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GENERAL COMMITTEES

Public Bill Committee

WATER (SPECIAL MEASURES) BILL [*LORDS*]

Third Sitting

Tuesday 14 January 2025

(Morning)

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Saturday 18 January 2025

The Committee consisted of the following Members:

Chairs: † Dr Rupa Huq, Martin Vickers

† Aldridge, Dan *(Weston-super-Mare)* (Lab)
† Dollimore, Helena *(Hastings and Rye)* (Lab/Co-op)
† Farron, Tim *(Westmorland and Lonsdale)* (LD)
† Fookes, Catherine *(Monmouthshire)* (Lab)
† Hack, Amanda *(North West Leicestershire)* (Lab)
† Hardy, Emma *(Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs)*
† Hayes, Tom *(Bournemouth East)* (Lab)
† Hazelgrove, Claire *(Filton and Bradley Stoke)* (Lab)
† Hudson, Dr Neil *(Epping Forest)* (Con)
† Kirkham, Jayne *(Truro and Falmouth)* (Lab/Co-op)
† Mayhew, Jerome *(Broadland and Fakenham)* (Con)
† Maynard, Charlie *(Witney)* (LD)
† Paffey, Darren *(Southampton Itchen)* (Lab)
† Pakes, Andrew *(Peterborough)* (Lab)
† Ramsay, Adrian *(Waveney Valley)* (Green)
† Reed, David *(Exmouth and Exeter East)* (Con)
† Smith, Jeff *(Lord Commissioner of His Majesty's Treasury)*

Simon Armitage, Aaron Kulakiewicz, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 14 January 2025

(Morning)

[Dr Rupa Huq *in the Chair*]

Water (Special Measures) Bill [*Lords*]

9.25 am

The Chair: I remind Members that they should send their speaking notes by email to hansardnotes @parliament.uk. Electronic devices should be switched to silent. Tea and coffee are not allowed during sittings but there is water—blue is still, silver is fizzy.

Clause 7

Automatic penalties for certain offences

Question proposed, That the clause stand part of the Bill.

The Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs (Emma Hardy): It is lovely to see everybody again and it is a pleasure to serve under your chairwomanship, Dr Huq.

Clause 7 will give the environmental regulators new powers to impose automatic penalties for specified offences. The current process for imposing fixed monetary penalties for minor to moderate offending can be time and cost-intensive. To impose a penalty, the regulators must evidence beyond reasonable doubt—the criminal standard of proof—that an offence has been committed. In addition, the fixed monetary penalty amount that regulators can currently impose for certain water industry offences to that standard of proof is set at just £300. That means it is generally not cost-effective for the regulators to impose financial penalties for frequent minor to moderate offending. Clause 7 introduces automatic penalties for specified offences, which will enable the regulators to impose penalties more quickly without having to direct significant resources to lengthy investigations.

I reassure hon. Members that we will consult on the specific offences that will be in scope for the new automatic penalties and on the value of the penalties. The proposed offences will cover information requests and reporting offences, pollution offences and water resource offences. The House will also have the opportunity to debate and vote on secondary legislation before any changes are made. I hope the Committee agrees that this measure is essential for improving compliance across the water sector.

Dr Neil Hudson (Epping Forest) (Con): It is a privilege to serve under your chairship today, Dr Huq. We have no formal objection to clause 7, which imposes a duty on environmental regulators to impose penalties for offences by water company that the clause specifies. Offences have of course increased, and water bosses have been banned from receiving bonuses if a company has committed serious criminal breaches. Regulators have more powers than they used to in being able to impose larger fines for polluters without needing to go to court. The clause focuses on exactly the same principle and we therefore have no formal objections.

I raised in an earlier Bill Committee sitting—this is relevant here—that there has been an increase in the number of inspections that water companies can expect, from 4,000 a year by April this year to 10,000 a year by April of next year. In other words, what has been addressed in the past is not just regulation, but the whole pathway of the enforcement of regulations, so that regulations are not merely blunt instruments but active ones that water companies can expect to have to deal with if they do not act responsibly to their customers, the environment and the wider public.

On that last point, will the Minister clarify and ensure that these offences are and will be enforced and commit to making further amendments to the law, not only regarding the offences themselves, but also on their enforcement, if the Government believe that things need to be tightened up moving forward? Aside from those clarifications, we have no formal objections to the clause.

Tim Farron (Westmorland and Lonsdale) (LD): It is a great privilege to serve under your guidance this morning, Dr Huq. We also have no objection to the clause and, in fact, we consider automatic penalties to be a positive move.

My concern is that we see water companies not paying the fines that are levied against them. We talk about minor to moderate offences, but water companies wriggle out of paying fines for much larger offences, too. I just want to probe the extent to which the automatic penalties might stretch to what are considered more serious breaches.

I mentioned an example last week in Committee. In November 2021, Ofwat launched an inquiry into sewage discharges and how water companies manage their treatment centres and networks. It found three water companies in particular to be in breach: Thames, Northumbrian and Yorkshire. It imposed fines on those three companies—a £17 million fine against Northumbrian Water, a £47.15 million fine against Yorkshire Water and a £104.5 million fine against Thames Water—but as of autumn last year, not a single penny of that has been collected. It is understood that Ofwat allocated a grand total of eight and a half people to pursuing that particular line of inquiry.

Large fines, which there is no doubt that these companies rightly face, make no difference if they are never collected. That underpins the failure of our regulatory framework—water companies clearly feel they can just run rings around Ofwat and the other regulators. We very much welcome the automatic penalties, but we remain a bit concerned and would like the Minister to clarify whether those automatic penalties would have covered fines of that size as well. Otherwise, we are very supportive of the clause.

Emma Hardy: It is good to start the day off with a bit of unity in the Committee Room and everyone agreeing. In terms of which offences the automatic penalties will apply to, we are looking at targeting minor to moderate offending. The purpose behind the clause, and much of the Bill, is to change the culture of the water industry.

As I said in my opening remarks, one of the concerns about how the water industry operates at the moment is that the standard of proof needed to impose fines for minor to moderate offending is often seen as not being worth the cost. Companies are therefore getting away

with minor to moderate offences because of the cost of trying to prosecute them. These penalties will apply to those offences. If the offence turns out to be more significant—not minor to moderate, but more of a major pollution incident—obviously, penalties will apply in the usual way.

For an offence to be suitable for an automatic penalty, we consider that the Environment Agency must be able to quickly identify and impose the penalty and the offence must cause no or limited environmental harm. I describe it to colleagues as similar to speeding ticket offences. Everybody knows that if they go over 30 mph in a 30 mph zone where there is a camera, they will get caught and fined. That is the idea behind the fixed penalty notice. If someone commits an offence that they are not meant to do, they are automatically fined.

The proposed offences will cover information requests. The details will be dealt with in secondary legislation, on which colleagues across the House will vote. My thinking on information requests is that a situation where someone has to comply with a request for information and is given a timeframe, but does not deal with it in the timeframe, is the kind of thing we are looking at for automatic fines. As for reporting offences, pollution offences and water resource offences, we will consult on where the penalties can be used, and Parliament will debate and vote on them before any changes are made.

The Regulatory Enforcement and Sanctions Act 2008 provides for the enforcement of penalties if a company refuses to pay a penalty. That includes allowing regulators to use the same enforcement mechanisms available to a court. The Act also allows for interest charges in the event of late payment. Parliament will debate and vote on the details in secondary legislation.

I thank all hon. Members for their invaluable contributions to the debate on clause 7. The clause will fundamentally drive improved compliance across the water sector through introducing automatic penalties for specific offences, allowing the regulators to impose penalties more quickly.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

Clause 8

Abstraction and impounding: power to impose general conditions

Question proposed, That the clause stand part of the Bill.

Emma Hardy: Clause 8 grants the Secretary of State and Welsh Ministers the power to introduce conditions or general rules subject to which water industry abstraction and impounding licences will have effect. This provision is needed to ensure that automatic penalties under clause 7 can be applied to abstraction and impounding offences under the Water Resources Act 1991. Existing licences have been issued since the 1960s and have inconsistent conditions, making the use of automatic penalties nearly impossible.

More broadly, clause 8 allows for the harmonisation of requirements in relation to abstraction and impounding activities so that the sector operates under consistent and modern standards. A delegated power to introduce conditions or general rules through regulations is crucial in this context, because water resource management is dynamic and must be responsive to emerging challenges. I hope that hon. Members will agree that this power is needed to improve the water industry's regulatory framework.

Dr Hudson: Clause 8 seeks to grant the Secretary of State and Welsh Ministers additional powers to impose conditions or general rules on water industry licences relating to abstraction and impoundment activity. His Majesty's loyal Opposition do not have any formal objections to the clause, but I would suggest that it reinforces some of my comments on clause 6 about the need to make the Government have the powers they need to regulate as necessary a more consistent principle across the Bill.

Emma Hardy: I thank the hon. Gentleman for his comments. Modifying the licences individually is both expensive and time consuming, which is why we are hoping to modernise and harmonise the process under this clause. It is crucial that automatic penalties under clause 7 can be applied to abstraction and impounding offences, so this power is needed to improve the water industry's regulatory framework. For that reason, I commend the clause to the Committee.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Clause 9

Requirement for Ofwat to have regard to climate change etc

Tim Farron: I beg to move amendment 27, in clause 9, page 14, line 11, leave out from duties to end of line 13.

The Chair: With this it will be convenient to discuss clause stand part.

Tim Farron: Let me clarify what we mean with this amendment. Among the myriad problems in the water industry, perhaps the greatest is the failure of the regulatory systems. We are concerned, particularly in relation to the Climate Change Act 2008, that the obligations placed on water companies via the regulator are not sufficiently clear. Let us look at the wording of clause 9:

"In exercising or performing any such power or duty in accordance with those provisions, the Authority must also have regard to the need to contribute towards achieving compliance by the Secretary of State with the relevant environmental target duties",

and we are happy with that, but then it states

"where the Authority considers that exercise or performance to be relevant to the making of such a contribution."

Basically, we are giving Ofwat wriggle room to do nowt if it wants to. As we saw earlier on clause 7, Ofwat has a track record of not even imposing the colossal fines due from water companies, and I am not filled with confidence that if we give it wriggle room, it will not use it.

My concern is that the clause is building in a qualification, an opportunity for the regulator to step back and the possibility—dare I say, the probability—that measures against water companies will not be enforced. If we care about tackling climate change and about a stronger and robust regulatory framework—and we surely do—we should remove these words to remove the wriggle room and to make sure that regulation is fit for purpose.

Dr Hudson: Clause 9 would introduce a new requirement for Ofwat to consider, as part of its regulatory decision making and the exercise of its powers and duties as given by the Water Industry Act 1991, the section 1 duty confirmed the Climate Change Act and section 5 of the Environment Act 2021. We have no formal objections to raise to that basic principle and no amendments that we wish to make to clause 9.

Can the Minister provide some clarity on the line that amendment 27 from the Liberal Democrats seeks to remove from the Bill? It states that Ofwat's duty to have regard to the Secretary of State's duty to meet environmental targets applies

"where the Authority considers that exercise or performance to be relevant to the making of such a contribution."

Will the Minister assure the Committee that she and the Government will work with Ofwat so that it has clear guidance on when these environmental targets would be relevant, so that there are no grey areas in Ofwat's work as it looks to enforce those targets? Can she assure the Committee that the Government will also work with Ofwat to ensure that with regard to its powers and duties in the spirit of clause 9, consumers are protected should there be any subsequent financial costs to water companies, so that we get both environmental protection and the value for money that the tax-paying consumer deserves?

I would be grateful if the Minister provided clarification on some of those questions. However, his Majesty's loyal Opposition have no formal objections to clause 9.

Emma Hardy: As I am sure the hon. Member for Westmorland and Lonsdale will agree, the Government heard the strong support in the other place for adding a further environmental duty to Ofwat's core duties to support the Government in making progress against our environmental targets. I pay tribute to Baroness Hayman for her work on this.

We understand that there are concerns around the current core environmental performance of the water industry and around the role and responsibilities of the water industry regulators. It is for this reason that the Government tabled an amendment in the other place that will require Ofwat to have regard to the need to contribute to achieving targets set under the Environment Act 2021 and Climate Change Act 2008 when carrying out its functions.

This amendment will further ensure that Ofwat's work to contribute to the achievement of environmental targets complements the work of Government, who are ultimately responsible for the 2021 Act and the 2008 Act targets. It is important to note that the independent commission announced by the Government will take a full view of the roles and responsibilities of the water industry regulators. Any changes made now to Ofwat's duties may therefore be superseded by the outcomes of the commission. I hope the Committee agrees that this power is needed to ensure that the environment is considered in regulatory decision making.

Amendment 27 seeks to remove Ofwat's discretion to exercise its duty to have regard to environmental targets where it feels this as relevant. It will be for Ofwat as the independent regulator to determine how it applies the Government's new obligation to its regulatory decision making, and how this new duty will not take precedence over other duties. It is for this reason that flexibility has been built into the drafting of this duty, ensuring that Ofwat has discretion to exercise the duty where it feels it is relevant.

Mechanically applying a duty in circumstances where it is not relevant to a particular matter would be a waste of resource. That discretion is in line with similar duties for other regulators. For example, the Financial Services and Markets Act 2000 was recently amended to provide an environmental duty for the financial regulators. It is right that as the independent regulator, Ofwat has the discretion to balance its duties and determine when it is appropriate that they are applied. The new duty introduced by the Government can be only a stopgap before more fundamental reforms are brought forward. For those reasons, we will not accept the amendment from the hon. Member for Westmorland and Lonsdale, and I hope he feels able to withdraw it.

Tim Farron: I am not reassured that removing this discretion means that a mechanical duty is placed upon Ofwat. I think that removing discretion is actually very important. It will only be applied where it is relevant by definition. I feel that by building in wriggle room, we are creating vagueness in the process. Nevertheless, we will not seek to push this amendment to a vote today. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 9 ordered to stand part of the Bill.

Clause 10

Charges in respect of Environment Agency and NRBW functions

Question proposed, That the clause stand part of the Bill.

Emma Hardy: Thank you, Dr Huq, for giving me the opportunity to speak on clause 10, which is one of my favourites. The costs for Environment Agency and Natural Resources Wales enforcement activities are paid by the taxpayer via grant in aid. The clause broadens existing charge-making powers, allowing the Environment Agency and Natural Resources Wales to recover costs for enforcement from water companies instead of taxpayers. Failure to introduce the clause would result in the burden of funding water industry enforcement continuing to fall on the taxpayer. It could also result in the regulators being unable to scale up their water industry enforcement activities due to wider budgetary pressures.

The Secretary of State, or the Welsh Minister in Wales, and HM Treasury are required to approve charging schemes in consultation with affected parties. Those safeguards ensure that environmental regulatory powers are proportionate and support sustained improvements in environmental performance in the water industry. I hope the Committee agrees that this power is essential for environmental regulators to become more self-sufficient and less reliant on the taxpayer. I commend the clause to the Committee.

9.45 am

Dr Hudson: Clause 10 amends the Environment Act 1995 to allow the Environment Agency and Natural Resources Wales the power to make charging schemes to recover

costs from water companies. While the Opposition wish to raise no formal objections to the clause, we would be grateful for clarification on a couple of points from the Minister.

First, can the Minister explain whether the changes in this clause to the Environment Act 1995 that allow costs to be recovered from water companies could impact consumers in any way? Although it is already possible, we must be mindful that consumers may face extra costs, which I will discuss later regarding issues with the special administration orders that the Government have laid out in clauses 12 and 13, to be debated shortly. Consumers have already been informed by Ofwat that they should expect to see bills rise—the complete opposite of what the Government had said they intended to deliver. Therefore, do the Government feel confident that they can avoid contributing to the problem of a rising trajectory of bills, at a time when trust in the industry, as we have been debating in Committee, remains low due to financial mismanagement from some water companies and, too often, consumers receive poor quality from these services?

A further question, which I would be grateful if the Minister could clarify, is what modelling have the Government done to ensure that all the costs recovered will always be to the benefit of the taxpayer and the consumer? While we all share the desire that water companies that do the wrong thing must pay to put it right, we must ensure that, when we punish those water companies, we do not hurt the end consumer, who very much deserves to be protected. I would be grateful for the Minister's thoughts on this, but again, we have no formal, explicit objections to the clause.

Emma Hardy: Clause 10 requires payment by water companies. It is fair and reasonable that the regulator should recover costs associated with its regulatory functions. Ofwat will consider the regulator's proposals to determine which costs are appropriate to be passed on. The impact assessment, which I have mentioned in previous debates, details exactly how much all of the Bill will cost the customer. All the details are in there, and I refer the hon. Member for Epping Forest to look at that if he wants the specifics on the exact numbers that each measure will take.

I thank all hon. Members who have contributed their views on clause 10. I remain of the view that clause 10 will empower environmental regulators to become self-sufficient, reducing the burden on the taxpayer to fund water industry enforcement activities. Therefore, I commend the clause to the Committee.

Question put and agreed to.

Clause 10 accordingly ordered to stand part of the Bill.

Clause 11

DRINKING WATER INSPECTORATE: FUNCTIONS AND FEES

Question proposed, That the clause stand part of the Bill.

Emma Hardy: We are making excellent progress on the Bill this morning. I am grateful for the opportunity to speak on the importance of clause 11. I would like to mention the unsung hero of water regulation: the Drinking Water Inspectorate.

The clause enables the Drinking Water Inspectorate to fully recover the costs for the security and emergency regulatory work that it provides to companies. I think one of the reasons that it is an unsung hero is because it does its job so well; that is why not many people have heard of it. The responsibility for security and emergencies was delegated to the Drinking Water Inspectorate in 2022, but since then it has been unable to fully recharge for that work. This clause, subject to amendments to the Water Quality and Supply (Fees) Order 2016, will ensure that the inspectorate can fully recover all costs related to security and emergencies, enabling it to scale up its enforcement activities and enhance its capacity to conduct security and emergencies checks with water suppliers.

The clause will give the DWI greater flexibility in how it structures the fees it charges water companies. It will allow the DWI to introduce new charging models that more equitably share the financial burden of regulation in the water sector. I hope the Committee agrees that the clause rightly remunerates the DWI for its security and emergencies work and allows it to design a more equitable fee structure.

Dr Hudson: Clause 11 extends the purposes for which water quality inspectors may be appointed to include functions relating to national security directions under section 208 of the Water Industry Act 1991, and it provides flexibility for the charging of fees for regulatory work. This is a straightforward clause to which we raise no formal objection, but once again we would be grateful for a couple of clarification points from the Minister. How will the Government increase the Drinking Water Inspectorate's ability to monitor and audit water supplies? Does the Minister feel that the clause will improve the inspectorate's functions? Will the Minister please explain how the Government intend to support the powers of the Drinking Water Inspectorate, beyond this clause? She praised the inspectorate, and I echo that praise, but how do the Government intend to support its capabilities?

Once again, we wish to raise no formal objections to the clause. I would be grateful for clarity on the points I have highlighted.

Tim Farron: We also have no objections to the clause, but I want to probe it a bit. The Minister rightly praised the Drinking Water Inspectorate. I think most of us would say that its performance as a regulator is significantly better than Ofwat's, but one of the biggest problems that we face within regulation is the fragmented regulatory framework. We have the DWI, Ofwat, the Environment Agency and others too. What consideration has the Minister given to the efficacy of continuing that fragmentation?

The Minister may argue, in relation to the DWI, that if it ain't broke, don't fix it. I take that point, but regulation of the water industry is absolutely broke. It is very clear, particularly when it comes to the Environment Agency and Ofwat, that large water companies run rings around the regulators because of their heft, their weight, their capability and the volume of their staffing, which is larger than that of the regulators. The culture of the regulators is sometimes not aimed at pursuing those they are meant to regulate.

Although the DWI is broadly a successful regulator, do we not face the ongoing problem that having so many regulators gives water companies the ability to avoid their responsibilities? Will the Minister give that some further consideration?

Emma Hardy: I am pleased that hon. Members have echoed my support for the DWI. This clause is specifically about how it can recover some of its costs. It is estimated that the increased cost to householders will be only 2p a year, so it is very good value for money.

The wider issue of regulation and regulators will be covered by the water commission, which is looking at the entirety of regulation. That is out of the scope of this Bill, although the hon. Member for Westmorland and Lonsdale has made those points a number of times, and I have heard them each time.

This measure will cost customers about 2p a year. This is a much-needed clause. The Government maintain that it is important that the Drinking Water Inspectorate is remunerated for its security and emergencies work and is able to design a more equitable fee structure. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 11 accordingly ordered to stand part of the Bill.

Clause 12

Modification by Secretary of State of water company's appointment conditions etc to recover losses

Charlie Maynard (Witney) (LD): I beg to move amendment 11, in clause 12, page 16, line 11, leave out from "to" to "such" in line 13 and insert "recover from its creditors".

The Chair: With this it will be convenient to discuss the following:

Clause stand part.

Amendment 12, in clause 13, page 18, line 31, leave out from "to" to "such" in line 33 and insert "recover from its creditors".

Clause 13 stand part.

Charlie Maynard: I will speak about clauses 12 and 13 together, with clause 12 covering England and clause 13 covering Wales. Clause 12 relates to the Secretary of State's ability to recover losses incurred by the state in a special administration regime—many Members might know that as bankruptcy. What is being proposed by the Government is set out in the Department for Environment, Food and Rural Affairs' explanatory note 69:

"The modifications can require a water company to raise amounts of money determined by the Secretary of State from its consumers"—

I repeat "the consumers"—

"and to pay those amounts to the Secretary of State to make good any shortfall and may include a requirement that amounts be held on trust pending payment to the Secretary of State."

What we are talking about here are costs associated with a bankruptcy and the Government want to make good those costs. There is no issue with any of that. What I find completely extraordinary is that a Labour Government are proposing that the consumers pay for that rather than the creditors who put us there in the first place. The management and the creditors are the people who are responsible for the mess that we find ourselves in in the water sector.

Jerome Mayhew (Broadland and Fakenham) (Con): The hon. Gentleman says it is the creditors who put the undertakers in the position that they are in, but surely that cannot be right. Creditors are the people who provide services for a fee to the undertaker—they will not be the organisations that put the undertaker into that position. Surely the hon. Gentleman agrees that if he were to replace the consumer or any other body with recovery from creditors, that would be meaningless unless Government debt was placed above those of other creditors. How would that be fair to the providers of services to water undertakers?

Charlie Maynard: I thank the hon. Gentleman—I think he jumped in before I had finished the sentence, which was on the creditors and the management. Who is responsible for this? Yes it is the management, yes it is the regulators and prior Governments, and yes it is the creditors who have provided the debt—they have gone into that with eyes and ears open and they have made that decision to provide that debt willingly. Therefore, they have put that money at risk and they have to take responsibility for that. That is what debt is.

I am not talking about Government debt, but about a loss and who is making good that loss. The Government are proposing that all the consumers pay for that—in other words, the bill payers. That is wrong. The bill payers should not be paying for this; the creditors should be, because they have put in, in Thames Water's case, £17 billion—soon to be £20 billion very likely—which has saddled those companies with vast amounts of debt. More than a third of the bills of the bill payers of Thames Water is just being spent on paying interest on that debt.

Jerome Mayhew: The hon. Gentleman is conflating the term creditor with debt provision, but actually there is a plethora of suppliers to any large organisation such as a water undertaker. They are creditors—that is just how they are defined. His clause would cover small and medium enterprises that are providers of services, and in fact any provider of a service who would be a creditor of such an organisation. How does he propose that his clause only affects debt provision, which I understand is the direction he is trying to focus the clause on, and does not cover all creditors as it is currently drafted?

Charlie Maynard: The change in wording would mean that the clause states:

"The Secretary of State may make modifications of the conditions of the company's appointment so that they include conditions requiring or enabling the company…to recover from its creditors such amounts as may be determined by or under the conditions".

Let us talk through the special administration regime and what happens. I would like this to already have happened but it has not When a company is put into special administration—I would like this to already have happened, but it has not—a court appoints a special administrator. A special administrator looks at the creditors. It looks at the debt and the other creditors involved, and it will prioritise, according to the seniority of that debt and those creditors, who is senior to the other. Suppliers will be a lot more senior.

Jerome Mayhew: They will be right at the bottom.

Charlie Maynard: Well, compared with the creditors, but I am advocating that the debt providers take the hit.

10 am

Jerome Mayhew: The hon. Gentleman will perhaps know that under current insolvency law, there are secured creditors. There is a hierarchy of debt, and the least protected—not the most protected—are suppliers. Does he envisage changing the rules to give additional protection in this process to unsecured creditors and essentially reverse the security of credit? That would be an odd thing to do, but I understand why he might need to do it to make this process effective.

Charlie Maynard: We are seeking for the debt providers to take the hit. They have gone into this process and been part of the problem that has led to the state of our rivers today. They should be taking the hit ahead of the customers. That is our direction of travel, and I think that is fair and reasonable. What the clause does is the opposite, and that is what we are going after.

We fully support the losses being recovered by the administration process—we have no issue with that—but if we support the clause as drafted, we will find a very large bill on the customer's account. That is something we want to avoid. I am keen to hear the Minister's view as to why it is reasonable for the customer to be paying rather than the lenders.

Dr Hudson: On clauses 12 and 13, the Opposition tabled amendments 7 and 8 to remove them. They provide the Government with the power to issue special administration orders to water companies that face financial difficulties.

I put on record my thanks to my Conservative colleagues in the other place for sounding the alarm on this issue when the Bill came forward. They made the case that the measures in clauses 12 and 13 could put the very people we want to protect in such legislation, namely the consumers, at risk. The moral hazard has been explicitly set out by my colleagues in the other place, but I will attempt to summarise it so that we are clear what the problem is. As it stands, the clauses will give the Government the power to recover any losses they make through placing a company in special administration by raising consumer bills.

The problem seems self-evident. If water companies, through their own failure, require the Government to place them under special administration, why should consumers be expected to foot the bill for those failures when they had no particular responsibility for them? It runs contrary to the nature of all the action that has been taken in recent years to try to improve our water quality, and companies that have failed to get their affairs in order must take responsibility.

I was on the Environment, Food and Rural Affairs Committee in the last Parliament, and we spent a lot of time looking at the financial resilience and behaviour of the water sector in close detail. I know that the current iteration is continuing that work. It was concerning to hear about the financial resilience of the sector at first hand in our hearings and meetings. As I said in a sitting of this Committee last week, the financial resilience of the water industry is not a hypothetical issue, but one of paramount concern right now.

We are all starkly aware of concerns surrounding the financial resilience of companies such as Thames Water. We heard about that in detail on the Environment, Food and Rural Affairs Committee in the last Parliament. In November, Ofwat's "Monitoring Financial Resilience" report identified 10 companies that needed an increased level of monitoring and/or engagement concerning financial resilience. Three were placed in the highest category of "action required", which means that action must be taken or is being taken to strengthen a company's financial resilience challenges and that there is a requirement to publish additional information and reporting on improvements at a more senior level with Ofwat.

As well as sending out the opposite message to the companies that Ofwat is working so hard to scrutinise and regulate to protect consumers, clauses 12 and 13 send out the wrong message to consumers themselves. Consumers were recently told that they can expect their average bills to rise by a minimum of about £86, at a time when no doubt some of them have concerns about how to afford their existing bills, along with wider cost concerns. I say gently to the Government that the recent Budget did not help the situation for people's household budgets. How can it be fair that as a result of these clauses the Government may lead consumers to pay more at a time when many are finding it difficult to pay their bills and do not feel that they are getting the clean water that they deserve? It will potentially add insult to injury when many people are all too aware that they could face higher prices on their water bills because of the Government's moves.

Shareholders and water company bosses used to be able to receive dividends and bonuses despite polluting our rivers and seas and failing to do the right thing to tackle it. Although reforms have been made to ensure that water company bosses who are not doing their duty with regard to our waterways are forbidden from claiming excessive bonuses, the sting will remain for many people when they keep in mind the prospect of paying higher bills to bail out companies for their poor financial performance.

To water companies, these clauses will send out a signal that they do not have to worry about incurring the consequences of financial irresponsibility, as the Government will have a mechanism to bail them out and consumers may indirectly have to fork out the costs. Nobody is being required to take accountability or face the consequences of the decisions that have caused the failure, but those who have no responsibility or influence are being forced to pay an unfair price increase.

Worse still, the clauses fail completely to specify how much they can require companies to raise from consumers or how much consumers could have to pay in increased costs as a result of the Government's imposition of these conditions on water companies. That means that any announcements of price changes to water bills, such as those announced by Ofwat, could give no indication at all of how much consumers could end up paying on their water bills. To compound the higher prices even further, consumers may end up facing higher bills to solve special administration financial issues for companies by which they are not even served.

Under clause 12, proposed new section 12J(4) of the Water Industry Act states that "relevant financial assistance" in subsection (3) can include

[Dr Hudson]

"any other company which holds or held an appointment under this Chapter and whose area is or was wholly or mainly in England."

Companies that do the right thing could be forced to pay up, or make their consumers pay up, for the mistakes of those who have failed to do the right thing. As my noble Friend Lord Remnant put it:

"It is the debt and equity investors"

in a company that has failed to do the right thing

"who should pay for these losses in the form of lower proceeds from any eventual sale. Why should a retired police officer in Yorkshire or a hard-working nurse in Cornwall lose out to a hedge fund owner in New York trying to make a quick return?"—[*Official Report, House of Lords,* 20 November 2024; Vol. 841, c. 293.]

Although in the other place the Government attempted to explain away concerns by suggesting that they do not think that they will have to use the power except as a last resort, and that the bar for special administration would be extremely high, the fact that on more than one occasion the Government could have accepted amendments to remove proposed new subsection (4) must mean that they expect that on at least some occasions they will require its use. The time taken to defend the measure and oppose reforms suggests that this is no mere formality in the wording of the Bill, but something that the Government may put in place.

The Minister in the other place said that the Government would seek to exercise the power in proposed new subsection (4) only if Government bail-outs to water companies could not be financed for the duration for which a company is in special administration—that is, during the shortfall. If that is the condition the Government are setting for the measure—if we have to have the measure at all—could they not have set it out explicitly within the Bill? At the very least, that would have provided clarity about how far the power should be permitted to go.

Clause 13 will provide the Welsh Government with the same powers as those in clause 12. Although the powers in clause 13 are independent of who occupies the offices of the Welsh Government, it should be noted that the Welsh Government who would currently be expected to exercise the powers do not have the most brilliant track record on the water industry, to say the least. Under the Welsh Labour Administration, the average number of spills from storm overflows in 2022 was two thirds higher than in England. That record suggests that the Government in Wales leave much to be desired when it comes to the competence of the water industry, and there is evidence for concern when it comes to exercising the clause's powers.

Regardless of the specifics of the subsections and of who holds the powers contained in clauses 12 and 13, they are, as they stand, completely against the principles of improving the water industry. I urge the Minister to consider those points and to remove the clauses. Accordingly, we will seek a vote to remove clauses 12 and 13 from the Bill.

Tim Farron: I back my hon. Friend the Member for Witney, who has made an excellent case for our amendment to clauses 12 and 13. We are deeply concerned about the issue. There are two aspects to the public's reaction to the scandal in our water industry. First, there is revulsion about sewage being dumped in our lakes, rivers, streams and coastal areas, which is obviously appalling. Secondly, there is a deep sense of injustice that people are making vast amounts of money while not providing basic services.

For a day or two last week, the coldest place in the country was Shap, in my constituency. I had the pleasure of being there over the weekend. All water was frozen. However, that is not always the case. Last year alone, at Shap pumping station, 1,000 hours' worth of sewage was pumped into Docker beck. Just along the way at Askham waste water treatment works, 414 hours' worth of sewage were dumped into the beautiful River Lowther just last year. I make that point because the water bill payers who have to deal with that know that of every £9 they spend on their water bills, £1 is going to serve United Utilities' debt. That is at the low end of the scale: until the change announced just before Christmas, 46% from Thames Water's bills was used to service debt.

Over the lifetime of our privatised system in this country, the water companies have collectively racked up £70 billion of debt. That means that all bill payers are paying between 11% and 46% of their bills simply to service those companies' debt. Our amendment would simply tackle the fact that if investors choose to take risks, hoping to make gains, but fail, they should accept the consequences of those risks, which they chose to take, rather than passing on the cost to my constituents and everybody else's. It is not for the public to carry the can for corporate failure.

Emma Hardy: I will speak to amendments 11 and 12, both of which were tabled by the hon. Member for Westmorland and Lonsdale. I welcome the opportunity to bust some myths and add some facts to the debate. Speaking of facts, following the debate that we had at our last sitting, we have produced a fact sheet relating to storm and other overflows, which has been circulated to all members of the Committee. I recognise that we are not discussing that now, but I thought I might mention that my promise to provide the evidence has been fulfilled. For this debate, perhaps it would be helpful to produce a fact sheet that explains exactly what this is and what it is not, because there has been an awful lot of confusion already.

On the subject of facts, I am not quite sure where the shadow Minister's number on average bill increases of over £80 a year comes from. The fact is that the average bill increase is £31 a year.

10.15 am

A special administration regime is a well-established mechanism. Without one, it is likely that public service provision, in this case for water or waste water services, would cease. A SAR is not a form of renationalisation; it is a tool to ensure that vital public services continue to be provided after a company fails. The Government would take no ownership or management of the company; an independent special administrator would oversee the running of the company until it could either be rescued or be transferred to new owners.

Let me be clear, because I do not think we can say this enough: the water industry special administration regime does not bail out water company financial creditors and shareholders. Since we seem to be getting in the habit of repeating things from DEFRA, I will repeat that line: the water industry special administration regime does not bail out water company financial creditors and shareholders.

The introduction of a shortfall recovery mechanism gives DEFRA, the Secretary of State and Welsh Ministers the power to recover His Majesty's Government's funding, provided during a special administration, in the unlikely event that there are not sufficient funds to repay His Majesty's Government at the end of a SAR. As set out in legislation, the court-appointed special administration's statutory objectives are to continue the running of the company to meet its statutory functions until such a time as it is possible to exit from a SAR.

I keep hearing that creditors are going to be bailed out by customers and are going to get lots of money, but the actual facts are that the exact quantity of debt recouped by creditors, or equity recouped by shareholders, is a matter for the court-appointed special administrator. They are appointed by and answerable to the court and must comply with the Insolvency Act 1986 and the Insolvency (England and Wales) Rules 2016, both as modified for the purpose of special administration by the relevant legislation. It is important to note that it is very unlikely that all debt would be repaid at the end of a special administration. A specific order of priority for repayment would be followed, with any Government funding provided during a SAR taking priority over most other creditors.

I must reject the amendment, as the changes that we are making to the water company special administration regime in the Bill are designed to align it with other essential service regimes. We are not seeking to move the water industry SAR away from existing insolvency principles. The shortfall recovery mechanisms can only—this is important—be used to recover shortfalls in repaying Government funding. They cannot and would never be used to recover financial, creditor or shareholder losses. I am at a loss as to where that idea has come from in this debate.

Let us get in the habit of repeating important things, in the hope that they will be taken up: the shortfall recovery mechanism can only be used to recover shortfalls in repaying Government funding. It is not providing money to creditors. It is not providing money to shareholders. Creditors have rights within special administration and in normal insolvency legislation, which the water special administration regime adapts to fit the water industry model.

Under the current legislative framework, the Government do not directly or indirectly make any decisions relating to the exact quantities of debt recouped by creditors or shareholders. That is a matter for the special administration and the rules of the SAR in the water sector. The special administrator is an officer of the court and must comply with the Insolvency Act 1986 and the Insolvency (England and Wales) Rules 2016. The levels of reduction that creditors and shareholders may expect will be in accordance with the order of repayment clearly set out in statute. The amendment is therefore not required.

I hope that the Committee agrees that these legislative updates will help to ensure an effective, modernised and efficient water industry SAR, which is in line with the SAR in other essential service sectors such as energy. I hope that, on this basis of fact, the hon. Member for Witney will feel able to withdraw his amendment.

Charlie Maynard: Will the Minister give way?

Emma Hardy: If the hon. Member does not mind, I would like to finish my remarks, and then I am sure we will hear from him again.

Although I have outlined some of the merits of clauses 12 and 13, I would like to stress again the importance of including them in the Bill. A SAR will ensure the continued provision of essential public services and is the ultimate tool in Ofwat's regulatory toolkit. There is therefore a high bar for the use of a SAR. A water company can be placed into special administration either on insolvency grounds, where it is unable to pay its debts, or on performance grounds, where it is in such serious breach of its principal statutory duties on enforcement order that it is inappropriate for the company to retain its licence. That includes consideration of a company's environmental and financial performance. Although the Government have had the powers to place water companies into special administration for more than three decades, it is important that we regularly update legislation to reflect the modernisation of law and experience in other sectors.

Clauses 12 and 13 are essential because if a SAR occurs, Government funding could be provided to cover the cost of special administration. In the unlikely event that the proceeds of a sale or a repayment agreed as part of the rescue at the end of a SAR are insufficient to cover repaying Government funding, there is risk of a funding shortfall. I really am at a loss to understand how this has suddenly become about the Government using customer money to bail out creditors. I am confused about how that started.

The money will be used to cover the cost of repaying Government funding in the risk of a funding shortfall. The DEFRA Secretary of State and the Welsh Ministers do not currently have the power to require this shortfall to be repaid. The shortfall, of course, is the money that the Government may have to provide in the event of a SAR. This is unlike other sectors such as energy, in which the relevant Secretary of State has flexible powers to recover a shortfall in funding. Without this power, there is a risk that taxpayers will foot the bill for costs usually contained within the water sector. Again, that has nothing to do with creditors; it has to do with the costs that the Government could have to pay for the SAR.

Clauses 12 and 13 will therefore introduce a new power for the Secretary of State and the Welsh Ministers to modify water company licence conditions to allocate costs appropriately should there be a shortfall in financial assistance provided in a water industry SAR. The power is designed to be flexible, allowing the Secretary of State or the Welsh Ministers to recover any shortfall in funding in a manner appropriate to the circumstances. The use of the power is also subject to public consultation.

The Secretary of State will be able to decide whether or not to use the power, and to decide the rates at which the shortfall should be recovered from customers. The shortfall that we are talking about is any cost that the Government could have during the time the company is in a SAR; it has nothing to do with shareholders and creditors. The decision will include the group of customers from which it should be recovered. For example, it could be recovered from all water companies' customers—that is, those in England—or a subset of the sector, or only customers whose water company went into a SAR.

It is possible that a decision could be taken to spread the cost of a SAR across multiple companies, such as where spending benefits are coupled in another region due to shared infrastructure. There is a well-established

[Emma Hardy]

practice of socialising costs in the energy sector. If a SAR occurs and this power is ever required, it will allow a decision to be made and consulted on as to what the fairest cost recovery option is, based on the evidence and the circumstances at the time.

Charlie Maynard: I think the Minister is confirming that consumers will pay for that shortfall. We are advocating that the creditors should pay. We are not looking to rewrite the Insolvency Act. Whatever the special administrator decides in terms of the hierarchy, fine—that is up to the special administrator. I think the Minister has just confirmed what paragraph 69 in DEFRA's explanatory notes says, which is that a company is required to

"raise amounts of money determined by the Secretary of State from its consumers"

—that is, the bill payers—for that shortfall, rather than the creditors. That is the bit that we are getting at. We think that the special administrator should take into account that hit that the Government have taken and take it out of the creditor's pocket rather than the customer's.

Emma Hardy: The hon. Gentleman has failed to acknowledge that, as I have just remarked, there is a hierarchy under the Insolvency Act when it comes to debt being repaid. The people he suggests that we take the money from might be people who, in fact, do not receive any money back. As I have already mentioned, the exact quantity of debt recouped by creditors or equity recouped by shareholders is a matter for the SAR. It is unlikely that all debt will be repaid at the end of special administration, and Government funding provided during a SAR takes priority over most creditors. In the event that there was a cost unable to be recovered from the sale of the company or from reprioritising its debt, the Government would receive their money back first and, therefore, this cost recovery mechanism for customers might not be provided before we reach some of the other creditors, and of course that is determined under the Insolvency Act. I am therefore at a loss to understand the hon. Member's point. It would make sense if there were people who received their debt repayment before the Government, but that is not the case. There seems to be a lot of confusion about what is happening.

All that the Government are doing are providing that, in the unlikely event of the Government's being unable to recoup costs that they could have paid during the time that a company is under a SAR, there are various mechanisms to have that repaid, all of which would be consulted upon. At the moment, as we know, that would come from the taxpayer. We are instead providing that, yes, we could still use the taxpayer to recoup that debt, or we could use the customers of that particular water company, of neighbouring water companies, or of all of England—and that would be consulted upon.

I think that the hon. Member's confusion emanates from his being under the impression that, at the exiting of the SAR, creditors would skip off into the sunset with all the money and the Government would take money from customers. That is not the point I am making because, as I have already said, it is unlikely that all debt will be repaid at the end of a SAR and there is a specific order of priority for repayment. I will make the offer—as I did last time and made good on—to provide a fact sheet on exactly how a SAR would work so that there is no further confusion as we progress through the Bill.

I hope that the Committee agrees that the power is essential to protect taxpayers' money in the event of a SAR.

Charlie Maynard: We are going backwards and forwards. I have made my point. The note here is clear—the Secretary of State is looking for moneys from the customers. I think the special administrator should follow the insolvency rules, but that the hit should come from the creditors, not the customers. I will park it there. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question put, That the clause stand part of the Bill.

The Committee divided: Ayes 11, Noes 6.

Division No. 7]

AYES

Aldridge, Dan	Hazelgrove, Claire
Dollimore, Helena	Kirkham, Jayne
Fookes, Catherine	Paffey, Darren
Hack, Amanda	Pakes, Andrew
Hardy, Emma	Smith, Jeff
Hayes, Tom	

NOES

Farron, Tim	Maynard, Charlie
Hudson, Dr Neil	Ramsay, Adrian
Mayhew, Jerome	Reed, David

Question accordingly agreed to.

Clause 12 ordered to stand part of the Bill.

Clause 13

MODIFICATION BY WELSH MINISTERS OF WATER COMPANY'S APPOINTMENT CONDITIONS ETC TO RECOVER LOSSES

Question put, That the clause stand part of the Bill.

The Committee divided: Ayes 11, Noes 6.

Division No. 8]

AYES

Aldridge, Dan	Hazelgrove, Claire
Dollimore, Helena	Kirkham, Jayne
Fookes, Catherine	Paffey, Darren
Hack, Amanda	Pakes, Andrew
Hardy, Emma	Smith, Jeff
Hayes, Tom	

NOES

Farron, Tim	Maynard, Charlie
Hudson, Dr Neil	Ramsay, Adrian
Mayhew, Jerome	Reed, David

Question accordingly agreed to.

Clause 13 ordered to stand part of the Bill.

10.30 am

Clause 14

WINDING-UP PETITIONS

Question proposed, That the clause stand part of the Bill.

Emma Hardy: I hope this clause will be a little less fractious than the last one—it is pretty straightforward. If a water or waste water company is about to go insolvent, it can make a winding-up petition to court, as may its creditors. If the court is satisfied that the company is insolvent, it must make a special administration order, triggering a water industry special administration regime, or SAR.

Unlike in normal administration, in a SAR the administrator must prioritise the public interest ahead of creditors. In this case, that means ensuring that water and waste water services continue. However, there is no statutory requirement for creditors or the court to notify the Government or Ofwat that a winding-up petition has been made. In addition, neither the Government nor Ofwat have guaranteed rights to be heard at the subsequent court hearings. This creates the risk that a SAR could be triggered without Government involvement. Given the essential nature of water and waste water services, a SAR presents significant risk to public safety if it is not conducted appropriately. It would be vital, in the event of an imminent SAR, for the Government to be quickly made aware of important developments and to be involved in the arrangements for how the SAR is run. Creditors are unlikely to protect the public interest as comprehensively as a Government and may exercise undue influence over a SAR if a Government are unable to make their views heard.

This clause prohibits a court from making an SAO without the Government and Ofwat being notified, and it gives both parties guaranteed rights to be heard at the subsequent court hearings. That provides a vital safeguard against the risks of a SAR being triggered without Government involvement and the potential dilution of the public interests that that could entail. This also updates the water industry's SAR to bring it into line with more recently introduced regimes, such as energy, where these rights are standard practice. I hope the Committee agrees that these rights are essential to safeguard the public interest and modernise the water industry's special administration regime. I commend the clause to the Committee.

Dr Hudson: The Opposition note that clause 14 attempts to make amendments to previous legislation so that a court may not exercise powers that it currently has with regard to an application for winding up an undertaker without providing advance notice of the petition to the Secretary of State, Welsh Ministers—as appropriate—and Ofwat, and without a period of 14 days having elapsed, as outlined in subsection (2). We also note that the clause likewise grants a further power for the Secretary of State, Welsh Ministers and Ofwat to be entitled to be heard at a winding-up petition's hearing and any other hearing that relates to part 4 of the Insolvency Act 1986.

Again, we do not wish to raise any formal objections to this particular clause, but we ask for a couple of clarifications from the Minister, if she will indulge us. First, we would like to hear the Minister articulate what benefits this particular clause brings to the Bill. I was not fully clear from her introductory remarks about the actual benefits. Secondly, does she believe that this change to winding up a water company or any other relevant undertaker will provide a fairer winding-up process?

While we are focusing on water companies and the processes for them, we all want to ensure that the clause provides, again, protection for the consumers, who, as we agree across the Committee, have for too long faced unsatisfactory levels of service from the water industry and the practices of some water companies, so could the Minister please explain whether consumers were considered when this clause was drafted? I and others have outlined in Committee that the performance of water companies in financial resilience, as well as many other matters, has not been satisfactory and has been very upsetting for the British public. Therefore could the Minister please respond and assure the Committee that there can be no unforeseen repercussions for consumers from this clause? That is a recurrent theme as we go through line-by-line scrutiny of the Bill: are there any unintended consequences whereby the taxpayer and the end point consumer will be unfairly penalised by the legislative changes? With that in mind, we have no formal objections to this clause but again we seek clarification that the end point consumer will not inadvertently suffer detriment from this legislation.

Emma Hardy: To be clear, this is literally just a point of process. The provision, which is not currently available in law, says that in the event of an application to the court for a SAR, the Government will be notified at the same time. The reason, as I outlined in my opening remarks, is that we do not believe that creditors are likely to protect the public interest as comprehensively as the Government. It is a mere process clause that provides that in the event of an application to the court for special administration, the Government and Ofwat need to be informed at the same time. The Government maintain the importance of ensuring that the Government and Ofwat are notified in the event of a winding-up petition. For that reason, I urge that the clause stand part of the Bill.

Question put and agreed to.

Clause 14 accordingly ordered to stand part of the Bill.

Clause 15

EXTENT, COMMENCEMENT, TRANSITIONAL PROVISION AND SHORT TITLE

Tim Farron: I beg to move amendment 20, in clause 15, page 21, line 22, leave out subsections (2) to (8) and insert—

"(2) The provisions of this Act come into force on the day on which this Act is passed."

The Chair: With this it will be convenient to discuss the following:

Government amendment 5.

Clause stand part.

Tim Farron: We recognise and, indeed, strongly believe that patience is a virtue, but on these Benches we are also a bit impatient. Our concern regarding this clause is simply about implementation. There are two categories of things to be delivered. Some are to be done straightaway,

[Tim Farron]

and with others it looks like we are preparing to drag our heels. Therefore our amendment seeks to simplify implementation with one clear and immediate deadline for all provisions of the Bill.

Clause 15 provides that issues to do with remuneration and governance, pollution incident reduction plans, emergency overflows and nature-based solutions, for example, will come into force

"on such day as the Secretary of State may by regulations appoint"—

in other words, not right now. That troubles us, given that there is this great sense that there has been a lot of talk about reform of the water industry and we run the risk, at least when it comes to those provisions, of getting just more talk. Making things subject to consultation, further navel contemplation, does not feel like the way to radically reform our industry. Our single deadline would cut through all that and bring the urgent change that the water industry desperately needs, so we commend amendment 20 to the Committee.

Dr Hudson: I support Government amendment 5, as it is a privilege amendment in accordance with the procedure for the passage of Bills between the other place and this place. We wish to raise no formal objections to this and we have no opposition to the amendment.

Emma Hardy: I thank all hon. Members for their contributions. Amendment 20, tabled by the hon. Member for Westmorland and Lonsdale, seeks to make all provisions in the Bill come into force on the day it receives Royal Assent. I share his urge to get on with things, which is why I am a little confused by the desire elsewhere for another water review, but we will get to that when we get to it. First and foremost, I would like to reassure the hon. Member that the Government have carefully considered the appropriate method and timing for the commencement of each clause and have made provision accordingly in clause 15. A one-size-fits-all approach cannot be justified.

For example, the emergency overflows provision will be implemented over the course of two price review periods to protect bill payers from sudden cost increases. Therefore, the commencement provision for clause 3 has been designed to allow for a staged implementation where it is needed. The Government have already committed in clause 15 to the immediate commencement of the civil penalties provisions on Royal Assent. I assure the Committee that the Government and the water industry regulators are dedicated to ensuring that all measures in the Bill are commenced and implemented as soon as possible and appropriate, to drive rapid improvements in the performance and culture of the water industry.

The hon. Member for Westmorland and Lonsdale tempts me to read through a list of every provision and when they will be enacted, but I am going to save that treat for another time and instead list the clauses, rather than going through them in detail. The provisions in clauses 5 to 8, and in 10 to 15, will all come into force automatically either on Royal Assent or two months later. Clauses 1 to 4 and clause 9 will not commence immediately after Royal Assent and will require secondary legislation to come into force, which is due to the need for regulations required to commence the powers. I am sure that the hon. Member will have thoughts to share on those provisions involving statutory instruments after Royal Assent.

I trust that the hon. Member for Westmorland and Lonsdale is reassured by the Government's careful consideration of the commencement of each clause, which has the best interests of bill payers in mind and recognises the need to debate and discuss some of the exact details under secondary legislation. I therefore ask the hon. Member to withdraw his amendment.

Government amendment 5 removes the privilege amendment made in the other place. I like this amendment, because one of the quirks of how British politics has evolved is that we have the amendment in the Bill—I found it quite amusing. The privilege amendment is a declaration from the other place that nothing in the Bill involves a charge on the people or on public funds. It is because the Bill started in the Lords that we have to have the amendment to remove that. It recognises the primacy of the Commons, and I think it is quite fun. It is standard process for that text to be removed from the Bill through an amendment at Committee Stage.

Clause 15 sets out the extent of the Bill, when and how its provisions are to be commenced and its short title. The Bill extends to England and Wales only. As set out in the clause, the provisions of the Bill will variously come into force on Royal Assent, two months following Royal Assent, or in accordance with regulations made by the Secretary of State or Welsh Ministers. The clause makes specific provisions, such as that the commencement of clause 3 may make reference to matters to be determined by the environmental regulators.

Tim Farron: I am happy to accept many of the assurances that the Minister gave, particularly on the role of Government amendment 5—I learn something new every day. The Liberal Democrats retain concerns about the delay in implementation of some of the good things in the Bill. All the same, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 5, in clause 15, page 22, line 40, leave out subsection (11).—*(Emma Hardy.)*

This amendment reverses the "privilege amendment" made in the Lords.

Clause 15, as amended, ordered to stand part of the Bill.

New Clause 1

SPECIAL ADMINISTRATION FOR BREACH OF ENVIRONMENTAL AND OTHER OBLIGATIONS

"(1) Section 24 of the Water Industry Act 1991 (special administration orders made on special petitions) is amended as follows.

(2) After subsection (2)(a) insert—

"(aa) that there have been failures resulting in enforcement action from the Authority or the Environment Agency on three or more occasions to—

(i) maintain efficient and economical water supply,

(ii) improve mains for the flow of clean water,

(iii) provide sewerage systems that are effectually drained,

(iv) comply with the terms of its licence, or

(v) abide by anti-pollution duties in the Environmental Protection Act 1990, Water Resources Act 1991, or the Environmental Permitting (England and Wales) Regulations 2016 (SI 2016/1154);"

(3) After subsection (2) insert—

"(2A) In support of an application made by virtue of subsection (1)(a) in relation to subsection (2)(aa), the Secretary of State must compile and present to the High Court records of—

(a) water pipe leaks,

(b) sewage spilled into waterways, bathing waters, and private properties, and

(c) falling below international standards of effective water management."—*(Adrian Ramsay.)*

This new clause aims to require the Secretary of State to place a water company into special administration arrangements if they breach certain environmental or other conditions.

Brought up, and read the First time.

Adrian Ramsay (Waveney Valley) (Green): I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss:

New clause 31—*Special administration orders: credit ratings*—

"(1) The Water Industry Act 1991 is amended as follows

(2) In section 24 (special administration orders made on special petitions)—

(a) after subsection (1A) insert—

"(1B) Where a company which is a qualifying water supply licensee or qualifying sewerage licensee—

(a) is required, as a condition of its licence, to maintain two Issuer Credit Ratings which are Investment Grade Ratings from two different Credit Rating Agencies, and

(b) fails to comply with that requirement,

the Secretary of State must make an application to the High Court by petition under this section.", and

(b) in subsection (2), after (c) insert—

"(ca) that the company—

(i) is required, as a condition of its licence, to maintain two Issuer Credit Ratings which are Investment Grade Ratings from two different Credit Rating Agencies, and

(ii) has failed to comply with that requirement"."

Adrian Ramsay: It is a pleasure to serve under your chairship, Dr Huq. I reiterate my apologies for not being able to be present at the Committee last week due to illness. I am pleased to be here today to speak to new clause 1, which would clarify that water companies may be subject to special administration measures should companies be guilty of significant and sustained environmental breaches.

I commend the commitments the Minister made during last Thursday's sitting that the legislation will have a meaningful impact to ensure that water companies deliver for customers and for the environment. That echoes the Secretary of State's pledge to the House in December to bring to the water sector

"reform that puts customers and the environment first."—[*Official Report*, 16 December 2024; Vol. 759, c. 78.]

10.45 am

The new clause provides a mechanism to hold companies accountable for breaches that endanger the environment and public health, and extends the statutory obligations to standards of performance as well as mismanagement and financial viability. By making special administration an available sanction, we signal to water companies that consistent environmental negligence will no longer be tolerated. That is what the public demand. This is not about punishment for punishment's sake; it is about tackling the culture of impunity in which companies operate. The new clause is necessary because the current framework is insufficient; special administration is triggered only if a water company becomes insolvent or fails to carry out its statutory duties.

New clause 1 offers a practical solution for restoring accountability to a sector that has too often placed profits over people and nature. The evidence submitted by Wildlife and Countryside Link underlines the scale of the challenge: every river in England is polluted, with sewage spills a major contributing factor. New clause 1 is about protecting our fresh waterways, coastal habitats, wildlife and communities. It ensures that enforcement against persistent malpractice has real consequences and shows that environmentally neglectful practices and chronic under-investment are no longer tolerated.

The persistent failings of Southern Water, for example, demonstrate why this tool is so urgently needed. The company has faced enforcement action for widespread and deliberate under-reporting of waste water pollution, leading to £126 million in fines from Ofwat and £90 million in Crown court penalties. Ofwat's investigation exposed that senior management concealed unpermitted and premature waste water spills, undermining environmental monitoring and public trust. What is deeply troubling is that fines alone have failed to change the company's behaviour. Last year, Southern Water was one of only two companies that Ofwat rated as lagging, citing continued failures in pollution control and sewer collapses. This is not unique to Southern Water; it is a pattern across the sector, where financial penalties are absorbed as a cost of doing business.

The Bill must put environmental issues and pollution at the core of water industry regulation. To borrow the words of Baroness Hayman, that would demonstrate that

"the interests of customers and the environment"

are the

"primary and fundamental objective."—[*Official Report, House of Lords,* 20 November 2024; Vol. 841, c. 244.]

Charlie Maynard: New clause 31 would make the process of putting a company into special administration much easier and clearer. There are two steps in the provision: making it easier to apply for special administration and giving more guidance to judges on whether to grant special administration.

Proposed new section 24(1B) of the Water Industry Act 1991 states:

"Where a company which is a qualifying water supply licensee or qualifying sewerage licensee…is required, as a condition of its licence, to maintain two Issuer Credit Ratings which are Investment Grade Ratings from two different Credit Rating Agencies, and…fails to comply with that requirement, the Secretary of State must make an application to the High Court by petition under this section."

[Charlie Maynard]

That states that if a company does not have investment grade credit ratings, the Secretary of State will apply for special administration.

Proposed new section 24(2)(ca) of the 1991 Act states that special administration may be granted if a company

"is required, as a condition of its licence, to maintain two Issuer Credit Ratings which are Investment Grade Ratings from two different Credit Rating Agencies, and…has failed to comply with that requirement."

That gives guidance to the judge. It says, "You've got to have those credit ratings. If you don't, special administration is much more likely to be granted."

At the moment, we have some bizarre situations. Thames Water, which I will use as my standard example, has £17 billion of debt and cash flows of £1.2 billion; its debt is 14 times higher than the cash flow it generates every year. By financial standards, that is somewhere between ludicrous and ridiculous. In an unregulated sector, the company would have gone bankrupt long ago. I believe—people may contest this—that our Government are keeping it alive because they are worried about being sued by the bondholders if they put it into special administration, because the criteria are not very clear.

If we are serious about fixing our rivers, we have to deal with the debt. We cannot spend the money our rivers require if we do not fix the debt, but we are still digging. Thames Water's proposed £3 billion of special restructuring is going through the courts right now, so we are adding even more debt—an even bigger millstone around that company's shoulders. Its debt will go from £17 billion to £20 billion. The Government have the opportunity to say, "That is the last Administration's trick. We are going to do something different," but at the moment they are not saying that. I really hope that we will change course. If we do not, all we will do is add more debt on to these companies; that will keep them alive for another 12 or 18 months, but we will be back in the same place again. Customers in Witney and in every constituency are paying through the nose just to cover the interest expenses.

Ofwat has just thrown Thames Water the great big juicy bone of a 35% price increase. That is great news for lenders, but not such great news for customers. It means that instead of 46% of my bill covering the lenders' interest expenses, it will be only 38%, but I will be paying 35% more. I do not believe that is helping, so the purpose of the new clause is to make it easier to get water companies into special administration.

Emma Hardy: I emphasise to Committee members that special administration is the ultimate regulatory enforcement tool; as such, the bar is set high.

To respond to new clause 1, tabled by the hon. Member for Waveney Valley, and new clause 31, tabled by the hon. Members for Witney and for Westmorland and Lonsdale, a water company can already be placed into special administration on performance grounds where it is, or is likely to be, in serious breach of its principal statutory duties or an enforcement order—in other words, where it is inappropriate for the company to retain its licence—as set out in section 24 of the Water Industry Act 1991.

The Secretary of State and Ofwat will consider all aspects of a company's performance and enforcement record, including environmental and financial performance, when considering whether to pursue an SAR on performance grounds. Licence breaches, such as the loss of an investment-grade credit rating, are considered as part of that holistic review of a company's performance. Ofwat will consider the circumstances around any loss of an investment-grade credit rating to identify the actions that the company must take to address associated licence breaches.

Regulators have a range of enforcement mechanisms to ensure the delivery of performance, including environmental performance. Water companies can also be required to make clear plans to address failures. I gently point out that this Bill does an awful lot to give more powers to address environmental performance. As we have discussed, our pollution reduction implementation plans address some problems relating to pollution.

Special administration must be a last resort, as it has significant consequences for a company's investors. If special administration could be triggered without allowing a company to rectify performance issues and licence breaches, investors would have low confidence and would not provide the necessary funding. That could create instability in the market, potentially affecting the entire sector.

Although we recognise the concern behind these new clauses and others tabled by the hon. Gentlemen that highlight concerns that the system is not working, they address the symptoms rather than the underlying causes. In October 2024, the Government announced an independent commission that would be the largest review of the water sector since privatisation. That commission has a broad scope and will consult experts in areas such as the environment, public health, engineering, customers, investors and economics.

The governance of companies and regulatory measures to support financial resilience will be covered, including the operation of existing tools, such as the special administration regime. The review will report by quarter two in 2025. The UK and the Welsh Governments will respond and consult on proposals they intend to take forward. We expect those to form the basis of future legislation to tackle the systematic issues to transform the water sector fundamentally. On that basis, I hope that the hon. Member is content to withdraw the proposed new clause.

Adrian Ramsay: I thank the Minister for her response. I appreciate that special administration would only happen in extreme cases. We have, however, repeated failures and neglect, including on environmental performance, from a number of water companies. That is why I wanted to make the provision explicit in the Bill that environmental neglect could be a reason for special administration. I take her point that there are reviews and wider plans underway. Although I am happy not to push this to a vote at this stage, I will take a close interest in how the situation progresses. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 2

Establishment of Water Restoration Fund

(1) The Secretary of State must, within 60 days of the passing of this Act, make provision for the establishment, operation and management of a Water Restoration Fund.

(2) A Water Restoration Fund is a fund—

(a) into which any monetary penalties imposed on water companies for specified offences must be paid, and

(b) out of which payments must be made for expenditure on measures—

(i) to help water bodies, including chalk streams, achieve good ecological status, and improve ecological potential and chemical status;

(ii) to prevent further deterioration of the ecological status, ecological potential or chemical status of water bodies, including chalk streams;

(iii) to enable water-dependent habitats to return to, or remain at, favourable condition;

(iv) to restore other water-dependent habitats and species, especially where action supports restoration of associated protected sites or water bodies.

(3) The Secretary of State must, by regulations, list the specified offences for the purposes of this section, which must include—

(a) any relevant provisions of the Water Resources Act 1991, including—

(i) section 24(4) (unlicensed abstraction or related works or contravening abstraction licence);

(ii) section 25(2) (unlicensed impounding works or contravening impounding licence);

(iii) section 25C(1) (contravening abstraction or impounding enforcement notice);

(iv) section 80 (contravening drought order or permit);

(v) section 201(3) (contravening water resources information notice);

(b) any relevant regulations under section 2 of the Pollution Prevention and Control Act 1999 (regulation of polluting activities etc) related to water pollution;

(c) regulations under section 61 of the Water Act 2014 (regulation of water resources etc).

(4) A statutory instrument containing regulations under this section may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.

(5) The provisions in this section replace any existing provision for the sums received for specified offences, including in section 22A(9) of the Water Industry Act 1991 (penalties).—*(Dr Hudson.)*

Brought up, and read the First time.

Dr Hudson: I beg to move, That the clause be read a Second time. The proposed new clause would introduce a legal requirement that money collected from water companies from financial penalties imposed by the Bill are legally required to be used by the water restoration fund. As with much of the Bill, the Government intend to build on the work begun by the previous Conservative Government. The water restoration fund is one pillar of that record that the Government would do well to advance. I look forward to hearing from the Minister what they plan to do with that excellent fund, which needs to be reinstated and progressed.

I have personally championed the water restoration fund, not only in my present role as shadow DEFRA Minister, but before that as a member of the Conservative Environment Network. I pay tribute to that body for its successful campaigning, which in led no small part to the previous Conservative Government introducing the excellent water restoration fund. In 2022, I was proud to sign the Conservative Environment Network's "Changing course: a manifesto for our rivers, seas and waterways". That was its first public declaration, setting out the ambition to introduce this policy recommendation.

In addition to the Conservative Environment Network, I would like to namecheck and thank the good folk of Wildlife and Countryside Link for their support and campaigning for the fund and this proposed new clause. I also pay tribute to the Angling Trust for the discussion we had on this matter, and give a big shout-out to our former colleague Philip Dunne, who was respected across the House. The former MP for Ludlow and Chair of the Environmental Audit Committee made assiduous efforts to see this fund introduced, as well as wider measures to protect our precious waterways.

As we have discussed with the Minister, there is considerable consensus on what we can do collectively and on a cross-party basis to protect and nurture our watercourses and waterways. I hope the Government will take forward and continue the water restoration fund because it is pivotal to what we are trying to do.

Jerome Mayhew: I have a slightly cheeky intervention. Is the shadow Minister aware that there is a debate in Westminster Hall at 4 o'clock tomorrow led by yours truly on nature-based solutions for farmland flooding? The fund is central to improving the situation.

11 am

Dr Hudson: Yes, I was aware of that. I am acutely aware of it now and congratulate my hon. Friend on securing it. It highlights the fact that there is a lot of agreement. I am sure that his debate will demonstrate cross-party consensus on the use of nature-based solutions. We debated flood mitigation in Committee last week, but the water restoration fund is pivotal to trying to improve the situation at the local level and at the local catchment level as well.

Since being introduced by the previous Government, the water restoration fund has provided £11 million for communities to repair their local waterways and restore them to the quality that they should be at—the quality to which local communities should be entitled. At the heart of the proposal is simply this: those who are at fault for the damage done to our waterways must make restoration for it. Given the facts, I find it disappointing that, despite the cross-party efforts in the other place to enact such measures, they were not listened to by the Government. I hope that in a spirit of consensus the Government will look at that in this Session.

The arguments made by the Government in the other place were not satisfactory. They objected to the principle of ringfencing the funding and to the need for the Treasury to have flexibility in how it spends the money, but in this specific case the argument does not quite stack up. Where money comes from taxation, ringfencing is not always the most reliable way to ensure the Treasury has the spending power it needs to deliver public spending, but we are talking about something completely different. Fines are much more uncertain and provide less guarantee regarding the amount of money that they will bring in. To rely on funds such as these for day-to-day broad Treasury spending simply does not make sense.

Ringfencing penalties for the water restoration fund is a much more sensible measure that allows Governments to guarantee that they can meet a specific need. In other

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words, those who are at fault for harming the quality of our rivers, seas, coasts and lakes make restoration for the damage caused by their action—or inaction. Given all that we have outlined, there cannot be a more justified way of directly making restoration for damage to our previous water system than the mechanism laid out by the water restoration fund. Water companies pay the fines for the damage that they have done, and local communities that are affected are empowered to restore the precious waterways that they live near.

A finer detail of the amendment that should not be ignored is the fact that we will improve chalk streams. It is unfortunately clear that, despite the Government's pitch to the British public that they would do better than the previous Government in protecting our waterways, their actions on chalk streams do not bear that out. It was very disappointing that over the Christmas period it was revealed that plans from the Conservatives to recover our chalk streams have been laid to one side by the Government. Given that England is home to over 80% of the world's chalk streams, the failure to act on this issue is neglect of a vital duty to protect a not only a key part of the UK's environment, but a feature in the environment of the world. They are a precious resource that very few countries are lucky to have access to. Members across this House represent areas with chalk streams. It is a dereliction of duty to ignore that category in the UK environment.

The plans that the previous Government proposed would have given chalk streams a new status of protection. Special consideration would have been given to watercourses in road guidance, and supporting the physical restoration of the streams as key pillars of our plan would have put chalk streams back on the road to the recovery that is needed. As the deviser of the plans has said publicly, although the Government may want to focus on chalk streams in national parks and landscapes, they risk ignoring chalk streams in most need of recovery across the country. Can the Minister explain why this vital plan of action, which was ready to go, has not been fulfilled? I hope that this decision was not based on politics. We need to look at this in terms of evidence and what is best for our environment.

Emma Hardy: I wonder whether there has been some confusion, given that the debate on chalk streams comes later on.

Dr Hudson: It is actually part of our amendment.

Emma Hardy: Well, have a go again then.

Dr Hudson: Good. We are all for talking about and raising the issue of chalk streams, but it is clear that we wanted to include that in our amendment. Our amendment will therefore be a chance to give chalk streams the attention they need from this Government. The previous Government were ready to deliver that and hand the baton over to the new Government, so that they could follow through on the explicit requirement that chalk streams be considered.

The amendment is a chance for the Government to reconsider their stance on the water restoration fund. I would be grateful for clarity from the Minister about what they are planning to do. If they are serious about improving our waterways and if the money from penalised water companies is allowed to go back into the local area to improve those waterways, we could agree about that. If the Government do not face up to this, that might be a negation of the various promises they made to the electorate when in opposition and send a message that their words are merely soundbites. I hope that the Minister will consider the points I have made and support this amendment to restore the water restoration fund—for the sake of not only our waters, but the democratic and local accountability on which they rely. We will seek to push new clause 2 to a vote.

Tim Farron: I rise briefly to support the new clause. Among many other reasons, it bears great similarity to one proposed by my noble Friend Baroness Bakewell. We consider everything in it to be right. As the hon. Member for Epping Forest has said, we should be deeply concerned about the Treasury seeking to hang on to money that, if there is any justice, ought to be invested back into the waterways that have been polluted by those who have been fined for that very offence.

I talked earlier about the deep sense of injustice felt across the country about those who pollute, who are getting away with polluting and who even—far from being found guilty—are getting benefits from that pollution. The measure would simply codify a move towards the establishment of a water restoration fund, supported, at least in part, by the fines gathered from those guilty in the first place. There would be a great sense of justice being done for folks concerned about how Windermere is cleaned up, how we make sure that Coniston's bathing water standards remain high and how we deal with some of the issues I mentioned earlier on the River Lowther, River Eden and River Kent.

The water restoration fund should in part be supported by funds gained from those who are guilty: that is basic justice. We strongly support the new clause and will be voting for it if it is put to a vote.

Emma Hardy: I thank the hon. Member for Epping Forest for tabling new clause 2, which seeks to establish a water restoration fund in legislation. I accept his invitation to do better than the previous Government when it comes to pollution in the waterways, and welcome the low bar that they have set me.

A water restoration fund is already being established to direct water company fines into water environment improvement projects. This arrangement does not require legislation, because it exists. Defining a water restoration fund in legislation would create an inflexible and rigid funding mechanism, with the amendment requiring specific detail on the scope, operation and management of fines and money. We need to maintain flexibility in how water company fines are spent, to ensure that Government spending is delivering value for money.

The hon. Member can already see from the Bill and the discussions we have had that the cost recovery powers that we have introduced for the Environment Agency are an example of how we can ensure that water companies pay for enforcement. It is continuing to work with His Majesty's Treasury regarding continued reinvestment of water company fines and penalties, and water environment improvement. A final decision on that will be made when the spending review concludes later this year. On that basis, I ask the hon. Member to withdraw his amendment.

Dr Hudson: I am not reassured by those comments. The Minister says that the water restoration fund does not need new legislation, but we are concerned that the fact that the fund is not in the Bill shows that the Government are not doing anything with it. They are completely silent about it. I fear that they are going to drop the baton they are being handed and let it pass away. The fund needs to be in the Bill. I am not reassured by the Minister, so we will press a vote on the establishment of a water restoration fund in the Bill.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 5, Noes 11.

Division No. 9]

AYES

Farron, Tim	Ramsay, Adrian
Hudson, Dr Neil	
Mayhew, Jerome	Reed, David

NOES

Aldridge, Dan	Hazelgrove, Claire
Dollimore, Helena	Kirkham, Jayne
Fookes, Catherine	Paffey, Darren
Hack, Amanda	Pakes, Andrew
Hardy, Emma	Smith, Jeff
Hayes, Tom	

Question accordingly negatived.

New Clause 3

CIVIL PENALTIES:
EQUIVALENT REDUCTION TO CUSTOMER BILLS

"(1) The Secretary of State must make provision for any monetary penalties imposed on a water company to result in equivalent reductions to the amounts charged to customers by the relevant water company.

(2) In fulfilling its duties under subsection (1), the Secretary of State must arrange, annually—

(a) for the total amount of monetary penalties imposed on a water company in the previous year to be calculated;

(b) for that total to be divided by the number of customers of the water company;

(c) for each customer's next bill from the water company to be reduced by that figure.

(3) Any reduction applied under this section must be indicated on a customer's statement of account.

(4) In this section, 'water company' has the meaning given by section 6(5)."—*(Dr Hudson.)*

This new clause would provide for any fines imposed on water companies to result in equivalent reductions to customers' bills.

Brought up, and read the First time.

Dr Hudson: I beg to move, That the clause be read a Second time.

New clause 3, which His Majesty's Opposition will again push to a vote, has at its heart the people we want to protect—the very individuals who this Committee has acknowledged are most affected: the consumers and bill payers. They are the pivotal reason why we have tabled the clause.

The clause would require the Secretary of State to make provision so that where a water company has faced financial penalties for failure to comply with the law, a financial amount equal to those penalties must be removed from the bills of that water company's consumers. Of course, one might suppose that it is difficult to make an equivalence between the amount of a financial penalty and the amount to be reduced on the bills, but subsection (2) sets out that it must be calculated by dividing the total financial penalty by the water company's number of customers. We have laid out a formula that the Secretary of State could follow in fulfilling the duties under the clause.

The Government might object that the clause would create additional duties for the Secretary of State on top of their existing ones, but the Opposition believe that the measure is relatively simple, can be calculated and is worth adopting for the very principle of accountability for which all of us across this House are striving.

I have already mentioned that, when the Conservatives were in government, we took action to set out that water bosses would be banned from receiving bonuses if a company had committed serious criminal breaches. The Bill copies that and takes it forwards, but the new clause takes the principle of accountability, which has been raised in the Committee's last couple of sittings, even further.

Helena Dollimore (Hastings and Rye) (Lab/Co-op): It is a pleasure to serve under your chairship, Dr Huq. The hon. Member referred to the record of his party while in government for the last 14 years, and said that it set the threshold for a water boss being denied a bonus at the level of criminal activity. Does he agree that many of our constituents would find it strange to set a bar for not having a bonus at the level of committing criminal activity, given that in many workplaces up and down the country a bonus is based on good performance and on serving customers? The last Government set the bar for banning bonuses far too high, and that is why, despite repeated failure, the boss of Southern Water still received a bonus, as the boss of Ofwat confirmed to the Select Committee.

11.15 am

Dr Hudson: The Conservative Government were the first Government to start addressing this issue by actually evaluating the data, monitoring overflows and monitoring outflows. I gently remind the hon. Member that when her party left power, only 7% of storm overflows were measured; when the Conservatives left power, 100% were measured. We were the first party to find that there was a problem.

To return to the dental analogy, in the last parliamentary Session we tried to give the regulators more powers—more teeth—to go after the water bosses. We need to firm up how the regulator has been using those powers, so that we can hold the water companies to account. I agree that there is outrage across the House about how water companies have breached their terms of reference and broken the law. We have tried to hold them accountable. The Bill will try to take things further, but I gently say to the Government that we were the party that started collecting the data, which allowed us to realise the scale of the situation and try to introduce measures to sort it.

The new clause ensures fairness for customers and ensures that fines on water companies will not impact customers, who are not at fault for the water companies'

[Dr Hudson]

mistakes or the bad practices that led to the fines. We believe that customers should not be impacted by fines imposed on water companies. The clause attempts to remedy that. In the name of accountability and trust between the public and Governments—of all colours—that seek to address this issue, subsection (3) states that the reductions to customer bills imposed under the clause will be indicated on the statement of account for each consumer who has received the reduction. We believe that that is important.

For too long, a toxic cocktail of water companies' poor behaviour and rising bills has led too many people to feel that they are getting poor value for money, and that they are not getting the quality water services they deserve for the price they are paying—hard-working people, up and down the country, who work consistently to pay their bills and do the right thing, while the water industry's negative practices continue. Given the amount of time we have spent talking about this issue, they may also feel that the new Government are not willing to act to protect the consumer in this area.

Subsection (3) seeks to break that cycle and send a signal to bill payers that actions to regulate water companies have a real, tangible effect. Showing the reduction in consumer bills directly on the statement of account will provide a real, tangible sign that the poor behaviour has been looked at, people are going after the water companies and consumers will benefit from that. It also serves as compensation for those who have been directly affected and as an example of justice in action—the principle being that those who harm pay a penalty, and those who are harmed receive restitution.

I return to my comments about the water restoration fund. Fines being re-circulated into the local area will be good for local accountability.

Dan Aldridge (Weston-super-Mare) (Lab): It is a pleasure to serve under your chairmanship, Dr Huq. The hon. Gentleman talks about the outrage across the House, and I also feel outraged as a member of the public. The vast majority of my constituents are incredibly outraged at the situation they find themselves in. One of the things I am told when I knock on doors in my constituency is, "The previous Government have shown no contrition about their role in the degradation of our waterways." The Opposition have a revisionist attitude that is incredibly perplexing to me and angering to my constituents, so I would just like to see a bit of contrition from them.

Dr Hudson: Can I just say that the previous Government went and looked for the problem, and found the scale of it? We all agree that it is a huge problem that needs to be addressed; we are not downplaying the scale of it. We collected data and were brave enough to say, "There is a problem."

Labour Members threw a lot of things at us during the passage of the landmark Environment Act 2021. They have made misleading comments about Conservative Members of Parliament, but we were the party that grasped the nettle and said, "There is a problem, and we need to look at it." A lot of the amendments that were tabled to try to scupper the Environment Act were completely uncosted and would have cost taxpayers lots and lots of money. We tried to introduce practical, cost-effective, reasonable measures to address the scale of the problem that we unearthed.

Jerome Mayhew: The shadow Minister is right that a lot of the supposed solutions were uncosted and had an impractical timeframe. One that springs to mind was the Liberal Democrat amendment that was costed: there was a tax that was supposed to pay for the improvements to water quality. Does he agree that, on a basic calculation, it would have taken more than 300 years to pay it back?

Dr Hudson: I agree. Amendments are easy to table with a view to obstruction and making political points, and those were not affordable and would not have been deliverable in any realistic timescale. Governments have to make realistic, cost-effective decisions that honour the taxpayer, and they have to be clear with the public about how such measures will be implemented and paid for.

If the Government do not support our amendment, I hope they will clarify what steps they are taking to protect customers from the knock-on impact of fines. Unfortunately, in many industries when costs are imposed, customers sometimes pay higher prices. With the new clause, we want to ensure that when we rightly impose financial penalties on water companies there are no unintended consequences for the consumers we aim to defend by imposing the financial penalties in the first place. With that in mind, and given the aim of accountability, we sincerely hope the Government will support the new clause. Ultimately, we aim to press it to a vote.

Ordered, That the debate be now adjourned.—*(Jeff Smith.)*

11.22 am

Adjourned till this day at Two o'clock.