



Environmental Audit Committee

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Rt Hon George Eustice MP
Secretary of State for Environment, Food and Rural Affairs

Sent by e-mail only

21 October 2021

Dear Secretary of State,

I write on the Committee's behalf with a response to your Department's consultation on the draft Strategic Priority Statement (SPS) for Ofwat.

As you will know, the Committee has been conducting an inquiry into *Water Quality in Rivers*. We have received nearly one hundred submissions, and, in six evidence sessions, have heard from 31 witnesses in person, including the Parliamentary Under Secretary of State in your Department, the chief executives of the Environment Agency, Ofwat and Highways England and the chief executives of five of the water and sewerage companies operating in England. I am pleased to have the opportunity to submit the Committee's views on the SPS as we near the end of our inquiry.

Since the last SPS was issued in 2017, the issue of poor water quality in rivers has risen up the public agenda. Data gathered following the installation of event duration monitors on combined sewer overflows (CSOs) has demonstrated conclusively that the sewerage system is overloaded and unable to cope with increasing pressures being put upon it. These pressures include a growth in housing development, the impact of heavier rainfall, and a profusion of plastic and other non-biodegradable waste clogging up the system. During the inquiry the Committee has heard compelling accounts of widespread pollution arising not only from the sewerage network, but also from wastewater treatment works, and the devastating impact that levels of pollution are having on England's rivers and their biodiversity.

Evidence to the inquiry suggests that Ofwat's Price Review process has hitherto focused on security of water supply and on keeping bills down with insufficient emphasis on facilitating the investment necessary to ensure that the sewerage system in England is fit for the 21st century. Without wishing to pre-empt the detailed conclusions of our inquiry, which we will report to the House later this year, the Committee is clear that a step change in regulatory action and water company investment is urgently required to upgrade the sewerage network, improve the parlous state of water quality in rivers in England, restore river biodiversity to previous levels and adapt to a changing climate. The next Strategic Policy Statement should make those priorities unambiguously clear to Ofwat.

Each of your consultation questions are addressed in turn below. The Committee hopes that these recommendations will ensure that the final SPS delivers the step change the Committee would like to see.

Consultation Questions

i. Has the government identified the most relevant strategic priorities for Ofwat? If not, please provide details of the priorities that should be included.

The Committee was pleased to note, in the consultation document, that the Government sees “protecting and enhancing the environment” as one of the four strategic priorities for Ofwat, and that Ofwat should “drive water companies to improve their day-to-day environmental performance”. We are nevertheless concerned that the draft SPS is imprecise in its expectations, using vague terms such as “support”, “encourage” and “challenge”, but with no indication of what specific outcomes are expected, and by when. Daniel Johns from Anglian Water told the Committee that the last Strategic Policy Statement in 2017 “ducked the hard choices” by describing a process rather than specific outcomes. He said that in this SPS:

“We would very much welcome absolutely explicit, objective measures of success by 2030 that Ofwat can then support companies to achieve.”¹

If the SPS is to deliver improved performance by the water companies, and a better environment to deliver the objectives of the 25 Year Environment Plan, the outcomes it seeks should be much more specific and measurable, while incentivising water companies not to regard thresholds as a minimum. One objective of the SPS must be to accelerate the investment identified in water companies’ Drainage and Wastewater Management Plans so that damaging discharges from water treatment assets including storm overflows cease and that any spills occur only in genuinely exceptional circumstances.

Your Department must firstly make it clear to all regulators concerned— and Ofwat in particular— and to all water companies, that it expects to see, by 2030 at the very latest, a significant and specific reduction in the number of bodies of water in England which fail to meet Good Ecological Status because of pollution attributable to the action of or inaction by water companies. In the Committee’s view, the relevant strategic priority should read: “Ofwat should drive water companies to deliver year-on-year reductions in the use of storm overflows and the number of pollution incidents, with a target of zero incidents by 2030”

ii. Does the strategic policy statement effectively set out government’s expectations of Ofwat in supporting delivery of our priorities? If not, please identify where these expectations could be made clearer.

The Committee was disturbed to note that the consultation includes a draft proposal that “Ofwat should incentivise water companies to improve environmental performance to meet the EA’s requirements”. Companies should not have to be rewarded for compliance with regulatory requirements, but should be penalised if they fail. Similarly, they should not have to be incentivised to “reduce the frequency and volume of sewage discharges from storm overflows”.

¹ [Environmental Audit Committee, *Water Quality in Rivers*, oral evidence taken on 26 May 2021, Q193](#)

The Committee was pleased to note that the consultation recognises that “Ofwat’s price determinations should ... provide intergenerational value.” The sector has benefitted from the Victorian philosophy of longevity in water and wastewater investment, and it would be disappointing if Government policy and regulators’ actions in the 21st century failed to deliver similarly long-term benefits to the environment, society and the economy. Professor Dasgupta’s review of the economics of biodiversity is clear that a healthy environment is essential to a sustainable economy and must be priced accordingly in business and regulatory decisions: “The fault [for biodiversity decline] is not in economics; it lies in the way we have chosen to practice it”. Your Department’s priorities for Ofwat should make it clear that from now on natural capital needs to be taken into account—and priced at a level that preserves and enhances it—in all matters of economic regulation. This should encourage water companies to invest in nature-based solutions to improve water quality.

It is important that companies are required to invest in cleaning up all rivers in England, and not simply those that happen to be designated as of conservation interest or having particular amenity value. All rivers should receive the investment needed to reach their full potential for ecosystems and society, and no river ought to be consigned to a permanent state of degradation. The fact that so few chalk streams have a conservation designation is testament to the extent of their decline, but also an indication of what might be achievable for them all if water quality were improved and damaging levels of abstraction stopped. Given the level of public concern about the state of chalk streams, Defra should ensure, if necessary by setting a strategic policy objective, that Ofwat supports the recovery of them all within the next 10 years.

The recently-closed regulatory consultation on the draft Water Industry National Environment Programme (WINEP) envisages a tiered approach to the outcomes water companies are expected to deliver. This is welcome, since it provides the scope for companies to innovate and work in partnership to deliver more nature-based and sustainable solutions in our water and sewerage system. Ofwat must be directed to ensure that nature-based solutions are treated as though they are conventional capital assets, and to recognise that there will be an ongoing cost to their maintenance and operation.

Where nature-based solutions are to be employed, the Committee recommends establishing a clear path towards this target over a slightly longer timescale. This would align with the proposal in the draft WINEP—which we support—that the planning horizon for environmental improvements should be extended from five to ten years. A second phase of the 2021 Green Economic Recovery programme, in which Ofwat allowed some £2.7 billion extra funding, should be developed for 2022 rather than awaiting the next Price Review. This would help to accelerate the improvements urgently required.

The Committee has heard of the concerns about the actual and potential adverse impact on aquatic ecology from new and emerging pollutants—substances which are only briefly referred to in the consultation. For instance, we have heard that microplastics are now ubiquitous in the freshwater environment. Although well-run wastewater treatment works may be effective at removing these, they still enter watercourses from Combined Sewer Overflows (CSOs) and also from sewage sludge spread on farmland. Ofwat should require water companies in England to invest urgently in measures to assess the scale of the problem, and, working with the Environment Agency to develop a strategy for their removal from effluent and sludge on a precautionary basis.

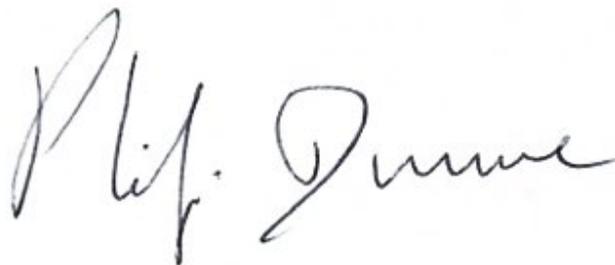
iii. Do you consider that this statement to Ofwat is clear and easy to understand? If not, please identify any areas that could be clarified.

The Committee is concerned that the draft document expects only 'infrequent' operation of CSOs. This suggests the potential relaxation of what should be a very high threshold for spill frequency.

The draft SPS advises Ofwat to incentivise water companies "to significantly reduce the frequency and volume of sewage discharges from storm overflows, so they operate infrequently".² At present, storm overflows should only operate in 'exceptional' circumstances: so, as currently worded, it may appear that the draft SPS proposes to lowering the standard rather than raising it. The Committee raised this point on 15 September with the Parliamentary Under Secretary of State and your Department's Deputy Director for Water Quality. Members were reassured to hear that that there was categorically no intention to downgrade the pressure on storm overflows, and that the Department would look again at the terminology used in the draft SPS.³ For the avoidance of doubt in this respect, the final SPS must carry a clear definition of the circumstances considered 'exceptional'.

We trust that these suggestions are useful to you and your team in producing the final version of the Strategic Policy Statement for Ofwat. We look forward to issuing the final report of our inquiry this winter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Dunne', written in a cursive style.

Rt Hon Philip Dunne MP
Chairman of the Environmental Audit Committee

² Defra. 2021. [The government's strategic priorities for Ofwat Draft for consultation](#), July 2021, p10

³ [Environmental Audit Committee, Water Quality in Rivers, oral evidence taken on 15 September 2021, Q330-332](#)