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Rt. Hon. Alistair Carmichael MP (Chair)
Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA

Sent via email to EFRACOM@parliament.uk

9 June 2025

Dear Alistair

Thank you for your letter of 13 May seeking further information for the Committee's inquiry into water-sector reform.

Remuneration and dividend policy

Our Remuneration Committee is made up of a majority of independent non-executive directors. The Committee produces a comprehensive report each year which covers the issues indicated in your letter and we have attached this to our letter for ease of reference. As a result of our robust approach to remuneration, we were the only water company not to receive any adjustment in Ofwat's annual review of executive performance-related pay last year and were highlighted by Ofwat for our best practice in relation to target setting and transparency.[1]

Advertising and legal expenditure

All marketing campaign spending is directed to important public interest messages such as financial support for those customers struggling to pay bills, water efficiency, sewer blockages, and safety. In 2024/2025 our advertising costs were £872,000 and typically have between £750,000 and £1 million over each of the last five years.

We have not taken any legal action against the Environment Agency or the Drinking Water Inspectorate and have no costs to report in this regard. We challenged Ofwat's treatment of a civil emergency (Storm Arwen) in a case, which included an appeal to the Court of Appeal, and took place between 2021 and 2024 costing circa £600,000 over this period.

[1] Protecting-customer-interests-on-performance-related-executive-pay-2023-24-assessment-.pdf

Engagement with the Competition & Markets Authority at price reviews is a part of the statutory regulatory process and is treated so accordingly, as would also be the case regarding engagement with the Information Commissioners Office, if necessary.

Where we do choose to take action against a regulator this is always undertaken very much as a last resort.

Asset replacement during AMP7 (2020-25)

During AMP7 we have invested about £280 million each year in renewals and other maintenance activity – more than half of total capital additions of £466 million in 2023/24 alone. Over the period we expect to spend over £100m more than Ofwat provided in cost allowances for capital maintenance in the PR19 settlement with the majority of this overspending funded by shareholders.

We note that your Committee has heard that replacement rates for assets may not be sufficiently high, and we agree with that assessment. We believe a far greater level of funding is required to address the many asset health issues that remain outstanding and this subject forms a substantial part of our challenge at the CMA. For example the level of investment, quoted above, allows us to replace or structurally rehabilitate less than 1% of our 26,000 kilometres of water mains annually and around 0.5% of our 30,000 kilometres of sewers, prioritised through risk-based modelling. These renewal rates imply unrealistic and unsustainable asset lives of over 600 years for water assets and over 1000 years for sewers. Ofwat has partially acknowledged this in its PR24 Final Determination where it has provided additional funding across the sector to increase these replacement rates for water mains only. As such we will be aiming to deliver a 0.43% renewal rate in AMP8.

Whilst we welcome the changes Ofwat is now making it has taken far too long to see meaningful progress and we are concerned that the approach being taken is overly prescriptive. Effectively Ofwat's approach forces companies to undertake certain volumes of replacement for very specific asset groups even if that is not in customers interests. For example, the PR24 Final Determination (FD24) effectively requires every company to spend around 38% of all their water capital maintenance allowances on replacing water mains or see those allowances clawed back in five years time. Even if a company deems that it needs to spend more of their capital maintenance allowances on another asset group, for example civil structures on treatment works or filter media, because those assets need greater investment to reduce risk to service delivery for customers, the FD24 creates incentives for them to not do so. This is in direct conflict with best practise in asset management, which requires companies to focus investment where there is greatest risk or benefit.

We are also concerned that the levels of asset replacement funding are a much wider issue than just water mains and have made representations to Ofwat and CMA in this regard. We therefore welcomed both the NAO report and Cunliffe interim report which both draw attention to the need for the sector to have an increased focus on the correct level of investment to maintain asset health. In its "Regulating for investment and outcomes in the water sector" report (2025) the NAO said (on page 12) that *"Given the limited progress in developing a common understanding of asset health, Ofwat should continue to work with the sector, EA and DWI, reach a conclusion, and deliver its Roadmap for enhancing asset health understanding in the water sector on time."* Ofwat has partly acknowledged this also and has initiated a Roadmap for Enhancing Asset Health Understanding which may increase funding in this area during AMP8. This demonstrates that the NAO understand that the issue is real, and that progress to date has been too slow.

Tackling Water Poverty

In 2019 we were one of the first companies to set a target to eradicate Water Poverty by 2030, leading other companies to set measures and targets in this same area. In the same year we established and funded, alongside National Energy Action and CCW, the national water poverty unit. This important work led to a common definition of water poverty across the sector and provided a means of sharing best practice and working with other sectors (e.g. energy and housing). We have continued our focus in this area and most recently have been supporting Defra on the welcome revisiting of the work on a National Social Tariff, something we have been supportive of, alongside CCW, for many years.

Our current measure of water poverty is 13.78% (reduced from 14.79% in 2023/24 and 15.27% in 2022/23) and we have confidence that our wide-ranging activities and our partnership approach will enable us to achieve our target of zero water poverty by 2030. We are currently finalising our affordability strategy which Ofwat requires us to publish by the end of June 2025, and we will ensure that the Committee is sent a link to this report so that it can see the full extent of our interventions to support customers facing financial difficulty. However, we note that our approach for the 2025-30 period includes a four-fold increase in the level of support for customers struggling to pay their bills and a direct £20m contribution from our shareholders.

Data Transparency

Northumbrian Water is committed to transparency and to playing its part in rebuilding public trust in the sector. We have led the sector in sharing industry data by establishing, developing and then providing ongoing leadership and support to the Stream open data platform, which endeavours to unlock the potential of water data to benefit customers, society, and the environment (Stream - Portal). Further, we were the first company to publish an open data strategy which is aligned with the Open Data Institute's guidance. This is available to view on our website by clicking here.

We also publish Environmental Information Regulation (EIR) requests and our responses on our website at: Environmental information, whereby anyone can use a keyword search facility, greatly improving access to existing environmental information. We publish our EIR compliance statistics monthly to the website to demonstrate our obligation to completing requests for environmental information in a timely manner. Our 100% compliance rate has been maintained since 2015.

In addition to supporting the creation of the national storm overflow map used by all water companies and launched in 2024, we have a live storm overflow map on our website (Storm Overflows Map) and also share our data with Surfers Against Sewage for their website. An API data feed which is used to produce the near real-time Storm Overflows Map is available, also on Stream, where Northumbrian Water's data is refreshed at intervals of 10 minutes. This API allows users to access the dataset and use it for their own analysis.

Anyone has access to a water quality report for a designated address via our website at: What's going on in your area? This enables users to download the latest report (updated yearly) and see the constituent elements of their water supply, for all areas supplied.

In terms of water security and to help customers make more informed decisions about water use, we report our up-to-date water resources situation on the webpage Water Resources. This provides monthly reservoir stock percentages and if they are above, below, or at average levels for the time of year.

I hope this response is helpful, however, should the Committee wish to explore any area in greater technical depth we would be pleased to arrange a focused briefing.

Kind regards

Heidi Mottram

Heidi Mottram CBE
Chief Executive