



Department for Environment Food & Rural Affairs

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2 May 2024

Dear Cllr Thomas,

Thank you for your letter of 8 March to the Secretary of State about the proposal by Thames Water to increase household water bills. I am replying as the Minister responsible for this policy area and I apologise for the delay in doing so.

The Government has rightly set a high ambition for water companies on improving the environment and ensuring our water resources are secure for the future. The next water company investment cycle will be among the biggest and most ambitious since privatisation.

In October 2023, the water industry announced a planned £96 billion of investment between 2025 and 2030. This represents the largest investment in infrastructure ever made by our water industry, and a 63% increase in investment compared to the current five-year price review period. It shows the sector is responding to the actions of the Government to clean up our rivers and seas, drive more investment and jobs in the UK, ensure stronger regulation and tougher enforcement to achieve a fundamental change in the water industry.

On leakage, Ofwat has set requirements for water companies to cut leaks by 16% and reduce mains bursts by 12% by 2025. Ofwat has reported that industry wide leakage has been reduced by 11% since 2017-18. Water companies have committed to delivering a 50% reduction in leakage from 2017 to 2018 levels by 2050 and we expect Ofwat to challenge companies to deliver this and monitor progress.

In addition, water companies will need to contribute to delivery of Defra's proposed Water Demand Target under the Environment Act 2021 to reduce the use of public water supply per person in England by 20% by 2037. This includes a 31.3% reduction in leakage by 2037 on the pathway to meet their 50% reduction in leakage commitment by 2050.

However, we want to see a step-change in the water sector, and this will require tough decisions for the long term. New infrastructure will need to be paid for, and while water companies can attract private investment, this will also need to come from customer bills.

There is a balance to be struck in terms of priorities – ensuring there is prioritised spending on infrastructure to reduce environmental harm and secure supplies for the future without unduly hitting billpayers with a big rise.

All water companies submitted their proposed business plans for Price Review 2024 to Ofwat in October 2023, setting out details of how much investment they plan to put forward and how that will impact customer bills between 2025-2030.

These are now undergoing scrutiny by Ofwat to ensure they meet the targets for environmental improvements and other obligations, without unduly impacting customers' bills. Ofwat's final determination on the price controls between 2025-2030 is expected in December 2024 and bills from April 2025 will not be confirmed until this point. As customers benefit from new services they do need to contribute to the cost. Where there are necessary improvements and upgrades to meet our ambitious new targets, this will require new investment.

However, this does not mean that customers are paying twice for the same thing. Ofwat has been clear that, as part of its review of the business plans, customers will not pay for upgrades which the companies have already been funded to do or to meet existing legal requirements.

We recognise that household bills have risen in recent years, but the public has also made clear that clean and plentiful water supply and environmental protection are priorities. The sector has a range of support measures to help households that struggle with their bills: in 2022-23 over 1.3 million households benefitted from social tariffs in England and Wales and the average bill discount was £151 per annum.

Since privatisation, the private water sector model (underpinned by strong, independent economic regulation) has unlocked around £215 billion of investment. This is equivalent to around £6 billion annually in investment, almost double the pre-privatisation level. Furthermore, investment has been greater than dividends paid, but sustained investment in the water industry will only continue if the shareholders of companies can expect a fair return.

Using new powers granted to Ofwat by the Government, Ofwat is ensuring dividends are linked to environmental performance and cannot be paid where it would risk the financial resilience of the company.

In addition, in February, the Environment Secretary announced Ofwat will be consulting on banning water bosses from receiving bonuses if a company has committed serious criminal breaches. Ofwat will be taking forward a consultation on the ban and to define the criteria for a ban. That could include successful prosecution for a Category One or Two pollution incident – such as causing significant pollution at a bathing site or conservation area – or where a company has been found guilty of serious management failings. The ban would apply to all executive board members and Chief Executives and is expected to come into effect later this year, subject to consultation.

In November 2023, Ofwat published its assessment of how performance related pay awarded to water company executives during 2022-23 was aligned to customers and the environment, and overall company performance. Ofwat has told companies to clearly show how both annual and long-term pay incentives are substantially linked to stretching delivery for customers and the environment. The report found the majority of companies have sufficiently linked performance to pay. Ofwat expects water companies to continue to take into account the legitimate concerns of stakeholders when making decisions on the application of remuneration policies.

To ensure that companies are performing on the issues that matter to customers, Ofwat publishes their annual Water Company Performance Report. In their 2022-23 report Ofwat identified seven companies as 'lagging', including Thames Water. Following this publication, Ofwat has required 13 companies that have underperformed to return £193 million to customers for underperformance in 2022-23. This money will be returned to customers through bills over 2024-25. Of this, Thames Water must return just over £73 million.

Ofwat has also required these companies to prepare Service Commitment Plans outlining the actions the companies will take and their commitments to deliver the levels of service that customers expect.

We are pleased that Thames Water has published their service commitment plan in December 2023 (updated January 2024), and we will keep working with Ofwat and other regulators to track progress against this plan.

We are confident that industry regulators are using their powers to hold water companies to account, and we will continue to work with them to drive improvements which benefit customers and the environment.

With kind regards,

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Robbie Moore', is centered on the page. The signature is fluid and cursive, with a horizontal line underneath the name.

ROBBIE MOORE MP

Parliamentary Under Secretary of State for Environment, Food & Rural Affairs