

Written evidence submitted by Severn Trent Water (RWS0003)

14 February 2025

Dear Alistair,

Thank you for the opportunity to give evidence to your committee on 26 February. It has been suggested it might be helpful if I wrote in advance to set out some thoughts on the sector's performance and potential future reforms.

Whilst the sector has achieved some significant successes over the last 20 or so years – as noted by Moody's 2023 assessment – few are satisfied with the status quo. For too long, the sector lacked a coordinated sense of direction, support for customers in financial hardship was mixed and many companies have also built up too much debt.

For Severn Trent, I would characterise our performance as "a lot done, a lot to do". Over the last 10 years, we have consistently achieved the best performance in the sector in those areas prioritised by customers (i.e. Outcome Delivery Incentives), been ranked the best environmental performer by the Environment Agency (achieving the top 4-star award for the last five years) and have kept bills the second lowest in the country. We also continue to deliver world class drinking water safely to people's homes, with average outages now reduced to less than six minutes a year.

We have made considerable progress, but I could not be clearer that we need to go further and faster. Priorities for Severn Trent over the next five years include ensuring that our operations cause less than two percent of the harm to rivers by 2030, reducing the number of minutes a typical household goes without water a year to less than six minutes and reducing storm overflow spills to an average of 10 a year, that is, beating the government's target by 20 years. These are tough goals, but I am confident that our proven frontline teams, focus on innovation and *£15 billion* investment plan mean we will rise to the challenge.

Our plans are supported by our strong balance sheet. We are 59 percent geared, and our customers are benefitting from the *£1.25bn* equity injections from our investors over the last three years, which is allowing us to invest many hundreds of millions of pounds in improvements even in advance of the next price review period beginning.

Often overlooked, the success of Severn Trent's entirely commercial renewable energy business is an additional bright spot. The renewable energy generated by this sizeable separate business means we're on track to being Net Zero by 2030 and that we have a built-in hedge against energy price fluctuations.

Good companies are already making things happen, but I also think structural reform is necessary. That is why we welcome Sir Jon Cunliffe's commitment to undertake a 'root and branch' review of the water sector. I know Sir Jon cannot possibly cover everything, but I hope his review can, among other things, address the following:

1. How can we ensure ministerial policy guidance to the water sector is sufficiently clear, consistent, and prioritised to be effective?
2. How should companies be held to account for delivery against this policy guidance?
3. How can the cost of future investment be minimised?

4. How can any customer struggling with their bill be most effectively supported?
5. How can water companies maximise their broader contribution to their regions through how they invest, not just what they invest in?

Whilst the above five questions are some of the priorities on my mind, I look forward to answering the questions your committee will have.

With best wishes,

Liv Garfield

Chief Executive