



**Environment, Food  
and Rural Affairs  
Committee**

David Black  
Office of the Chief Executive  
Water Services Regulation Authority (Ofwat)

*By email*

21 February 2024

Dear David,

**Ofwat's Forward Programme 2024-25**

I am writing in reply to your letter of 22 January requesting a response from my Committee to Ofwat's consultation on its Forward Programme 2024-25.

We are grateful for your engagement with this Committee on the significant issues currently facing the water industry. While our discussions in recent months have largely related to the difficulties facing Thames Water, the issues raised in the course of those hearings are highly pertinent to the sector at large. As such, my Committee's response to your consultation, set out in this letter, considers their applicability to the water industry as a whole and the challenges that industry faces.

The provision of clean water and the removal of wastewater is one of the most fundamental and essential tasks undertaken by Government, its agencies, and private water companies. It is crucial that large natural monopolies are held to account and fulfil their responsibilities to the public. In the case of water companies, this includes providing clean drinking water, protecting our waterways and seas from environmental harm, and future-proofing our access to a resource that is fundamental to life. We

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have found that for many years certain companies tasked with meeting these obligations have failed to do so and have demonstrated a model of management that is both undesirable and avoidable. We acknowledge the huge challenges faced by the water industry, but also that these challenges have been known about and neglected for many years by those tasked with addressing them.

As such, we commend recent steps taken by both the Government and Ofwat to tackle some of the most egregious examples of mismanagement in the sector. These include introducing powers to challenge dividend payments to investors where water companies are underperforming on environmental targets, and to fine firms up to 10% of their turnover for providing poor customer service. We are also supportive of the proposals announced by the Secretary of State for Environment, Food and Rural Affairs to block bonus payments to executives of firms that commit criminal acts of water pollution and to take responsibility for monitoring that pollution from the businesses themselves. Finally, we note with approval the primary and secondary legislation introduced by the Government to provide more options for special administrators to restructure companies who are unable to pay their debts.

During our public hearings, however, we noted with concern the challenging position that Ofwat finds itself in relation to implementing and enforcing these measures. We have real concerns that Ofwat's enforcement powers place it in a situation whereby enforcing regulations and issuing fines against consistently failing entities will place a further financial burden on these entities and increase the risk of corporate failure. In the case of Thames Water, shareholders of the parent company have made it clear that future infrastructure funding is contingent on Ofwat taking a positive view of its proposed bill rises and taking a lighter touch on its regulatory enforcement measures.

We are concerned, therefore, that it may not be in your organisation's interest to use the full extent of its powers given the impact that the failure of a major business would have on the stability of the sector and the public purse. Challenging dividend payments to Kemble Water, the parent company of Thames Water which itself generates no

income, has the potential to undermine its business and require Government action through a special administrative vehicle (SAV).

Any forward programme must clearly set out how Ofwat will balance its need to regulate with protecting the financial viability of the water companies. It must also detail ambitions to conclude investigations in a more timely manner; many investigations into malpractice in the sector take several years to complete which itself undermines public trust in the sector and regulator.

As noted above, my Committee has in recent months paid particular attention to the financial resilience of the water sector in the face of growing debt and rising interest rates. We have raised concerns about the corporate structures that have facilitated this increased debt while allowing environmental, service and maintenance performance to drop far below acceptable levels. It is unacceptable that certain actors in the sector have been able to take on large amounts of debt while failing to act as custodians for the infrastructure they have inherited. This is yet more concerning as we look ahead to a period that will require huge amounts of capital investment in new infrastructure; infrastructure that was neglected in favour of profit and dividends to shareholders. We acknowledge that you share these concerns and note that your Forward Programme makes a positive statement about the steps you will take to address them.

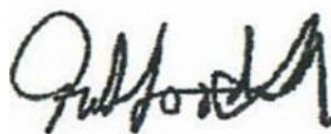
We appreciate that much of the corporate structure and processes underpinning financial decision-making fall outside the regulatory oversight of Ofwat, despite its central role in regulating the fee-charging and revenue-generating entities within those structures. As such, we feel it is imperative that you, along with this Committee and others involved in regulating the sector, continue to press Government to ensure that the burden of risk falls on the shareholders of those companies in the case of corporate failure. Furthermore, steps should be taken wherever possible to increase the transparency of corporate structures that have shielded the ultimate owners of our public utilities from scrutiny.

Much focus has been placed on proposals by the sector for an increase in consumer bills in the years 2025-30. We accept that our ageing water infrastructure must be maintained and improved, and new infrastructure put in place to meet the challenges of a changing climate. We are conscious, however, of the potential impact of increased water bills on consumers already facing significant cost of living pressures, and request that you take this into account when making your assessment.

We are also concerned that an increase in bills will produce a justifiable perception of unfairness from consumers who are being asked to shoulder the burden of improvements by companies who have consistently and publicly failed on delivering their core obligations. As you have noted in your 2022-23 water company performance report, there were no companies in the 'leading' category and some companies remained in the 'lagging behind' category for the third consecutive year. Increased bills to fund investment and regulatory leniency should only be preceded by a demonstration of a willingness to invest and a change in corporate culture that places public good at the heart of decision making.

We look forward to receiving details of your final forward programme, and to continued engagement on these and other matters facing the water industry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rt Hon Sir Robert Goodwill MP', written in a cursive style.

**Rt Hon Sir Robert Goodwill MP**  
**Chair, Environment, Food and Rural Affairs Committee**