

WONDERFUL ON TAP

SEVERN

TRENT

Rt Hon Philip Dunne MP
Chair, Environmental Audit Committee
House of Commons
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Dear Philip

Thank you for the opportunity to give evidence to your committee last week about how we can collectively improve river water quality. I am writing, as promised, to provide further information on key areas.

I believe by far the most important of these areas concerns the current state of rivers and how we should measure progress. This is neither an academic nor rhetorical question. It instead goes to the heart of how we approach the problem and target future investment.

The key measure we, and we believe most environmental groups focus on, is RNAGS, or Reasons for Not Achieving Good Status, as it is the most comprehensive data available. RNAGS reflect the Environment Agency's analysis of the nearly 24,000 individual reasons why England's water courses are not all at Good Status. Eliminate these reasons and logically all of England's watercourses should achieve Good ecological status.

The latest EA data is [here](#), but in summary:

- Nationwide, the total number of RNAGs is up by 2.7 per cent (23,057 to 23,681) since the data was last reported, driven largely by results from the agricultural sector.
- At the same time, the total number of water industry RNAGs is down by 3.2 per cent (5614 to 5432). The water sector's contribution to the problem has been consistently reducing.
- Nationwide, the water industry now accounts for 23 per cent of RNAGS, with storm overflows accounting for 3.5 per cent of the overall total. Agriculture accounts for 36 per cent of the total.
- In the Severn Trent region, I am pleased to be able to say we reduced our share of RNAGS from 1,072 to 971, a reduction of nearly 10 per cent.

You will see from the latest data that a scenario in which the water sector's improvements are more than outweighed by growing problems from other sectors is entirely feasible. This is why we hope your committee recommends the development of a national rivers strategy complete with actions for all stakeholders.

Our Severn Trent goal is to continue to reduce our RNAGS to as close to zero by 2030 as such eliminating any harm we cause to rivers. We anticipate the only exceptions being the comparatively few cases where it is either technically infeasible to address a problem or where the solution fails the Environment Agency's cost-benefit tests. But we will keep even these cases under review as technology improves.

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We were also asked to provide information on four other points:

1. We have double checked our records and are certain none of our mid or senior managers were previously involved in the Southern mis-reporting earlier in their careers. We are also very confident that none of our wider 7,000 employees were in anyway involved. Although for a belt and braces approach and to provide absolute certainty I have asked our HR team to double check our records in more detail. I am extremely clear that we will only employ people of the highest integrity.
2. Our full effective tax rate last year was 20.6% which meant that we paid £23.2 million of corporation tax after the allowances we receive for our investment in our capital programme. Our tax arrangements are transparent and extremely straightforward. Reflecting this fact, we have been awarded the Fair Tax Mark three years in a row and, in addition to tax, we set aside the first one per cent of any profits we make for charitable giving. You can read further about our tax arrangements here: <https://www.severntrent.com/content/dam/stw-plc/responsibility/explaining-our-tax-contribution-2020-21.pdf>.
3. We publish our Event Duration Monitor (EDM) data on our website: <https://www.stwater.co.uk/regulatory-library/regulatory-library-documents/>
4. Finally, I am pasting below a copy of our submission to Defra on its draft Strategic Policy Statement. The point I would wish to emphasise is that the SPS is very strong on general analysis, but we think it would be far more effective if it set specific priorities.

I hope these points are useful. I'd be very happy to discuss any of them further.

With best wishes,



Liv Garfield
Chief Executive
Severn Trent Plc

Severn Trent response to Defra's Strategic Policy Statement for the water sector

Thank you for the opportunity to comment on the government's draft strategic priorities for Ofwat.

The draft sets out an ambitious programme that we believe broadly covers the right areas. We very much want to see environmental enhancements, a more resilient sector and customers benefiting from the best possible value for money.

The question we have is about how to turn ambitious aspirations into practical action. A key theme in the October 2019 report by the government's National Infrastructure Commission was that guidance to economic regulators should be specific if it is to be effective. We are concerned that the draft guidance is insufficiently specific.

Our hope is that the final guidance will set out specific policy goals whilst asking Ofwat to ensure these goals are delivered in the most efficient possible way. Ofwat is a world-class regulator with highly effective tools like comparative competition and Outcome Delivery Incentives to ensure excellent value for money for customers.

In terms of policy priorities, we propose two simple changes to the guidance to ensure even greater protection for customers at the same time as driving up investment to deliver the government's key priorities:

Protecting customers, both today and in the future.

The government should ensure bills are affordable for customers – both today and for future generation.

The immediate challenge is that some customers do struggle to afford their bills today (although this is a much smaller number than with energy bills) and no government would want to adopt unpriced commitments. On the other hand, constraining investment now will lead to higher bills in the future – as well as the government failing to meet key environmental goals. We believe there are several ways to square this circle, with options including:

Ministers could set out their expectations for overall bill changes between 2025 and 2030, effectively setting the overall budget for investment whilst asking Ofwat to use its expertise to maximise what this investment buys. The DCMS took a similar approach with their guidance to the telecommunications sector in 2019, guidance that clearly prioritised investment.

Companies could be asked to provide specific assessments of how their business plans will impact those paying living in water poverty (defined as those paying more than five per cent of their disposable income of water) and what has been done to mitigate any ill-effect.

Ofwat could be asked to provide ministers with an assessment of how they have used PR24 to keep bills low for future generations, not just today's. This would help provide a useful focus on intergenerational fairness.

Ofwat should be asked to maintain its already highly successful efforts at ensuring that government policy goals for the sector are achieved as efficiently as possible – challenging the sector to beat its already world-class levels of efficiency.

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Whilst facilitating increased investment in environmental improvements, greater resilience and protecting future generations of customers.

Within the broad funding envelopes set out above, Ofwat would then be expected to *maximise investment* in a way that reflects ministers' policy priorities. These priorities should be specific and relatively few in number.

Reflecting ministers' statements and the draft guidance, the specific targets might comprise:

Wherever practical, companies should work with stakeholders to create at least one stretch of river in every county good enough to bathe in by 2030.

Ofwat should ensure that (economically efficient) Water Resource Management Plans and Drainage and Waste Water Management Plans are appropriately funded.

Companies seek to replace a proportion of customers' lead pipes by 2030.

The water and sewage companies should support the government's goal of achieving Net Zero carbon emissions by 2050 (and achieving a 78 per cent reduction of 1990 levels by 2035) by demonstrating leadership and being Net Zero by 2030.

We hope these suggestions are constructive and practical. We would welcome the opportunity to discuss them with you.