

Debate Pack
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Debate on regulation and financial stability of water companies

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Summary

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1 Background

A Westminster Hall debate on regulation and financial stability of water companies was scheduled to take place on 23 October 2024. The debate was proposed by Tim Farron.

1.1 Water sector overview

Water is a devolved matter, and provision and regulation take place differently across different parts of the UK. An overview is set out in table 1 below.

Table 1 An overview of the water sector				
	England	Wales	Scotland	Northern Ireland
Water services provision	A mixture of water companies, including both publicly and privately listed companies	Two main water companies (Dwr Cymru, Hafren Dyfrdwy), in private ownership but with no shareholders	Scottish Water, a public company	Northern Ireland Water, a government-owned company within the Department for Infrastructure
Economic regulation	The Water Services Regulation Authority (Ofwat)	The Water Services Regulation Authority (Ofwat).	Water Industry Commission for Scotland (WICS)	The multi-sector Utility Regulator (UReg)
Environmental regulation	The Environment Agency (EA), an executive agency of the Department for Environment, Food and Rural Affairs (Defra)	Natural Resources Wales (NRW), an executive agency of the Welsh Government	Scottish Environmental Protection Agency (SEPA), an agency of the Scottish Government	Northern Ireland Environment Agency (NI EA), an agency of the Northern Ireland Executive
Drinking water quality regulation	The Drinking Water Inspectorate (DWI)	The Drinking Water Inspectorate (DWI).	The Drinking Water Quality Regulator for Scotland (DWQR)	The Drinking Water Quality Inspectorate within the Northern Ireland Environment Agency (NI EA)

1.2 Regulation

All water companies hold an appointment as a water undertaker (or sewerage undertaker), which is [subject to conditions](#) with which the companies must comply. This is also referred to as a licence.¹

In England and Wales, Ofwat (the Water Services Regulation Authority) holds copies of each undertaker's original licence and tracks any amendments.² As the economic regulator, Ofwat is responsible for enforcing the licence conditions.

The water industry is highly regulated. In addition to licence conditions, water companies must comply with economic, environmental, and water quality regulations (as highlighted in table 1, above). This debate pack focuses mainly on England.

Ofwat's duties

Ofwat, also known as the water services regulation authority, is responsible for economic regulation of the water sector in England and Wales. It is a non-ministerial government department that is directly accountable to Parliament.³

The [Water Industry Act 1991](#) (as amended) sets Ofwat's statutory duties, powers and the regulatory framework for the sector.

Ofwat's primary [statutory duties](#) are:

- to ensure that water and sewerage companies properly carry out their functions and are able to finance them.
- to protect the interests of consumers (section 2 of the act identifies particular customers that Ofwat is legally required to have regard to the interests of, including people who are disabled or chronically sick; are of pensionable age; have low incomes; and who reside in rural areas).
- to ensure the long-term resilience of the supply of water and sewerage services in light of external pressures (environmental and

¹ Defra, [Consolidated version of water supply and sewerage licence standard conditions](#), 30 November 2018

² Ofwat, [Licences and licensees](#), [Accessed 16 October 2024]

³ Department for Environment, Food and Rural Affairs (Defra), [Ofwat framework document](#), March 2020 (PDF)

climate change, population growth, changes in consumer behaviour).⁴

The UK and Welsh governments provide policy direction to Ofwat through statutory strategic statements. Ofwat must act in accordance with the statements when carrying out its functions and is required to report on the steps it has taken in response.

The most recent strategic policy statements are:

- UK Government, [Strategic policy statement to Ofwat](#), February 2022.
- Welsh Government, [Strategic priorities and objectives statement to Ofwat](#) (PDF), July 2022.

How does Ofwat regulate?

Ofwat sets the price of water through [price reviews](#).

Each price review period spans five years. Each water company submits a business plan setting out how they intend to deliver for customers and invest in the upcoming price review period. Ofwat scrutinises the plans then sets customer prices in a way that allows companies to cover operating expenditure, a portion of capital expenditure (the rest to be raised from investors), and profit. The upcoming price review, 'PR24', [will set the price of water from 2025-2030](#) and will be published in December 2024.

Ofwat also sets targets (performance commitments and outcome delivery incentives). Meeting these targets influences how much companies can charge customers, with companies that outperform their targets allowed to charge more and underperforming companies less.

For more information, see the Library research briefing on [economic regulation of the water industry](#).

1.3

Financial stability and resilience

Water company financial stability falls under the remit of Ofwat; its [statutory duties](#) include ensuring that water companies are able to finance their duties, as well as a wider resilience objective. Ofwat oversees the financial resilience of companies and can raise concerns or

⁴ Section 2, [Water Industry Act 1991](#)

challenge a company to demonstrate how its financial practices allow it to maintain long-term financial viability.

Ofwat publishes an annual report on the [financial resilience of water companies](#). In 2023, half of the seventeen companies assessed were below the “standard” rating, with four in the most serious “action required” category.⁵

Increasing public scrutiny has highlighted water company performance and financial management in the last few years. In 2022, water companies paid out a [record £1.4 billion in dividends](#), leaving less money available for investment in infrastructure, and in 2023 senior executives from five water companies in England and Wales took bonuses (despite poor environmental performance across the board).⁶

New powers for Ofwat (2023)

The [Environment Act 2021](#) gave Ofwat more flexible powers to modify water company licence conditions.⁷ It has used these powers to increase its oversight of water company finances.

For example, in March 2023, [Ofwat announced new powers](#) to enable it to stop a water company paying dividends to its shareholders if this payment would risk the water company’s financial resilience. These powers also enable Ofwat to take enforcement actions against water companies who do not link the payment of dividends to overall performance.⁸

In June 2023, Ofwat published [guidance on protecting customer interest on performance-related executive pay](#) (PDF), which outlined the scope and application of a mechanism for recovering executive pay from companies unable to demonstrate that the pay meets Ofwat’s expectations. Ofwat said that this mechanism would increase scrutiny of executive pay awards under PR24.⁹

⁵ Ofwat, [Monitoring Financial Resilience report 2022-23](#), 26 October 2023.

⁶ As reported in the Financial Times, [UK water company dividends jump to £1.4 billion despite criticism over sewage outflows](#), 8 May 2023, [Accessed 16 October 2024]

As reported in BBC News, [Ban water bosses’ bonuses now over sewage spills, say campaigners](#), 13 February 2024, [Accessed 16 October 2024]

⁷ For more information on the Environment Bill (now the Environment Act), see the Commons Library research briefing CBP 9345, [Environment Bill 2021-22: Lords amendments and “ping pong” stages](#) and research briefing CBP 8824, [Commons Library analysis of the Environment Bill 2019-20](#).

⁸ Ofwat, [Ofwat announces new powers on water company dividends](#), 20 March 2023

Defra, [Government supports new Ofwat powers to tackle water company dividends](#), 20 March 2023

⁹ Ofwat, [Ofwat delivers decision on executive pay](#), 29 June 2023

Ofwat, [Protecting customer interest on performance related executive pay – recovery mechanism guidance](#) (PDF), June 2023

Water (Special Measures) Bill (2024)

In October 2024, the Labour Government introduced its [Water \(Special Measures\) Bill](#) to Parliament. This bill will make provisions to enable the government and regulators to block the payment of bonuses for water company executives, bring criminal charges against those that break the law, enable automatic and “severe” fines, and ensure the monitoring of all sewage outlets (including emergency overflows). As with the measures set out above, the bill applies to England and Wales.

The bill is seen by the government as the [first step towards broader change across the water sector](#). It forms part of the government’s commitment to “put failing water companies under tough special measures”, which was also included in the Labour Party’s [2024 election manifesto](#).

The Library will publish a briefing on the bill ahead of second reading in the House of Commons. This date has not yet been announced.

PR24 final determinations

Ofwat’s [methodology for its upcoming price control period](#) from 2025-2030 sets out expectations on financial resilience, dividends, performance related executive pay and ‘voluntary sharing’ (sharing any outperformance financial incentives with customers).¹⁰

Final determinations on company business plans (including Ofwat’s decisions on the level of acceptable borrowing and bill increases) will be published on 19 December 2024.¹¹

1.4

Stakeholder commentary

Executive pay

Many environmental groups have criticised executive payments being made to water companies when these companies are either in debt or have been found to be discharging sewage.

For example, in early 2024 campaign group River Action launched a [campaign for water company bosses to lose their bonuses immediately](#) if the firms they work for were found to cause environmental damage (this was prior to Ofwat’s new powers on curbing executive pay being introduced). More recently, Thames Water’s chief executive was

¹⁰ Ofwat, [Creating tomorrow, together: our final methodology for PR24](#), 13 December 2022

¹¹ Ofwat, [2024 price review](#), [Accessed 16 October 2024]

criticised after [accepting a £195,000 bonus](#) despite the company holding debts of £15.2 billion.

In October 2024, [the Guardian reported](#) that bonuses paid out to water company executives increased to £9.13 million in 2023-24.¹²

Bill increases

[Ofwat issued draft decisions](#) on water company business plans in July 2024. Broadly, it challenged planned bill increases and set out an ambition for the “largest ever [infrastructure] investment programme” (for more information, see section 2 of the Library briefing on [economic regulation of the water industry](#)).

Even with Ofwat’s challenge, increases in water bills were included in the draft decisions. These were lower than most water companies wanted, with the trade body Water UK warning that Ofwat was [effectively asking investors to subsidise customer bills](#). However, the independent Consumer Council for Water (CCW) noted that Ofwat’s draft decisions would make “millions of people feel upset and anxious”, as any increase in billed costs was in the context of the [rising cost of living](#).¹³

Conversely, [credit ratings agency Moody’s](#) said that not allowing water companies to increase bills was leading to “diminishing investor confidence” ahead of Ofwat’s final decisions in December 2024.¹⁴ It said water companies may struggle to raise the equity needed to finance planned infrastructure investment. Moody’s also said that many water companies “were laying the groundwork” to challenge Ofwat through an appeal on decisions to the Competition and Markets Authority.¹⁵

Thames Water

Media and regulatory focus has been placed on the financial resilience of [Thames Water](#), which is the largest water company, serving 16 million customers across the River Thames catchment.

Thames Water has a particularly high debt burden. In July 2024, Moody’s and S&P (the two largest credit rating agencies) [downgraded Thames](#)

¹² £9.127 million in 2023-24 compared to £9.013 million in 2022-23; The Guardian, [Water companies raise bonuses to £9.1m despite record sewage discharges](#), 20 October 2024

¹³ CCW, [CCW statement: People will feel upset and anxious at water bill rises](#), 11 July 2024, [Accessed 16 October 2024]; House of Commons library, CBP 9428, [Rising cost of living in the UK](#), 11 July 2024

¹⁴ Financial Times, [UK water companies face struggle to raise equity without bill rises, Moody’s warns](#), 15 October 2024, [Accessed 16 October 2024]

¹⁵ Financial Times, [UK water companies face struggle to raise equity without bill rises, Moody’s warns](#), 15 October 2024, [Accessed 16 October 2024]

[Water's credit rating to 'junk status'](#), in response to limited access to cash and the risk of the company breaching covenants on its debt.¹⁶

In August 2024, [Ofwat confirmed actions for Thames Water following \[its\] credit rating downgrade](#), as Thames Water was found to be in breach of its licence conditions. These actions remain in place until Thames Water regains two investment grade credit ratings.

On 15 October 2024, [Ofwat appointed an independent monitor](#) for Thames Water. This monitor will report to Ofwat on Thames Water's actions in relation to equity raising and transformation (in line with the actions agreed in August).

On 18 October 2024, creditors of Thames Water reportedly wrote to the company, saying they had been “cut out of negotiations around a new loan”. Legal advisors for these creditors told the Financial Times that “Thames Water and its advisors appear to be close to launching a restructuring plan without consulting an important creditor constituency”.¹⁷

Financial stability and nationalisation

There have been calls for wider reform water sector regulation, including [the role of Ofwat](#).

The New York Times reports that [80% of Britons said water services should be run in the public sector](#).¹⁸ For example, campaigner Feargal Sharkey called for a “[complete radical reform](#)”, whilst economist Dieter Helm has [advocated for renationalisation](#).¹⁹ More widely, MP Clive Lewis has [proposed a private members bill](#) to call for a commission on water, to look into different modes of ownership within the water sector.²⁰

However, the Labour Government has said that it is not in favour of renationalisation. In his [speech on the Water \(Special Measures\) Bill](#), Steve Reed said that “nationalisation, which some have advocated, would cost billions of pounds and take years to unpick the current ownership

¹⁶ Covenants are agreements that could require certain things from the borrower, such as maintaining a certain level of cash or remaining below a certain level of debt. As Thames Water's financial position has worsened, Moody's have highlighted the risk that Thames Water may breach these financial standards.

¹⁷ Financial Times, [Thames Water bondholders fall out over emergency loan](#), 18 October 2024

¹⁸ New York Times, [Amid Sewage Spills and Rising Prices, Calls to Nationalize Water in England](#), 14 October 2024

¹⁹ The Guardian, [Activists warn of 'extreme anger' if ministers fail to reform water regulator](#), 14 August 2024; Dieter Helm, [The end\(less\) game for Thames Water - Dieter Helm](#), 23 September 2024, [Accessed 21 October 2024]

²⁰ BBC News, [MP 'hopeful' water bill could tackle problems in sewage system](#), 17 October 2024, [Accessed 21 October 2024]; Clive Lewis, [Launching my Private Members' Bill: Overhauling the failing water system](#), 15 October 2024

model, leaving sewage pollution in the meantime to get worse and halt the much needed investment”.²¹

²¹ Defra and Steve Reed, [Steve Reed speech on the Water \(Special Measures\) Bill](#), 5 September 2024, [Accessed 21 October 2024]

2

Further reading

Library publications

- Commons Library research briefing, CBP 8931, [Economic regulation of the water industry](#)
- Commons Library research briefing, CBP 10027, [Sewage discharges](#)
- Lords Library, [Water \(Special Measures\) Bill briefing](#), 3 October 2024
- Lords Library, [River pollution and the regulation of private water companies](#), 19 February 2024
- Lords Library, [Water and sewage companies: Executive remuneration](#), 16 February 2024

UK water sector

- Consumer Council for Water (CCW), [Water Matters 2024](#), 22 May 2024. This is a consumer survey which includes satisfaction scores across different categories of water company performance.
- National Infrastructure Commission (NIC), [Infrastructure Progress Review](#), 16 May 2024 (Chapter 7 – The environment: Water). This review sets out progress on infrastructure investment and delivery across the water sector, as well as an overview of government progress against the NIC's prior recommendations.
- Ofwat, [Monitoring Financial Resilience report 2022-23](#), 26 October 2023. Ofwat's most recent overview of water company financial resilience.
- The House of Lords Industry and Regulators Committee, [The affluent and the effluent: cleaning up failures in water and sewage regulation \(PDF\)](#), 22 March 2023. This report sets out commentary and stakeholder opinions around Ofwat's regulatory approach and makes recommendations for government.

Regulation

- Defra, [Dan Corry appointed to lead Defra regulation review](#), 15 October 2024. Economist Dan Corry has been appointed to lead this review of regulation, which will focus on boosting economic growth through regulation.
- Department for Business and Trade, [Smarter regulation: delivering a regulatory environment for innovation, investment and growth](#), 16

May 2024. This Conservative Government white paper set out future aims for the regulatory environment.

3 Parliamentary material

3.1 Debates

[Water \(Special Measures\) Bill \[HL\]](#) – Lords Second Reading

HL Deb 9 October 2024 | Vol 839 c2021-2073

Lords debate: [Pollution in Rivers and Regulation of Private Water Companies](#)

HL Deb 29 February 2024 | Vol 836 c1201-1234

Lords debate: [Water and Sewage Companies: Directors' Remuneration](#)

HL Deb 22 February 2024 | Vol 836 c746-760

3.2 Written statements

Written statement: [Water \(Special Measures\) Bill](#)

HC Deb 10 Sep 2024 | HCWS79

Emma Hardy | Department: Department for Environment, Food and Rural Affairs

On 4 September, the Government introduced the Water (Special Measures) Bill to Parliament to deliver on our manifesto commitment to put water companies under special measures to clean up our water. This builds on the statement of 11 July, which set out our first steps for ending the crisis in the water sector, and paves the way for a review to shape further, transformative legislative change to fundamentally transform how our water system works and clean up our rivers, lakes and seas for good.

This Government will never look the other way while water companies pump record levels of sewage into our rivers, lakes and seas.

To deliver on the manifesto commitment to 'block the payment of bonuses to executives who pollute our waterways', the Bill will provide

Ofwat with a new power to establish rules for the water industry relating to governance and remuneration.

The Bill also delivers on the manifesto commitment to 'bring criminal charges against persistent law breakers' by making obstruction of the general investigatory powers of Environment Agency, Natural Resources Wales and the Drinking Water Inspectorate punishable by imprisonment; and by opening up new routes for prosecuting executives.

To deliver on the manifesto commitment to 'impose automatic and severe fines for wrongdoing' the Bill will enable the Environment Agency and Natural Resources Wales to issue automatic fines for certain offences, ensuring water companies face rapid repercussions where it is immediately clear they have acted unlawfully.

To deliver on the manifesto commitment to 'ensure independent monitoring of every outlet', the Bill will place a requirement on water companies to publish data on discharges from emergency overflows in near real-time. This data will be independently scrutinised by the regulators.

Finally, the Bill will also modernise and strengthen the water industry Special Administrations Regime by introducing procedural rights around winding up petitions, and providing powers to recover the costs of special administration – bringing it in line with other sectors, such as energy.

Taken together, these measures will turn around the performance of the water industry and will be a first important step in enabling long-term and transformative change across the water sector.

However, I am clear that there are other fundamental challenges facing the sector, which will not be addressed by this Bill alone. A comprehensive reset is needed to restore our rivers, lakes and seas to good health, deliver a resilient water supply in the face of a changing climate, and ultimately ensure that the water sector works for customers and the environment.

Therefore, to build on the critical first steps of the Water (Special Measures) Bill, this Government will carry out a review of the water sector regulatory system and will fundamentally transform the water sector through future legislation. The review will focus on the private regulatory model and will not change plans for much needed investment in PR24. It will ensure that the framework that underpins our water sector delivers long-term stability, with incentives aligned to clear, achievable targets that reflect the needs of customers and the environment at a catchment, regional and national scale, supporting the Government's growth mission. We will invite views from a range of experts covering areas such as the environment, public health, consumers, investors, engineering and economics, and this will include a

public consultation to test the proposals and bring in a diverse range of views. Further details will be set out in the Autumn.

10 Sep 2024 | Written statements | House of Commons | HCWS79

3.3

PQs

Water Companies: Nationalisation

Asked by: Baroness Jones of Moulsecoomb

To ask His Majesty's Government, further to the Written Answer by Baroness Hayman of Ullock on 8 August (HL429), what assessment they have made of the changes that have taken place since the publication of The cost of nationalising the water industry in England by the Social Market Foundation on 5 February 2018, and the impact of these changes on the cost of compensation to stakeholders.

Answering member: Baroness Hayman of Ullock | Department: Department for Environment, Food and Rural Affairs

If the whole water industry was nationalised, share- and debt-holders would need to be compensated, which could cost over an estimated £99 billion. This is based on Ofwat's Regulatory Capital Value (RCV) 2024 figures for companies in England and Wales. This figure is higher than the Social Market Foundation's 2018 estimates because the industry's RCV has grown over the past six years, following new investment in infrastructure and RPI inflation.

Given the significant costs attached, the Government has no intention to nationalise water companies. It would take years to unpick the current ownership model, during which time the sector's issues would only get worse. The Government instead wants to tackle the situation as quickly as possible by improving the privatised regulated model.

That is why, alongside providing the regulators new powers to take tougher and faster action through the Water (Special Measures) Bill, the Government has also announced a full review of the water system. This will shape further legislation that will fundamentally transform how the current system works and clean up our rivers, lakes and seas for good.

HL Deb 20 September 2024 | PQ HL845

Topical Questions

Asked by: Steve Barclay

The Secretary of State has repeatedly talked tough with the water companies, yet the Water (Special Measures) Bill that he announced actually weakens a number of measures, such as the automatic fines for category 1 and 2 prosecutions, and removes the unlimited penalties that would apply. He said that the review of water regulation would strengthen requirements on water firms; will he therefore confirm to the House that there will be no regulatory easements as part of that review?

Answered by: Steve Reed | Department: Environment, Food and Rural Affairs

The very Bill that the right hon. Gentleman referred to strengthens regulation. We will be looking further at regulation through the review. The intention will be to make it stronger, not weaker, because it was far too weak under the previous Government and we need to turn that around.

Dr Beccy Cooper

Raw sewage was discharged into our rivers and seas for a shocking 4 million hours last year. Will the Minister reassure our coastal communities, including my own in Worthing West, that water companies will be held accountable for the necessary investment to address the systemic and chronic pollution of our waters?

Answered by: The Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs (Emma Hardy)

Congratulations to my hon. Friend on her election. She is absolutely right to be outraged at the level of sewage pumped into our rivers, lakes and seas under the previous Government. I hope that where she saw inaction in the past, she will see this Government taking action right now through our Water (Special Measures) Bill. We will not stand by and allow these levels of pollution to continue.

Ayoub Khan

Water bills in the west midlands are set to increase by some 37% by the end of the decade. Many of my constituents are already struggling with the cost of living. What steps will the Secretary of State take to stop private water companies ripping off consumers in the west midlands and to keep bills at an affordable level?

Emma Hardy

Of course, we recognise the impacts of the cost of living on all our constituents, but the years of under-investment by the Conservatives

mean that we need £88 billion-worth of investment in the industry. Customer bills will be ringfenced under the changes brought about by the Government, and if that money is not spent on infrastructure improvement, it will be refunded to customers. Of course, the final bills are determined by Ofwat, not the Government.

Helena Dollimore

My constituents in Hastings and Rye got their water bills this month. Many of them were shocked to see their bills going up despite the failures of Southern Water, which include sewage dumped along our coastline, flooding in our town centre and leaving us without water. It has even charged us for the five days when the taps ran dry. What are the Government doing to clean up the mess left by Southern Water and by the Conservative party?

Steve Reed

What has been going on in my hon. Friend's constituency is completely unacceptable. I know that she has been a huge champion for cleaning up the water in that part of the country. One of the things we are looking at doing is doubling the rates of compensation from water companies when they let down their customers as she described.

[...]

Under the Conservative Government, there were almost 18,000 hours of sewage dumping in my constituency in 2023. What is the Minister doing to ensure that Yorkshire Water cleans up its act and our beautiful River Don?

Emma Hardy

I thank my hon. Friend for her question and welcome her to her place. She is already a tireless champion for her constituency, and she has raised this issue with me in the past. Our new Water (Special Measures) Bill will clean up our rivers, lakes and seas, undoing the damage left behind after 14 years of Conservative rule.

Alison Griffiths

The Secretary of State is certainly talking tough, but will he publish the justice impact test for his Water (Special Measures) Bill and list the additional court cases and prison places needed? (900442)

Steve Reed

We will publish all information relating to the Bill at the appropriate time during its passage through Parliament.

HC Deb 12 September 2024 | Vol 753 c951 -

Exchange of questions: [Water Pollution: Accountability](#)

HC Deb 12 September 2024| Vol 753 c945-

Asked by: Sarah Coombes

What recent progress he has made on increasing the accountability of water companies for pollution discharges into waterways.

Answered by: The Secretary of State for Environment, Food and Rural Affairs (Steve Reed)

I welcome my outstanding former employee to her place in the Chamber, and thank her for her question. After 14 years of Conservative failure, the public are furious at the levels of sewage being released into our rivers, lakes and seas. Last week, this Government introduced the Water (Special Measures) Bill to strengthen the power of the water industry regulators and turn around the performance of failing water companies. The Bill will ban bonuses for chief executives when environmental standards have not been met, and will bring forward criminal charges for obstruction.

Sarah Coombes

Our canals are the pride of the Black Country: they are very important to our communities, our wildlife and our tourism. Unfortunately, like the rest of the waterways, we have seen serious pollution incidents in the canals in recent years. What are the Government doing to protect our canals and waterways and clean up the failures of the last Government?

Steve Reed

I congratulate my hon. Friend on being such a champion for waterways in and around her constituency. Toxic pollution of canals or, indeed, any other waterway is disgraceful and unacceptable. The previous Government cut resources for the regulators, leaving them incapable of investigating all the incidents that were happening. We are putting firepower back with the regulators through the Water (Special Measures) Bill, which will allow them to claw back the costs of prosecution from the organisations that are prosecuted, so that they can carry out more enforcement against organisations that got away scot-free with polluting our waterways under the previous Government.

Dame Caroline Dinenage

Dozens of homes and businesses across Alverstoke village in my constituency were flooded with polluted water from the Alver creek when Storm Pierrick caused a tidal surge in April this year. We now hear that, without urgent flood protection measures, that could be a one-in-

20-years scenario. Those measures will cost an extra £3.5 million, and we are waiting desperately for news from the Secretary of State's Department about whether we have been awarded that flood and coastal erosion risk management grant so that the work can start. We are now heading into winter, with higher tides, and some of my constituents still have not been able to return to their homes and businesses after the previous flooding event. What reassurance can the Secretary of State give me that that announcement is coming soon, and will he please meet me urgently to discuss this scenario?

Steve Reed

I congratulate the hon. Member on winning her seat in the general election and taking her place. I will certainly make sure that the relevant Minister is able to meet her to discuss that issue in more detail. I am very pleased that the first meeting of our new flood resilience taskforce will be later today. The intention of that organisation is to ensure much better co-ordination between Whitehall at the centre, where the resources are held, and the agencies on the frontline that need to be taking appropriate action as quickly as possible to protect communities, businesses, farms and all of the rest of the people who can be affected by flooding, particularly given that we are seeing more frequent severe weather incidents because of climate change.

Mr Speaker

I call the shadow Minister.

Robbie Moore

Sound management of water companies is of course vital if customers are to receive the high level of service they expect and environmental performance obligations are to be strictly adhered to. Some water companies are better managed than others, so will the Secretary of State guarantee that in his efforts to hold water companies to account, no offer of a regulatory easement will be provided—in other words, no permission to lower standards, relax environmental permits or reduce agreed levels of investment will be provided to any water company, no matter their financial circumstances, by the Government or the regulator?

Steve Reed

I will be announcing later this autumn—in just a few weeks' time—a review of the entire water sector, including regulation. In particular, I want to make sure that regulation is as tough as possible to ensure that the practices and, frankly, the abuses that were going on can no longer happen. Part of that will be complete transparency about what is going on—on the part of the water companies, and also, I have to say, on the part of Government. It was very disappointing that, when he was a Minister, the hon. Gentleman tried to cover up the extent of sewage spills

before the election, telling Environment Agency officials not to put the key figures on the front page of its environmental portal.

Mr Speaker

Order. Saying that the hon. Member “tried to cover up” is suggesting that a Member is lying, and I do not—

Steve Barclay

On a point of order, Mr Speaker.

Mr Speaker

The right hon. Member cannot raise a point of order now. He has been here long enough to know that they come at the end of questions. *[Interruption.]* Order. I am dealing with this. We really have to reflect on what we say about other Members in this House, and I would like the Secretary of State to withdraw what he has suggested.

Steve Reed

I withdraw that comment. Perhaps I should have said that the shadow Minister could have been more open and transparent. *[Interruption.]*

Mr Speaker

Order. I am not going to open up that question. We will now have the second question from Robbie Moore.

Robbie Moore

Thank you, Mr Speaker.

So there we have it: the Secretary of State’s first outing at the Dispatch Box, and he was not able to clearly answer the question I asked. Will the Secretary of State confirm that, in fulfilling his obligation to hold water companies to account, he will not issue regulatory easements, no matter their financial circumstances? Will he answer that question clearly right now from the Dispatch Box?

Steve Reed

As I have already said, we are looking to strengthen, not weaken the regulation. The regulation was inappropriate. It is not just the regulation itself, but the lack of resources the regulators have had. That is why the Water (Special Measures) Bill we are introducing will allow the regulators to claw back resources from water companies that are successfully prosecuted, so that they have the firepower to prosecute further wrongdoing by those water companies or others responsible for it.

Water Companies: Financial Resilience

Asked by: Lord Sikka

My Lords, I welcome the Minister to her post but let me illustrate the problems by referring to Thames Water. Its shares are worthless and its bonds are close to junk status, while 38% of its revenues service £18 billion of its debt. Based on the debt to asset ratio, Thames Water has a gearing of 80.6%; Ofwat's target is 55%. The debt to equity ratio used by credit rating agencies gives it a gearing ratio of 1,000%. No amount of regulatory tinkering can change the fundamentals here. The Government need to create some certainty by nationalising it, so can the Minister tell us when that will happen, please?

Answered by: Baroness Hayman of Ullock

I thank my noble friend for his very warm welcome. However, the Government have no plans to nationalise Thames Water. It would cost billions of pounds and take years to unpick the current ownership model, during which time underinvestment in infrastructure and sewage pollution would only get worse. We want to improve the situation in the water industry that we find ourselves in as quickly as possible.

HL Deb 23 July 2024 | Vol 839 c364

Water Companies: Investment

Asked by: Lord Sikka

To ask His Majesty's Government what is their assessment of Ofwat giving water companies a return on capital invested based on an assumed level of equity even if they do not hold that level of assumed equity.

Answering member: Lord Douglas-Miller | Department: Department for Environment, Food and Rural Affairs

When providing company determinations, Ofwat set a sector wide allowed return, on the basis of the notional capital structure. The notional capital structure provides clear signals about the allocation of risk. It protects customers from bearing much of the risk of companies' actual financing decisions and provides strong incentives on companies to raise finance efficiently. This approach is consistent with other UK sectors that are subject to regulatory price controls and is recommended by the UK Regulators' Network.

The actual achieved equity return for any company will depend on the company's unique actual capital structure and company performance.

Considerations about the actual capital structure are matters for each company and its investors to manage, consistent with the clear allocation of risk and responsibility for a company's actual financing and capital structure.

HL Deb 23 May 2024 | PQ HL4716

Water Companies: Debts

Asked by: Lord Sikka

To ask His Majesty's Government, further to the Written Answer by Lord Douglas-Miller on 26 April (HL3909), why the calculation of Regulatory Capital Value is not accompanied by a calculation of regulatory equity.

Answering member: Lord Douglas-Miller | Department: Department for Environment, Food and Rural Affairs

The value of regulatory equity is publicly accessible for each water company. Regulatory equity on the basis of a company's actual structure is Regulatory Capital Value less net debt.

Notional regulatory equity is published annually for each company by Ofwat. Ofwat also presents company gearing levels against actual structures in its annual monitoring financial resilience report.

HL Deb 21 May 2024 | PQ HL4540

Sewage: Waste Disposal

Asked by: Thomas, Derek

To ask the Secretary of State for Environment, Food and Rural Affairs, if his Department will make an assessment of the potential merits of amending water undertakers' licences under the Environment Act 2021 to require those undertakers to accept septic tank waste (a) where there is market failure in the processing of that waste and (b) in other circumstances.

Answering member: Robbie Moore | Department: Department for Environment, Food and Rural Affairs

Defra does not have the power to amend water company licence conditions; Ofwat has this power under the Water Industry Act 1991.

In the Plan for Water, the Government has committed to review existing regulatory arrangements and explore funding and other support options

for improving septic tank activities. We continue to consider options that mitigate the risks arising from private sewage discharges.

In January 2023, to ease the pressures on the septic tank waste disposal market in Cornwall, the Environment Agency issued a [regulatory position statement](#) to increase waste storage capacity. This means that tanks can temporarily store more sewage (up to 60 cubic metres) until South West Water has capacity to take it.

HC Deb 08 May 2024 | PQ 24692

Water Companies: Licence Conditions

Asked by: The Earl of Devon

My Lords, given the increasing regulatory and compliance burdens on water companies due to the Environment Act and such other essential recent legislation, is it not simply becoming unprofitable to invest in the water industry, which surely will make nationalisation at some point inevitable?

Answered by: Lord Douglas-Miller

I do not think that I agree with that assessment at all; it certainly is not this Government's policy to nationalise the water industry or indeed any other industry. Environmental issues around water companies are certainly highlighted more greatly than they ever were in the past. The Government have put a huge effort into monitoring the level of sewage and other pollutants going into the water systems. That, in part, is leading to much greater awareness of issues that have probably been going on for a very long time, and we are committed to fixing those issues.

HL Deb 01 May 2024 | Vol 837 c1904

Water Companies: Debts

Asked by: Lord Sikka

To ask His Majesty's Government why OFWAT calculate gearing levels of water companies by using a debt-to-assets ratio as opposed to a debt-to-equity ratio.

Answering member: Lord Douglas-Miller | Department: Department for Environment, Food and Rural Affairs

It is standard practice for regulated sectors to calculate gearing by reference to Regulator Capital Value (RCV). This is because there exists an RCV which represents costs incurred to date which can be recovered

from customers in the future. This approach to calculating Regulatory Gearing is used by Ofgem and the Civil Aviation Authority and is recognised by the Rating Agencies.

As the RCV represents the net stock of investment that has been contributed by debt and investors over time, it grows with net levels of investment. This provides the capacity against which companies may raise debt and equity to finance investment programmes.

There is no equivalent to an RCV for companies operating in a competitive market. Gearing measured by reference to RCV is a more useful metric than standard accounting measure of gearing in a utility sector because future revenue streams are more certain than they would be for companies operating in a competitive market.

HL Deb 26 April 2024 | PQ HL3909

Rivers: Environment Protection

Asked by: Offord, Dr Matthew

To ask the Secretary of State for Environment, Food and Rural Affairs, what recent assessment his Department has made of the effectiveness of river basin management plans in delivering the Government's 25 year Environment Plan goal for clean and plentiful water.

Answering member: Robbie Moore | Department: Department for Environment, Food and Rural Affairs

We have an ambitious Plan for Water which is delivering more investment, stronger regulation and tougher enforcement needed to meet our commitment in the 25 Year Environment Plan, to improving at least 75% of our waters to be close to their natural state. River Basin Management Planning is part of the regulatory framework to achieve this goal and has provided a mechanism for managing England's waters, bringing together national and local measures and investment to improve the water environment. The 2022 update to the River Basin Management Plans represents £5.3 billion worth of planned and funded actions by 2027. Each update to the [River Basin Management Plans](#) includes a progress report.

Further, in the Plan for Water, we committed to reviewing the Water Framework Directive regulations including River Basin Management Planning to improve integration between flood, water and water company plans.

HC Deb 01 March 2024 | PQ 15051

Water Pollution

Asked by: Lord Cromwell

My Lords, senior members of staff from water companies appearing in front of the regulatory committee told us that the monitoring that they have put in place is available freely, in real time, to the public. They now appear to be claiming that they are quasi sub judice because they are under investigation and are not prepared to provide that information. Is that something the Government will let them get away with?

Answered by: Lord Douglas-Miller

The Government are very clear that we will be providing real-time information and that it will be available publicly. If any of the water companies feel that they will not be doing that, I can assure your Lordships that the Environment Agency will be chasing them.

HL Deb 16 January 2024 | Vol 835 c301

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News items

FT [subscription required]

15 October 2024

[UK water companies face struggle to raise equity without bill rises, Moody's warns](#)

Department for Environment, Food and Rural Affairs press release

5 September 2024

[Landmark legislation to crack down on bosses for polluting water](#)

Guardian

4 September 2024

[Water bosses could be jailed if they cover up sewage dumping under new law](#)

BBC News Online

4 September 2024

[Anti-pollution law to threaten water bosses with jail](#)

edie

6 August 2024

['Catalogue of failure': UK regulator preps £168m sewage pollution fines for three water companies](#)

Environment Agency press release

23 July 2024

[Tougher regulation as data shows water companies underperforming](#)

Department for Environment, Food and Rural Affairs press release

15 July 2024

[Government introduces new bill to clean up water sector](#)

Department for Environment, Food and Rural Affairs press release

11 July 2024

[Government announces first steps to reform water sector](#)

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[Regulatory wrangling on English and Welsh water will please no one](#)

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20 May 2024

[Under-fire UK water companies lash out at 'labyrinthine' regulatory system](#)

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