the Water (Special Measures) Act give sufficient anti-avoidance provisions to allow the regulator to really take tough action in this field?

David Hill: I think Ministers would absolutely share the Committee's dissatisfaction with any payments that lack transparency and that appear to be going around the provisions of the Act. Ofwat has said that some of the examples that we have seen are not acceptable, and it is looking further at the circumstances around those. As Ministers signalled, there is an intent to introduce legislation to implement the measures announced in the White Paper this week. I think that we will want to understand, from Ofwat, its assessment of some of the specific examples, which take a number of different forms, as you have acknowledged. Clearly, there is an opportunity for Ministers to think about whether any further strengthening of the legislation is needed.

Chair: Thank you.

David Hill: But I would just say that water company remuneration committees understand the provisions of the Act and, as Ministers have said, they expect to see those remuneration committees behave in a responsible way.

Q14 **Chair:** I am not sure that they do. Thames Water had a huge fine last year for this very problem, and yet we have—as Lloyd has articulated very clearly—Wessex Water doing similar things, in complete contravention of what the regulator wants, so I am not sure that the water companies, or at least some of them, have got the message yet. We need it in legislation—tough, anti-avoidance legislation.

David Hill: I hear that, Chair.

Q15 **Catherine McKinnell:** The other side of that frustration is the frustration of the experience that customers have while that is going on. Helen, what incentives are in place to make sure that companies are minimising supply interruptions and maintaining the quality of the water network?

Helen Campbell: It is critical that we hold companies to account for the performance that they deliver for customers. The way in which we hold companies to account is in the measures that are set out in the price control, which started in April 2025 and will last for the next five years. There are measures that are put in place—expectations and targets—to improve supply interruptions and other performance for customers. If companies do not meet those measures, they will face a penalty and money will be returned in the following year to customers for failing to do that.

Q16 **Catherine McKinnell:** Who will meet the cost of those penalties? The concern is that cost is then just passed back to the ratepayer or the taxpayer.

Helen Campbell: The cost comes out of the money that companies are able to charge customers. They have been funded for a level of service that they have not delivered, and it is therefore fair that that money is returned to customers. We set the revenues on the expectation that companies can meet a level of service, so customers should not be paying for service that they do not receive.

Q17 **Catherine McKinnell:** Is the intention that it should come off the profits that the companies are making and the bonuses that may in some way be paid?

Helen Campbell: Yes. It comes off their opportunity to earn rewards over and above the rewards set out in the price control.

Chris Walters: In addition to that regime of rewards and penalties for good or bad performance, which in the case of bad performance lowers customers' bills, we also do work on law enforcement. We have eight live investigations, and concluded a number last year. Those result either in fines, which are levied on shareholders—not on customers—and returned to the Treasury, or an undertakings package in lieu of enforcement, where we get to direct companies' investment to fix the problem, ensure that it doesn't happen again in future and to ensure that they engage better with their communities. The crucial point is that the penalties regime results in lower bills for customers. The fines regime targets shareholder money to fix the problem.

Q18 **Catherine McKinnell:** I have two follow-up questions. They are quite chunky, but I will give you both. One is in relation to what you just said there, Chris, about penalties and enforcement. Do we have sufficient capacity to actually enforce these penalties? Do we have the investigative capacity? Do we have the ability to make sure that that is happening in reality, because there are big question marks around that?

The side part of that is: do we have the data and the information to be able to properly assess the state of water company assets and where breaches might occur. At the moment, it all seems very retrospective—we wait for something to go wrong, and then we investigate and look backwards to try to fix it. Do we have enough to incentivise the investment that we need to see to genuinely change and prevent these outages and pollution from happening?

Chris Walters: The regime of investigations and enforcement is retrospective—that is right. There are 16 water and waste water companies in England and Wales. On waste water investigations, we have active, open investigations, and we have closed—in the past few months—investigations into all of them, levying fines of nearly £260 million, but it is true that they are retrospective. It is true that the measures in the White Paper, which we hope will be given effect in the Bill, strengthen those powers and will enable us to expedite cases faster than we have been able to in the past. That is a very important consideration.

In terms of incentivising companies to deliver on the promises of their price review—record levels of investment, including a £50 billion pipeline of 30 major projects to improve our supply resilience—there are controls in place in the price review to ensure that customers' money is ringfenced for that investment and will be clawed back and returned to them if the benefits of that investment are not felt. I will hand over to Helen to say a bit more about that.

Q19 **Catherine McKinnell:** Thank you. Do we have sufficient oversight of the state of the assets?

Helen Campbell: It is companies' responsibility to ensure that they are managing their assets in a way that delivers good service for the long term. We collect data in a number of different ways. Some of those, as you pointed out, are lagging indicators, such as what the frequency of mains bursts is. We have also worked with the sector through the price control process to understand the condition of a number of their assets. We used that information in setting allowances for the next five years, to ensure that companies have sufficient funding to deliver that service. In addition to that, we are working with the sector on a reopener for this price control, and have worked with the sector to prioritise the assets where they feel that there is need for more investment, over and above a long-run average. We are working with them to provide a process whereby they can access funding and allowances for those.

Q20 **Catherine McKinnell:** Are there efforts to bring about more transparency as well? You have referred a few times to "as much transparency as possible", but I would suggest that the phrasing should be "as much transparency as is needed". There do not appear to be common standards for water companies; there are huge differences across the country. There are some common failures, but there are big differences in performance around the country, and that is not fair on ratepayers.

David Hill: Can I just say a little about what we have said in the White Paper on this? It is a really important theme. Part of diagnosis of the problem we face is that there is not sufficient transparency around asset health. One of the things that Sir Jon Cunliffe identified, and that the

Government agree with, is that there needs to be a much stronger focus on asset health in the regulatory system.

As Helen and Chris have outlined, a number of the performance metrics right now are about what happens once a failure of an asset has occurred. One of the things that we have said this week in the White Paper is that we want to move away from that towards a different set of metrics that are about regulating against asset health, about common resilience standards across the sector and about strengthening the technical capability of the regulator to hold companies to account and interrogate asset health effectively—so there will be the institution of a chief engineer in the new regulator. Putting all that together is designed to address the problem you are highlighting.

Also, the creation of a single regulator is an important part of making sure that there is a single view of asset health across the water and waste water system. At the moment, it is too fragmented, with different regulators looking at different elements of that system, but no one looking holistically at all aspects of asset health.

To come back to your first question about capacity, that is also an issue. I note that the Water (Special Measures) Act instituted new powers across recovery for the Environment Agency, in relation to some of the work they do in inspections of water companies. That is enabling us to move from around 4,000 water company inspections a year to around 10,000. So there is a significant ramp-up of Environment Agency capacity and capability to undertake water company inspections as well.

Q21 **Chair:** Can I follow up on Catherine's question about assets? It is all very well doing all your computer analysis—I have read the stuff, and I gather that you have lots of new computer tools—to deal with this. I was looking for the table, and I cannot find it, but the regulator does not do any inspection of assets. I cannot see how you can use all the computer tools—you are basically going on the data that the water companies give you.

Without using AI to sample where things do not look right, how are we ever going to get an accurate reflection of what state the water companies' assets are in? We know all about the pipes, and how they are going to take 700 years to completely replace—there is a real deficit in the sector. How can that be dealt with?

Chris Walters: We agree. Ofwat has been a very arm's length economic regulator, focusing on outcomes, for many years, as a result of a previous Government review in 2011. We know that to implement a more supervisory approach to regulation and get alongside companies to support and challenge them on things such as asset health, we need a different regime. That is why we fully support the proposals in the White Paper for the appointment of a chief engineer.

There are engineers in Ofwat; in fact there are as many engineers in Ofwat as there are economists and data experts—there are groups of around 60 of each. Our chairman is also an engineer, and one of our senior directors is an engineer who is on the board of the Major Projects Association, which has, as I am sure you know, the explicit goal of spreading best practice in the management of major assets.

But we accept that the move to a more supervisory approach for regulation needs to happen and needs to give the sort of inspections that the regime does not have at the moment.

Q22 **Anna Dixon:** I will start by focusing on the current price review and then move on to how bringing a single regulator together will impact the next price review. The current price review is under some challenge because of the appeal to the CMA. I would like to focus on the role of the CMA—the Competition and Markets Authority, for those listening at home; I should not use too much jargon.

My understanding is that when you published the draft guidance you were looking at returns of some 3.72%. That went up to some 4.03% and now, following the CMA review, it looks like the companies are going to be able to get returns of some 4.29%, following appeal. Those percentage changes translate to higher customer bills, don't they? What justification is CMA giving for, effectively, undoing the work that Ofwat has done on the price review by handing companies higher returns?

Chris Walters: The CMA re-determinations increase the total revenue allowance package for the disputing companies by some £550 million. Of that, fully £500 million is movements in the balance of risk and return and returns to investors, which is what you are talking about. That is driven by movements in financial markets.

The CMA's position is, and has long been, that it is compelled to use the most up-to-date financial market data at its disposal when recalculating returns to investors. As you point out, in its provisional re-determinations towards the end of last year, that increased the rate of return to investors. When we see the final re-determinations, the CMA will use a later cut-off date, so what happens to the rate of return to investors there will depend on how financial markets have moved in the intervening period.

Q23 **Anna Dixon:** In the CMA's re-determination, it appears that it can open up and look at every aspect of your assumptions and modelling. One element that seems to have been reviewed in the customers' favour is the way that Ofwat calculated energy costs and likely energy efficiency gains in their operating expenditure. How are you going to ensure, now and in the future, that there is better alignment in the judgment of what a fair price is between Ofwat and CMA, so that companies cannot just appeal and, effectively, unravel many years of work to settle a price review that is fair to customers?

Chris Walters: The CMA re-determination process is a full merits review; that contrasts with the appeal mechanism across many other regulated sectors, where the review standard is judicial review. The proposals in the White Paper are to move towards that, and we support those.

As to the impact of that change on future methodology, the White Paper also points to a number of recommendations in the Independent Water Commission report for reform of the price review process. We support those proposals. We might normally expect a CMA re-determination process to have a very significant impact on methodology, but I think an even greater impact on methodology this time will be from the proposals in the White Paper, which we expect to be given effect by the Bill later this year.

David Hill: Chris is describing some of the policy changes that the Government intend to make, so I will add to that. The water sector is quite unusual among regulated economic sectors in this "all or nothing" approach to appeals, and the Government have said this week that we will move away from that. In future, there will be an appeals mechanism, but as with other regulated economic sectors, we will move towards something much more targeted on specific issues, rather than a full re-determination.

As Chris says, there is work going on across Government—and at the moment the NAO also has a study looking across the economic regulators—to look at precisely this issue of whether we can have more common, consistent approaches across the economic regulated sectors. That includes questions such as how the setting of the average cost of capital is done. There will be more to come in due course on that cross-Government work on those sorts of issues around a common methodology towards these questions.

Q24 **Anna Dixon:** Will all these changes come quick enough for you to implement them in the next price review? Can you give some sense of a timeline?

David Hill: Yes, that is the intention.

Chris Walters: It might help to spell out the timeline for the price review. It took us around 15 months of analysis, scrutiny and board-level decision making to conclude PR24. We share the Government's ambition to reduce the administrative burden of that process by 25%. That would take it down to a year, let's call it, so for PR29, the new regulator will need to begin its scrutiny of proposals in 2028.

Experience suggests that it takes the companies around a year to finalise those proposals and get them signed off and assured by their boards, which takes us to the start of 2027. That means that in practical terms, we need a clear idea by the end of this year of what the methodology for the next price review will look like. That is what we are aiming to include in the transition plan, which we are expecting in March.

Q25 **Anna Dixon:** Will that need to have legislation? That sounds like a very ambitious timetable to get all that concluded in this year.

Chris Walters: I might hand over to David on the need for legislation.

David Hill: No, I don't think all that will depend on legislation. Some of the big structural changes about regulatory structures depend on legislation, but some of the mechanics of how you run the price review do not depend on primary legislation in large part. The Government intend to issue a new interim strategic policy statement to Ofwat, which sets out the Government's priorities for Ofwat, and, in parallel, a legal direction to the Environment Agency about its responsibilities, because many of the inputs into a price review are actually about delivering environmental requirements.

The transition plan in the next few months, which Chris alluded to, is intended to set the planning framework and the planning assumptions for the regulators going into the next price review. We are not ready to publish all that detail right now, but that is the direction of travel that we set out in the White Paper, and that should set out the framework for how we will take forward the next price review. We would expect to see some elements of planning for that price review—it can be done on a no-regrets basis, so needed in all circumstances—that look quite different from the last price review. We need to get that in place this year.

Q26 **Anna Dixon:** Final question. Briefly, David, are you confident that all the turmoil involved in creating a new single regulator will not impact the work of delivering PR29 under a new methodology?

David Hill: Yes. In any big structural change, of course you have to manage disruption to the organisations affected. I am confident that we have good arrangements in place with my colleagues here from Ofwat, as well as the chief execs of the other regulators involved in this process, to do two things in parallel.

One is to plan for creating a new institution. We have recently just scaled up and changed the DEFRA team to enable us to plan that effectively with our partner organisations. Secondly, the regulators have a day job to do, consistent with the powers that Parliament has already conferred on them. The Government will make sure that those powers are being exercised in a way that is consistent with the direction of travel in the White Paper.

We need to do both those things, but we are putting in place the arrangements to ensure that we can do them effectively this year. I am confident that we have the arrangements in place to be able to minimise any disruption. The transition plan will be critical, because that is about giving all parties some certainty about what assumptions they should be planning to. That includes the industry. We want the industry to understand what they need to do in terms of getting their business plans ready going into the next price review.

Helen Campbell: One thing to add on that, if I may. Part of the reason why we have the arrangements split between me and Chris is to maintain focus on both delivery, which is my area, to ensure that the £104 billion of price-controlled money is spent wisely and on the major projects. Chris has focused on the transition and supporting the new regulator. Clearly, we work very closely together and in the spirit of the direction we are going in, but we have a strong organisational focus on both areas.

Anna Dixon: I am sure colleagues will want to pick that up.

Q27 **Chair:** Thank you very much. I have two quick questions—one for you, David. I have some very strong water pressure bodies in my constituency. My constituents pay a great deal of attention to these water matters. In PR29, will the public—our constituents, who are the most important consumers who pay for all this—be given adequate chance to feed into the process?

David Hill: Yes; Helen might want to add a little bit about the process for getting customer input into price reviews. Yes, it is absolutely the intention that as part of the process there should be testing with customers and consumers before the regulator makes final decisions. Do you want to add to that Helen?

Helen Campbell: Absolutely, and it is a core part of what we expect companies to do: to engage with customers and all stakeholders to ensure that their views are taken into account when they respond to the approach that we set out for the price control. I would add that the Government have given us powers under the Water (Special Measures) Act. One of those powers is undersetting rules of remuneration and governance for water companies. It is a requirement for companies to demonstrate how they take on board consumer views in their decision making—not just on price controls, but on all aspects of board decision making. There are now new powers that companies must take on board consumer views.

Q28 **Chair:** That is very helpful. Quick one for you Chris: are you absolutely certain that in these price determinations by the CMA investment is still carrying on with those companies that are subject to this review procedure? Otherwise, they are going to have a shorter time in which to make the investment.

Chris Walters: You will remember in one of my earlier answers I talked about customers' money being ringfenced for investment and clawed back if that investment is not delivered. That clawback is given effect by what we call delivery plans, where companies are required to report to us on exactly that. That is very much Helen's bailiwick; I do not know whether she wants to add anything.

Helen Campbell: We require companies to provide regular reports to us on the progress that they make against delivery. We have not completed the first year, but we are reviewing the information that companies provide us and where we have queries, we follow up. We had a range of meetings throughout December to talk about companies' delivery and whether they are on track.

Chair: Thank you for that.

David Hill: Chair, if I may. If your question relates to investor confidence in the sector, it is also worth noting that since the final determination of the price review '24 and indeed since the Cunliffe review, around £2 billion of new equity has been committed to the sector. In the conversations we have had with the investor community there has certainly been broad support for the direction of travel of Sir Jon Cunliffe's reforms and the White Paper.

It is absolutely incumbent on us to get on with this. The sector wants certainty about the detail and that is what the transition plan will offer, but we see reasonably positive prospects about maintaining investor confidence because investors also want some of the things that the Government have focused on in the White Paper around a stable, predictable, secure regulatory environment, which is what we are trying to bring about.

Chair: That is a helpful answer; let us hope we have turned the corner in relation to investment in the sector.

Q29 **Sarah Olney:** I want to probe a little further into the transition, which you were talking about at the end of the last set of questions. Mr Walters, what are you doing to prepare Ofwat as an organisation to become a new regulator or the merger—whatever you are describing it as?

Chris Walters: Helen described earlier how we are restructuring ourselves. We have restructured ourselves internally so that both Helen and I report directly to the board. Our board has a direct line of sight to oversight and support for delivery, but also to the work that we are doing on transition. That is very much a DEFRA-led process, but I am pleased to say the Department is including us very closely in deliberations.

Transition can be difficult, and change is difficult for people, but I am pleased that Ofwat is an organisation where people come to work to make a difference. Although this process can be hard, we recognise it is hard because it is important and we care. It is hard because we want the new regulator to be on the best possible footing.

It is true that our turnover has crept up. Baseline staff turnover at Ofwat historically is around 15%. Following a price review, we would normally expect that to increase—that is a quinquennial process; once someone has done five years, it is natural that they might look for something else—and creep up to 20%. Turnover at the moment is a shade over 25%. My board has taken an interest in that, as you would expect. We are in the process of developing a retention and engagement action plan for our staff as well as all the things that we normally do. I will be reporting to a sub-committee of our board, which we call our people committee, on that plan in March. I would be happy, if it is helpful, to update this Committee at that point.

Q30 **Sarah Olney:** Thank you. I think it would be helpful to update the Committee, because a loss of skills and experience creates a risk for the organisation. I hear what you say about the retention plan, but are there other steps that you are taking to mitigate that risk?

Chris Walters: Yes, there are. We have revamped our employee assistance programme and the support that we are offering to people going through change. We have ringfenced money within our budget for more recognition payments and priority pay adjustments for mission-critical roles. Those are all things that will be included in the action plan to minimise the degree of transition. The White Paper makes it very clear that the future regulator requires core economic skills and capabilities of the people in Ofwat. It will not be Ofwat mark II—far from it—but the new regulator will need the core capabilities of the people—

Q31 **Sarah Olney:** Are you recruiting for new roles that you have not had within the regulator before?

Chris Walters: Our headcount is around 460 posts for the current financial year. We have 110 vacancies and a budget of around £32 million. We are recruiting, and we are prioritising recruitment around areas that we know are going to be important for the new regulator. We mentioned engineers earlier; we have as many engineers as we do economists and data experts, but we will need more engineers and more data experts.

Q32 **Sarah Olney:** Is there a danger that you will exceed your budget for people spend?

Chris Walters: In this financial year, it is very early to say. Holding the number of vacancies that we have, I think it is unlikely. We have also reprofiled some of our external spend and reprioritised work that is not mission critical for the new regulator. Although we are not very far through the financial year, I would be surprised if we did not slightly underspend the budget that the 2025 Government spending review set for us.

Q33 **Sarah Olney:** Can I also ask about your IT systems? On this Committee, we are very used to looking back at the contribution that a failure of IT systems has made to a failure to achieve broader outcomes. Can you tell us what Ofwat is doing to prepare its IT and other operational systems for the new regulator to make sure that it is able to deliver what it needs to?

Chris Walters: We have a brand-new data ingestion strategy called Project Ocean.

Helen Campbell: As you know, it is really important that regulators collect, use and analyse the right data. We are in the process of replacing our old data systems with a modern Microsoft platform that will allow us to better fit needs in the future. That process will continue and will be substantially complete in 2026. On the choice of platform, it is standard and consistent with modern ways of data sharing with other organisations. We have already undertaken pilot work on data sharing with other regulators including DWI and the Environment Agency. We know that the investment that we are making is needed and that it is consistent with the direction that we will be going in with an integrated regulator.

Q34 **Sarah Olney:** Was that work planned before the new regulator was announced?

Helen Campbell: It was under way. We needed to modernise and upgrade our data systems.

Q35 **Sarah Olney:** But you are satisfied that it will be sufficient and will work well within the new environment.

Helen Campbell: Yes.

David Hill: It might be worth me speaking for a minute or two about the work that we are doing within the Department to set up preparedness for the new regulator and the full suite of reforms in the White Paper as a major programme, which it is in scale. One of the workstreams that we are developing is around digital systems across the four organisations that—subject to Parliament approving the legislation—would move into the new regulator. That is a critical workstream that is supported by the Department's DDaT function.

We are doing that alongside building our capabilities around, as Ms Dixon was saying, how we manage the process without the disruption of a big institutional change, when we are bringing together the functions of four distinct organisations. That means regular dialogue with the trade unions involved, for example, and the staff in those organisations, about how we do that in an orderly way.

Running this well does mean quite a big shift in capabilities in the core Department, so we are getting support from NISTA, the National Infrastructure and Service Transformation Authority, around how we set this up, because it will be a major programme in the Government's portfolio.

Q36 **Chair:** Let me follow up on Sarah's question. Notwithstanding what Chris has said—that he does not expect to spend his budget this year—we are expecting this new regulator to take on very considerable new duties. We heard in one of our previous sessions on water that a small investment by Ofwat in actually carrying out maintenance and repairs to some of its assets would have saved quite a bit of flooding; I know that the IDBs are very concerned about that. Notwithstanding what might happen this year, can we be absolutely sure that we are going to fund this new regulator properly? The industry has been under-regulated for years; our constituents are very concerned about this, and we want it to succeed.

David Hill: Yes. This programme of reform is one of the top priorities for the Department; the Secretary of State has been very clear about that. It was reflected in all our spending review discussions with the Treasury, and indeed our ongoing conversations with the Treasury. We are therefore reprioritising resources within the Department to make sure that we can do this well. Ensuring that we can set this thing up in good order will be a top priority for us. Obviously, as you will know, we can only take the preparatory work so far before the Second Reading of the legislation, but we can do some work now within the Department, with more to come after Second Reading.

Chair: That is very helpful. Thank you.

Q37 **Rupert Lowe:** If I could just ask you a top-down question, I am a great lover of Victorian Britain, and Victorian Britain believed that water and power—clean water and cheap power—should be in public ownership, even though it was far more capitalist than we are today. Listening to the debate and reading these papers, do you think that these water companies would be better in public ownership?

Chris Walters: I think there are differences. We have different models of ownership in the United Kingdom: Northern Ireland and Scotland have public ownership, while, in Wales, Dŵr Cymru Welsh Water runs on a not-for-dividend basis, and even though they are private-ownership models, the companies in England differ. Some are listed and their stocks are traded, while some are privately owned by—

Q38 **Rupert Lowe:** I know the structure. But intellectually, do you think that water companies would often be better? I listen to this conversation and I have concerns that the skill and knowledge base both within the civil service and within the ministerial pool—which I look at with horror—is not capable of actually holding the public's corner. The problem is that, when you have a very able private sector that is effectively exploiting a very unable public sector, the net cost falls upon the consumer; it is always mutualised across water bills, and we are seeing that now.

Let me give you an example. This is not my area of expertise, but I look at this in horror. We now have all this uncertainty about the structure, and we have yet to see your paper—I do not know when that is coming out; I think it is absolutely crucial that it comes out as soon as possible so that everybody understands what is happening. I look at the Thames Water situation, for instance—hugely indebted. I fear that, if we are not careful, without that skill and knowledge base within your group or within the ministerial group, the private sector and the hedge funds will basically take advantage of the debt they have, and turn it to their advantage and to the disadvantage of the consumer.

Look at Macquarie Bank, for instance, which played a big part in structuring that. It is now involved in Southern Water; I think it is a shareholder. I look at that, and my hat on this one is with the consumer, because we want clean water and we want water that is correctly priced, so I think it is crucial that you get your paper out as soon as possible.

I would also like you to reassure the Committee. Assuming that we are not going to take water into public ownership—this will shock Anna, but half of me thinks it would be better that way—what are you going to do to give the Committee confidence that the people who will be dealing with this will have the skillset to stand the corner of the consumer, who ultimately ends up paying for all this?

David Hill: On the question of public ownership, Ministers have been very clear—you heard it from the Secretary of State in the House yesterday—that they do not believe that public ownership is the right answer. The estimated cost of nationalising the sector is of the order of £100 billion, based on our estimates. We have published a paper, which I can direct you to after the session if that is helpful.

You rightly pointed to the potential risk of disruption in any organisational change. It is important to say that any process of returning the sector to public ownership would take many years of disruption. The judgment of Ministers is that there is a huge amount that we can do to improve the way the current system works.

On your challenge on whether the regulators have the right teeth and capabilities to do that well, I think the Government would accept the premise of your question—

Q39 **Rupert Lowe:** Not just the teeth, but the capability. Capability is the key here.

David Hill: I agree.

Q40 **Rupert Lowe:** There is a mismatch between the capability in the private sector and the capability in the public sector, I am afraid. Everything we are talking about now is overly complex. My view is that Ofwat has definitely been regulatory captured in the past. When things get too complex, it ends up being a pig deal—forget all the papers and structures and plans—between the regulator and the private sector. That is just inevitable. I am worried that, given all this mess, now is not the time to have an uncertain situation. I think you were due to have this report out in September, and you are now hoping to have this structure out in January—or it was January. When are we going to see it?

David Hill: The White Paper—

Q41 **Rupert Lowe:** I have seen that there is a White Paper, but when will we actually have a firm structure so that everybody knows what is happening? I think that Ofwat is dysfunctional, that DEFRA is dysfunctional, that the Environment Agency is dysfunctional—I do not know about the Drinking Water Inspectorate. Put those all together and you end up with one big mess if you are not careful. We want to know that the consumer is being looked after here, and that the private sector will not further take advantage of what I think is a mismatch in capabilities.

David Hill: On your question about capability, Sir Jon Cunliffe had a long hard look at this, and you will have seen his report published in the summer of last year. He recommended that we need a regulator with a different set of capabilities and to move to a different model of regulation with a much stronger focus on supervisory regulation. He drew on his experience in financial services as part of forming that recommendation. That is one of the things that we now need to build in the new regulator.

That supervisory capability should extend to some of the things we were talking about before—much stronger engineering expertise in the regulator to really understand the engineering and technical challenges facing individual water companies—as well as to financial supervision. We had questions earlier about the complexity of some of the financing.

The regulators of today will look quite different in the future, and the Government are following Cunliffe's recommendations on those points. On the timing of that, I accept the challenge that now the Government have announced their policy intent in the White Paper this week, we need to move quickly. The transition plan I was talking about, which we aim to get out in the next couple of months, is the real detail of how we plan and prepare for all those reforms.

On your final question about consumer protection, I strongly agree that consumer protection needs to be strengthened. That is one of the reasons why the Government committed in the White Paper to establishing a new independent ombudsman for the sector, with statutory force, to ensure that there are much stronger mechanisms of redress for customers and consumers than currently exist.

Q42 **Rupert Lowe:** Those are fine words—thank you for them—but when will we actually know what the structure is and who will populate that structure?

David Hill: We intend to set out that level of detail in the transition plan in the next couple months.

Q43 **Rupert Lowe:** And then can we judge whether they are up to the job?

David Hill: Obviously, what comes next is legislation, and I cannot pre-empt the King's Speech. To do this well, and given the scale of reform we are talking about, we need primary legislation for a number of these reforms. We will be working quite closely with the regulators and industry to make sure that, as the detail is built up, we are sharing all of that. We will happily share it with the Committee.

Chris Walters: First, forgive me for misunderstanding the initial thrust of your point. The system that is changing is one where four separate regulators are responsible for overseeing the sector. There are gaps, overlaps and inconsistencies in responsibilities, which is a cause of the situation we find ourselves in. That is what the White Paper, the transition plan and the Bill, when they arrive, seek to address.

To pick up on your point about regulatory capture—perhaps I would say this—that is not what my organisation feels like to me. If I look at some of the comments—

Rupert Lowe: I am not blaming you, as you have been there for only a nanosecond. What I mean is the history of it. I would not blame you, as you have not been there long enough.

Chris Walters: You are very kind. If you look at some of the comments that went into Sir Jon Cunliffe's commission, there are as many saying that Ofwat has been too pro-customer as saying the opposite.

Q44 **Rupert Lowe:** We need this structure and the people as soon as possible. It does not fill me with great confidence to hear that a whole load of legislation has to be passed first. That sounds like a long time to me.

David Hill: We will do it as fast as we can, but it is the biggest set of changes to the sector since privatisation. However, there is a lot we can do in advance of legislation.

Chair: Thank you for that. May I ask our witnesses to speak up a bit?

Some Committee members are having difficulty hearing, so speaking up would be really helpful.

Q45 **Sarah Green:** To pick up on what Rupert was saying, on the transition period we are talking about, you said the plan would be published in the next couple of months. Do you mean before the King's Speech? What timeframe are you working to, specifically?

David Hill: The transition plan is over the next couple of months. It is not dependent on the timing of the King's Speech—

Sarah Green: So you are cracking on with that anyway?

David Hill: Yes, we are getting on with that.

Q46 **Sarah Green:** I am keen to better understand what the future looks like and what you anticipate. This question is for the whole panel. You are right that there are four regulators at the moment, coming into one and filling in the gaps. I am keen to understand how you anticipate that improving not just consumer trust but transparency. What does good look like in the future?

David Hill: I am the person responsible for the new bits, I suppose. I think it is a number of things. A lot of this is informed by Sir Jon's recommendations. One thing he said is that there is insufficient clarity about the big priorities for the sector, whether that is environmental outcomes, affordability for customers or a long-term plan for the resilience of assets.

One element of the future will be a much stronger and clearer statement from Government about the big strategic priorities for the sector, to give much more certainty for everyone involved—not just water companies but others who have a big impact on environmental quality, such as agriculture—about what we are trying to achieve.

The second big thing is a much more joined-up approach to regulation. As Chris says, we have four different regulators regulating different bits of the water system, and that has led to overlap and duplication in some areas—we have seen and heard that very clearly. You can look at urban waste water treatment regulation as an example of that.

It has also led to gaps. We have talked a lot about asset health, and there is a gap in the way we regulate for that. We need a much more joined-up, single guiding mind on how we balance environmental objectives, affordability for consumers and the financial sustainability of the system.

We then need a system that creates the conditions to attract investment into the sector. That is about ensuring that we avoid the problems we have seen in some water companies of chronic underperformance and a chronic lack of financial resilience, while also being capable of giving investors stability, certainty and predictability. That is why in the future, while we will have five-yearly price reviews, we will also make sure there is a much stronger 10 or 25-year time horizon for big infrastructure.

The infrastructure programme, even in this price review period, is the second-largest infrastructure investment in any sector of the economy over this Parliament. That will continue in the future, and many of the projects we are talking about take longer than any one price review to deliver. Part of what good will look like in the future is a much, much longer planning horizon for major infrastructure. That is the flavour of what we are trying to achieve.

Q47 **Sarah Green:** I want to ask specifically about asset health, because you mentioned the recruitment of a chief engineer. What difference will that make? You already have engineers, so what difference will having somebody as a head honcho make?

Helen Campbell: The chief engineer is a theme of the White Paper that has come out on the future regulator. As Chris sets out, we have been taking steps in Ofwat to increase our engineering capacity to be able to address some of the gaps we have had in knowledge and oversight of asset health and asset condition in the sector. That is part of the reason why I was brought onboard two years ago.

A large part of the growth in Ofwat's numbers, which Chris referred to, has been in the team that I have built—from 30 to over 150 people now. That includes specialists who are looking at all areas of companies' performance. I also have a team, which did not exist previously, focused on engineering, operations and asset management. We are working very closely with the sector to develop the kind of measures that you have talked about, and that are important for us to be able to have oversight and understanding of the condition of assets.

To go back to the point I made earlier, it is absolutely the responsibility of companies to understand their assets and what investment is needed in those assets, and to bring forward well-justified plans for us, as a regulator, to assess.

Q48 **Sarah Green:** May I ask about enforcement? I appreciate that the Environment Agency is not sitting in front of us, but I know there is deep frustration in my constituency. To give one example, there was a major incident in Chalfont St Peter two years ago. Here we are in 2026, and although the Environment Agency has been out to see it, we have not seen or heard anything since. Two or three years ago, the EA was very open that it was no longer investigating category 3 and category 4 incidents.

David, if the current Environment Agency is not able, because of resourcing issues, to do the work that the public expects it to do, what confidence can we have that shifting that responsibility will mean it has not just the capability you were talking about—and the teeth—but the resources to do what is needed?

David Hill: I would be very happy to pick up any specific points with the chief executive of the Environment Agency. There is a backlog on enforcement, and you will see that the White Paper has some commitments on the timeframe for clearing that backlog. I would be very happy to get the chief executive—

Q49 **Sarah Green:** Could you update the Committee with a note on that? I think that would be valuable, as we all have instances that we could reference.

David Hill: I would be very happy to. I think you have the chief executive in front of you in two weeks' time.

To come back to your point about capacity, I think the powers in the Water (Special Measures) Act are important. They significantly increase the ability of the Environment Agency to recover costs from the companies they regulate in order to ramp up their investigation and enforcement capabilities. Without prejudice to the structural changes we are talking about, we are increasing the powers to strengthen the funding streams to support that work. There has been a significant increase in the resources available to do that, which is why it is able to make the commitments to clear the backlog.

Chair: I will come to Lloyd next, after which we will take a break. Hopefully, we will then sprint towards the finish.

Q50 **Lloyd Hatton:** I am sure that everybody here has been fairly appalled by the significant water supply outages across much of the south-east of England. In 2023, Ofwat launched an investigation into South East Water, looking at these supply outages. That investigation, which is over two years old, has not concluded, and it has not come forward with any actions or recommendations. Of course, in the light of what we have seen happen in recent weeks, Ofwat has launched another investigation—an emergency investigation—looking into major supply shortages with South East Water.

It feels like this is an incredibly slow and reactive way of working, and that we are therefore unable to bear down on failing water companies when they preside over serious water outages. Can you reassure us that a new single water regulator will do a better job than Ofwat, and that it will be able to be much more proactive in holding to account failing water companies such as South East Water?

Chris Walters: It is correct to say that the investigation we opened into South East Water's supply resilience, or lack thereof, was November 2023. We hope to conclude that very shortly, but because it is an open investigation, you will appreciate there is a limit to how much I can say on timing. It is also true that, following the awful events in Tunbridge Wells—I cannot imagine how difficult that must have been for people there—we opened an investigation into South East Water and how it has engaged with its customers.

Part of the reason why the supply resilience investigation has taken this amount of time is because it relies on very complicated engineering information. As we have been discussing, assessing supply resilience and resilience standards is a very complicated thing to do. It is always our ambition to expedite these investigations, but of course parties have rights of defence that have to be respected as well.

Q51 **Lloyd Hatton:** When you say that parties have rights of defence, are you talking about South East Water?

Chris Walters: Yes, South East Water has the right to make representations.

Q52 **Lloyd Hatton:** It seems to feel, particularly to people living in the south-east, but I imagine to everyone on the Committee, that it would be defending the indefensible. We have seen long-term problems across much of the south-east of England, where there have been significant and repeated water outages. This pace of working feels very slow, clunky and reactive. They would want to see a new water regulator be much tougher, much quicker and much more proactive so that we can set aside what South East Water has to say for itself and actually get on with sorting the problem, which is causing so much devastation and disruption across the south-east.

Chris Walters: We absolutely share that ambition, and it is our goal for the new regulator for England to do exactly that. The south-east of England is a water-stressed part of the world. South East Water received allowances of almost £230 million in our recent price review, but it requested £295 million. We concluded that its customers had already paid for some of what it had asked for, and some of that was inefficiency.

South East Water is one of the companies that have appealed our determination to the CMA, which is largely upholding our position. However, the CMA has allowed a small extra amount because South East Water has been able—I am pleased to say—to bring forward better evidence of the need. The reason I bring that up is because it illustrates the complexity of exactly the kind of thing I am talking about, which is why the investigations take the amount of time they take. But yes, we absolutely share the Committee’s ambition to do these faster.

To return to the case about South East Water’s engagement with its customers, the criteria there are not about engineering resilience. There are five simple criteria in the customer-focused licence condition G, which we can investigate, and it is our goal to do that much quicker than we have.

Q53 **Lloyd Hatton:** Lastly, when will the first investigation likely conclude? Can we get a date? When will the second emergency investigation likely conclude?

Chris Walters: I cannot give you a precise date, but I can say that it will be very shortly indeed. It is our ambition to conclude the second investigation as soon as possible, by which I mean months, not years.

Q54 **Chair:** A quick question from me, and then we will take a break. It seems to me that what we need, as part of your PR29 process, is a constantly updated risk register of all water companies and their highest risks, so that you can start to direct investment to try to prevent these sorts of things from happening again. As you say, what has happened, particularly in the south-east, is completely unacceptable for water consumers anywhere in the country.

Chris Walters: We agree, and some of the proposals that we have been putting into the Department on what supervision looks like in practice do exactly that. Helen, I do not know whether you want to say any more.

Helen Campbell: No, I think that is right.

Chair: Thank you very much—that is very helpful. We will now take a short break. The clock stands at almost quarter past 11, so we will try to be back by 20 minutes past 11. We will then cover a few things that we have not already covered.

Thank you so much to our witnesses and all colleagues for their forbearance. I know there is a lot to cover.

Sitting suspended.

On resuming—

Q55 **Tristan Osborne:** My questions are linked to the IWC's concerns around financial resilience and investor confidence. I suspect that one of my colleagues will pick up on some of my points. I was surprised when you said earlier that you felt there was investor confidence in the sector. The credit rating agencies have done numerous reports on the water industry since 2018 and have downgraded the sector numerous times. One of the major reasons is because of "poor regulatory oversight," in their words. We are moving towards a new regulatory regime, but can you really say that Ofwat has delivered investor confidence from a market perspective?

David Hill: The point I was trying to make is that, in our conversations, there was a positive investor response to the direction of travel of the reforms that the IWC was recommending, in terms of the steps that we are now proposing to take. You are absolutely right that there have been sector-wide downgrades by the credit rating agencies over the last few years. However, I was saying that there are signs that, broadly speaking, investors—I cannot speak for all of them—would say in our conversations that the direction of travel of the reforms predicated in the IWC report, and which the White Paper now confirms the Government will take forward, is the right way to go, but they clearly want to see more detail, as Mr Lowe was asking about earlier. That is the point I was making.

Q56 **Tristan Osborne:** I want to probe on those reforms. If I look at investor sentiment, they are concerned that yesterday's White Paper does not have enough clarity on some of those reforms. If I might push back on what you have just said, you have clarified that the transition plan will be published within months, but it would be helpful if we could have a bit more certainty on that and whether there will be a shadow regulator—that is a major concern in the markets, and we have seen that in other organisations, such as in the energy space.

There is also a lack of clarity around the new regulator's scope. Ofwat is required to report to Parliament—it is a tier 1 regulator in that sense. What is the new regulator's scope going to be? Will it have the same parliamentary scrutiny? There are outstanding questions. Will they all be clarified in the transition paper?

David Hill: That is the goal. The White Paper is the Government's substantive response to Sir Jon Cunliffe's recommendations in the round. There were a whole range of issues on which the Government needed to set out what their policy is going to be on Cunliffe's recommendations. The White Paper aims to do that. You are right that it does not give all the level of detail that we know investors and others want and need, but that is the commitment for the next phase of the work.

On your question around a shadow regulator, you will see that a Minister has confirmed that there is an intent to make early appointments as soon as possible for shadow roles. We absolutely hear the views expressed by industry about the need to see new leadership and capabilities. Consistent with all the normal rules about not getting ahead of parliamentary scrutiny of the legislation, we would expect to see early appointments.

On your question about parliamentary accountability, the detail is still to be worked through, but I do not envisage any circumstances where the new body would have any less accountability to Parliament than Ofwat currently does.

Q57 **Tristan Osborne:** I appreciate those answers. One of the other concerns from investors' perspective is that Ofwat had too many strategic policy statements. As I understand it, you had 59 of those. As Rupert Lowe rightly raised, you had a dearth of regulation, but where was the focus in those SPSs? Again, from an investor-confidence perspective, will you be defining that much more tightly than the 59 statements that we have had previously?

David Hill: I think the point that they are making is that there was one statement but 59 different commitments. The short answer to your question is: yes. There will be a much simpler, pared-back set of objectives for the new regulator. There are far too many different plans, strategies and so on. Across the water system we are broadly committed to reducing that to two planning frameworks—one relating to the environment and one to water supply and its long-term safety and security. We now need to simplify that to two planning frameworks. That will be the framework within which the water companies and the regulator work in future.

Q58 **Tristan Osborne:** I asked those questions because investor confidence is critical. If we lose that—and there is still uncertainty with investors around where we are heading—it will add to people's bills. Oxera Consulting has calculated that £27 a year will be added through the regulatory burden if we do not have clarity on where we are. I am not asking you to comment on that, because it is obviously not in the report. My point is that the transition plan needs to be quite tight in terms of its scale, scope and remit if investors are to maintain confidence in the sector—which has had a decline in confidence for five years.

David Hill: I am happy to comment. I will not comment on the specific figure you quoted, but it is an objective of the reforms to reduce the overhead associated with complying with the sector's regulatory frameworks. My Ofwat colleagues will confirm, but I think that we estimated that the total cost to water companies, and therefore to customers of preparing for the last price review, was in the order of £250 million in terms of some of the preparatory work that needed to be done on business plans. We want to see that number radically reduced. Part of that is about much simpler and clearer sets of common objectives that everyone can work to. We are with you on the spirit of your question.

Q59 **Tristan Osborne:** Lastly, financial resilience is critical—and I understand that my colleagues will pick up on other aspects of this. Ofwat has presided over a period when a significant number of companies have been financially distressed, and their ratings have also decreased. There is a crisis of confidence in this sector at the moment. The overall sector has been downgraded, and many individual companies are on a Baa1 rating. That is making it very difficult for them to raise capital. There is a conversation out there regarding several companies and mutualising debt. Is there validity to that conversation and mutualising some of this debt so that we can get better confidence from the market in terms of investment if we were to lose a private sector option?

David Hill: I might bring Helen in to comment. However, I will say a couple of things. First, the financial resilience of the sector is a critical priority of the reforms. The Committee will see that we have made some commitments, for example, around ensuring that the new regulator has the powers to ensure that companies do not acquire unmanageable levels of debt. On mutualisation, I think we would expect the new regulator to be guided by what the best model is for the customers of any individual company.

We see different models. Obviously there is Welsh Water, but we have also seen mutualisation proposals rejected in the past when the regulator was not satisfied that it was in the best interests of customers, and you will have heard the Secretary of State's remarks in the House yesterday on mutualisation. But strengthening financial resilience through all the things we have been talking about—clearer and more predictable regulation, stronger supervisory approaches, looking at some of the tools that the regulator has in their toolkit and strengthening what they can do now—is an important part. Helen might want to add to that.

Helen Campbell: I will just make a broader point about investor confidence. Obviously Ofwat has a very key role in ensuring that there is that confidence, and the way in which we do that is, in part, through setting the price control. The price control has set out, as you know, a record £104 billion, and we believe that we have calibrated the price control such that it is attractive for investors. We monitor market signals very closely. One market signal that is more easily observed is the market asset ratio for listed companies. That ratio compares their value against their regulatory capital base. A market asset ratio over 100% means that they are trading at their value. Long-term trends have been around 110%. And we observe that the market asset ratios for listed companies are around 113%. So that is a clear signal that there is confidence.

I appreciate that there are a number of other ownership models in the sector, but we are committed to ensuring that we have a regulatory framework that is predictable, that is financeable and that is fair to customers. We will obviously be working, alongside the recommendations that have come through in the White Paper, to support the direction that Government are going in.

Q60 **Tristan Osborne:** I have one very last question. Part of the reason why we are here is that after the general election it was very clear that the regulator, in the public's view, was not working. Sir Jon Cunliffe also concluded that many elements were not working. So it is a surprise, when we look at your non-executive appointments, that you have kept in post some of the people who have seen the five years of decline in terms of credit ratings and reputational liability. That makes me question the situation. My worry is that the same people who were involved in this regulator, which has been lambasted in my view, are just going to transfer over to the next one. The non-executive appointments surprise me. Can you give me any confidence that we are not just going to see a movement of the same people, with the same "business as usual" approach, to a new regulator, and then be back here in five years' time with the same issues?

David Hill: Current non-executive leadership of any of the regulators in scope to go into the single regulator cannot transfer automatically; there is no automaticity. They cannot simply transfer into the new body. Government would run a fresh campaign to recruit new leadership at non-exec level to the new regulator. As I say, there is also a commitment to bringing forward early appointments, as soon as possible, in terms of a shadow board. So there is no automaticity around that. And if I may say so—this is just easier for me to say than my colleagues—there has been, obviously, a change in the executive leadership team since the report.

Q61 **Chair:** Thank you, Tris. I am going to bring in Anna in a second. I just want to, on behalf of my constituents, get some reassurance about Thames Water. Thames Water has a restructure before the courts. I hope it will succeed, but if it does not, you, the Government, will have to move towards the special administration regime. Are you ready in every respect for that with the Treasury?

David Hill: Ministers have been very clear: we prepare for every eventuality. We keep up to date all our preparations, including for special administration, should that be required for any water company. In the course of the last 18 months, we have updated all the necessary underpinning legislation. I am limited on what I can say about some of the discussions underway on a market-led solution, which you just alluded to, but the Government are prepared for all eventualities.

Q62 **Chair:** This question is for you, Chris. Whatever the outcome for Thames

Water, can my constituents, who have had woeful investment in, particularly, foul water outflows in my constituency and are very concerned about that, be confident that you will continue your regulation regime just as if Thames Water, or whatever replaces it, was any other company?

Chris Walters: We absolutely will; I will hand over to Helen in a second. As well as all the controls in the price review that apply to other companies, there is an extra level of oversight and support for Thames Water called the "turnaround oversight regime".

Q63 **Chair:** Do you want to say anything, Helen? You do not have to, but do you want to say anything?

Helen Campbell: We have had an independent monitor in place for a period of time. We have far greater scrutiny and oversight of Thames Water than any other company in the sector, precisely for those reasons. As it is, it is clear that there are long-term problems that have arisen over many years with Thames Water, and we are working closely with the company to ensure a satisfactory resolution.

Chair: That is very helpful. Thank you very much.

Q64 **Anna Dixon:** I want to come back to the financial resilience of water companies and particularly focus on issues around so-called "gearing". I am not a financial expert, so I will try to ask my questions in as straightforward a way as possible. My understanding is that since privatisation, Yorkshire Water and its holding companies have racked up debts of some £6.2 billion. In fact, it has made its money and profiteered through interest payments on those debts, effectively getting around limitations on paying out dividends—they always claim they do not pay dividends, but they have been making the money on interest. I note from the helpful supplementary information you provided to the Committee that in March 2025, Yorkshire's gearing sat at around 70%, and that is by no means the highest—obviously, we have just been discussing Thames Water, which is at some 84.5%. You talked about "unmanageable" levels of debt. Where would you set that unmanageable level of debt?

David Hill: I will turn to my Ofwat colleagues, because the regulator forms a view on what it regards as acceptable.

Helen Campbell: When we set the price control determination, we set it on the same basis for all companies: a notional company that has a 55% level of debt to equity. That is intended to provide a signal for where an efficient company should be operating. Companies can deviate from that notional structure, and, as you point out, Yorkshire Water is not unique in having gearing above that. However, the gearing above that is at investors' risk, and we set returns and the cost of debt consistent with a 55% gearing.

Q65 **Anna Dixon:** Are you expecting to see the gearing of companies like Yorkshire Water drop from 70% to 55% over this five-year period? Is that an expectation?

Helen Campbell: It is a signal. We considered, as we were developing the price control, whether there should be a particular floor for the level of gearing. That is not a policy we took forward, but it is a consideration within the White Paper.

Q66 **Anna Dixon:** So it is a signal; they could choose not to. You say that it is at investors' risk, but a lot of the risk seems to sit with customers. I have seen the breakdown for Yorkshire Water bills, and according to your own pricing methodology, over 50% of a bill is split between investor returns and capital repayment, with just 39% of a bill actually going on operating costs. Are the investors really taking any risk? Are they actually putting in any money? Looking back over the period since privatisation, they seem to have taken a lot more out than they have put in.

Helen Campbell: It is fair to say that in the past investor returns have been high. That is why we have acted with the new powers that we were given in the Environment Act 2021 to strengthen the controls around the regulated company and how it can pay dividends. In 2023, we introduced a measure by which companies have to declare and pay a dividend in relation to a policy that complies with what we have set out. That policy means that they have to pay dividends that are in accordance with delivery for customers and for the environment, and we will act if companies do not do that.

Q67 **Anna Dixon:** In a way, customers are now paying for the fact that a lot of money—probably more than should have been—was taken out in the past. Some of the things we thought we had paid for were not actually delivered. It is only now that there is a clawback mechanism to ensure that if companies do not deliver, we do not pay. Have you any idea how much tax customers have paid over the last five-year AMP period for infrastructure investment that never happened?

Helen Campbell: Customers have had money returned to them in the last five years where companies have not delivered the performance that was expected. I do not have that number off the top of my head, but I can write to the Committee if that is helpful. That regime has been in place for the last five years and continues into these five years. We have strengthened that regime in the current price control. As you say, we have now identified measures that companies have to deliver in order to retain the investment that has been given to them.

Q68 **Anna Dixon:** I have a final point. In the shift from debt to equity that you are signalling, there is, I think, an aspiration to move away from the short-term equity or hedge fund-type investor—I will not name any specific ones—to more long-term patient capital in the form of pension fund investors and other types. Is there any confidence that that aspiration will be met? Are you proactively trying to change the investor interest and investors in this market? Is there anything that Ofwat will actually have the leverage to do?

Helen Campbell: Both debt and equity investors have a role to play. Given the big step-up in investment that is set out in this price control, we are keen that they have access to a variety of investors. Going back to the point about investor confidence, we have a responsibility through the measures that we have taken in the price control to set a framework that provides the opportunity for both types of investors to achieve reasonable returns, which we have benchmarked. There are other factors within investor confidence. Part of it is company performance itself and broader conditions around the regulatory regime, which we have discussed.

Anna Dixon: I am going to leave it there, because I am not an expert, but I fear that we do not have a very financially resilient sector. I fear it is not getting value for money for customers. I worry that we are going to keep paying above the odds for another five years, only to find these companies taking good returns for very little for customers.

Q69 **Chair:** Chris, can I go to a particular bit of what Anna was getting to? You set the investment plan for each water company. They carry out those investments. There is a suspicion among my constituents that when they carry out those big investments—for example, building a new waste water sewage treatment works—they inflate the price and give it to one of their associated companies. How can we find more transparency from water companies around tendering and value for money when they embark on these big investments? In the Cotswolds, some of these projects have inflated in price hugely. That might be genuine, but we would like to see transparency around this.

Chris Walters: I understand the question. There are two aspects to this. The first is that proposals are put to us by companies. We scrutinise them to ensure that they are fair value for customers and the environment. Most of them are shorter-term projects, not the large water resilience projects that I think you are talking about.

For that first set of projects, we have data from other companies, and data going back years, so we are able to benchmark companies' proposals against each other and then layer our own engineering expertise on top of that to work out what a fair allowance for expenditure and investment is.

On the major projects side, we have a process of milestones. In PR24, around £2 billion of initial money has been set aside for this £50 billion pipeline of 30 major projects. We have what we call a gated process, where companies have to satisfy us at various milestones that their projects are on track.

Because this is a new pipeline, we are, along with the Department, through the ministerial-led water delivery taskforce, in the process of revamping the way that we benchmark those major projects, for exactly the reasons that you are alluding to. Again, that is more Helen's side of the house than mine, so I don't know whether there is anything that she wants to add.

Q70 **Chair:** Just before you answer, Helen—and I am very keen that you do—you only partially answered my question, Chris. What my constituents want to see is the process: they want to see what the tenders were; they want to see who was awarded the tender. It is about having more transparency in this whole process. You might be doing the job perfectly well, but my constituents want to see how it is being done.

Chris Walters: Forgive me; I missed the transparency point. On the first set of projects that I described, the delivery plans and the assurance plans that go around that—which Helen gave an overview of and that companies are required to report to us—are going to be made public so that people can see where their money is being spent. On the major projects side, one of the goals of the ministerial-led water delivery taskforce is exactly to throw more sunlight on this issue.

Chair: Thank you, that is very helpful. Helen, do you want to add anything?

Helen Campbell: No, I have nothing to add.

Q71 **Chair:** Okay. I am going to use my Chairman's authority, because I have to go at 12 o'clock and I want to raise a whole new subject, which is the whole business about the Environment Agency's role in planning.

My constituents are fed up with larger planning applications coming in when they know perfectly well that the current waste water system is not working, and that the new planning application, if it goes through and is granted, will make the situation worse. In my constituency, we even have some instances where the freshwater supply is not adequate and, therefore, new developments will make the situation worse.

The question around this, David and Chris, is this. What changes are you going to make under the new regulatory regime to the way that the regulator interacts with the planning system to make sure: first, that they are looking at the local plan process at the planning stage, so that they know where the big developments are coming way before they happen, so that they can get the infrastructure planned; and, secondly, that when the actual planning applications come in, the right advice is being given?

The Environment Agency is a consultee, and I gather that the water companies may become consultees, but what assurance can my constituents have that this system will be improved? Again, on a transparency point, could we see the advice that the new regulator gives to the planning authorities in relation to each development?

David Hill: Perhaps I should begin, Chair, then my Ofwat colleagues may wish to add something. One of the things we have announced in the White Paper is that water companies should be listed as consultees in the development of local plans. That is about getting them involved in that process to ensure that, as a plan is drawn up, all the issues around adequate water supply and waste water capacity are addressed at that stage of developing the local plan. If we can get that stage right, any individual planning application ought to be consistent with the local plan. That is the proposition in the White Paper, and we are working very closely with our colleagues in the Ministry of Housing, Communities and Local Government on that.

Q72 **Chair:** Could I just stop you there, David? There is an important point here. We know that one really big planning application in the east of the country had to be refused because there wasn't an adequate water supply. I do not know whether that investment went abroad, or what happened to it. In the case of highways, National Highways absolutely has a block over planning applications in a certain area—in my case, I have big troubles with motorway junctions. In judging whether a local plan is sound or not, or when an individual application goes to appeal, will the planning inspector take these water issues really seriously? If there is insufficient capacity in an area, the inspector should take that very seriously, should he not—or she not?

David Hill: The inspector should consider applications—whether they are in line with the local plan. I think what I am saying is that we need to strengthen, in the development of that plan, consideration of water resources and waste water capacity, and that is what the measures announced in the White Paper are intended to do. Obviously, I cannot pre-empt the decision of any individual inspector on any individual planning application, but our judgment is that there is a gap in terms of ensuring that these water supply and waste water capacity issues are adequately addressed in the system. That is the gap we are trying to address.

It is worth noting that we are also committing to update both the national planning policy statements, for water resources and waste water, so that for major projects that regime is up to date. The Government are also committed to bringing forward a new NPS specifically for data centres, which are obviously one of the most water-intensive pieces of new infrastructure that we see coming forward. We need to ensure, where we see new infrastructure with a major call on water resources, that the planning system properly takes account of that, so a new NPS, which will include water resources issues, will be coming forward as well.

Q73 **Chair:** You have dealt with three quarters of my question, but the final quarter is on transparency. My constituents are driven mad when a planning application comes along and they see there aren't adequate waste water treatment plants, for example. Can we see more of the evidence that the new regulator gives to the local planning authority? Can we see what their evidence actually is, because my constituents would like to see that?

David Hill: Could I take your question about transparency away and perhaps come back to the Committee with a more considered response?

Chair: Yes. I am absolutely delighted you should say that—thank you.

David Hill: I would like to highlight some work under way with NISTA, the national infrastructure authority, on a new planning tool that they have been developing for new infrastructure and is called "Align". One of the things that does is take all the available data around waste water and water resources information and put that into the model. It is intended to give all the relevant agencies a much better handle on where we see capacity constraints in the system and therefore facilitate better informed judgments about where new infrastructure should go.

Chair: That is extremely helpful. I apologise to the witnesses and to my colleagues: I have to leave now for an appointment in my constituency, but my very able deputy, Clive Betts, will take over from me. Thank you very much indeed.

[Mr Clive Betts took the Chair]

Q74 **Chair:** May I begin by following up on the Chair's question about planning? It was really helpful to hear what you said about the requirements for local plans in the future to look at these issues. The problem is that by the time the rules are changed, we are going to have probably half the country or more with a local plan in place for the next 15 years or more. What is going to happen in those situations?

David Hill: What I have described is trying to strengthen the system, but even today, under the current arrangements, you ideally would expect planning authorities to be taking account of water and water supply issues and waste water capacity issues. Through the delivery taskforce that my colleague mentioned earlier, where we see obvious problems, we are trying to come up with some bespoke solutions. We have done that in Oxford and in Cambridge, and we have recently done it in north Sussex. The aim is to try to ensure that bespoke arrangements can be put in place, sometimes involving work with the water companies around upgrading capacity, so that applications are not blocked. We do not have a full and accurate set of data on those things right now, but where we get intelligence of problems, we are putting in place arrangements to try to fix them.

Q75 **Chair:** Is there any thought that you might want to contact all the authorities with a local plan in place and say, "Look, this is what is going to be required in the future. You ought to have a think about whether your current plan addresses these issues properly"?

David Hill: That is a good challenge, Chair; I am happy to take that away.

Q76 **Sarah Green:** There are authorities, including mine in Buckinghamshire, that are currently in the process of drafting their local plan while meeting the new housing targets that they have been set. I strongly suspect that the timeframe we are talking about will come after they are required to submit their proposal, so this is a live issue in some parts of the country. I would be keen to understand from your response, when you write back to the Committee, how you intend to influence existing, live local plans that are being drafted now, given the direction of travel.

David Hill: Perhaps we could come back with a considered response to all the points raised and how the local plan process fits with the water resources management plans. They aim to address these issues, but I accept that there are some things we need to do to strengthen the system.

Q77 **Chair:** That would be very helpful, thank you. I will come back to an issue we raised before, to make sure that we got it right. We talked about the regulation of water companies and about the parent or holding companies. I think that we were told that they are not currently regulated and will not be in the future. Did we hear correctly?

Helen Campbell: Our powers are related to the regulated entity.

Q78 **Chair:** Could you convert that into language that we can all understand clearly?

Helen Campbell: We regulate the companies—the regulated entities. The holding companies may be in jurisdictions that are outside our powers.

Q79 **Chair:** They are outside?

Helen Campbell: Yes, but we have put in place clear controls and ringfenced conditions around the companies that are regulated to ensure that there is a clear set of controls to keep protections around the regulated company.

Chris Walters: It is common in economic regulation, across all sectors, for the regulator's power to be, self-evidently, at the level of the regulated company. Here that means controlling the money that leaves the regulated company to go somewhere else. It is not common, and would be a very significant shift in economic regulation generally for that to expand to holding companies. Say it expands by one level of holding company; what is to stop organisations setting up holding companies for the holding companies, and the regulations expanding?

Chair: Those organisations do that, don't they? That is exactly what happens.

Chris Walters: Soon, economic regulators of utilities would effectively be financial regulators. That would be a very significant shift in what the oversight of regulated sectors is.

Q80 **Chair:** Essentially you are financial regulators in the water industry, are you not?

Chris Walters: We are financial regulators for the companies that we regulate. I am sorry if that is a tautology.

Q81 **Anna Dixon:** I want to probe on this point because I have looked into Yorkshire Water and those nine holding companies. It is not that those companies are doing other businesses; they are all created for moving money around, for making money out of various debt and interest payments and—as we heard at the top of the session—for paying the CEO extra payments outwith regulated bonuses and salaries. I worry: how can you properly regulate the regulated entity and ensure its financial resilience without having a purview for, some control over, or some say about, the wider holding companies?

Helen Campbell: Perhaps I can pick that up in terms of the powers, which I mentioned earlier, that we were given in the Environment Act 2021 to put a ringfence around the regulated company for precisely those reasons. Those powers are designed to ensure that the regulated company operates independently and maintains financial and operational stability when it is part of a larger group. I can talk about some of the conditions, but the dividend condition that I mentioned earlier is one of those safeguards.

Q82 **Chair:** We have just heard about Yorkshire Water slipping money through its parent company to its chief executive. Yorkshire Water may not be the company doing that, but it is the company that is regulated; the slipping of money from the parent company is not regulated. Is that not a clear example of where the current system does not work?

Helen Campbell: We do not regulate the payment from the parent company to the individual. We regulate where a payment has been made to the chief executive out of the regulated company. Your point is absolutely right: there needs to be transparency and a rationale, and companies should explain why those payments are justified.

Q83 **Chair:** Or we should regulate the parent company to at least some extent as well. That is probably a policy issue that you can't comment on. We might come back to it. I will finish with some questions on customers, who you have mentioned before. Customers—presumably most people watching this are customers—will feel, "Well, the shareholders have been looked after, and the officials at the water company have been looked after, but what about us?"

Anna Dixon asked a question about what happened when schemes were not carried out that the customer had paid for, and you said that the money would be returned to them. But Yorkshire Water got fined because it allowed a high degree of sewage discharges, and I asked if the customers were going to the benefit, but no, the money is going to the Treasury. The customers have paid for that work to be done to improve sewage overflows, and the Treasury has got the benefit.

Chris Walters: It is true that fines go to the Treasury, but in the majority of waste water cases that we have concluded, companies have offered us undertakings in lieu of enforcement that give us the power to direct investment to remediate the problem, prevent it happening in future, and do more for communities.

David Hill: Just to clarify, fines are now hypothecated, so they don't sit in the Treasury; they are returned to us in something called the water restoration fund, and they are spent on projects to improve the water environment. There is one caveat: they must not be spent on something that a water company should be doing itself. There is now something like £29 million in fines coming back to the Department for dispersal into local projects, rather than the money just going to the Treasury. That is a new innovation.

Q84 **Chair:** Is that hypothecated back to the area where the fines were levied?

David Hill: Not directly, but we try to make sure that there is a good geographical distribution of the money in terms of where those projects are supported.

Q85 **Chair:** Going back to the wider issue of customers, when we look at the five-year price review, account is taken of the need for investment, and of shareholders and their returns, but it seems that the customers always come somewhere down at the end. Affordability is not really one of the issues that is addressed, is it?

Chris Walters: Affordability and the customer interest are addressed. PR24 included more protection and more support for customers than ever before, in addition to the record level of investment and very significant bill increases as a consequence of that, but we do understand how difficult that can be. Part of my job involves talking directly to members of the public, as well as their elected representatives like you. We hear those concerns at first hand and we do understand them.

That is why there is more protection and support in the PR24 final determinations than ever before. As we discussed earlier, protection extends to ensuring that customers' money is ringfenced for investment, and there are mechanisms to claw it back and return it to them in the form of lower bills if that investment is not realised. It includes support for those struggling to pay, using what are called social tariffs. The percentage of customers eligible for shareholder-funded social tariffs doubled in this price review.

Q86 **Chair:** On one level, that could be seen as quite rightly helping those in need; on another level, it could be seen as prices actually getting more unaffordable for more people. As such, this has not been taken to the heart of the issue, has it?

Chris Walters: That is a fundamental question. Part of the criticism that Ofwat has received that is featured in the Independent Water Commission, as I mentioned earlier, is that bills have been kept "artificially low"—not an allegation I accept, for the record—but there are certainly people who think the price review process has been too pro-customer, and not the converse.

Q87 **Chair:** I think most customers will now think they are going to pay an awful lot more for services they should have been receiving and, in many cases, still aren't.

Chris Walters: Absolutely. That is why we see in the Independent Water Commission exactly that analysis—that this patchwork quilt of regulation has led to gaps, overlaps and inconsistencies in responsibilities. A significant level of investment is needed to catch up, but the reforms in the White Paper have the exact goal of preventing that kind of bill shock in future.

Q88 **Chair:** On the White Paper and having a national water strategy in future, is that simply a case of doing more over a longer period?

David Hill: That picks up on what I was saying earlier about the Government giving a clearer sense of what the big priorities are for the sector over a longer period. I would expect to see that reflected in the Government's future guidance and directions to the new regulator. We have also said very explicitly that we will set an objective for the new regulator about customer bills being fair and affordable, so that will be written into the four or five objectives that they must work towards.

Q89 **Chair:** What is the CMA's role in the new system? Will it still have a role?

David Hill: It will be a different role. The main change that we are proposing in relation to the CMA is that, currently, they perform that function of being an independent appeal mechanism against the determinations of the regulator—so Ofwat, currently. We envisage that there will continue to be that appeal mechanism, but instead of the current arrangements where if you appeal, there is a full redetermination of the whole price review settlement, it will be much more targeted at a specific issue. That is how it is done in other economic regulated sectors.

Q90 **Chair:** Will the CMA have a responsibility to look at affordability for customers as well?

David Hill: They will have to conduct the appeal in line with the regulatory objectives of the system as a whole. They will not be able to take a different view.

Chris Walters: The CMA currently substitutes its judgment for Ofwat's, so it is subject to the goals that we are subject to. In a new system where there is judicial review, I think it remains to be seen what criteria the CMA will use when it comes to the redetermination process.

Q91 **Chair:** There will be a direction to the CMA in the end. They are set up as a public body to carry out the public's will.

David Hill: In any system, I would expect that the CMA would have to undertake its decision making in an appeal capacity, in effect, on the same basis that the—

Chair: Can we have a note about that just to clarify?

David Hill: I am happy to do so.

Q92 **Chair:** That would be helpful. Finally, in the proposals it says that we are going to have a supervisory approach. What exactly does that mean and why is it different from what we have now?

David Hill: What that means—again, this is something that Sir Jon Cunliffe looked at hard, including the experience in other sectors—is that you establish in the regulator a capability to deeply understand, on a company by company basis, the specific technical, engineering and infrastructure challenges facing a particular company and you build a company-specific regulatory capability and expertise, whereas a lot of the current approach is based on economic modelling and looking across the sector as a whole. It is not about dropping all that, but it is giving you that company-specific view of how the companies should be regulated.

Q93 **Chair:** Will you have officials who are specifically allocated to look at, understand and work on proposals with a particular company?

David Hill: Yes, with the stronger engineering capacity that I talked about, they might get to know in much finer detail the particular engineering challenges that companies are facing, which can be quite different in different parts of the country, depending on the nature of the legacy infrastructure and so on.

Chair: Right. Do Committee members have any other issues that they want to pick up? If not, thank you very much. Thank you for coming. It has been an interesting session, looking at the challenges as well as what could and will change going forward. An uncorrected transcript of the hearing will be published on the Committee's website in the coming days. The Committee will then consider the evidence that it has received and produce a report in due course.