House of Commons

Environment, Food and Rural Affairs Committee

Priorities for water sector reform

Second Report of Session 2024–25

HC 1001

Environment, Food and Rural Affairs Committee

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Overall findings

The water sector is failing. During the course of our inquiry, we have heard too many examples of corporate failure and unacceptable pollution incidents. Over hearings with ten of the largest water companies and Ofwat, we regularly encountered a culture that is deaf to the crisis the sector is facing. The sector has completely lost sight of its purpose and increasingly operates as a network of financial services businesses rather than custodians of a public good. Despite some initial success after privatisation in 1989, root and branch reform of the water sector is now needed to improve the sector's culture. This culture has led to poor financial management and misaligned priorities, which have kept bills and investment low, raised debt levels unsustainably and failed to improve outcomes for the environment. Some companies have clearly attracted high-risk investors seeking quick profits, rather than the low-risk, low reward investors that will be essential if the water sector is to improve under a privatised model. Public disquiet has increasingly turned to outrage at the way water companies' owners and executives are seemingly benefiting from failing enterprises responsible for natural monopolies and critical national infrastructure. This broad and understandable public anger should never be directed towards frontline staff, who are working hard to deliver essential water services in challenging circumstances.

Summary of recommendations

Senior leadership in the water sector and the regulatory system have failed. They have failed to encourage investment in essential infrastructure and the long-term resilience of the sector. Irresponsible owners, poor leadership, low investment and ineffective prioritisation have led to declining performance on a variety of metrics, with customers often bearing the brunt of the asset failures, pollution incidents and service disruptions that have followed as a result. Public anger has also arisen due to the perception that the privatised system, particularly where dividends are involved, has not delivered. The Independent Water Commission (henceforth 'Commission'), established by the Government to resolve issues in the water sector, will need to put forward strong and significant reforms to put the sector back on track.

We see merits in the argument that the current models of ownership in the water industry may not be bringing about the culture the sector needs. The Commission and Government should be open-minded about the advantages and disadvantages of different ownership models, and not shy away from proposing alternatives. Governance should be improved through more oversight of wider company structures and by provide regulators with the power to vet and veto potential owners and investors. The Government should feel able to use its temporary nationalisation powers where invoking them is in the public good, though we are cognisant of the high initial costs that doing so could place on the Government's balance sheet.

Regardless of the ownership model adopted, it is essential that a shared understanding of acceptable financial reward for water sector investors and executives is developed. The Commission should determine an effective means of policing that understanding, where performance is deemed unacceptable. This may involve greater involvement of the economic regulator to pre-approve bonuses and dividends as well as the implementation of a 'floor' and a 'ceiling' for dividends to provide reassurance to investors and consumers. The Commission should also determine new measures to regulate the accumulation and management of debt in the water sector. Debt is important, particularly for capital investment, but there is a case to be made that loans should be predominantly earmarked for investments while bill revenues, broadly thought to be too low, should be increased to cover more day-to-day expenditure. A future system ultimately needs to ensure that more money gained from investors and through customer bills is directed towards investment in water infrastructure and service delivery, and less towards debt repayments or financial returns to investors and executives.

The price review process must be reformed or replaced to reflect the long-term investment and performance challenges faced by the sector and the priorities of the public. This must be coupled with reform of the regulatory processes that determine the contents of companies' business plans, which have clearly failed in the past to tackle environmental issues, such as storm overflows or long-term resilience. These reforms may entail higher bills, but protections can be put in place to protect the most vulnerable including through the swift introduction of a single social tariff.

Performance metrics, fines and rewards must also reflect the need for long-term resilience, a reduction in pollution incidents, and the need for responsible ownership on a 'low risk, low reward' basis. The Commission must further determine how to ensure more financial and operational accountability of water company performance through open data and collaboration with customers and regulators. It is only by being honest about the scale of the problems faced by the sector, and the steps being taken to address them, that trust will be rebuilt in this most crucial of public services.

Background and purpose

This is the first report of our long-term and iterative inquiry into Reforming the water sector. It is focused mainly on water companies, following evidence sessions the committee held with the leadership of ten of England and Wales' major water and sewerage companies in 2025.[1] Unlike usual committee reports, it does not provide final recommendations to Government.[2] Instead, its recommendations are directed towards the Independent Water Commission, which is due to present its proposals for reform in summer 2025. It published its interim findings on 3 June 2025, which are referred to in this report.

Commentary on the Independent Water Commission's interim report

The Commission's scope is wider than the issues looked at in detail in our report. Its interim report has in many ways drawn similar conclusions to this committee, particularly in regard to the regulatory framework, better oversight from regulators and long-term resilience.

We draw the Commission's attention, however, to the overall cultural problem within the sector and suggest that a major refresh of the incentives and drivers is needed, including much more regulated management of financial incentives for senior executives. We are more sceptical about the value that is being brought by the present system of ownership and the reliance on debt and equity investment and urge the Commission to be bold in this respect. We need to see a thorough, contextualised analysis of the advantages of different approaches, and a robust evaluation of whether the privatised system has offered value for money and can deliver responsible owners and leaders. Alongside this, open data will also be important for rebuilding trust. While the interim report does touch upon the issue of data, we think greater emphasis could be placed on openness to ensure greater accountability to regulators and the public.

1 Pennon Group (South West Water, SES Water, Bristol Water, Bournemouth Water), Southern Water, Northumbrian Water Group (Northumbrian Water and Essex & Suffolk Water), Anglian Water, Wessex Water, Thames Water, Dwr Cymru, United Utilities, Yorkshire Water, Severn Trent (Severn Trent Water and Hafren Dyfrdwy)

2 The Chair and Minister for Water and Flooding met to discuss the committee's approach and agree that a government response is not required.

A lot of onus has been placed on the Commission to deliver, but the limitations of its scope may mean its proposals fall far short of what is needed to reform the sector. A wide variety of reforms are needed to ensure that urban environments, developers, households, businesses, local authorities, farmers and other relevant actors, play their part in securing water resources for the future. There will be further opportunities for stakeholders to engage with this committee on these matters and others in due course, in line with our committee strategy.[3]

3 EFRA Select Committee, EFRA Committee publishes strategy to guide its work, 11 March 2025

1 Ownership, leadership and culture

1. Water is essential to the effective functioning and health of society, as a May 2024 outbreak of cryptosporidium in Devon's drinking water supply demonstrated.[4] Water is defined as a critical national infrastructure sector,[5] a likely reason why it is a prime target for cyber-attacks.[6] A culture of responsible ownership and leadership is therefore vital for ensuring that the water sector is resilient. Yet, as this report will explore, the leadership of the sector has lost sight of this purpose, failing to prevent environmental damage and invest in future water security. In some cases, businesses have not been transparent about the scale of the problem, particularly for storm overflows where it has fallen to local campaigners to reveal the real state of affairs. Not only has the regulatory system failed to protect water resources from such irresponsible leadership, but it also lacks oversight over critical elements of it. This includes financial structures outside of the regulated entity (discussed in chapter 2), and the actual ownership of these companies, exacerbated by the fact most are based overseas.[7]

Models of ownership

2. The water system in England and Wales is unique in that it is entirely privatised. While initially envisaged as a sector that would be owned by smaller, domestic shareholders in publicly listed companies, seven out of the ten water and sewerage companies are now controlled by private

4 The Guardian, Devon residents told to boil tap water over risk of parasitic disease, 15 May 2024

5 Defined as those critical elements of infrastructure, the loss or compromise of which could result in: a) Major detrimental impact on the availability, integrity or delivery of essential services - including those services whose integrity, if compromised, could result in significant loss of life or casualties - taking into account significant economic or social impacts; and/or b) Significant impact on national security, national defence, or the functioning of the state.' National Protective Security Authority, Critical National Infrastructure, last updated 23 May 2025

6 As reported under the Network and Information Systems Regulations 2018. The Record from Recorded Future News, UK drinking water supplies disrupted by record number of undisclosed cyber incidents, 22 November 2024

7 The Guardian, Revealed: more than 70% of English water industry is in foreign ownership, 30 November 2022

equity investors, serving over 60% of the population in England since 2006.[8] Around 70% of water companies are owned by overseas investors, including companies based in China, Hong Kong, Abu Dhabi, Qatar and Malaysia.[9] This ownership transfer has occurred alongside declining or stagnating performance in some respects, greater public awareness of corporate and operational failure, and some of the most egregious examples of dividend and bonus payments (discussed in chapter 2). Some stakeholders have drawn the conclusion that privatisation has led to more irresponsible leadership, with investors looking to maximise profit from what they see as financial assets,[10] in what should be a 'low risk, low reward' industry. Ofwat does not have the specific power to vet or veto senior leaders or new owners of companies, although it can comment on them.[11] The Commission's interim report suggests there may be a case for stronger powers to intervene when a water company changes hands.[12]

3. That said, some companies emphasised to us that, in contrast to some historic owners within the industry, they do have long-term, responsible owners, looking for reasonable returns, even when they are based abroad.[13] The Commission's interim conclusions also suggest that it is the "investment model of the underlying investors" that is most important, including how long they are willing to await returns and their risk appetite.[14]

4. Several stakeholders have called for state control of water companies, partly due to operational failures, but also due to the importance of water as a public good.[15] Some surveys indicate strong support for public ownership,[16] though this could cost billions of pounds, depending on the type of public ownership pursued. There is good evidence from the period immediately following privatisation, however, that responsibly run for-

8 Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025, p.34

9 Notably, Northumbrian Water is 75% ultimately owned by the Cayman Islands-registered CK Hutchison Holdings Limited, the business conglomerate of Ka-shing, Hong Kong's richest individual. Wessex Water is fully owned by YTL Corporation Berhad, a Malaysian infrastructure conglomerate.

10 UNISON, Clean water: a case for public ownership, June 2024; River Action and Surfers Against Sewage, Joint Submission to the Water Commission, accessed 3 June 2025

11 Oral evidence taken on 26 November 2024, Q157 [David Black]; Independent Water Commission, Interim report, 3 June 2025, para 220

12 Independent Water Commission, Interim report, 3 June 2025, para 30

13 For instance, Wessex Water made this case frequently during its evidence session: see in particular Q550; Q556

14 Independent Water Commission, Interim report, 3 June 2025, para 237

15 River Action, I want to respond to the Water Commission, accessed 5 June 2025; Green Party, Green Party calls for public ownership of water companies following landmark Supreme Court ruling, 2 July 2024; UNISON, Clean water: a case for public ownership, June 2024

16 UNISON, Clean water: a case for public ownership, June 2024, p.20; YouGov, Most Britons believe that trains, water and energy should sit within the public sector, 19 October 2022

profit water companies can significantly increase investment and improve performance on some metrics.[17] Commercial water companies, with access to three sources of revenue (equity, debt and bills), may have greater flexibility to draw on different revenue streams to prevent sudden bill and cost surges.[18] They also avoid the political trade-offs that a Government overseeing a state-owned company might face, for example on investment in health or education. Nonetheless, there remains flexibility on the ideal "privatised regulated model" that is in scope for the Commission.[19] Ofwat has stated that publicly listed companies might be a more appropriate model,[20] with more regulatory requirements and greater levels of transparency. There are also a variety of other business models that could be considered, including degrees of public or employee ownership.[21]

5. It is often highlighted, including by the Commission, that all ownership models have mixed results, both domestically and internationally. Welsh Water's not-for-profit and Scottish Water's fully nationalised model provide domestic examples of poor performance under non-profit seeking arrangements.[22] We note, however, that Welsh Water's gearing levels[23] are lower and its financial resilience is better than many of the main water companies. Not-for-profit models lack one of the negatives of private ownership, dividends, which, as we discuss in chapter 2, have contributed to the worsening finances of several water companies, most notably Thames Water. Other more stable business models, or ones that encourage reinvestment, might also attract more advantageous interest rates for debt[24] or better investors, willing to accept a low-risk, low reward model for returns.

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17 Ofwat highlights these improvements: for instance see oral evidence taken on 26 November 2024, Q80 [David Black]. See also Ofwat, Investment in the water industry, accessed 5 June 2025. Metrics that have improved include drinking water quality, and in the early years of privatisation, leakage.

18 Q9; Q151

19 Defra, Independent commission on the water sector regulatory system: terms of reference, gov.uk, 23 October 2024. The Water Commission's interim report suggests that it is still "evaluating the benefits and risks" of different ownership models that do not involve the use of public funds: Independent Water Commission, Interim report, 3 June 2025, para 236

20 Oral evidence taken on 26 November 2024, Q83 [David Black]

21 Consumer Council for Water, Water industry reform and water company ownership models review, 23 June 2023; River Action and Surfers Against Sewage, Joint Submission to the Water Commission, accessed 3 June 2025

22 Consumer Council for Water, Water industry reform and water company ownership models review, 23 June 2023; Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025; Financial Times, Is public or private ownership better for water utilities? 22 March 2024; Q35

23 Gearing is the ratio of debt to overall company value. This is discussed further in chapter 2.

24 UNISON, Clean water: a case for public ownership, June 2024, p.22; Financial Times, Is public or private ownership better for water utilities? 22 March 2024;

6. Arguments against alternative models may also neglect the role that the regulatory system, particularly the emphasis on lower bills, has played in limiting performance, which we discuss in chapters 3 and 4. Not-for-profits may allow for the simplification of laws and processes, such as the price review (see chapter 3), called for by many parties, since lawmakers no longer need to be as concerned with price gouging from shareholders to secure elevated returns.

7. **CONCLUSION**

Different models of ownership could offer a better culture of responsible leadership, which is key to a thriving water sector. A variety of corporate ownership options should be on the table for the water sector. As well as publicly and privately owned businesses, options include not-for-profit enterprises, Community Interest Companies (or similar), cooperatives and hybrid approaches. Regardless of the approach taken, other factors may also need to be considered, such as powers to vet potential owners of businesses, a power that Ofwat does not currently have.

8. **RECOMMENDATION**

We urge the Independent Water Commission to analyse all potential water company ownership models to determine which models are most likely to lead to a thriving and responsible culture. The Commission should then outline the steps needed to encourage those models of ownership. It is not enough to simply look at the type of organisation and their performance: this analysis must consider the context in which they are operating, such as the effectiveness of the regulatory system. The Commission should consider the extent to which different models, within the appropriate regulatory setup, contain the right incentives to encourage the best behaviours, including sustainable and affordable investment. The Commission should also determine how regulators can better vet or veto potential owners of water companies to prevent bad actors from running critical national infrastructure.

Culture, leadership and bonuses

9. Water companies state that an effective senior executive team is vital for ensuring better company culture and performance,[25] yet despite poor or average performance across the sector, bonuses totalling millions of pounds have been repeatedly paid to senior executives over many years. The maximum bonus rates we have heard about can vary from 50% to 240%

25 Q432; Q26

of base salary per year[26] although in practice they tend to be considerably lower. This is in stark contrast to the much smaller bonuses on offer to those who are delivering operational services. There have been numerous examples of understandable public outcries, with many stakeholders believing that these bonuses fail to incentivise performance improvement. While bonuses are not the main source of financial difficulties, and the sector sees them as vital for attracting talent,[27] they seriously diminish trust.

Box 1: Thames Water bonuses

Thames Water has repeatedly opposed attempts by Ofwat to limit bonuses and claimed that they are necessary to retain staff. In January 2025, Thames Water threatened to increase base salaries of executives in response to proposals from Ofwat to limit bonuses, and in May 2025 it defended 'retention payments' of up to 300% of base salary over the course of its restructuring arrangements totalling £18.5mn to be paid out from an emergency loan.[28]

The Chief Executive of Thames Water has a total pay package of up to £2.3 million and has defended taking a bonus of £195,000 for three months' work, telling the committee that he had "made a difference within the first three months" including new structures to stabilise the company. He also told the committee that remuneration was "not the only reason for me joining Thames, but it was a reason".[29]

In December 2024, the Guardian revealed that Thames Water "intentionally diverted" millions of pounds pledged towards environmental clean-ups towards other costs including bonuses and dividends after secretly considering the risk of a public and regulatory backlash.[30] Thames Water's Chair told the committee that the decision to defer works was taken "because of the funding pressures on the business as a whole" and that "the amounts of bonuses paid to staff are very small compared with the capital cost of the works that we were considering at that stage." He added that bonuses were paid "because we have to keep staff" and "if we are unable to pay bonuses, people will come knocking and try to pick out of us the best staff we have. That is not in customers' interests."[31]

26 Some of these bonus rates are set out in letters received from water companies available under 'Correspondence' on the inquiry website (accessed 10 June 2025). Others are set out in companies' annual reports.

27 Q26; Q279; Q655

28 Qq737–746; Financial Times, Thames Water on collision course with government over bonuses, 16 May 2025; Financial Times, Thames Water plans to raise bosses' pay in response to bonus caps, 15 January 2025

29 Q629

30 The Guardian, Revealed: Thames Water diverted 'cash for clean-ups' to help pay bonuses, 23 December 2024

31 Q655; Q661

> The Chief Executive told the committee that his on-target performance bonus can be 156%, compared to 3–6% for the company's lowest-paid employees, although Thames' annual report suggests that a maximum bonus of 240% is possible.[32]

10. Steps have recently been taken to address concerns about company leadership: Ofwat has acted to improve board governance through encouraging better balance and more expertise;[33] companies have agreed to change their articles of association to prioritise customers and the environment;[34] and Ofwat will introduce, under new powers derived from the Water (Special Measures) Act 2025, "Fit and Proper Persons" tests and more consumer representation to improve decision-making.[35] Bonuses are still a matter for remuneration committees which all operate different policies for bonus payments.[36] Ofwat now does, however, set out expectations on bonus policies, and under the previous government it gained the power to prevent customers from paying for performance-related pay that does not match company performance.[37] The Water (Special Measures) Act has also given Ofwat the power to block and claw back bonuses entirely, which came into force on 6 June 2025. Ofwat will use these powers if a company has breached principal statutory duties or caused a major pollution event. The powers will also be used when a company's credit rating falls below a certain level or if the company is convicted of an offence.[38] These powers have already been used to block bonuses for six companies, mostly on the grounds of serious pollution incidents.[39]

11. The Commission's interim report argues that further changes to boards "would not be justified" given the changes already made, although it is looking at whether the regulator requires a "broader set of tools [to] put the right culture and supporting systems in place" and whether Ofwat could strengthen the principles behind the new articles of association.[40] It certainly remains to be seen if these measures will be effective, but evidence already suggests that more could be done. Ofwat's proposals for the fit and proper person tests set a high bar for preventing appointments and are not

32 Qq665–666
33 Oral evidence taken on 26 November 2024, Q94 [David Black]; Q142
34 Defra, Government announces first steps to reform water sector, gov.uk, 11 July 2024
35 Water (Special Measures) Act 2025; Ofwat, Consultation – Rules on Remuneration and Governance, October 2024
36 Many of the companies we spoke to, and Water UK, noted that bonuses are set by remuneration committees. These committees are established by the company board.
37 Q129
38 Ofwat, Government grants Ofwat new powers to force polluting water companies to ban exec bonuses, 6 June 2025
39 The Times, Bonus ban for six UK water company bosses, 6 June 2025
40 Independent Water Commission, Interim report, 3 June 2025, paras 243 - 249

akin to true oversight of these appointments.[41] While stricter controls on bonuses are welcome, it is likely that pay packages will simply be increased to compensate,[42] which may undermine any potential performance-enhancing incentives. Ofwat's first use of its bonus-banning powers, was also criticised for allowing bonuses to be paid to CEOs that recently oversaw fines or major incidents.[43] Recent debates about whether Thames Water can pay bonuses that are not "performance related" also demonstrate potential weaknesses with these powers.[44] The current approach also does not create a common, robust understanding of bonus criteria in order to tackle the overall culture of bonuses. For instance, the legislation does not clarify if bonuses are deserved when pollution incidents are dropping but supply interruptions are increasing; whether bonuses are justified for an "average" performance rating; or whether bonuses are warranted if there have been small improvements against a challenging set of circumstances. Nor does the legislation make it clear what an acceptable bonus rate is.

12. **CONCLUSION**

Given the wide array of performance issues across the sector, more responsible leadership is clearly needed for better stewardship of our natural water resources. Incremental steps have been taken to improve governance, increase consumer representation and influence bonus cultures in order to improve decision-making, but we are not satisfied that these measures are enough to change the overall culture of water companies and improve performance for customers.

13. **RECOMMENDATION**

The Independent Water Commission should consider what other reforms are necessary to ensure that the right people are put into senior positions and the appropriate bonuses are paid to them. This should include greater oversight or approval from Ofwat before appointments are made and bonuses are paid; clearer statutory expectations on the criteria for bonuses, making sure that they are awarded only for exceptional performance; clearer reporting to show how the needs of the environment and customers have been prioritised; better connections between bonuses and the incentives under the regulatory system; and greater customer involvement in establishing what an appropriate bonus scheme looks like.

41 Based on any investigations, criminal proceedings and company failures that a candidate has been involved in: see Ofwat, Consultation – Rules on Remuneration and Governance, October 2024

42 Financial Times, Thames Water plans to raise bosses' pay in response to bonus caps, 15 January 2025

43 The Times, Bonus ban for six UK water company bosses, 6 June 2025

44 As we discussed with the Secretary of State, see oral evidence taken on 20 May 2025, Q244.

Transparency and accountability

14. Privatisation has almost certainly weakened the accountability of the water industry to the public, which historically had greater democratic accountability through municipal ownership or regional water authorities.[45] Access to data on water resources is vital to ensure accountability and help consumers and bathers use water resources safely and responsibly. Ofwat does operate an open data campaign which encourages companies to be more open with the data they have.[46] This is not a legal requirement although some companies have started a process of publishing more datasets and actively engaging the public on what data they would like to access.[47] We are encouraged that companies are engaging with the Stream collaboration project that is working with companies to publish more data,[48] including some live or monthly reports. However, some companies appear to be more engaged with this project than others, and we note that some information is published annually which is perhaps of limited use to customers.

15. In practice, not all data is public and water companies can be defensive when asked for this information.[49] It has sometimes fallen to commendable citizen scientists to expose issues with local water resources. There are many local and national campaign groups that have played a key role in exposing the poor state of local water bodies;[50] we pay tribute to the work of organisations such as Surfers Against Sewage, Windrush Against Sewage Pollution, Save Windermere, River Action, the Cleddau Project, Clean Water Action Hastings and St Leonard's, Save the Wye, Thames 21, the Severn Rivers Trust and others. In other cases, the Government has had to intervene, as has been the case for mapping and monitoring of sewage overflows.[51] Furthermore, even when equipped with data, customers cannot vote with their feet, due to the monopolisation of water resources. The Water (Special Measures) Act 2025 is making customer involvement in

45 UNISON, Clean water: a case for public ownership, June 2024
46 Ofwat, Open data in the water industry (accessed 5 June 2025)
47 Qq317–322; Q484
48 Many water companies highlighted this in their letters to the committee, available under 'Correspondence' on the inquiry website (accessed 10 June 2025); Stream (accessed 11 June 2025)
49 Qq286–293; Qq311–316; Qq484–493
50 Oral evidence taken on 26 November 2024, Q105 [David Black]; Q113; Q316
51 Water UK, National Storm Overflow Hub – Three Months On, 25 February 2025. Section 82 of the Environment Act 2021 requires all sewerage undertakers to continuously monitor watercourses upstream and downstream of their assets by 2035: Defra, Continuous Water Quality Monitoring Programme - provisional technical guidance for sewerage undertakers, April 2023

decision-making a legal requirement[52] but more could potentially be done, such as making better use of the Consumer Council for Water[53] or consulting or codesigning proposals at a local level.

Box 2: Transparency issues in water sector: United Utilities

United Utilities

In 2024, United Utilities faced repeated calls to release data on the sewage it was discharging into Lake Windermere. It initially argued that data requested from campaigners "was not environmental information" which the company would be required to release. The Information Commissioner's Office (ICO) ruled that the information should be disclosed, and on 21 January, United Utilities dropped its appeal against the ICO's ruling.[54]

The Chief Executive of United Utilities, told the committee that the company's initial interpretation of the law was too narrow and was wrong. She stated that that steps had been taken to make this information public and engage better with the local campaign group.[55]

Box 3: Transparency issues in water sector: Northumbrian Water

Local campaigners in Whitburn, South Tyneside, were for some time asking for information about sewage discharges from Northumbrian Water under freedom of information and environmental information regulations. Despite the ICO initially supporting the company's decision not to release that information, a first- tier tribunal found it was in the public interest to release the information, and stated that the water company had not adequately considered the need for transparency in its refusal to provide the information.[56]

16. **CONCLUSION**

Trust and accountability in the water sector is very low and water companies must improve transparency through open data and more collaboration with consumers.

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52 Under the Water (Special Measures) Act 2025, companies will need to take steps to more involve consumers in decision-making. Ofwat has consulted on how it will enforce these requirements: Consultation – Rules on Remuneration and Governance, Ofwat, October 2024

53 Q18

54 BBC News, United Utilities drops fight for Windermere sewage data access, 21 January 2025; The Guardian United Utilities refuses to hand over data on sewage discharges into Windermere, November 2024

55 Qq287–293

56 BBC News, Estimated million tonnes of sewage pumped into North Sea at Whitburn, 12 March 2025

17. **RECOMMENDATION**

The Independent Water Commission should consider how the link between water companies, communities and citizen scientists could be strengthened and formalised to provide a broader picture of water quality in local regions. These proposals should consider how water companies can be democratised and made as open as possible, with a legal requirement for water companies to publish performance, environmental and financial data on a sufficiently regular basis to be of use to the public.

2 Financial management

18. Despite some initial successes following its privatisation, the water sector is now marred by increasing pollution and poor customer experiences exacerbated by low financial resilience. For the 2023/24 financial year, Ofwat has expressed concerns about the financial situation for 10 out of 16 of the companies it regulates, with three (Southern, South East and Thames Water) requiring action to return to stability.[57] At the time of writing (June 2025), Thames Water, now under an enhanced monitoring regime, is in particularly dire financial straits and on the cusp of temporary nationalisation. Poor performance has been contrasted with high dividend payouts (historically) and continued bonuses payments to executives. This disconnect, and the fact that sizeable proportions of bills are now being used to service debts and pay dividends,[58] is leading to justifiable anger towards the leadership teams and owners of water companies.

Financial structures

19. Whole Business Securitisation (WBS), and highly complex company structures, are common in the sector. Using WBS and a few layers of holding companies is not always a problem, particularly in the context of a wider operating group, and some companies believe it is a useful way of "protecting" the regulated entity and attracting finance.[59] These structures have, however, been used as an avenue for increasing debt outside of the regulated water company, which still must fund its holding companies through dividends.[60] These structures also limit the oversight of

57 Ofwat, Monitoring Financial Resilience Report, 2024

58 It has been reported, based on an analysis of 2023–4 data conducted at the University of Greenwich, that around 35% of customer bills go towards debts and dividends. This will vary according to company. David Hall and Conor Gray, Leaking money. The finance costs of privatised water and regulation in England and Wales: Scottish public ownership shows potential savings, University of Greenwich, 2025. However this figure will vary by company as discussed in Q266.

59 Yorkshire Water and Anglian Water executives explained the role of WBS (Q256 and Q582). WBS involves having an ultimate shareholding company, where shareholders sit, holding companies, where debt is brought in, and then the regulated entity. This is not a particularly unusual structure for regulated businesses. Its proponents argue that it can be a mechanism for protecting the business or providing cheaper financial options.

60 Written evidence received for the former Environment, Food and Rural Affairs Committee's inquiry into Regulation of the Water Industry [RWI0028]. In on example, as we discussed with their CFO (Qq257–258), Ofwat investigated Yorkshire Water for its

Ofwat particularly when related companies have been offshored in areas such as the Cayman Islands.[61] Some structures we have encountered seem particularly opaque, which is not conducive to building trust: examples include Severn Trent's Trimpley structures[62] and the 'obsolete' companies connected to Southern and Anglian Water.[63]

Box 4: Thames Water's business structures

Thames Water has the highest gearing of all water companies and it has been reported that over a quarter of Thames' revenues go towards financing debt.[64] Its CEO confirmed to the committee that Thames Water's gearing is now about 88%, up from 81.3% in March 2024.[65]

Macquarie, a banking and financial services group, put in place a complex corporate structure to enable it to buy Thames Water in 2006 using a 'leveraged buyout', where a buyer borrows the purchase price against the target company's assets. As of 31 March 2023, Thames' parent company, Kemble Water, had taken out £18.3 billion in debt which was "cascaded down" to Thames Water.[66]

After shareholders withdrew a promised £500 million equity injection in March 2024, Thames' credit rating was downgraded by Moody's and S&P which resulted in Thames entering a licence cash lock-up, preventing the payment of dividends to Kemble Water to service its debts. Without any other means of receiving funds, Kemble Water defaulted on a £400m loan. This has caused wider concerns about the vulnerability of the "whole business securitisation" financing technique widely used across the water industry.[67]

In December 2023, Thames' Chair apologised to the previous Environment, Food and Rural Affairs Committee for the misrepresentation of debt as "new equity funding."[68]

use of intercompany loans between Yorkshire Water and its parent company. It is in the process of paying this back. For more information, see Ofwat, Investigation into Yorkshire Water in relation to inter-company loans with one of its associated businesses, last updated 13 October 2022.

61 Oral evidence taken on 26 November 2024, Q94 [David Black]; Written evidence received for the former Environment, Food and Rural Affairs Committee's inquiry into Regulation of the Water Industry [RWI0028].

62 Qq352–360

63 Qq54–65; Qq580–582

64 The Guardian, Thames Water accused of 'misleading' customers over level of debt payments, 12 March 2024

65 Q635

66 Financial Times, Thames water owners pile group with debt, 1 December 2023

67 Financial Times, Thames Water crisis prompts jitters over 'gold standard' debt model, 23 April 2024

68 Oral evidence taken by the previous Environment, Food and Rural Affairs Committee on 12 December 2023, Q2, Q21, Q24

20. **CONCLUSION**
Complex financial structures are not necessarily a problem, but they can obscure water company finances, enable bad practices, undermine transparency and worsen the public perception of water companies. Water companies increasingly look like financial institutions rather than businesses servicing monopolised critical infrastructure. These structures have undoubtedly been used, in some circumstances, to increase debt, given they are outside the investigatory remit of the regulator. Simplification and greater oversight are needed to ensure that these entities are used appropriately.

21. **RECOMMENDATION**
The Independent Water Commission should determine how regulators can have better oversight over debt levels in regulated entities and other connected companies. Its proposals should actively require companies to simplify structures to allow for greater regulation and oversight of any company's true financial situation.

Debt and gearing levels

22. At the point of privatisation in 1989, the water sector had no debt. It was expected that debt levels would increase; part of the argument for privatisation was that companies are well placed to take on and manage debt to provide upfront capital investment, to be paid back gradually through consumer bills.[69] Debt levels have steadily increased since then, encouraged by low interest rates and limited regulatory control,[70] to unsustainable levels. We have heard gearing[71] figures ranging from around 60% to 88% for the major water and sewerage companies,[72] averaging out across all companies at 68.6% in 2023/24. High levels of debt are not unusual for infrastructure companies[73] but this figure is perilously close to the 70% gearing mark, the point at which Ofwat believes companies can face financial instability.[74] Several companies are around or over this mark[75] and some companies are not raising enough revenue to cover interest payments and are operating at a loss.[76] As a result, dividend payments are

69 Q151
70 Oral evidence taken on 26 November 2024, Q151–2 [David Black]; Water UK, UK Water Industry: Myths vs. Facts, 31 October 2024
71 Gearing is the ratio of debt to overall company value
72 Ofwat, Monitoring Financial Resilience Report, 2024; Q635
73 Debt is usually cheaper than raising money than equity investment, and with a strong, predictable income, higher debt gearing is often manageable. Qq441–444
74 Ofwat, Monitoring Financial Resilience Report,2024, p.18
75 Ofwat, Monitoring Financial Resilience Report,2024
76 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025, para 3.12; Q8

drying up and credit ratings have been dropping across the sector, with Southern and Thames Water recently dropping below minimum investment grades. In response, interest rates for loans have risen, risking a vicious cycle of financial instability.[77]

23. Historic decisions to raise gearing levels cannot be easily reversed. The most likely result is a long and substantial rise in customer bills,[78] much of which will be used to service this debt.[79] Coupled with the fact that for many years, debt levels were raised alongside high levels of dividends (discussed further below), public anger has intensified. UNISON and Professor Dieter Helm have made the argument that revenues from bills alone could cover maintenance costs, and debt should have been reserved for major investment,[80] with some, such as River Action and Surfers Against Sewage, going as far as suggesting that debt has been raised in order to line investor pockets.[81] This is contested, as the Commission acknowledges.[82] As discussed in chapter 3, limited bill revenues may also have contributed to the situation.

24. Ofwat was not set up to prevent financial collapses in the sector and has limited control of debt levels.[83] In recent years, Ofwat has increased its monitoring of financial resilience, including debt levels, and can intervene with enhanced monitoring if credit ratings fall too low, as it has done with Thames Water. In addition, Ofwat uses a "notional company" within the price review process to encourage sustainable debt levels. This notional company has been inconsistent[84] and companies barely pay heed to it: for instance, the notional company for AMP7 was one with 60% gearing levels, yet many companies see the 70% threshold of instability as more of a target.[85]

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77 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025; Q89

78 The main other options are creditors taking a cut, most likely through the special administration process or Government intervention by investing equity or paying off debt, which seems unlikely. Gearing levels could also be reduced through further equity investment, but that is more expensive than debt in the long run.

79 An analysis from the Guardian in 2023 suggested that on average nearly 20% of bill revenues went towards debts. The Guardian, Water firms use up to 28% of bill payments to service debt in areas of England, 18 December 2023

80 UNISON, Clean water: a case for public ownership, June 2024, p.14; Dieter Helm (Professor of Economic Policy at the University of Oxford), From the unsustainable to the sustainable: how to reform water and sewerage in England and Wales, 9 April 2025

81 River Action and Surfers Against Sewage, Joint Submission to the Water Commission (accessed 3 June 2025)

82 Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025, pp123–5

83 Oral evidence taken on 26 November 2024, Q81–83 [David Black]

84 Q336

85 Qq441–448

25. **CONCLUSION**
There has been serious economic mismanagement of companies, leading to unsustainable levels of debt and a high price for consumers. This situation must be resolved and a culture of relying on debt must never be allowed to arise again. Since investment levels and revenues in the sector have clearly not been high enough, company loans are likely covering some day-to-day expenditure as well as capital costs, which would be an irresponsible approach. A new understanding is needed about how bill revenues and debt are used. Companies and shareholders have demonstrated that stronger guardrails are needed to prevent the ratcheting up of debt to the point of financial instability while dividends continue to be paid.

26. **RECOMMENDATION**
The Independent Water Commission should determine new measures to regulate the accumulation and management of debt in the water sector. These measures should allow the economic regulator to intervene when irresponsible debt management is taking place. Any new powers should be tempered by a realistic and consistent understanding of what sustainable debt levels look like. The Commission's work should help government, water companies and citizens come to an understanding about the most appropriate uses of debt, such as primarily for major new projects, infrastructure and upgrades that could cause surges to customer bills.

Dividends

27. Equity investment is seen by the water sector as one of the advantages of privatisation, not available to state-owned or not-for-profit companies. However, there is a price for these injections of cash. Shareholders expect a return for their investment through, in part, dividends, which are paid for out of company profits. As these are natural monopolies responsible for a vital public resource with a guaranteed income, it is thought that this should be a low-risk, low-reward industry, with Ofwat setting an expected return to investors to reflect this.

28. The Financial Times calculated last year that since the beginning of privatisation, water companies have paid out £78 billion in dividends, equivalent to around half of what was invested into infrastructure,[86] although other estimates suggest the figure is £52.8 billion.[87] It is

86 Financial Times, Water companies pay £2.5bn in dividends in two years as debt climbs by £8.2bn, 15 April 2024
87 Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025, p.125

unclear how this compares to levels of equity investment over the same timeframe, although UNISON has calculated that over time investors have effectively "invested less than nothing" and absorbed most of the profit made by companies.[88] The National Audit Office (NAO) has calculated that most growth in the sector has been funded by debt, not equity. It notes that average dividend yields peaked at around 20% in 1998, and between 2015/16 and 2019/20 average yields were around 9%.[89] These are considerably higher than the 4% now recommended by Ofwat, but the Commission highlights that much of these yields were in line with Ofwat's expected returns at the time.[90] However, whether those expected returns were reasonable is not clear to this committee. It should also be highlighted that these dividends were paid on top of the returns that shareholders get as the value of the company rises through investment and inflation.

29. This is a highly complex and controversial issue, with many stakeholders angry about the increase in unsustainable debt levels alongside dividends (as discussed above); accusations that dividends have outstripped profits;[91] and in the context of poor company performance,[92] particularly where dividends have been prioritised over environmental investment.[93] To the wider public, this looks like a culture of profits over performance, although companies highlight that dividends are shaped by a variety of metrics. With average returns over the last AMP of only 2.7%, several companies not paying dividends for five years, and an allowed return of 4.03% in AMP8, companies and investors simultaneously argue that the sector is becoming less investable.[94] This is particularly so when combined with a tighter

88 UNISON, Clean water: a case for public ownership, June 2024, p.14
89 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025
90 Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025
91 Q495; Q361; Qq414–418; Correspondence from Liv Garfield, Severn Trent Water, following Reforming the water sector inquiry evidence session on 26 February, 10 March 2025. Companies highlight that it is important to look at dividends over a timeframe longer than a year to ascertain whether dividend yields have been reasonable.
92 Qq498–503; Q587. Companies highlight that these dividends would be lower due to performance incentives such as the ODI (see chapter 3), but they have outperformed on other metrics.
93 Qq459–464
94 Q8, Q35–37; Q451; Water UK, Water companies urge Ofwat to reconsider investment cut, 28 August 2024; Water UK, UK Water Industry: Myths vs. Facts, 31 October 2024

regulatory regime,[95] the expansion of Ofwat's duties and interventions,[96] and ambitious targets that some see as unrealistic.[97] This has led to calls for better, or at least more consistent, returns to offset higher risks.

30. In response to some of the issues with dividend payments, Ofwat has gained the power to block dividends when credit ratings are too low (a cash "lock-up") and to clawback dividend payments made if they do not take account of performance levels.[98] Although Ofwat believes that it has made clear rules about dividends,[99] dividends are still ultimately the responsibility of companies. Some of these powers are retrospective, happening after bills are paid or when credit ratings drop to lower levels; it is unclear if this is responsive enough. It is also not clear to us how exactly its powers relate to the core performance metrics set out in Ofwat's water company performance report, or the Outcome Delivery Incentive (ODI) system (see chapter 3). We note that the Commission is "exploring regulatory mechanisms to narrow the variability of returns to investors"[100] and we think that there is scope for the regulatory system to be clearer and stricter on reasonable rates of return.

95 For example, Outcome Delivery Incentives originally enabled many companies to increase bills but now only four companies have received more rewards than penalties in recent years (Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025). Storm overflows are only just now beginning to come into the regulatory system. Ofwat has been introducing changes to company licences such as ones focussed on customer service: Q100

96 Fingleton, How regulatory change can help drive the UK's growth agenda, 16 January 2025

97 Utility Week, Water sector regulatory 'doom loop' is deterring investors, 28 April 2025; British Water (RWS0002)

98 This power has been used for the first time in December 2024 against Thames Water, which had made dividend payments to its holding company.

99 Oral evidence taken on 26 November 2024, Q156 [David Black]

100 Independent Water Commission, Interim report, 3 June 2025

31. **CONCLUSION**

There clearly have been examples of excessive dividends, particularly when poor performance or finances are taken into account, symptomatic of a culture of prioritising profit over duties to regulators and customers. However, dividends for other companies have been in line with regulatory expectations. Dividends are controversial, particularly when total shareholder returns and debt are taken into account. Part of the problem is the lack of clarity about whether dividends have truly been value for money, particularly since they eventually take more money out of a system than they put in. A system based more on higher bills and limited debt may be better. It is also not clear whether Ofwat's historic expected dividend returns have been set at a sustainable level, although many investors now think they are too low. We must ensure that sufficient safeguards are in place to prevent egregious dividend payments, ensure that services for customers and the environment take priority and to properly link dividend levels to company performance. At the same time, investors need to see stable but modest long-term returns.

32. **RECOMMENDATION**

The Independent Water Commission must determine whether equity investment has been value for money for customers. If it is advisable to continue with a totally privatised model, the Commission needs to create a comprehensive but stable regulatory environment for water companies and their investors to ensure that the sector is low risk and low reward. As part of its work looking at narrowing the variability of returns, the Commission should investigate whether there should be a clearer 'floor' and 'ceiling' for dividends to provide reassurance to all sides, one that takes into account all returns that investors receive. Between these thresholds, that regulatory system should encourage higher dividends for better performance, and lower returns for poor performance.
To ensure that customer service and environmental outcomes are prioritised, dividends should potentially be blocked entirely where companies have failed to deliver projects required by regulators and where there have serious infringements of licences, permits and performance targets, such as serious pollution events. To ensure that this works as intended, and to prevent the risk of unjustified dividends leaving a company, pre-approval for dividends by the regulator might be necessary.

The Special Administration Regime

33. Special administration is the process that water companies and the Government would go through were a company to become insolvent.[101] At the time of writing (June 2025), Thames Water is at serious risk of collapsing and being forced into special administration. This would be disruptive, affect business plans and pensions, and many investors would lose money.[102] However, as Ofwat notes in its submission to the Commission, it should be a "credible threat" to prevent poor behaviours.[103]

34. We have heard that the Government is keen on a market solution to the issues at Thames Water due to the potential costs of special administration. It is not clear whether the special administration process would in the long-term be cost-neutral for the Government, given that the special administration regime (SAR) has several provisions allowing the Government to recoup any costs incurred in the process.[104] Some stakeholders argue that as Thames Water's issues continue, and more expensive bridging loans are taken to sustain and restructure the company, customers will end up paying more in the long run than taxpayers would under special administration.[105]

35. **CONCLUSION**

Special administration should be a last resort. However, it is unclear whether allowing a failing company to struggle on and accumulate progressively more debt is a better outcome than assuming temporary national control more quickly, with the associated costs that it could incur.

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101 When a company is put into special administration, the Government and Ofwat appoint, with High Court approval, an administrator to take over the affairs of the company. This can only be used when the company is insolvent or at high risk of insolvency. Services continue as normal while the company is restructured and new buyers are found.

102 Q554; Q582; Qq811–814

103 Ofwat, Independent commission on the water sector regulatory system call for evidence - Ofwat response, April 2025

104 Through the special administration regime the Government may recoup its costs through the sale of the company or later changes to a company's licence. Sir Adrian Montague, Chairman of Thames Water, has argued that it would be expensive for the Government (Q750), while David Black, CEO of Ofwat, has said that best estimates suggest that the Government would eventually get its money back, given the value of its assets. Oral evidence taken on 26 November 2024, Q162 [David Black].

105 As part of the recent court case to allow Thames Water to take a £3bn bridging loan, Charles Maynard MP made the argument, as well as several other campaign groups, that the long-term costs for continued debt increases, will eventually prove even more costly for consumers in the long run. BBC News, Thames Water set for crucial court ruling, 16 March 2025

36. **RECOMMENDATION**

The Independent Water Commission must provide recommendations on improving the special administration regime which, while it should still be a last resort, must ensure that the criteria for its deployment are sufficient for ensuring value for money for customers.

3 Price review process

37. The price review process is one of the main ways by which Ofwat protects customers from high bills and ensures that the sector receives sufficient funding to deliver and invest in core functions. It is a complex process, lasting around five years, in which Ofwat assesses the quality and efficiency of company business plans.[106] In December 2024, Ofwat published its final determinations for 2025–30 (PR24), which will allow water companies to spend £104 billion, £44 billion of which will be for new infrastructure and resources, representing a tripling of investment.[107] At the time of writing (June 2025), six companies had contested the determinations to the CMA, which is due to make its determinations in early 2026.[108] Water companies are critical of the length and cost of the price review process.[109] The NAO states that the costs of the process are "substantial", with the costs ranging from £5 to £11 million per company for PR24, and Ofwat spending £41 million.[110] However, these costs are considerably less than 1% of the amount of money to be invested over the next five year period.

Bills and allowances

38. Many stakeholders, particularly water companies, believe that the emphasis from Ofwat and the Government in consecutive price reviews since 2010 has been on keeping bills low, inhibiting investment and maintenance, and making it more expensive now to pay for investments that could have been delivered earlier.[111] Bill revenues have certainly lowered in real terms by 25% since 2010,[112] and all companies, even the most efficient ones, are consistently overspending their allowances,[113] a key factor in the operational losses in the sector over the past four years.[114] In PR24, Wessex Water calculated that their allowances would prevent them from fulfilling their

106 House of Commons Library, Economic regulation of the water industry, Research Briefing 8931, 20 August 2024
107 Ofwat, Our final determinations for the 2024 price review, May 2025
108 Competition and Markets Authority, Water PR24 price redeterminations, last updated 30 May 2025
109 Qq2–3; NAO, Regulating for investment and outcomes in the water sector, 25 April 2025
110 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025
111 Q4; Q78; Q240
112 Q4; Water UK, The real (terms) story of historic water bills, 29 November 2024
113 Q47; Q483; Qq501–503; Q697; Ofwat, Water company performance report 2023–4, October 2024
114 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

business plans,[115] and Northumbrian, Yorkshire, Thames and Southern Water have argued that allowances were not enough to maintain asset health and sufficient replacement rates.[116] To take one extreme example, Thames Water told us that current funding allowed by Ofwat would mean that "an individual length of sewer would need to last 2,865 years." The Commission's interim report highlights concerns about Ofwat's modelling and benchmarking of spending allowances, which may neglect the specifics of different companies, such as their geography and asset age.[117] This may explain why, in AMP7, Ofwat overestimated how much the expenditure allowances would improve replacement rates for assets.[118]

39. However, we note that water companies are ultimately responsible—with additional input from environmental regulators—for the business plans submitted to Ofwat, whose responsibility it is to scrutinise the quality of those plans. Ofwat does not have a say on what goes into proposals, although its decisions may affect what the company eventually can deliver.[119] Some companies we spoke to had accepted the PR24 final determinations and the 'efficiencies' that Ofwat had found, adding that their smaller allowances would not prevent them from meeting their targets.[120] Water companies also have the right to challenge Ofwat through the Competition and Markets Authority, yet there have historically been very few contestations following final determinations, demonstrating that water companies found their spending allowances and bill revenues tolerable.[121] Water UK states that companies are incentivised to ask for insufficient funds to avoid a poor business plan rating; they also state that the costs, distraction and disruption caused by contesting determinations discourages companies from doing so.[122]

115 Q557; Wessex Water, Appeal to CMA to enable sustainable investment, (accessed 5 June 2025)

116 Q453; Re Thames Water Utilities Holdings Ltd CR 2024 007540 (Sanction) (Approved Judgment) (18.2.25), 18 February 2025; Northumbrian Water, Northumbrian Water Limited asks Ofwat to refer its PR24 Final Determination to the Competition and Markets Authority, 18 February 2025; Correspondence from Nicola Shaw, CEO, Yorkshire Water, regarding Reforming the water sector inquiry, 3 June 2025; Correspondence from Lawrence Gosden, CEO, Southern Water regarding Reforming the water sector, 5 June 2025

117 Independent Water Commission, Interim report, 3 June 2025, para 141

118 Ofwat's allowances were anticipated to lead to a replacement rates of assets of 0.4% a year. This is already a low figure, but the latest real rate achieved was 0.14%. NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

119 Oral evidence taken on 26 November 2024, Q144 [Chris Walters].

120 Qq206–207; Q333

121 Q6; Q49

122 Q32

40. Water UK states that Ofwat has limited investment by £7 and £8 billion for the last two price reviews.[123] This may be true, but this does not equate to the over £340 billion needed in enhancement expenditure (not including maintenance) over the next 25 years to meet Defra ambitions.[124] Furthermore, the process for PR24 has been broadly the same as previous price reviews, but on this occasion, there has been a step change in investment levels. As noted in chapter 4, this must be driven to some extent by water companies and environmental regulators identifying more significant opportunities for investment, suggesting that in the past other factors have played a role in limiting their ambition.

41. **CONCLUSION**

Customers should be protected from paying more than is necessary for maintaining national water infrastructure, and the price review is an important part of doing this. Some evidence suggests that previous determinations have not been sufficient, at least for some companies, to maintain assets. Stakeholders have suggested a number of reasonable ways to improve the system, such as better ways of calculating expenditure allowances and developing a system that allows determinations to be challenged. However the price review is unlikely to be the sole, or maybe even the main culprit for low overall levels of investment: an irresponsible culture has developed amongst all actors to keep bills low, and customers and the environment are now paying the price. Bills will need to rise, which will be challenging when trust is dropping; government, regulators and water companies will need to ensure that this results in a better deal for consumers.

123 Q5
124 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

42. **RECOMMENDATION**

The Independent Water Commission must ensure that water bills and spending allowances are sustainable and appropriate for maintaining assets and delivering services. If the price review process is retained, the Commission must begin the process of reforming it to ensure that allowances are calculated fairly and openly, and to ensure the process does not impede reasonable challenges. The process should ensure that bill revenues are not lowered in real terms, unless under extreme circumstances. If done in conjunction with reform to the regulation of debt and dividends, ensuring that more revenues can be invested into the sector, it may be possible to make the case for higher bills in return for better performance. More broadly, the Commission needs to get to the bottom of why a culture of unsustainably low bills was accepted by companies, regulators and government, and set out the reforms or principles needed to ensure that this does not happen again. The Commission will likely need to consider all the core planning processes that identify investment and make sure these are fit for purpose.

Performance incentives

43. The price review uses a complex combination of Outcome Delivery Incentives (ODIs)[125] and other financial penalties and rewards (such as those for efficiency gains) to drive better performance. Ofwat has said that due to poor performance in the 2023/24 reporting year, companies will be required to return £157.6 million to consumers through their bills.[126]

44. However, the 43 ODI incentives, and their links to the 12 core metrics used by Ofwat to measure overall company performance, are not clear.[127] The NAO has similarly highlighted that elements of Ofwat's scoring for companies lack transparency and replicability from third parties.[128] Most importantly though, it appears that the incentives are not bringing about a culture of improvement. Although companies vary, and progress is being made against some targets,[129] the overall performance of the water sector has been rated as poor or very average by Ofwat for a number of years.[130]

125 The ODI increases or decreases customer bills (and by consequence, profits or stakeholder returns) according to how well a company did against performance targets.

126 Ofwat, Water company performance report 2023–4, October 2024

127 Qq406–407

128 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

129 Ofwat Water company performance data for the 2023–24 year suggest that progress is being made in some areas, such as the frequency of mains bursts. In general, performance on customer satisfaction, drinking water quality risks and efforts to tackle leakages varies between these businesses.

130 See Ofwat, Water company performance report 2023–4, October 2024; Environment Agency, Water and sewerage companies in England: environmental performance report 2023, July 2024

Some targets are rarely met across the board,[131] and questions are being raised about whether sector spending has been more efficient.[132] We heard evidence that suggested the ODI is designed to penalise 75% of the industry and that companies factor penalties into their business plans,[133] rather than try to turn things around to achieve rewards.

45. Some incentives potentially lead to worse outcomes. Incentives to find spending efficiencies may not incentivise reinvestment, or come at the expense of the speed of delivery.[134] If targets are too ambitious, as some have suggested,[135] particularly for measures not totally within a company's control,[136] and this leads to increasing amounts of penalties, it can be challenging for companies to improve their performance.[137] Companies in a difficult financial situation, such as Thames Water, now face £900 million in penalties under the ODI over the next five years, which they believe makes it challenging to operate a turnaround regime.[138] Penalties have also been accrued, or rewards denied, where companies—in some cases, sector leaders—have made fairly consistent progress towards, but not quite met, a target.[139] While Ofwat claims that companies can supplement dividends thanks to rewards under the ODI, and therefore make themselves more attractive to investors,[140] the fact that the ODI penalises most companies may deter investors, affect credit ratings[141] and ultimately lead to greater costs for consumers.

46. Furthermore, despite significant failings on high profile matters, such as pollution or supply interruptions, companies can still receive overall rewards under the ODI.[142] While ODIs are designed with customer input, we are not certain that these match with overall customer expectations of good performance. This was exacerbated by the fact that sewage overflows have

131 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025; Ofwat, Water company performance report 2023–4, October 2024
132 Professor Sir Dieter Helm, From the unsustainable to the sustainable: how to reform water and sewerage in England and Wales, 9 April 2025; Guardian, Ofwat investigating 'rip-off' cost of water firms' infrastructure works, 23 April 2025
133 Q406; Q541; Utility Week, Water sector regulatory 'doom loop' is deterring investors, 28 April 2025
134 UNISON, Clean water: a case for public ownership, June 2024; Q533
135 British Water (RWS0002); Utility Week, Water sector regulatory 'doom loop' is deterring investors, 28 April 2025
136 See Chapter 4
137 Q92
138 Q706
139 Q623. Anglian is a top performer for leakage and is increasingly finding it harder to make gains in this respect; this means it is falling short of its targets.
140 Oral evidence taken on 26 November 2024, Q148 [Chris Walters]
141 Q543
142 Qq406–407

not historically been part of the incentive system,[143] causing a mismatch between rewards for lower "pollution incidents" and public perception that companies are polluting on a massive scale.

47. **CONCLUSION**

The incentives that Ofwat puts in place for companies are too complicated, fail to match public expectations, and in many cases are not bringing about a culture of improvement. Despite public consultation, there are too many to provide a clear picture of company performance. There is scope for simplification and, given that the Government is in the process of reviewing national targets for water, there is an opportunity for better alignment and prioritisation. Simplification could clarify company performance and help rebuild trust, as would reconnecting public expectations and rewards achieved. Penalties are important but they also have the potential to create a negative feedback loop, encouraging further failure. These penalties should not be to the detriment of investment.

48. **RECOMMENDATION**

The Independent Water Commission's proposals should ensure that the price review system is reshaped so that its system of incentives creates a culture of improvement. The price review should contain a comprehensive but straightforward set of performance metrics that matches public expectations and national targets for water. Targets should be stretching but realistic and never set basic expectations. Incentives to meet these targets should reward consistent improvement that is demonstrably attributable to the work of the company and only penalise regressions.

143 Q577

4 Regulatory environment

49. The water sector is governed by four main regulators,[144] a complicated suite of legislation and a set of misaligned planning frameworks and duties, which many stakeholders believe leads to areas of overlap, gaps and a lack of clear priorities.[145] There have been calls for a reshaping of regulators and stronger regional leadership and accountability[146] or, at the very least, a general consolidation of, or changes to, the governing legislation. We recognise this will be a major focus of the Commission, whose interim conclusions have called for review and rationalisation of the legislative framework.[147] We have received evidence that supports these assertions. We have heard, for example, many cases where the regulatory framework has been effective at protecting consumers from high bills, but failed to protect the environment. For instance, pollution incidents are on the rise;[148] all wastewater companies are under investigation for the operation of their treatment works;[149] and it is widely reported at a local level that not enough monitoring or enforcement is taking place.[150]

144 The Environment Agency, Ofwat, Natural Resources Wales, and the Drinking Water Inspectorate.

145 Q279; Qq92–93; Independent Water Commission, Interim report, 3 June 2025; NAO, Regulating for investment and outcomes in the water sector, 25 April 2025; Ofwat, Ofwat submission to Independent Water Commission ANNEX, 23 April 2025). Overlaps include some environmental matters; one gap identified is the inspection of wastewater assets. There are 12 different plans and planning frameworks that companies must develop and work within, often working to different timelines: Affinity water, 10 steps to water security, 2024; Ofwat needs to be clear with its priorities, Cunliffe told, Utility Week, 1 May 2025

146 Angling Trust, A Water Sector Fit for Purpose, May 2025; I Paper, New 'super watchdog' could aid Labour's plans to fix sewage crisis, 24 October 2024

147 Independent Water Commission, Interim report, 3 June 2025

148 Ofwat, Water company performance report 2023–4, October 2024; According to the Environment Agency, the last reporting year for their Environmental Performance Assessments was the worst year on record since 2019: Environment Agency, Water and sewerage companies in England: environmental performance report 2023, July 2024

149 Ofwat, Investigation into sewage treatment works and sewerage networks, last updated May 2025

150 ENDS Report, Sparse water company audit data sparks concerns about accuracy of sewage spill monitoring, 15 September 2023; The Guardian, Dirty waters: how the Environment Agency lost its way, 13 June 2024

50. Concerns have also been raised about regulators failing to recognise the value provided by nature-based solutions, such as wetlands for treating water, and have blocked their development.[151] We also query the work of the Water Industry National Environment Programme (WINEP) and Regulators Alliance for Progressing Infrastructure Development (RAPID), planning processes which aim to identify investment to improve environmental outcomes and protect future water resources. These processes appear to have left significant gaps for investment, the biggest example of which is a lack of action on preventing the use of storm overflows, which are now used more frequently than they were designed for.[152] Other important investment opportunities have also clearly been missed, as we discuss below, regarding the resilience of the sector. Even Ofwat noted it was odd that these processes had led to a sudden tripling of investment in PR24, rather than being picked up in previous price reviews, something that they hoped the Commission would look into.[153]

51. Stakeholders also suggest that the current legislative landscape and various applicable policies do not sufficiently consider catchment areas or capture all actors relevant to the water sector, such as individual households and businesses, farmers and growers, and highways authorities.[154] Many companies have highlighted pressures and potential interventions outside of their control that will be vital for future water security and quality.[155] The terms of reference for the Commission, focussed on the water sector, may make it difficult for it to tackle these important contextual factors.

151 Utility Week, Wessex ploughs ahead with CSO treatment strategy despite regulation stalemate, 29 April 2024; Independent Water Commission, Interim report, 3 June 2025

152 Ofwat, Storm Overflows Explainer (accessed 11 June 2025); The Rivers Trust, Storm Overflows Discharge Reduction Plan still too little, too late, 26 August 2022

153 Oral evidence taken on 26 November 2024, Q88 and Q144 [David Black]; Ofwat, PR24 data update (accessed 5 June 2025)

154 Q519; CIWEM, A Fresh Water Future, 2024; Angling Trust, A Water Sector Fit for Purpose, May 2025; CIWEM, Water Commission announcement reaction (accessed 5 June 2025)

155 For instance, while companies can encourage changes in behaviours, the Government could take action to reduce water consumption, such as encouraging water butts and water efficiency labelling (Qq538–539). Water companies also do not operate all water pipes in their areas (Q561), nor are they responsible for the rise of impermeable surfaces and other surface water management issues that cause capacity issues in sewerage networks (Q104). Population growth is also out of their control, particularly since water companies are not a statutory consultee in development (Q600).

52. **CONCLUSION**
Environmental regulation and the delivery of reliable and safe water must be the first priorities of water companies and regulators. Effective regulation, strongly prioritised towards environmental and customer targets, is needed to make these a core part of the culture amongst water companies; it will also need to cover all actors that have the potential to harm water resources. It is important for regulations to be comprehensive and predictable to close any gaps that can allow pollution, and to ensure a stable investing environment. This should not just be about protection, but also about encouraging water companies, as major landowners, to actively improve the environment.

53. **RECOMMENDATION**
The Independent Water Commission should look at potential reforms of the regulatory frameworks and regulators that govern the water sector to ensure that environmental protection is effective and a priority for water companies. It is vital that the reforms the Commission proposes can accommodate and synchronise with wider reforms, such as those that aim to tackle all water pollution from a variety of sectors and products, and new targets for water quality under a new Environmental Improvement Plan. These reforms should also ensure that water companies are encouraged to invest in nature-based solutions that can provide a suite of co-benefits for the public.

Monitoring, enforcement and penalties

54. Most concerningly, it has been noted by organisations such as the Office for Environmental Protection and the Dan Corry regulatory review, that the environmental protections that do exist are not being implemented, monitored or enforced sufficiently. The fact that England and Wales are set to fail major targets for water quality under the Water Framework Directive is indicative of a significant problem.[156] Concerns have been raised about long gaps between audits of water companies,[157] inappropriate metrics and targets,[158] and a failure on the part of companies to map and understand

156 OEP, A review of implementation of the Water Framework Directive Regulations and River Basin Management Planning in England, May 2024; Defra, Delivering economic growth and nature recovery: An independent review of Defra's regulatory landscape, April 2025, recommendations 17–19
157 The Guardian, Environment Agency failing to monitor water firms in England, data suggests, 13 September 2023
158 For example, there may be better ways of monitoring customer complaints and storm overflows (Consumer Council for Water, CCW submission to the Independent Water Commission, 6 May 2025; Consumer Council for Water (RWS0001)). Storm overflow

the condition of their assets or causes of problems.[159] Some companies have received substantial fines due to inaccurate reporting.[160] Resourcing and capacity of regulators has likely been a problem, as the interim report from the Commission makes clear, in part thanks to large budget cuts between 2009/10 and 2019/20.[161] Many stakeholders have expressed concern that the system of "self-reporting" may enable companies to mislead regulators about their resilience or under-report pollution events, given that the EA only investigates category 1 and 2 pollution incidents, although companies do deny this.[162]

55. We have received summaries of historic (from 2015) and ongoing enforcement cases from Ofwat, the Environment Agency (EA), Natural Resources Wales and the Drinking Water Inspectorate, which are published on the committee's inquiry website:[163] this includes 11,474 closed investigations by the EA, and 12 closed, and 13 open, cases by Ofwat. For the EA, only 58 of these cases (a very small percentage) led to a prosecution; for the other cases, either other actions were taken (often guidance given or warning letters) or no actions were taken at all. Natural Resources Wales opened 713 enforcement cases in the same time period. Of the 660 closed cases, only four prosecutions were undertaken: 495 warnings were issued alongside 15 cautions, 53 guidance/advice actions and in 87 cases, no actions were taken. For Ofwat, only four of the twelve closed cases led to penalties or customer compensation, but often the water companies promised undertakings to correct an issue. The DWI has conducted over 5000 investigations since 2015 of which 226 were categorised as major or serious. 318 legal instruments have been served and eight prosecutions made over that time. Between 2019 and 2024, water companies paid over £430 million in penalties for environmental breaches

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measurements do not provide data on the quantity of sewage let out by overflows (Qq487–492) or the amount of harm they cause (Q513). The way that the EA monitors "dry spills" is contested (Q388 and Q482).

159 Qq117–118; Oral evidence taken on 26 November 2024, Q166 [Helen Campbell and David Black]; Q515; Financial Times, Two UK water companies lack complete maps of sewage networks, 23 April 2024

160 Oral evidence taken on 26 November 2024, Q102–3. South West Water is also under investigation for leakage and consumption data reporting: Ofwat, Enforcement case into South West Water about the accuracy of its reported leakage and per capita consumption performance, 23 May 2023

161 Independent Water Commission, Interim report, 3 June 2025, para 149

162 Qq599–601; Qq302–308; ENDS Report, Is it time the Environment Agency stopped trusting potential polluters to own up? 18 October, 2023; We also questioned Welsh Water about issues with its self-reporting of water sampling that it admitted to (Q521). We also asked the CEO of Pennon Group about accusations that they were not transparent with regulators about South West Water drought resilience (Qq197–199). We also heard about United Utilities' failure to disclose information about pollution of Lake Windermere, which has since been rectified (Qq286–293 and Qq311–316)

163 EFRA Committee, Reforming the water sector, accessed 5 June 2025

due to enforcement action from the Environment Agency and Ofwat.[164] This figure is getting substantially higher as Ofwat and the EA conclude other major investigations. We heard about many individual cases throughout our inquiry.

56. With no expected standard for monitoring of water companies and their assets, it is challenging to understand whether enough monitoring is taking place, however pieces of evidence point to under resourcing. For instance, although this is deemed to be average for regulatory bodies, Ofwat investigations take around one to two years to conclude,[165] with some cases taking much longer.[166] In addition, since 2023, both the EA and Ofwat have significantly increased their inspections and enforcement capacity, thanks to an injection of funding from increased permit and licence fees.[167] As a result, thousands more inspections are now expected to take place per year. The ability to recoup the costs of monitoring and enforcement from the private sector is one of the advantages of the privatised model,[168] yet it appears until recently that this source of funding has not been sufficiently leveraged.

57. Many environmental organisations welcome recent efforts to boost monitoring and enforcement. However, some water companies fear that heightened monitoring and enforcement will lead to more fines, which could lead to a vicious cycle, preventing water companies from investing in infrastructure that will improve environmental outcomes.[169] This is why Thames Water is looking for reprieve from its fines, given its dire financial situation;[170] yet this is unlikely to be acceptable to the public.

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164 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

165 Correspondence from Ofwat regarding investigations into water companies in England and Wales, 25 March 2025. Currently the EA and Ofwat are running a major joint investigation regarding sewage overflows that began in March 2022, over three years ago.

166 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025,

167 Correspondence from Philip Duffy, CEO, Environment Agency regarding investigations into water companies in England, and additional dataset, 28 April 2025; Correspondence from Ofwat regarding investigations into water companies in England and Wales, 25 March 2025.

168 Defra, Delivering economic growth and nature recovery: An independent review of Defra's regulatory landscape, April 2025, p.44, recommendation 20

169 Q583; Q589

170 Qq785–787; The Guardian, Thames Water begs to be spared fines and costs, warning bidders will walk away, 14 March 2025

58. **CONCLUSION**

We support the Commission's focus on creating a better regulatory framework, however a good framework is nothing without well-equipped regulators to act against bad actors and poor behaviours. Without clearer information and standards, it is difficult to have faith that monitoring and enforcement levels are sufficient, and we wonder if this has been a more pertinent problem than the frameworks themselves. The length of investigations and the sudden rise in inspections following injections of funding suggest that regulators have been underfunded in recent years and less able to monitor and catch problems, or enforce the rules sufficiently. Welcome efforts are being made to increase monitoring and inspections. We also believe that there is likely an imbalance between the data held by water companies and that held by regulators: a culture of openness is needed to ensure accountability.

59. **RECOMMENDATION**

The Independent Water Commission should assess how effectively the regulators audit companies, monitor the water environment, and enforce breaches of licences and permits. It should consider whether regulators are leveraging enough fees from the sector to ensure robust, fair and quick monitoring and enforcement of environmental protections. To bring about greater trust in the regulatory system, the Commission should consider whether public standards for monitoring are needed, including a full understanding of asset conditions, a clear and agreed set of performance metrics, and an agreed rate of inspections. As part of this, the Commission's proposals should ensure that data on water is as open as possible, with regulators gaining automatic access to data held by water companies that is core to their regulatory functions. The Commission should consider whether more investigations should be made into category 3 and 4 pollution incidents. An evaluation of the "self-reporting" system is needed, which may need to be significantly overhauled or replaced to rebuild trust.

Resilience

60. Water security and resilience are vital for preventing high impact incidents, ensuring future economic growth and protecting national security, in the context of growing and moving populations, climate change, and an expected 5 billion litre daily deficit by 2050.[171] The price review works in five-year cycles, but Ofwat and Defra have been introducing long-term targets

171 Environment Agency, Meeting our Water Needs for the Next 25 Years, 21 March 2024

as part of this.[172] Through planning processes such as WINEP and RAPID, regulators and water companies work together to try to identify investments that will improve long-term resilience.[173]

61. However, as the Commission's interim report argues, long-term "system planning" for the water sector is not strong enough and the sector does not sufficiently understand the health of its assets and the "overall resilience of the system".[174] Some of the evidence we have heard regarding monitoring (see above) certainly supports this argument. We also saw how many companies can perform well against some of Ofwat's metrics for asset health, which essentially measure failure rates, yet can also fail dramatically on other measures, such as supply interruptions.[175] Some water companies such as Northumbrian went so far as to state that regulatory planning processes have not provided sufficient data to plan accordingly and have been too limiting on ambition.[176] They also state that Ofwat is "consistently" underestimating the future impact of climate change on customer services "resulting in widespread under funding in its final determinations in 2019 and now again in 2024."[177]

62. Evidence presented to us similarly suggests that companies are not sufficiently planning or investing for future resilience. As discussed above, spending allowances are probably not enough, at least in some cases, to maintain asset health. We have heard cases where water supply has been disrupted due to the failure of one single and predictable point of failure and the lack of back-up systems.[178] Many supply interruption targets were missed because of sizeable events that have taken too long to fix,[179] indicating that some areas lack the resilience to bounce back quickly from incidents. Across many companies, we have heard of aging, expired or deteriorating assets still in use and delays to fixing important assets caused

172 Oral evidence taken on 26 November 2024, Q104 [David Black].

173 Environment Agency, Water Industry National Environment Programme (WINEP), last updated 30 January 2025; RAPID, Ofwat website, accessed 5 June 2025. Water companies also create Water Resources Management Plans, Drainage and Wastewater Management Plans and participate in the price review process, all of which to some extent consider future resilience. The price review does attempt to incentivise better resilience through targeting leakage, water consumption and aspects of asset health. The price review is informed by WINEP and RAPID.

174 Independent Water Commission, Interim report, 3 June 2025

175 Ofwat, Water company performance report 2023–4, October 2024. Ofwat assesses water company performance for mains repairs and asset outage. The higher the rate of repairs and outages, the poorer the asset health.

176 Qq459–462; Qq472–477

177 Northumbrian Water, Northumbrian Water Limited asks Ofwat to refer its PR24 Final Determination to the Competition and Markets Authority 18 February 2025

178 Qq45–47; Q166; Q245; Qq295–296; Q528

179 Ofwat, Water company performance report 2023–4, October 2024

by the need to import replacement parts.[180] Although it does vary greatly between companies,[181] average replacement rates for assets, the condition of which is not sufficiently mapped,[182] are so low (0.14% per year) it would take 700 years to replace existing water mains, way beyond the reasonable life expectancy of these assets.[183] It is thought that it should be at least around 1%, if not more,[184] although needs can vary according to the type and age of the assets in question.[185] Capacity of sewage treatment plants has not increased sufficiently to match population growth, preventing housebuilding and contributing to the sewage overflow issue.[186]

63. Despite well-known population and climate pressures,[187] particularly for drought in the South/South East, efforts to ensure future water supplies are regarded by some stakeholders as insufficient. For example, some areas are already seeing housing and business developments being prevented due to a lack of water resources[188] or severe water restrictions being put in place due to inadequate drought preparations.[189] Leakage, despite being a solvable problem through innovations and regular maintenance, is taking a long time to be addressed.[190] So far, many companies have relied on demand management and leakage, rather than boosting supply,[191] one of the reasons why no new reservoirs have been built since privatisation.[192]

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180 Q386; Q515; Q526; Q530; Q617; Financial Times, Thames Water's emergency loan could cost £800mn in interest and fees, 17 November 2024

181 Q402; Q483; More information on replacement rates was provided via correspondence from water companies available under 'Correspondence' on the inquiry website (accessed 10 June 2025).

182 Independent Water Commission, Interim report, 3 June 2025, para 260–261; Financial Times, Two UK water companies lack complete maps of sewage networks 23 April 2024

183 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025. The average rate since privatisation is 0.83% which is still considerably lower than the average in other sectors like railways (Q402) or water asset replacement rates in Europe (Q38). According to Water UK, asset replacement rates are just a tenth of the rate of replacement in Europe.

184 Oral evidence taken on 26 November 2024, Q112 [Chris Walters]

185 Correspondence from Nicola Shaw, CEO, Yorkshire Water, regarding Reforming the water sector inquiry, 3 June 2025; Correspondence from Susan Davy, CEO, Pennon Group, regarding Reforming the water sector inquiry, 3 June 2025. Correspondence from Chris Weston, CEO, Thames Water, in response to evidence before the Committee and our letter of 23 May, 30 May 2025

186 UNISON, Clean water: a case for public ownership, June 2024

187 Future water resources, House of Commons Library, 23 April 2025; Q93; Q296; Q324; Q385

188 BBC News, Suffolk water shortage may 'throttle back' firms' growth, 21 August 2023; BBC News, Water supply fears prompt first housing objections, 26 June 2023

189 The Guardian, All of south-west of England in drought, says Environment Agency, 20 August 2021; Unearthed, South West Water was 'not honest' about drought risk to water supplies, Environment Agency said, 15 January 2014

190 UNISON, Clean water: a case for public ownership, June 2024; Q463; Q569

191 Q98; Q466; Q535; Qq571–574

192 This is not solely a problem with investment; other issues have caused problems should as the planning system: Q82

That is changing but most of the nine new reservoirs in company plans will come online in the 2030s or 2040s, around the time that supplies are likely to become particularly stressed: a tight schedule.[193] Recognising this problem, in May 2025 the Government intervened in the planning process for two new reservoirs, and announced its plans to pass legislation to automatically make another seven proposed reservoirs "nationally significant" to ensure final planning decisions will be taken by Defra.[194] Although companies' statutory Water Resources Management Plans set out how the anticipated 5 billion litre deficit by 2050 will be tackled, the Climate Change Committee identified concerns about tackling leakage and demand, particularly water supply levels where it notes that there are limited policies and plans.[195]

64. To tackle these concerns, there have been calls for formal resilience standards to be developed to help companies justify spending on long-term resilience to shareholders.[196] According to its interim report, the Commission has already concluded that "there is a strong case for a single, comprehensive infrastructure resilience framework across all water companies in England and Wales."[197] Ofwat has been working with companies to better understand asset health and has recently set some mandatory baselines for mains renewals,[198] but these efforts have proved challenging.[199] We have also received evidence suggesting that target replacement rates might be an unnecessary and expensive tool for encouraging better resilience, when other approaches could deliver more efficiently.[200]

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193 BBC News, Government fast-tracks new reservoirs to secure water supply, 29 May 2025;Qq569–572; Q610; Environment Agency, A summary of England's revised draft regional and water resources management plans, updated 20 December 2024

194 BBC News, Government fast-tracks new reservoirs to secure water supply, 29 May 2025

195 Climate Change Committee, Progress in adapting to climate change 2023 Report to Parliament, March 2023

196 Angling Trust, A Water Sector Fit for Purpose, May 2025

197 Independent Water Commission, Interim report, 3 June 2025, para 272

198 Correspondence from Susan Davy, CEO, Pennon Group, regarding Reforming the water sector inquiry, 3 June 2025.

199 NAO, Regulating for investment and outcomes in the water sector, 25 April 2025

200 Correspondence from Susan Davy, CEO, Pennon Group, regarding Reforming the water sector inquiry, 3 June 2025; Correspondence from Louise Beardmore, CEO, United Utilities, regarding Reforming the water sector inquiry, 3 June 2025

65. **CONCLUSION**

The current regulatory system does not encourage long-term thinking, as already acknowledged by the Commission. This affects both short-term resilience against asset failures and long-term water security. Improved finances may help, but part of the problem is, like in many other sectors, a lack of coherent resilience standards for key aspects such as water supplies and asset health. Consideration of asset replacement rates is a start, but to focus solely on this would be a mistake: a much broader understanding of what resilience looks like is needed.

66. **RECOMMENDATION**

The Independent Water Commission should determine how the price review and regulatory systems can encourage better resilience, both to protect customers from short-term shocks and ensure that water resources are safeguarded in the future. This should begin a process of creating a robust set of resilience standards for the industry, firmly embedded within the price review process or other central regulatory tools.

5 Relationship with consumers

67. Public confidence in the sector is at rock bottom. Overall customer satisfaction scores in the water sector are declining rapidly. Research indicates that the major driver for this is water companies' poor environmental performance,[201] affecting even those companies that have good customer satisfaction scores in other respects.[202] However other factors are at play, such as complaint handling,[203] ineffective engagement for planned works,[204] or poor responses to a water crisis.

Responding to high-impact incidents

68. Customers of several water companies are experiencing higher than expected levels of high-impact incidents, such as supply interruptions and sewer flooding.[205] Such events are distressing, lead to huge disruptions to customers' lives, may cause health issues and can threaten livelihoods due to the economic damage to businesses that are forced to close. Tackling this problem relies on good asset health and better resilience (see chapter 4). Poor resilience means companies are spending more time on responding to incidents than addressing the long-term causes.[206]

69. Inevitably, problems will occur, even within a resilient system. Although there are examples of well-planned responses,[207] there have been many cases where emergency responses to outages have also been problematic, particularly access to, and gridlock around, water stations[208] suggesting that local planning is insufficient. Customers have been left for many hours, or even several days, without running water, or having to tackle raw sewage in their homes, with sometimes little advice and guidance provided about

201 Q10
202 Q327
203 Q247; Q404
204 Q596; Q619
205 Ofwat, Water company performance report 2023–4, October 2024
206 Consumer Council for Water, CCW submission to the Independent Water Commission, 6 May 2025
207 Q465
208 Q12; Q243

what to do.[209] There have been occasions where water companies, including their senior leaders, have failed to properly engage with affected customers to offer accountability and reassurance that problems are being dealt with.[210] Concerningly, there have been instances when vulnerable customers who, despite being on priority service registers (PSRs),[211] did not receive the level of service that they had been led to expect.[212] Finally, it is generally thought that levels of compensation after these events are too low and too easy to avoid paying.[213]

Box 5: Poor responses to high-impact events: Southern Water

Southern Water

Southern Water has been responsible for a number of high-profile water outages. In December 2024, 58,000 homes across Hampshire were left without water because of a "technical issue" at a Southern Water supply works at its Testwood Water Supply Works. Long queues were reported at bottle stations and some customers on Priority Service Registers did not receive bottled water they should expect. Several schools were forced to close.[214] In May that year, Hastings and St Leonard's, experienced a supply disruption for five days, affecting 32,500 properties due to a burst pipe. In September-October 2023, Rye, Winchelsea and Camber experienced an outage that lasted for nine days.[215]

Talking to the committee about these incidents, the CEO of Southern Water stated that it was "unacceptable" that these incidents happened in the first place. He also stated that their response to these events has not been good enough and would look again at compensation.[216]

209 Q12; Qq42–43; Q122; Ofwat, Customer experiences of sewer flooding: An update report by Ofwat and CCW, 27 November 2024.
210 Qq167–174; Qq613–614
211 Registers of vulnerable households that need particular support
212 Blue Marble, Ofwat/CCW: Research into incident response, August 2024
213 Q15; Qq50–52; Oral evidence taken on 26 November 2024, Q109. Customers are sometimes unaware of the compensation they are entitled to and clauses currently allow companies to avoid paying due to poor weather, which many see as an unacceptable excuse.
214 BBC News, Southern Water outage hits thousands of homes around Southampton and New Forest, last updated 18 December
215 BBC News, East Sussex water shortage: Homes without supply for a ninth day, 1 October 2023; BBC News, Rye, Camber and Winchelsea residents face water supply misery, 29 September 2023; BBC News, Southern Water offers compensation after five-day outage 24 May 2024
216 Qq42–44; Qq50–53

Box 6: Poor responses to high-impact events: South West Water

On 16 May 2024, a waterborne parasite, cryptosporidium, was found in drinking water due to contamination via a damaged valve on farmland in South West Devon. Over 100 suspected illnesses were caused by the parasite which leads to vomiting and diarrhoea. The outbreak forced schools and hospitals to close and affected around 16,000 homes and businesses. Two members of the public were hospitalised.[217]

South West Water were heavily criticised for their response to the outbreak, as they did not issue a boil notice until 24 hours after the first 16 cases of cryptosporidium were confirmed, saying there were "no issues with the treated water."[218] The water company set up three water stations, however residents expressed that these water stations were not well advertised to the community.[219]

In the evidence session with the committee, the CEO of Pennon Group, which owns South West Water, explained the processes which led to this delay and stated that these processes had been changed. We also raised concerns about the CEO's lack of availability during these events.[220]

70. Some recent reforms may address these problems. In February 2024, Ofwat introduced a new licence condition that aims to improve the implementation of PSRs.[221] The Government also has plans to update the Guaranteed Standards of Service scheme,[222] which specifies the compensation due after high impact incidents. Secondary legislation to implement these changes is expected soon. Time will tell if these measures lead to better or quicker compensation or responses to emergencies.

71. **CONCLUSION**

Evidence suggests that some water companies are not sufficiently protecting or compensating their consumers before, during or after high impact incidents such as supply interruptions and sewer flooding. Regulatory steps are being taken to address most of these concerns, although it remains to be seen if these new measures will be effective.

217 BBC News, Devon: Faulty valve possible source of Brixham parasite outbreak, 16 May 2024
218 BBC News, Health agency confirms 16 cases of waterborne disease in Brixham, 14 May 2024
219 BBC News, Water parasite outbreak to last 'at least' a week, 16 May 2024
220 Qq176–181; Qq223–227
221 Ofwat, Customer-focused licence condition, accessed 5 June 2025
222 Defra, Summary of responses and government response, 17 December 2024; Oral evidence taken on 20 May 2025, Q247.

72. **RECOMMENDATION**
The Independent Water Commission should assess whether Ofwat's new customer-focussed licence condition, and the new Guaranteed Standards of Service, are sufficient to improve protective services for consumers during and after high-impact events. The Commission and Defra must address the issues of local coordination with other key bodies and communication with consumers. The Commission should also consider whether statutory standards should be set to create a customer-first culture amongst water companies. These standards could explain how to handle serious incidents—for instance, clarifying how and where water bottles should be supplied, how emergency sanitation should be accessed and how local emergency plans should be developed—and how to ensure that customers are aware of their rights.

Low-income households

73. The 2024 Price Review final determinations represent a serious, but widely thought to be necessary, step-change in investment levels and, correspondingly, bill revenues. This increase of 36% in consumer bills over five years (53% including inflation) is politically challenging but evidence suggests that customers understand the case for investment.[223] Paying these bills will be a challenge for low-income households, particularly given that levels of water poverty are rising.[224] Citizen's Advice expects that levels of water poverty[225] amongst its debt clients will rise from 7% to 14% due to these increased bills.[226] Companies are increasing the coverage of social tariffs from 4 to 9% of their customers,[227] however these vary greatly in quality and low public awareness of reprieves and other support available to customers can also be a problem.[228] We heard evidence that a single social tariff for the country could better shield these citizens from the worst of these bills increases through better consistency and higher awareness.[229] We have already concluded, as set out in a letter to the Minister on 4 February 2025,[230] that the Government must press ahead

223 Q6
224 Independent Commission on the Water Sector Regulatory System, Call for Evidence, 27 February 2025
225 Water poverty is usually defined as households that spend more than 5% of their disposable income (ie post housing costs) on their water bill.
226 Q21
227 Ofwat, Our final determinations for the 2024 price review – Sector summary, May 2025
228 Q24; CCW, Water Worries: Affordability research 2025, 30 January 2025; Walnut, Exploring the customer service experiences of water and energy customers in vulnerable circumstances, December 2024; CCW, Help with bills (accessed 5 June 2025)
229 Qq21–23
230 Correspondence to the Minister for Water and Flooding regarding social tariffs, 4 February 2025

quickly with its plans for developing a single, ideally automated, social tariff. The Government has refused to set a timeline for this but noted that water companies already have a sector-wide objective to eradicate water poverty by 2030.[231] According to correspondence we have received, progress towards this target varies, with Pennon Group (which owns South West Water and some other small water companies) already claiming to have eliminated water poverty, and others either on their way or less clear on their progress.[232] A lot of this analysis appears to rely on modelling.

74. **CONCLUSION**

The Government has not yet set out a timetable for developing a single and comprehensive social tariff to prevent protect low-income households from bill increases, despite the widespread view that it will be necessary in the context of much higher bills. This is a necessary step that allows the regulatory system to significantly increase investment, while shielding the most vulnerable. Despite record numbers of people being offered financial support, we are also not clear what progress is being made towards sector targets to eradicate water poverty.

75. **RECOMMENDATION**

The Independent Water Commission's proposals should contain provisions for establishing a single social tariff, or other protections for low-income households, to protect customers from the worst impacts of anticipated bill increases. The Commission's proposals should also establish how effectively water poverty is being tackled and whether more effective tools are needed to monitor progress.

231 Correspondence from the Minister for Water and Flooding, Department for Environment, Food and Rural Affairs, relating to social water tariffs, 4 March 2025

232 These letters are available under 'Correspondence' on the inquiry website (accessed 10 June 2025).

Conclusions and recommendations

Ownership, leadership and culture

1. Different models of ownership could offer a better culture of responsible leadership, which is key to a thriving water sector. A variety of corporate ownership options should be on the table for the water sector. As well as the publicly and privately owned businesses, options include not-for-profit enterprises, Community Interest Companies (or similar), cooperatives and hybrid approaches. Regardless of the approach taken, other factors may also need to be considered, such as powers to vet potential owners of businesses, a power that Ofwat does not currently have. (Conclusion, Paragraph 7)

2. We urge the Independent Water Commission to analyse all potential water company ownership models to determine which models are most likely to lead to a thriving and responsible culture. The Commission should then outline the steps needed to encourage those models of ownership. It is not enough to simply look at the type of organisation and their performance: this analysis much consider the context in which they are operating, such as the effectiveness of the regulatory system. The Commission should consider the extent to which different models, within the appropriate regulatory setup, contain the right incentives to encourage the right behaviours, including sustainable and affordable investment. The Commission should also determine how regulators can better vet or veto potential owners of water companies to prevent bad actors from running critical national infrastructure. (Recommendation, Paragraph 8)

3. Given the wide array of performance issues across the sector, more responsible leadership is clearly needed for better stewardship of our natural water resources. Incremental steps have been taken to improve governance, increase consumer representation and influence bonus cultures in order to improve decision-making, but we are not satisfied that these measures are enough to change the overall culture of water companies and improve performance for customers. (Conclusion, Paragraph 12)

4. The Independent Water Commission should consider what other reforms are necessary to ensure that the right people are put into senior positions and the appropriate bonuses are paid to them. This should include greater oversight or approval from Ofwat before appointments are made and bonuses are paid; clearer statutory expectations on the criteria for bonuses, making sure that they are awarded only for exceptional performance; clearer reporting to show how the needs of the environment and customers have been prioritised; better connections between bonuses and the incentives under the regulatory system; and greater customer involvement in establishing what an appropriate bonus scheme looks like. (Recommendation, Paragraph 13)

5. Trust and accountability in the water sector is very low and water companies must improve transparency through open data and more collaboration with consumers. (Conclusion, Paragraph 16)

6. The Independent Water Commission should consider how the link between water companies, communities and citizen scientists could be strengthened and formalised to provide a broader picture of water quality in local regions. These proposals should consider how water companies can be democratised and made as open as possible, with a legal requirement for water companies to publish performance, environmental and financial data on a sufficiently regular basis to be of use to the public. (Recommendation, Paragraph 17)

Financial management

7. Complex financial structures are not necessarily a problem, but they can obscure water company finances, enable bad practices, undermine transparency and worsen the public perception of water companies. Water companies increasingly look like financial institutions rather than businesses servicing monopolised critical infrastructure. These structures have undoubtedly been used, in some circumstances, to increase debt, given they are outside the investigatory remit of the regulator. Simplification and greater oversight are needed to ensure that these entities are used appropriately. (Conclusion, Paragraph 20)

8. The Independent Water Commission should determine how regulators can have better oversight over debt levels in regulated entities and other connected companies. Its proposals should actively require companies to simplify structures to allow for greater regulation and oversight of any company’s true financial situation. (Recommendation, Paragraph 21)

9. There has been serious economic mismanagement of companies, leading to unsustainable levels of debt and a high price for consumers. This situation must be resolved and a culture of relying on debt must never be allowed to

arise again. Since investment levels and revenues in the sector have clearly not been high enough, debt is likely going towards day-to-day expenditure as well as capital costs, which would be an irresponsible approach. A new understanding is needed about how bill revenues and debt are used. Companies and shareholders have demonstrated that stronger guardrails are needed to prevent the ratcheting up of debt to the point of financial instability while dividends continue to be paid. (Conclusion, Paragraph 25)

10. The Independent Water Commission should determine new measures to regulate the accumulation and management of debt in the water sector. These measures should allow the economic regulator to intervene when irresponsible debt management is taking place. Any new powers should be tempered by a realistic and consistent understanding of what sustainable debt levels look like. The Commission's work should help government, water companies and citizens come to an understanding about the most appropriate uses of debt, such as primarily for major new projects, infrastructure and upgrades that could cause surges to customer bills. (Recommendation, Paragraph 26)

11. There clearly have been examples of excessive dividends, particularly when poor performance or finances are taken into account, symptomatic of a culture of prioritising profit over duties to regulators and customers. However, dividends for other companies have been in line with regulatory expectations. Dividends are controversial, particularly when total shareholder returns and debt are taken into account. Part of the problem is the lack of clarity about whether dividends have truly been value for money, particularly since they eventually take more money out of a system than they put in. A system based more on higher bills and limited debt may be better. It is also not clear whether Ofwat's historic expected dividend returns have been set at a sustainable level, although many investors now think they are too low. We must ensure that sufficient safeguards are in place to prevent egregious dividend payments, ensure that services for customers and the environment take priority and to properly link dividend levels to company performance. At the same time, investors need to see stable but modest long-term returns. (Conclusion, Paragraph 31)

12. The Independent Water Commission must determine whether equity investment has been value for money for customers. If it is advisable to continue with a totally privatised model, the Commission needs to create a comprehensive but stable regulatory environment for water companies and their investors to ensure that the sector is low risk and low reward. As part of its work looking at narrowing the variability of returns, the Commission should investigate whether there should be a clearer 'floor' and 'ceiling' for dividends to provide reassurance to all sides, one that takes into account all returns that investors receive. Between these thresholds, that regulatory system should encourage higher dividends for better performance, and lower returns for poor performance. To ensure that customer service and environmental outcomes are prioritised, dividends should potentially be blocked entirely where companies have failed to deliver projects required by regulators and where there have serious infringements of licences, permits and performance targets, such as serious pollution events. To ensure that this works as intended, and to prevent the risk of unjustified dividends leaving a company, pre-approval for dividends by the regulator might be necessary. (Recommendation, Paragraph 32)

13. Special administration should be a last resort. However, it is unclear whether allowing a failing company to struggle on and accumulate progressively more debt is a better outcome than assuming temporary national control more quickly, with the associated costs that it could incur. (Conclusion, Paragraph 35)

14. The Independent Water Commission must provide recommendations on improving the special administration regime which, while it should still be a last resort, must ensure that the criteria for its deployment are sufficient for ensuring value for money for customers. (Recommendation, Paragraph 36)

The price review process

15. Customers should be protected from paying more than is necessary for maintaining national water infrastructure, and the price review is an important part of doing this. Some evidence suggests that previous determinations have not been sufficient, at least for some companies, to keep up maintenance and stakeholders have suggested a number of reasonable ways to improve the system, such as better ways of calculating expenditure allowances and developing a system that allows determinations to be challenged. However the price review is unlikely to be the sole, or maybe even the main culprit for low overall levels of investment: an irresponsible culture has developed amongst all actors to keep bills low, and customers and the environment are now paying the price. Bills will need to rise, which will be challenging when trust is dropping; government, regulators and water companies will need to ensure that this results in a better deal for consumers. (Conclusion, Paragraph 41)

16. The Independent Water Commission must ensure that water bills and spending allowances are sustainable and appropriate for maintaining assets and delivering services. If the price review process is retained, the Commission must begin the process of reforming it to ensure that allowances are calculated fairly and openly, and to ensure the process does not impede reasonable challenges. The process should ensure that bill revenues are not lowered in real terms, unless under extreme circumstances. If done in conjunction with reform to the regulation of debt and dividends, ensuring that more revenues can be invested into the sector, it may be possible to make the case for higher bills in return for better performance. More broadly, the Commission needs to get to the bottom of why a culture of unsustainably low bills was accepted by companies, regulators and government, and set out the reforms or principles needed to ensure that this does not happen again. The Commission will likely need to consider all the core planning processes that identify investment and make sure these are fit for purpose. (Recommendation, Paragraph 42)

17. The incentives that Ofwat puts in place for companies are too complicated, fail to match public expectations, and in many cases are not bringing about a culture of improvement. Despite public consultation, there are too many to provide a clear picture of company performance. There is scope for simplification and, given that the Government is in the process of reviewing national targets for water, there is an opportunity for better alignment and prioritisation. Simplification could clarify company performance and help rebuild trust, as would reconnecting public expectations and rewards achieved. Penalties are important but they also have the potential to create a negative feedback loop, encouraging further failure. These penalties should not be to the detriment of investment. (Conclusion, Paragraph 47)

18. The Independent Water Commission's proposals should ensure that the price review system is reshaped so that its system of incentives creates a culture of improvement. The price review should contain a comprehensive but straightforward set of performance metrics that matches public expectations and national targets for water. Targets should be stretching but realistic and never set basic expectations. Incentives to meet these targets should reward consistent improvement that is demonstrably attributable to the work of the company and only penalise regressions. (Recommendation, Paragraph 48)

Regulatory environment

19. Environmental regulation and the delivery of a reliable and safe water must be the first priorities of water companies and regulators. Effective regulation, strongly prioritised towards environmental and customer targets, is needed to make these a core part of the culture amongst water companies; it will also need to cover all actors that have the potential to harm water resources. It is important for regulations to be comprehensive and predictable to close any gaps that can allow pollution, and to ensure a stable investing environment. This should not just be about protection, but also about encouraging water companies, as major landowners, to actively improve the environment. (Conclusion, Paragraph 52)

20. The Independent Water Commission should look at potential reforms of the regulatory frameworks and regulators that govern the water sector to ensure that environmental protection is effective and a priority for water companies. It is vital that the reforms the Commission proposes can accommodate and synchronise with wider reforms, such as those that aim to tackle all water pollution from a variety of sectors and products, and new targets for water quality under a new Environmental Improvement Plan. These reforms should also ensure that water companies are encouraged to invest in nature-based solutions that can provide a suite of co-benefits for the public. (Recommendation, Paragraph 53)

21. We support the Commission's focus on creating a better regulatory framework, however a good framework is nothing without well-equipped regulators to act against bad actors and poor behaviours. Without clearer information and standards, it is difficult to have faith that monitoring and enforcement levels are sufficient, and we wonder if this has been a more pertinent problem than the frameworks themselves. The length of investigations and the sudden rise in inspections following injections of funding suggest that regulators have been underfunded in recent years and less able to monitor and catch problems, or enforce the rules sufficiently. Welcome efforts are being made to increase monitoring and inspections. We also believe that there is likely an imbalance between the data held by water companies and that held by regulators: a culture of openness is needed to ensure accountability. (Conclusion, Paragraph 58)

22. The Independent Water Commission should assess how effectively the regulators audit companies, monitor the water environment, and enforce breaches of licences and permits. It should consider whether regulators are leveraging enough fees from the sector to ensure robust, fair and quick monitoring and enforcement of environmental protections. To bring about greater trust in the regulatory system, the Commission should consider whether public standards for monitoring are needed, including a full understanding of asset conditions, a clear and agreed set of performance metrics, and an agreed rate of inspections. As part of this, the Commission's proposals should ensure that data on water is as open as possible, with regulators gaining automatic access to data held by water companies that is core to their regulatory functions. The Commission should consider whether more investigations should be made into category 3 and 4 pollution incidents. An evaluation of the "self-reporting" system is needed, which may need to be significantly overhauled or replaced to rebuild trust. (Recommendation, Paragraph 59)

23. The current regulatory system does not encourage long-term thinking, as already acknowledged by the Commission. This affects both short-term resilience against asset failures and long-term water security. Improved finances may help, but part of the problem is, like in many other sectors, a

lack of coherent resilience standards for key aspects such as water supplies and asset health. Consideration of asset replacement rates is a start, but to focus solely on this would be a mistake: a much broader understanding of what resilience looks like is needed. (Conclusion, Paragraph 65)

24. The Independent Water Commission should determine how the price review and regulatory systems can encourage better resilience, both to protect customers from short-term shocks and ensure that water resources are safeguarded in the future. This should begin a process of creating a robust set of resilience standards for the industry, firmly embedded within the price review process or other central regulatory tools. (Recommendation, Paragraph 66)

Relationship with consumers

25. Evidence suggests that some water companies are not sufficiently protecting or compensating their consumers before, during or after high impact incidents such as supply interruptions and sewer flooding. Regulatory steps are being taken to address most of these concerns, although it remains to be seen if these new measures will be effective. (Conclusion, Paragraph 71)

26. The Independent Water Commission should assess whether Ofwat's new customer-focussed licence condition, and the new Guaranteed Standards of Service, are sufficient to improve protective services for consumers during and after high-impact events. The Commission and Defra must address the issues of local coordination with other key bodies and communication with consumers. The Commission should also consider whether statutory standards should be set to create a customer-first culture amongst water companies. These standards could explain how to handle serious incidents—for instance, clarifying how and where water bottles should be supplied, how emergency sanitation should be accessed and how local emergency plans should be developed—and how to ensure that customers are aware of their rights. (Recommendation, Paragraph 72)

27. The Government has not yet set out a timetable for developing a single and comprehensive social tariff to prevent protect low-income households from bill increases, despite the widespread view that it will be necessary in the context of much higher bills. This is a necessary step that allows the regulatory system to significantly increase investment, while shielding the most vulnerable. Despite record numbers of people being offered financial support, we are also not clear what progress is being made towards sector targets to eradicate water poverty. (Conclusion, Paragraph 74)

28. The Independent Water Commission's proposals should contain provisions for establishing a single social tariff, or other protections for low-income households, to protect customers from the worst impacts of anticipated bill increases. The Commission's proposals should also establish how effectively water poverty is being tackled and whether more effective tools are needed to monitor progress. (Recommendation, Paragraph 75)

Formal minutes

Monday 9 June 2025

Members present

Mr Alistair Carmichael, in the Chair

Sarah Bool

Charlie Dewhirst

Helena Dollimore

Jayne Kirkham

Josh Newbury

Tim Roca

Henry Tufnell

Priorities for water sector reform

Draft Report (Priorities for water sector reform), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph Paragraphs 1 to 75 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Tuesday 17 June at 9.30am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 26 November 2024

David Black, Chief Executive, Ofwat; **Helen Campbell**, Senior Director for Sector Performance, Ofwat; **Chris Walters**, Senior Director for Price Review, Ofwat Q77–175

Tuesday 21 January 2025

Tom MacInnes, Director of Policy, Citizens Advice; **Dr Mike Keil**, CEO, Consumer Council for Water; **David Henderson**, CEO, Water UK Q1–39

Lawrence Gosden, CEO, Southern Water; **Stuart Ledger**, CFO, Southern Water Q40–120

Tuesday 25 February 2025

Susan Davy, Chief Executive Officer, Pennon Group (South West Water) Q121–232

Nicola Shaw, Chief Executive Officer, Yorkshire Water; **Paul Inman**, Chief Finance Officer, Yorkshire Water Q233–280

Wednesday 26 February 2025

Louise Beardmore, Chief Executive Officer, United Utilities; **Phil Aspin**, Chief Finance Officer, United Utilities Q281–345

Liv Garfield, CEO, Severn Trent Water Q346–429

Tuesday 11 March 2025

Heidi Mottram, Chief Executive Officer, Northumbrian Water; **Andrew Beaver**, Senior Regulation Director, Northumbrian Water Q430–509

Peter Perry, Chief Executive Officer, Dŵr Cymru (Welsh Water); **Samantha James**, Interim Chief Financial Officer, Dŵr Cymru (Welsh Water) Q510–549

Wednesday 12 March 2025

Ruth Jefferson, Chief Executive Officer, Wessex Water; **Andy Pymer**, Chief Financial Officer, Wessex Water Q550–578

Mark Thurston, Chief Executive Officer, Anglian Water Q579–625

Tuesday 13 May 2025

Chris Weston, CEO, Thames Water; **Sir Adrian Montague CBE**, Chair, Thames Water; **Steve Buck**, CFO, Thames Water Q626–817

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

RWS numbers are generated by the evidence processing system and so may not be complete.

1	British Water	RWS0002
2	Consumer Council for Water	RWS0001
3	Foxglove	RWS0010
4	Save Our Land And Rivers (SOLAR)	RWS0011
5	Severn Trent Water	RWS0003
6	Southern Water	RWS0004
7	Styles, Mr Peter	RWS0007
8	Unite the Union	RWS0012

The Committee corresponded extensively with water companies and regulators to gather evidence for this inquiry. This correspondence can be viewed here.

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2024–25

Number	Title	Reference
1st	The Government's vision for farming	HC 906
1st Special	Pet welfare and abuse: Government response	HC 581