PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

WATER (SPECIAL MEASURES) BILL [*LORDS*]

Fourth Sitting

Tuesday 14 January 2025

(Afternoon)

CONTENTS

New clauses considered.
Adjourned till Thursday 16 January at half-past Eleven o'clock.
Written evidence reported to the House.

PBC (Bill 141) 2024 - 2025

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

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Saturday 18 January 2025

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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

(Afternoon)

[Dr Rupa Huq *in the Chair*]

Water (Special Measures) Bill [*Lords*]

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, read the First time, and Question proposed (this day), That the clause be read a Second time.

2 pm

Question again proposed.

The Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs (Emma Hardy): I thank the hon. Member for Epping Forest for tabling new clause 3, which would require a water company to reduce customer bills by an equivalent amount to the total monetary penalties paid in the previous year by that company. I will start by clarifying that we expect the cost of the penalties to be borne by the companies, not by the customers. However, I would also like to reassure the hon. Member that there are existing procedures in place to ensure that customers are reimbursed for a water company's poor performance.

As the independent economic regulator of the water industry, Ofwat is best placed to ensure that customers are reimbursed appropriately if water companies perform poorly. Ofwat already sets specific performance targets for water companies in the five-yearly price review. Those performance commitments hold water companies to account for the outcomes that customers pay for. Where they are not met, companies must reimburse customers through lower water bills in the next financial year.

Those performance targets take a holistic view of water company performance and consider wider factors beyond companies receiving penalties. Performance targets include customer-facing commitments, such as water supply interruptions; environmental commitments, such as pollution incidents, storm overflows and bathing water quality; and commitments related to asset health, such as repairs to burst mains. As a result of underperformance in the last financial year, Ofwat is currently requiring 13 companies to return £157 million to customers.

The hon. Member's new clause is therefore not appropriate for this Bill, given that it would overlap with existing procedures. However, there is simply not enough improvement in performance across the water industry. That is why we have launched the independent commission, which will look at issues, including performance, and make recommendations on how to transform the water sector.

I hope that the hon. Member for Epping Forest is reassured about how customers will be reimbursed for poor performance, and about the steps that we are taking to improve performance. On that basis, I ask him to withdraw his new clause.

Dr Neil Hudson (Epping Forest) (Con): I thank the Minister for her comments. I am afraid that I am not fully reassured, and we would like to see provision in the Bill for any fines imposed on water companies to have a concomitant effect—a direct effect—on customer bills. This well-intended measure has been tabled to create a link between the two, so although I hear the Minister's comments, we would still like to press new clause 3 to a vote.

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

The Committee divided: Ayes 5, Noes 12.

Division No. 10]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 4

Rules about borrowing

"After section 154B of the Water Industry Act 1991 (financial assistance for major works), insert—

'Chapter III

Rules about borrowing for undertakers

154C Restrictions on undertakers relating to borrowing

(1) The Secretary of State may by regulations made by statutory instrument implement a limit on borrowing by a relevant undertaker.

(2) Where a relevant undertaker has total borrowing exceeding the limit set by regulations made under subsection (1), the relevant undertaker may not make a payment of dividends, capital, assets, or interest to shareholders or controlling entities.

(3) 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.'"—*(Dr Hudson.)*

This new clause would enable limits to be placed on the amount of money that can be borrowed by a water or sewerage undertaker, and prevent an undertaker who has exceeded such limits from being able to pay dividends to shareholders.

Brought up, and read the First time.

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

New clause 4 amends the Water Industry Act 1991 to insert new rules regarding the limits to the amount of money that can be borrowed by a water company, which the Secretary of State for the Department for Environment, Food and Rural Affairs would be able to enact by means of statutory instrument. Although we have discussed statutory instruments in Committee, the Opposition hope that the Government will recognise that this proposed statutory instrument power needs to be made.

New clause 4 ensures that water companies are not excessively borrowing money, as that is ultimately bad for bill payers. At the heart of our concern about financial resilience is the borrowing in the industry and the over-leveraging because of that borrowing. It is clear that there is a direct link between financial resilience, problems connected to borrowing and the very survivability of the water firms. That should be of huge concern to all of us.

Consumers are concerned that the provision of their water is at risk, and we as legislators must work out how to deal with the issues, including the financial implications, relating to the risk of nationalising the water companies that have no other way of providing services. That can reverberate back to the consumers again, who may face increased costs because of the financial support that the Government have to provide to keep water companies afloat. In other words, tackling the choices that water companies may have made, and will make in the future, including borrowing choices, is an issue that we are required to correct for the very future of our water industry.

I reiterate my profound respect for the way that both the Minister and Baroness Hayman have conducted themselves in this debate. I note that Baroness Hayman expressed concern in the other place that putting a fixed percentage limit on borrowing could be a risk to investment at a crucial time for financial resilience and investment in the water industry. That is why my Conservative colleague, Lord Roborough, revised his amendment on that in the other place to give the Secretary of State the power to set limits by means of a statutory instrument. I pay tribute to my colleague and friend Lord Roborough for working so hard to raise the issue of financial resilience in the other place through this amendment.

We are not saying that a hard limit has to be set on borrowing levels, but merely giving the Secretary of State the option to do so if they feel it necessary to protect consumers from the negative effects of the water industry. I come back to the point I made in previous sittings: giving the powers to the Secretary of State, a democratically elected Minister in His Majesty's Government, through statutory instrument, improves democracy and accountability for the water companies. I do not think the Labour Government need to shy away from this constructive amendment, which gives the Secretary of State the ability to hold the water companies to account, as we all want to do.

If the Minister does not see the need for the amendment —I am not pre-empting her, but I imagine that is how her response will go—can she clarify how much borrowing the Government consider acceptable for a water company, and what they will do to reduce the impact on the consumer of excessive borrowing and spending? The new clause also limits the amount of dividends that can be paid out to shareholders if the water company has exceeded the borrowing limit. Should a limit be set, it would therefore make water companies fairer in their practices to bill payers, as when a company borrows it will have less of an impact on consumer bills.

While in government, the Conservatives gave Ofwat the powers to link performance to payouts to shareholders and water company management. New clause 4 further aims to protect consumers from companies that are failing to prioritise their customers. Considering those points, the Opposition believe that the Government could move a bit on this, and enact democratic accountability with the statutory instrument. We hope that they will look on new clause 4 favourably.

Emma Hardy: I thank the hon. Member for Epping Forest for tabling the new clause, which would implement a limit on borrowing by water companies. I note that Baroness Hayman had multiple discussions with Lord Roborough on the similar amendment that he put forward in the House of Lords, and that Lord Roborough was satisfied with our reasoning for not introducing restrictions on borrowing in the Bill.

Debt has been rising in companies since privatisation, and it of course accelerated under the previous Administration. In some instances, levels of debt have reached a point at which the financial resilience of companies could be threatened. We have been clear that Ofwat must continue to have a strong focus on company financial resilience to secure efficient long-term investment and deliver long-term value for money for customers and the environment.

I assure the Committee that Ofwat is already taking steps to closely monitor debt levels as part of its annual monitoring financial resilience report, and it will take action where the financial resilience of a company is threatened. Ofwat published its final determinations for the 2024 price review in December, which included a confirmed £104 billion upgrade for the water sector. Investment in the water sector is financed up front by investors, and repaid by customers over time to smooth the impact on bills. Borrowing is therefore a key part of the process.

David Reed (Exmouth and Exeter East) (Con): I agree with many of the points raised by my hon. Friend the Member for Epping Forest on debt. He raised the serious question of how much debt is too much. Does Ofwat have a firm number on how much companies should be borrowing, and at what point it should intervene?

Emma Hardy: I thank the hon. Member for his helpful intervention to look at what the borrowing and debt limits should be. We think that placing new borrowing limits on companies at this late stage in the price review process would disrupt business planning. However, taking on board the points that have been made and the concerns about companies' levels of debt, I refer Members to the fact that we have announced an independent water commission, which will be a more appropriate vehicle for considering longer-term reform options such as the proposals from the hon. Member for Epping Forest. Company financial structures are one of a number of areas that could be explored under the commission, and we do not want to pre-empt the outcome of the commission through this new clause.

Charlie Maynard (Witney) (LD): With respect, I feel that we are living in parallel universes. I will take Thames Water as an example, whose debt is 14 times the level of its cash flows. The Minister is saying that financial resilience could be threatened, but I spent 25 years in finance, and that ratio is very threatening. Is Ofwat closely monitoring that? Moody's and Standard & Poor's have put Thames Water into junk bond ratings—seven ratings under the investment grade—and we are pedalling on regardless. Could the Minister give a view on Thames Water's levels of debt, and whether they are threatening to the company?

Emma Hardy: I hope that the hon. Gentleman has not misunderstood. There is certainly no desire from me to keep pedalling. Instead, what we want to do is look at the entire financial situation of companies—he knows that we have had that conversation outside this room. We need to look at some of the longer-term reform options for how companies are structured financially, which is why we have the deputy governor of the Bank of England leading our review, and using his knowledge and expertise to look at how companies are structured.

I do not think that the new clause is the appropriate place to pre-empt the outcome of the commission before it has had an opportunity to report, or even to listen to the hon. Member for Epping Forest through the call for evidence that is yet to be announced. I want to stress that I support sentiment of the hon. Member for Witney, but I express caution around the risks of putting through changes of this magnitude without giving full and proper consideration. We believe that the commission is the appropriate way to do that.

Jerome Mayhew (Broadland and Fakenham) (Con): Okay, perhaps the Minister is right—perhaps the detail of what percentage of debt or what multiple of revenue is appropriate should be established by the commission and the wider review—but surely the principle can be established now. From any investigation in this area, we can say that the principle will be that debt will need to be capped or managed, or have some oversight, because we have seen what happens—particularly with Thames Water—when there is no cap or oversight. Does the Minister not agree that the new clause just sets out the principle, and the amount would be set out by an SI?

2.15 pm

Emma Hardy: I respect the hon. Gentleman's contributions on matters of finance, and I recognise his knowledge in this area. However, I think he would probably acknowledge—even if not publicly—that using a new clause to determine the level of debt that we think is appropriate is not the best way to make legislation for our country, or for the financial resilience of the water sector. I am entirely confident that the best way to look at this seriously, taking contributions and recommendations from all the wider stakeholders, is through the water commission. The commission might draw similar conclusions but it is not for us to pre-empt them now, without having first taken on board the opinions of many other stakeholders. I trust that the hon. Member for Epping Forest is reassured by the steps being taken by the Government, and by Ofwat, and I ask him to withdraw the clause.

Dr Hudson: I thank the Minister for the constructive tone with which she has engaged in this whole debate, but I think we are going round in circles. We are trying to hold the water companies to account, and the Government are saying, "It is okay, Ofwat can do that," but we have heard contributions saying that Ofwat is not using its powers and we need to give it more powers.

All we are doing, with this new clause, is putting in place the principle that the Secretary of State has the capability to oversee that. If the Secretary of State and the Government felt that Ofwat was doing what the legislation intended, they would not need to activate the new clause's provisions. If, however, they did not feel that Ofwat was doing that, the new clause would give them that particular power. We are again talking about—I know the Government Back Benchers are going to wince—teeth. In this case, regarding Ofwat's and the Environment Agency's capabilities, we are saying to the democratically elected Government of the day that there is an extra tooth to hold over Ofwat, and that if Ofwat is not doing its job then the Government can, potentially, step in.

I take on board the comments about the commission but, to echo some of the comments of the hon. Member for Witney about being impatient for change, if this issue is going to the commission, and the can is being kicked down the track, that is disappointing. With this new clause, we are trying, constructively, to give the Government and the Secretary of State of the day the capability to act if they feel that the processes set up under the previous Administration and the new Administration are not working well. I urge the Minister to think again on this matter, and we will press the clause to a vote.

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

The Committee divided: Ayes 6, Noes 11.

Division No. 11]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 5

LICENCE CONDITIONS ABOUT NATURE RECOVERY

"In the Water Industry Act 1991, after section 17FB insert—

'17FC Nature recovery

(1) It is a condition of all licences granted under section 17A (water supply licences) that relevant undertakers must give due consideration to nature-based solutions targeted at reducing flood risk and pollution incidents, improving water quality and benefiting nature restoration in their catchment area.

(2) The Authority must not take any action that discourages or prevents a relevant undertaker from making an investment in accordance with subsection (1).'"—*(Dr Hudson.)*

This new clause would make it a condition of all water companies' licences to consider nature-based solutions to flood risk, improving water quality and benefiting nature restoration in their catchment area, and prevent the regulator from discouraging or stopping such investments.

Brought up, and read the First time.

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

The Committee divided: Ayes 6, Noes 11.

Division No. 12]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 6

Reporting of impact of the Act on pollution

"The Secretary of State must publish—

(a) within three months of the passing of this Act, an assessment of the expected impact of the Act on the overall level of pollution caused by the activities of relevant undertakers; and

(b) three years after the passing of this Act, an assessment of the actual impact of the Act on the overall level of pollution caused by the activities of sewerage undertakers."—*(Dr Hudson.)*

This new clause would require the Government to publish its expectations as to the impact of the Act on pollution caused by water and sewerage undertakers and an assessment of the actual impact of the Act on such pollution.

Brought up, and read the First time.

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

New clause 6 is a fair and reasonable request to strengthen the Bill. Quite simply, it would do what it says on the tin by requiring the Government to report on the impact that they expect the Bill to have on water pollution and on the actual and verifiable effects that the Bill, when it becomes an Act, will have on our water quality.

It is completely agreed that accountability for addressing the quality of our water system should be at the heart of how we tackle water pollution and related issues. That should be true of every actor involved: not just the water companies, but the Government whose regulation they are expected to abide by. We cannot rightly say on the one hand that water companies should be expected to meet criteria to restore public trust, while suggesting on the other hand that the Government should not likewise work to be accountable and to uphold public trust on the issue.

Furthermore, the new clause feeds into the basic fact that ensuring that our water systems are being improved is not a one-time event that can be magically resolved with a single piece of legislation every now and then. It must be a consistent focus for the Department for Environment, Food and Rural Affairs and for all the agencies under whose remit the issue falls.

The work of agencies such as the Environment Agency is vital. I pay tribute to its hard work, not least when flooding hits, as we have discussed. We should not underestimate those on the frontline who do so much to keep people safe, to make sure that the environment is protected and to ensure that the quality of people's water is safe and suitable.

To improve our water systems, however, the buck must stop not with the EA, but higher up: with DEFRA and the Government. The new clause would help to provide that accountability. As in our earlier discussions regarding the online publication of implementation reports, if the measures set out in the Government's approach do not meet their targets, for legitimate reasons, the Government would have a chance to lay out exactly why not and to give a justification for their findings on the Act's impact. Our new clause would provide a natural mechanism to ensure that long-term planning and reviews of the Act are taking place and that the Government are looking at water pollution and the actions that the water industry has taken or needs to take to further improve the situation.

We should not shy away from the fact that the new clause would build on the previous Government's efforts to look at that point. Our plan for water set out a 25-year plan to ensure that our water companies were investing in our water system for the long term, not just while the issue was in the headlines. Again, that is why our new clause matters: because it would ensure the continued focus of Governments of all parties on the protection of our waters. That matters all the time, not just when it becomes a political or media issue.

We must also consider the evolving factors that affect the water industry and its ability to reduce water pollution. The flooding that we have seen in the past weeks has highlighted once again that our country is facing more regular extreme flooding events. In simple terms, more flooding means more excess groundwater and surface water that can enter the network, which creates more of a risk that sewerage overflows will be required to maintain our water systems.

With such events becoming more unpredictable in their timing and yet more commonplace because of extreme weather events and the effects of climate change, looking at the evolution of issues such as this will be crucial to ensuring that any measures to improve overflows and water quality are successful in the long term. We need to make decisions now that have an impact in the future, because in the long term we all want water quality to improve and to be protected for future generations. To achieve that, we need long-term and consistent attention and reflection on the policies being enacted and their effects. The new clause would help to facilitate that.

Once again, transparency is not a hindrance; it helps everybody involved in managing the quality of our water system. Trust can be maintained only if everyone tries to do what is right and the Government, of whichever political party, are no exception. We need to be trying to do the right thing. Given that, His Majesty's Opposition

[Dr Hudson]

believe the new clause to be a highly reasonable and fair amendment to the Bill, and we hope that the Minister might support it.

Emma Hardy: I will quickly note the constructive and nice way in which the hon. Member for Epping Forest is taking part in these debates. I also want to come up with more dentistry analogies, so I will be thinking of those as we keep going.

The Bill will drive meaningful improvements in the performance and culture of the water industry. In line with that, it will introduce many measures to disincentivise pollution. For example, it will provide Ofwat with legal powers to ban bonuses where companies fail to meet standards on environmental performance, financial resilience, customer outcomes or criminal liability. The Bill will also enable automatic and severe fines, allowing regulators to take swift action. It will enable the public to hold companies to account through a new requirement for water companies to produce annual reports on pollution incident reduction. Collectively, these measures will strengthen enforcement, improve transparency and disincentivise water company pollution.

The Committee and the wider public are able to see a more detailed assessment of the expected impact of the Bill via the published impact assessment. I reassure the Committee that my Department is committed to post-legislative scrutiny of primary legislation. The Department for Environment, Food and Rural Affairs will work with the cross-party Select Committee on Environment, Food and Rural Affairs to assess the impacts of the Act three to five years after Royal Assent as part of the standard practice for all new legislation. I welcome that scrutiny.

The Government therefore cannot accept new clause 6. Although we agree on the importance of understanding the impact of the Bill on environmental pollution, adding further reporting requirements to the Bill would be duplicative and unnecessary.

Dr Hudson: I thank the Minister for her constructive response, but the Opposition still feel that this is an important new clause in relation to the impact on water pollution, so we would like to proceed again to a formal vote.

The Chair: It is votes à gogo this afternoon.

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

The Committee divided: Ayes 6, Noes 11.

Division No. 13]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 7

Abolition of the Water Services Regulation Authority

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

(2) For section 1A (Water Services Regulation Authority) substitute the following—

'1A Abolition of the Water Services Regulation Authority

(1) The body corporate known as the Water Services Regulation Authority (in this Act referred to as "the Authority") is abolished.

(2) All references to the duties and functions of the Authority in this Act or any other enactment are null and void."

(3) Omit Schedule 1A (The Water Services Regulation Authority)."—*(Tim Farron.)*

This new clause abolishes Ofwat.

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 20—*Review of the water industry—*

"(1) The Secretary of State must consider as part of any review into the water industry the following—

(a) the functions and performance of the Water Services Regulation Authority, and the case for its abolition;

(b) whether a public benefit company could better perform the role of current undertakers.

(2) The consideration under subsection (1)(a) must analyse the case for replacing the Water Services Regulation Authority with a new corporate body known as the Clean Water Authority, with the following general duties—

(a) to issue guidance to undertakers, and enforce the implementation of that guidance, requiring undertakers to meet excellent standards concerning—

(i) the provision of clean drinking water,

(ii) the maintenance of bathing waters of excellent quality,

(iii) the maintenance of lakes, rivers and beaches of high ecological status,

(iv) the conservation of water resources, and

(v) the charging of reasonable water bills;

(b) to issue rules prohibiting a relevant undertaker from giving to persons holding senior roles performance-related pay in respect of any financial year in which the undertaker has failed to meet any relevant targets set by the Authority;

(c) to swiftly revoke the licence of water companies that have performed poorly, as defined by the Authority, with particular regard to the standards set out in paragraph (a);

(d) to require relevant undertakers to have arrangements in place for environmental experts to be members of a board, committee or panel of the undertaker;

(e) to issue stringent and legally-binding targets concerning sewage discharges affecting bathing waters and highly sensitive nature sites;

(f) to mandate that undertakers publish publicly-accessible live time data on the recorded volume, duration and number of sewage spills on a single site maintained by the Authority;

(g) to perform unannounced inspections with regard to the duties under this subsection."

Tim Farron: I will try to be brief and speak to both new clauses. For the Committee's information, we will not seek to press new clause 7 to a vote, but we will seek to press new clause 20.

I know that the Minister will talk about the Cunliffe review as the time when these things will be considered. Nevertheless, we have all spent enough time in opposition to have come to some conclusions before this Parliament. Even if nothing else had happened beforehand, there was Ofwat's signing off of the bill increases last December. This is a 21% increase in bills, and that is 14 times larger than the current inflation rate. In my part of the world, it is a 25% price rise. As I said earlier, 11% of the bills being paid by my constituents will go to finance company debt.

We have seen bonuses signed off regularly despite shocking performance. We see Ofwat as a failed regulator with a culture and presumption of non-intervention. Nearly four years on, Ofwat still has not collected £168 million-worth of fines. We see a culture of weakness and an organisation that the water companies consider to be weak and for which they do not have respect. It is partly the fault of Ofwat and its leadership, but it is also that the powers given to it are not sufficient.

2.30 pm

It is also about the balkanisation and fragmentation of the regulatory framework, with the EA, the Drinking Water Inspectorate and Ofwat. We have a proposal in new clause 7, with more detail in new clause 20, to abolish Ofwat and set up a clean water authority that would merge the regulatory powers of the Environment Agency and Ofwat. In my constituency, I see that as particularly relevant.

By the way, despite what I have said about the culture of Ofwat, the people working in the sector deserve our praise and thanks. Those people work very hard with limited resources and are doing really important work for us. That includes people on the frontline in our water companies. I worry very much about the demonisation of everybody working in the water industry, which is not fair or accurate. I probably speak for everybody when I say that we want to pay tribute to those people. It is not their fault that the system is broken.

In my constituency, I see the distraction in the Environment Agency. We had Storm Desmond more than nine years ago now. The flood defences are being built in Kendal, overseen by the Environment Agency. Meanwhile, eight miles up the road, we have Windermere, which is a centre of great concern because of pollution there. There are only so many things that a small group of people can keep in their head at any given time.

Catherine Fookes (Monmouthshire) (Lab): I think we can safely say that Ofwat is already under review. In my mind, it has until 2030 to deliver everything that we want. We have an independent commission coming up, so I would say that the hon. Member's new clause is not necessary. We should let the commission report and say what extra steps are necessary.

Tim Farron: I thank the hon. Member for her very reasonable intervention. In the extremely unlikely event that the Committee rejects my new clause today, we will of course submit our ideas to Sir Jon Cunliffe and take part in the review, which we welcome. Nevertheless, my point is that the division of responsibility and division of attention, particularly in the Environment Agency as a regulator dealing with flooding and so on, means that it does not have the resource; I know that we will talk about that later. Also, the fact that the regulatory set-up is so fragmented means that the water companies simply run rings around the various regulators.

One final point arising from new clause 20 is that we must outline a potential way forward. We are not convinced at this stage that renationalisation would be affordable or wise. I am not saying that I am opposed to it in principle; it just does not seem wise at this stage to do something that will cost the taxpayer a vast amount and put money in the hands of people who have fleeced us once already. Unless people can come up with a different model, that does not feel like the right way of doing it.

At the same time, the current model of ownership has clearly failed. We suggest a not-for-profit, a community benefit company model or looking at mutuals, but there may be a way of migrating the system towards that model of ownership via what happens at the end of the administration.

Jerome Mayhew: The hon. Member says that privatisation has demonstrably failed. I challenge him on that. There are elements of privatisation that have failed: the refinancing, the imposition of debt and the removal of money through dividends in the noughties and, I am sorry to say, between 2010 and 2015. That is a failure, but I hope that the hon. Member accepts that privatisation as a whole has delivered more than £160 billion of capex investment into the industry, which simply would not have happened if it had been up against schools, hospitals and the other calls on the public purse.

I know that I am straying too far, but subsection (1)(b) of the new clause refers to

"whether a public benefit company could better perform the role of current undertakers."

As I am sure the hon. Member will know, we have an example of that: Welsh Water. Is he able to point to a single metric by which Welsh Water has outperformed its private sector comparators?

Tim Farron: I am not wedded to one model or another. Having said all that, water is blindingly obviously a natural monopoly and should not have been privatised in the first place. Can I give one metric? Yes. Of the 16 water companies, Welsh Water is among the minority that are financially sound. Performance is not necessarily and always a function of ownership absolutely: it is a combination of ownership, culture and regulation.

We are simply saying that we should look at migrating the system to this model. Let us bear in mind that for all the additional money we can say we leverage in through private investment, a vast amount of money leaks out of the system to shareholders, often through holding companies overseas and in bonuses, which could otherwise have been spent internally.

New clause 7 is an attempt to come up with a constructive alternative. We would abolish Ofwat, take the water regulatory powers off the Environment Agency, create a single regulator in the form of the clean water authority and seek to migrate ownership within the water industry towards a mutual and community benefit model. As I say, we will not push new clause 7 to a vote, but we will seek a vote on new clause 20.

Dr Hudson: As we have gone through the Bill, there has been a lot of cross-party consensus on trying to get measures in place. I respect the efforts of the hon. Member for Westmorland and Lonsdale and the third party in trying to improve the situation, not least in such matters as nature-based solutions. From the official Opposition's perspective, however, the hon. Member's new clause 7 is perhaps an overly eager response. Throwing out Ofwat completely at this juncture when we want it to do its regulatory job would create more problems than he wants, whatever the intention of the new clause.

I know that the Liberal Democrats have argued that steps should be taken to set up a new regulator in some way. New clause 7 does not really introduce a specific requirement or measures to enable a transition from Ofwat to the purported new regulator. If we were to proceed with the new clause, we would simply be left in limbo and in the lurch with regard to regulation of the industry. It is not that we believe that the situation is perfect: we have debated the powers of the Environment Agency and Ofwat, and we have agreed that things are not perfect with the water industry and regulators. We have all heard at first hand about issues that we are not happy with, such as executives moving into higher-paid roles within water regulators, of which we heard evidence in the EFRA Committee in the last Parliament.

The hon. Member for Westmorland and Lonsdale generously shouted out the people who work in Ofwat and the Environment Agency, but although he will not push new clause 7 to a vote, he still talks about abolishing Ofwat. In doing that, we would be left with a vacuum while a new regulator was set up—something we can ill afford when we all agree that there is so much work to be done. A new regulator could not be established overnight; it could take months or even years while structures were being established, the personnel needed to do its everyday work were appointed and the like. Let us be honest that making such a move would not come without financial cost.

Even if that money could be raised through Government resources—ultimately, that means taxpayers' money—we would be using it to establish a completely new infrastructure for the water regulator, rather than trying to enhance and give more power to the regulator we already have. In addition, we have to remember that its role as a regulator affects consumer bills, too. While none of us wants to see water bills rise for any of our constituents, particularly in difficult economic times, bills would have only been higher if a regulator had not been there at all. If we are left with a vacuum until a replacement mechanism is put in place, and if that takes a lot of time, do we really want to run the risk of unregulated companies raising prices even further in the meantime?

We are in agreement that the status quo has not been good enough when it comes to water companies, but progress has been made and continues to be made in that seismic task. Water companies are starting to face the financial penalties for their failures to both people and our precious environment. For example, back in November, Wessex Water was ordered to pay £500,000 for the loss of thousands of fish because of a sewage pumping failure. That very same month, Thames Water was fined over £18 million for its failure to obey rules introduced on the spending of dividends. Those incidents are not good news stories, and we should never say that they are, but they are signs that the mechanism is working. Ofwat is holding the companies to account and trying to act—it is trying to use the teeth that are there.

There are early signs that giving the regulator those teeth—which we have heard a lot about in this Committee—means that there are clear consequences for the water companies that break the rules that have been implemented. That is not the end of the story, but it is the start of the journey, as we try to hold those water companies to account. As I have also mentioned, the pathway for inspections into water company activity is increasing. It is the whole approach—from incident, to investigation, to penalty—that needs to be examined and reviewed in order to drive change, and that is what has been done and what this legislation is trying to take forward.

Although things are not perfect, we need to allow the existing legislation, as well as this new legislation, to take effect so that the regulator can get on and do its job. We should not put things in jeopardy by completely abolishing things. I note that the Liberal Democrats have tabled this new clause, and they are not pushing it to a vote, but I want to put on record the Opposition's reservations about what they are suggesting.

Emma Hardy: I thank the hon. Member for Westmorland and Lonsdale once again for his thorough consideration of the Bill. I will turn first to new clause 7, which was tabled in his name and which proposes the abolition of Ofwat. As the hon. Member will be aware, and as he already mentioned in October '24, the UK and Welsh Governments launched the independent commission to fundamentally transform how our water system works. The commission, led by Sir Jon Cunliffe, will be broad-ranging and will make recommendations in line with eight objectives, which include specific objectives considering the role, structures, responsibilities and powers of the regulator.

It is right that the commission, rather than this Water (Special Measures) Bill, is the vehicle for considering the water regulator's roles and responsibilities. This Bill focuses on strengthening the powers of the regulators to drive improvements in performance. The Bill will not, and cannot, fix all the sector's problems. The commission is the right place to consider the long-term future of the regulatory system and the role of the regulator. Indeed, I would argue that the Labour Government want to move away from sticking-plaster politics to fundamentally reset and transform the problems facing our country for good. I hope therefore that the hon. Member for Westmorland and Lonsdale is content that this new clause is unnecessary.

New clause 20 was also tabled by the hon. Member for Westmorland and Lonsdale. It sets out requirements for a water review that is undertaken by the Secretary of State. I think we are all agreed that we have seen years of water company underperformance, and we all agree that there is a clear need to fundamentally reset the water sector. Although I understand that the hon. Member is seeking to ensure that any review of the water sector is sufficiently thorough, the Government are confident that the commission's scope is broad and comprehensive. Sir Jon will be supported by a range of experts from the regulatory, environment, health, engineering, customer, investor and economic sectors to effectively examine this sector as a whole, including the regulatory framework.

By setting out considerations for a water review in primary legislation, we risk prejudicing or pre-empting the outcome of the current commission, as well as its independence. The sector is facing complex challenges that require the support of customers, environment groups, investors and companies alike to address. An independent review is best placed to find solutions to those challenges, and it is critical that its independence is preserved. The commission will report its findings in summer 2025, and the Government will consider them in full before outlining the next steps. I therefore hope that the hon. Member for Westmorland and Lonsdale understands that to avoid duplication and, importantly, maintain the independence of the commission, the Government will not accept the new clause.

2.45 pm

Tim Farron: As I said earlier, we will not press the new clause to a vote at this stage, but we will press new clause 20 later. Notwithstanding all that has been said about Sir Jon Cunliffe's review—we want to proactively engage with it, and believe it has great potential to do good—there is no harm in proposing solutions at this stage, and that is what we seek to do. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 8

Duties of water regulators for clean water

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

(2) In section 2 (General duties with respect to water industry)—

(a) omit paragraph (2A)(c);

(b) in subsection (2B), omit from 'by' to the end of the subsection and insert—

'ensuring—

(a) clean drinking water,

(b) bathing waters of excellent quality,

(c) lakes, rivers and beaches of high ecological status,

(d) the conservation of water resources, and

(e) reasonable water bills.'

(3) In section 3 (General environmental and recreational duties), in subsection (2), before paragraph (a) insert—

'(aa) a requirement to achieve excellent quality of all bathing waters, lakes, rivers and beaches of high ecological status, and elimination of sewage, waste and other pollution so far as reasonably practicable from all waterways;'".—*(Tim Farron.)*

This new clause would amend Ofwat's consumer duty to prioritise clean water and bill levels instead of commercial competition.

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

The new clause is similar in scope to the last one, and I do not want to detain the Committee long. The clause refers to the duties of the water regulator under the Water Industry Act 1991, and lists duties against which the regulator would be able to mark water companies to see whether they perform. The duties would be to ensure,

"clean drinking water…bathing waters of excellent quality…lakes, rivers and beaches of high ecological status…the conservation of water resources, and…reasonable water bills."

Interestingly, those are significantly more detailed than the 1991 Act currently provides. We are seeking to beef up Ofwat's powers so that water companies are marked against these higher and more comprehensive standards. We do not think the clause should be controversial, and will seek to push it to a vote.

The Chair: The Clerk keeps reminding me that—I think because we have a lot of new Members in the room; Tim Farron is not guilty of this—people keep saying "you", which is a cardinal sin. You have to say "the hon. Member", because "you" is me, and I am not doing anything except sitting here saying the "Unlock the doors" stuff.

Emma Hardy: May I say—often said, not always meant—that it is indeed a pleasure to serve under your chairwomanship, Dr Huq? I thank the hon. Member for Westmorland and Lonsdale for the intention behind new clause 8. Ofwat has a range of primary duties, including protecting the interests of consumers, ensuring that companies properly carry out their functions and ensuring that companies can finance the delivery of their statutory duties. Removing Ofwat's duty to ensure that companies are appropriately financed would put at risk companies' ability to deliver for customers and the environment. The new clause also seems to contradict the others tabled by the hon. Member. For example, new clauses 19 and 23 seek to increase regulation around water company financial resilience, but new clause 8 seems to aim to reduce it.

Ofwat must continue to ensure that water companies can finance the proper carrying out of their statutory obligations, in line with the outcome the new clause seeks. Ofwat already has a primary duty to seek to ensure that companies deliver their statutory obligations, including environmental obligations. Ofwat's existing duties, combined with the strengthened power for regulators provided by the Bill, will therefore drive the desired outcome sought by the new clause and ensure that the environment is at the heart of water companies' activities. That is something on which we all agree.

In addition, the independent commission on the water sector will look at wider long-term reform of the water sector, including considering and clarifying the role of regulators, and we do not wish to prejudice the outcome of the commission by implementing the new clause. I hope that the hon. Member is reassured that Ofwat's existing core duties capture the intent behind it, and that the independent commission will consider the duties of Ofwat more broadly. For those reasons, we will not accept the new clause.

Tim Farron: I thank the Minister for her response. The new clause aims not to replace the business side of Ofwat's regulatory framework and powers, but to supplement it. As I said earlier, it is odd that in the broadest sense—I know that this is not entirely true—Ofwat looks at the business side of the water industry and the EA looks at the environmental side. They are clearly one and the same, or they ought to be. We are simply trying to draw these things together. This is not about reducing Ofwat's powers on one side in order to beef them up on the other; this is about additionality. We think it is entirely consistent.

[Tim Farron]

I hear the Minister—if I were at that crease, my straight bat would be "Sir Jon Cunliffe" every single time. I get that, but surely, there has to be some point to this water Bill, and we are trying to push the Government to strengthen the regulators. We debated earlier the extent to which Ofwat should exist or not, but if we take it that the Government have a majority and therefore that Ofwat is likely to overcome my time on this Committee, what can we do to make it a more holistic regulator with more power and scope? We therefore think there is a very strong case for new clause 8.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 14]

AYES

Mayhew, Jerome
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 10

IMPACT OF THE ACT ON THE ENVIRONMENT AGENCY

"The Secretary of State must, within 12 months of the passing of this Act—

(a) review the impact of this Act on the Environment Agency; and

(b) consider whether the Environment Agency requires any additional resources to meet the additional requirements placed upon it by this Act."—*(Tim Farron.)*

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

The Environment Agency will have more powers as a consequence of the Bill. There will be greater regulation and there will be an impact on the Environment Agency as an organisation. It is my privilege to represent large chunks of the English Lake district. We have an agency full of really good people—dedicated and qualified professionals, many of whom are from and love the area, and yet they already find themselves overwhelmed with their responsibilities. I made an allusion earlier, but it might help to give a sense of how the organisation copes with its challenges.

We are still in the process of having walls built around the River Kent to protect the town of Kendal and its businesses from a repeat of the devastation in December 2015, when something like 6,000 of my residents lost their homes and we saw just under 1,000 businesses devastated. The Environment Agency is looking after that, and just up the road are Windermere, Coniston, Ullswater and the other lakes, rivers and coastal areas of our beautiful part of the world. We are already stretching the capacity of those people, to say the least, and we are beginning to see that in real time, as we try to deal with sewage spills in the tributaries that lead into Windermere. We see many such failures, and although the Environment Agency is trying to find the time to regulate, observe and scrutinise them, it is understandably distracted by the huge civil engineering project that it is overseeing in Kendal to protect the town from flooding.

This is about paying tribute to people in the EA, but also recognising that they are already under enormous pressure. The Minister has said that there will be 500 new members of staff at the Environment Agency. That is one answer to the question. We are trying to recognise that that is still only one person per English constituency. We need to therefore test the extent to which the Environment Agency has the capacity to do its job, because part of the problem is insufficient regulatory powers, and the other is agencies without the resource to police the powers that they already have. This aims to be a helpful new clause. It recognises that the Government seek to and will do good through the Bill, but we need to ensure that the agencies there to deliver that good have the capability to do so.

Emma Hardy: I thank the hon. Member for suggesting new clause 10 and agree it is important to understand the impacts of the Bill on the Environment Agency. I echo remarks made by all Members on the wonderful work that the Environment Agency does, particularly those who are working in the frontline and those who were working on new year's day trying to support communities that had been flooded. I also pay tribute to the Wildlife and Countryside Link and to all the environmental groups, organisations and charities that have shown an interest in the Bill. Their tireless campaigning is probably what has led to many of us being here to discuss it today.

I reassure the hon. Member for Westmorland and Lonsdale that the current provisions in the Bill are sufficient to do what he wants. Through clause 10, the Environment Agency will be able to recover costs for the full extent of their water company enforcement activities, including for new provisions in the Bill. This will allow the Environment Agency to fully fund their water industry enforcement functions and meet the requirements of the Act, ensuring that polluters can be held to account for breaches of their obligations.

Environment Agency funding will continue to be closely monitored by DEFRA as a sponsoring Department, ensuring that the regulator is fully equipped to carry out its duties and functions effectively and to deliver for the public and the environment. The Environment Agency is already recruiting up to 500 additional staff for inspections, enforcement and stronger regulation of the water industry, increasing compliance checks and quadrupling the number of water company inspections by March. This increased capacity is funded by £55 million a year through increased grant in aid funding from DEFRA and additional funding from water quality permit charges levied on water companies.

I hope the hon. Gentleman is reassured that these measures will ensure that the Environment Agency consistently has the resources it needs to fund its regulatory activities. As such, the proposed new clause is unnecessary and therefore I ask him to withdraw it.

Tim Farron: I am not entirely reassured but I am partially at least and we have no desire to push this new clause a vote. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 11

DUTY TO PUBLISH MAPS OF SEWAGE CATCHMENT NETWORKS

After section 205 of the Water Industry Act 1991 insert—

"**205ZA Duty to publish maps of sewage catchment networks**

(1) Each relevant undertaker must publish a map of its sewage catchment network.

(2) A map published under this section must illustrate any relevant pumping stations, pipes, and other works constituting part of the undertaker's sewerage network.

(3) Maps published under this section must be published within 12 months of the passing of this Act, and must be updated whenever changes are made to the sewage catchment network or the components listed in subsection (2).

(4) Maps published under this section must be made publicly accessible on the undertaker's website."—*(Charlie Maynard.)*

Brought up, and read the First time.

Charlie Maynard: I beg to move, That the clause be read a Second time.

This is a very nuts and bolts thing. I believe we are here to try to make a better water sector. I will rattle through the clause, which would mean that each relevant undertaker

"must publish a map of its sewage catchment networks",

and that maps published under the provision

"must illustrate…pumping stations, pipes and other works constituting part of the undertaker's sewerage network…must be published within 12 months of the passing of this Act…must be made publicly accessible on the undertaker's website."

I am a district councillor as well as an MP and in my ward of Standlake Aston and Stanton Harcourt, parish councillors, members of the public and campaigners have grappled for information and failed to find it. Many people do not know how to do a freedom of information request. This means that people do not know where the sewage is going from and to, and that leads to confusion and means that the problems are further away from us.

Putting these maps in the public domain, making them easily accessible and making sure that not only the pumping stations and the treatment works but the pipes connecting them all—which are not automatically clear—are always in the public domain and always easily accessible means that we are getting to a solution quicker. That is all this new clause is about. I am probably going to get a response saying, "We have to wait for the water commission", in which case I would express some disappointment, because these things do not cost any money and they mean we move quicker to solve problems. I would really like a culture of, "If that's a good idea, let's do it".

Emma Hardy: I understand the intent of new clause 11. The location and health of a water company's assets is key to ensuring their maintenance and improvement. Under section 199 of the Water Industry Act, companies are required to keep records of the locations of many of their sewers, natural drains or disposal mains. Members of the public are able to request this information from water and sewerage companies in map form. Furthermore, the Environment Agency hosts a public register of information relating to all sites and assets permitted under the environmental permitting regulations. As of 1 January—this month—all water companies are required to publish discharge data from their storm overflows. Water UK's centralised map shows that near real-time data for water companies across England in a publicly accessible format.

3 pm

Clause 3 extends those requirements to publishing information on the frequency and duration of discharges from emergency overflows—again, I refer Members to the fact sheet that we have produced, which is available in the Committee Room. That is another big step towards information on all areas of the sewerage network that are discharging sewage being publicly available, creating world-leading transparency.

While I welcome the spirit with which the hon. Member for Witney makes his proposal, it would be impractical to map all the sewers installed pre-1989 in only 12 months as required by the new clause. To do so on that timescale would impact the £105 billion of investment and associated available resources to improve the sewer networks in price review 2024. Although I have no wish to revisit the debates that we had the other day, there is always a balance between the need for transparency and the need for action. In our debates on previous clauses, the hon. Member has mentioned his desire for action and asked why we do not move more quickly, and at the same time he expresses a desire to monitor and map more, which would impact our delivery of the required action.

The hon. Member will be aware that the independent commission—I am not just playing this with a straight bat; I think that is the best way to deal with the fundamental reset of the water industry—will look at transparency in the sector. However, I return to the point that there is always a balance to be struck between being as transparent as possible and getting on with fixing the problem. I said that I do not want to become the Minister who monitors everything and does not deal with the problem. I want to deal with the problems. The commission is the best avenue to explore the limitations of the current approach to asset mapping and the best way to achieve the outcomes the hon. Member is seeking, including, of course, being the best way to take advantage of new and innovative technologies.

While we agree that transparency in the sector is key to real change, the new clause would not build greatly on the existing requirements in section 199 of the Water Industry Act. As such, the Government cannot accept it.

Charlie Maynard: Frankly, it is pretty worrying that we do not have maps of sewer networks around the country. That is a pretty fundamental thing that we would want a water utility company to have. I acknowledge that they do not, though, and nowhere in the new clause am I proposing that the network is mapped. I am simply saying that we should take the existing maps and get them into the public domain by default. Currently, it is necessary to make a freedom of information request to access them.

I suggest that the Minister might be being a little disingenuous in saying, "We're just being asked to monitor, but we want to act." The Government can do both. It is

[Charlie Maynard]

not the case that if we are monitoring, we are not acting; there is plenty to be acting on and plenty to be monitoring. Also, when I hear, "If we put in flow monitors then we would need to cover the quality," I think, "Yes—all of it. Let's do it now." It is not an either/or, and I do not like the occasional suggestion that there may be an either/or.

Having said all that, I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 12

ENVIRONMENTAL DUTIES WITH RESPECT TO CHALK STREAMS

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

(2) After section 4, insert—

'4A Environmental duties with respect to chalk streams

(1) Where a relevant undertaker operates, or has any effect on chalk streams, that undertaker must—

(a) secure and maintain high ecological status of such chalk streams, and

(b) clearly mark chalk streams which are of high ecological status.

(2) In this section "high ecological status" relates to the classification of water bodies in The Environment (Water Framework Directive) (England and Wales) Regulations 2017.''"—*(Tim Farron.)*

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 27—*Environmental duties with respect to national parks*—

"After section 4 of the Water Industry Act 1991 insert—

'4A Environmental duties with respect to national parks

(1) Where a relevant undertaker operates, or has any effect, on land within national parks or the Broads, that undertaker must—

(a) Secure and maintain "high ecological status" in the water in these areas by 2028;

(b) further the conservation and enhancement of wildlife and natural beauty;

(c) improve every storm overflow that discharges within these areas by 2028;

(d) reduce the load of total phosphorus discharged into freshwaters within these areas from relevant discharges by 2028 to at least 90% lower than the baseline as defined in Regulation 13(1) of the Waste Water Targets set under the Environment Targets (Water) (England) Regulations 2023.

(2) A relevant undertaker must be put into special administration, and not be eligible for a further licence, if it fails to—

(a) demonstrate adequate progress each year;

(b) meet the targets in subsection (1).

(3) Within one year of the day on which the Water (Special Measures) Act 2025 is passed, the Secretary of State must lay a report on the undertakers' implementation of the environmental duties in subsections (1) and (2) before Parliament.

(4) Following the first report being published under subsection (3), a progress report on implementation must be included in the annual environment improvement plan, issued under section 8 of the Environment Act 2021.

(5) The Secretary of State must by regulations make provision requiring an undertaker to achieve bespoke objectives for specific iconic and the most culturally and ecologically significant waterways, including, where appropriate, complete removal of sewage discharge from the undertaker's infrastructure.

(6) 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.

(7) In this section—

"the Broads" has the same meaning as in the Norfolk and Suffolk Broads Act 1988;

"land" includes rivers, lakes, streams, estuarine and other waterways;

"High Ecological Status" means the classification of water bodies defined in Regulation 6 of The Water Environment (Water Framework Directive) (England and Wales) Regulations 2017.''"

This new clause would require water companies to adhere to and deliver stronger environmental objectives and duties within National Parks and the Broads, so as to protect waters across National Parks from sewage. The new clause would give the Secretary of State regulation-making power to extend protections to specific bodies of water, such as Lake Windermere.

Tim Farron: New clause 12 is a short, and I hope consensual, measure relating to chalk streams, which we have already discussed, and new clause 27 deals more widely with the powers of national parks.

Some 85% of all the chalk streams on planet Earth are in the south of England. The impact that that has on the biodiversity of this part of the world—and more broadly—is hugely significant, creating pure, clean water from underground chalk aquifers and springs, which is ideal for wildlife to breed and thrive. They make a vital contribution to global biodiversity, providing natural habitats for many plants and animals. They will exist in many Members' constituencies—not in mine, but, as a resident of planet Earth, I still reckon they are very important. I therefore think that they are worthy of specific attention and regulation in this Bill, so I commend new clause 12 to the Committee.

New clause 27 makes specific reference to powers regarding—and the importance of—national parks. It is my great privilege to represent a constituency with two of them: the dales and the lakes. We recognise the importance of natural national landscapes, which, of course, include areas of outstanding natural beauty, as they were known until relatively recently. We recognise many of the worthy inclusions and mentions in the Glover review for reform within our national parks—I remember meeting Julian Glover as he began that review. I agreed with much that he recommended, and was disappointed that the previous Government did so little with his recommendations.

Jerome Mayhew: To save everyone's time, I will not make a speech on this, but I am concerned about new clause 12 because it confers an absolute duty regarding chalk streams. I represent a constituency with several chalk streams, including the Stiffkey, which goes through Walsingham. The new clause says:

"Where a relevant undertaker operates, or has any effect on chalk streams, that undertaker must—"

so it is a direction—

"secure and maintain high ecological status of such chalk streams".

We all want that outcome, but the problem is that water undertakers are not the only ones with negative impacts on chalk streams, yet the new clause gives them the requirement, which is absolute in its terms. We know that farming, and increasingly road detritus, also affects chalk streams, so how does the hon. Member square that circle?

Tim Farron: The hon. Member makes a very good point, and we will later come to a new clause that we tabled about planning, because undoubtedly development and industrial activity also have an impact. However, this goes back to my original comment about the importance of singularity in regulation; while we recognise that the water companies may not be entirely responsible, we think that the regulator should have a responsibility across the piece.

However, the hon. Member makes a good point. We are not planning to push new clause 12 to a vote, but we are keen for the Minister to look at what we have said—and indeed what the hon. Member and his colleagues have said previously in Committee—about the importance of chalk streams, and for them to be included on the face of the Bill.

New clause 27 relates particularly to national parks. Every single lake, river and stream in England's national parks—every single one—is polluted in one way or another. There has been no regard by water companies for national park status in this process. It is not that the lakes, rivers and waterways outside national parks do not matter—they absolutely do, and a vast part of my constituency is not in either of the national parks—but nevertheless, the lack of a higher bar for those in our national parks demands the question: what is the point in the national parks? We need to make sure that that stipulation is included. New clause 27 would therefore force water companies to specifically reduce pollution in those precious places.

To talk about my own community, United Utilities' negligent treatment of Lake Windermere has been a standout example. Over the two years between 2021 and 2023, 165 hours of illegal sewage was pumped into Windermere, England's largest lake and the centre of our hospitality and tourism economy, with 7 million visitors every year to that part of the Lake district alone, out of the 20 million who visit the lakes overall.

For the record, I should say that I still swim in Windermere and I do not think I am a complete lunatic, so it is not an open sewer by any means. Nevertheless, for many people, the reality is that so many of the 14—I think—assets that United Utilities owns on or around the tributaries of Windermere, or its connecting lakes, are not fit for purpose. I am thinking about the pumping station at Sawrey, for example, or the water treatment works at Ambleside. It is unconscionable that we have these assets, many of which are ageing and under-invested in, and the water company, United Utilities, failing to take action. Windermere is known globally and is part of Britain's national brand. If its reputation becomes unfairly sullied, it will hit my constituents' revenues.

Jerome Mayhew: I am afraid I have to make the same point about new clause 27. Proposed new section 4A(1)(a) contains an absolute duty on the undertaker, which "must"—so this is a direction—secure and maintain high ecological status, and that has to be achieved within three years. I question the practicality of that.

I am also keen to highlight the fact that proposed new section 4A(7) includes the broads, which I am lucky enough to represent. The broads are affected by all sorts of factors: we have a high degree of recreational use, with boating as well as angling, and it is a farming environment, with grazing in the marshes, particularly down in the Halvergate marshes. Yes, Anglian Water has affected water quality negatively—as well as in some positive ways, to give it credit—but it would be a travesty to place an absolute duty on Anglian Water when it has only partial control of the answer, and over a three- year timeframe. Does the hon. Gentleman agree that that is unrealistic?

Tim Farron: I do not think it is unrealistic—we need to be ambitious—but I absolutely accept that there are multiple sources of pollution.

I promise to be brief in talking about my patch, which is not of interest to everybody. It is key to point out that pollution in Windermere generally comes from three sources. It is true that agricultural run-off is an issue but, sadly, the policies of this Government and the previous one, over a period of time, have effectively destocked the fells, meaning run-off has a massively reducing impact on Windermere and the broader catchment.

The bigger two problems are the 14 assets that United Utilities has either on or around the lake or its tributaries. There is also the best part of 2,000 septic tanks around the lake or its tributaries. Unlike septic tanks and, indeed, package treatment works in many rural communities, these are not scattered all over in the middle of nowhere; they are in a ring around the lake, most of them within yards of a mainline sewer. It is, then, entirely possible for the water companies, while gaining significant income benefit as a consequence, to mainline a massive proportion of the sources of sewage spillage into the lake, via the septic tanks and the package treatment works being brought into the system.

The new clause is of course slightly selfish, but it is really important that we seek to maintain national parks right across the country at the highest possible bar, and therefore make sure they set an example for others to follow. We will seek to press new clause 27 to a vote.

Emma Hardy: I thank the hon. Member for Westmorland and Lonsdale for tabling the new clauses. It is always nice to have a conversation about the beautiful chalk streams and national parks in our country.

New clause 12 would have significant implications for existing legal frameworks and operational delivery, and would not necessarily result in environmental improvements for chalk streams, for which there are already established objectives to conserve and restore their ecological health. Under the water environment regulations, the default objective is to achieve good ecological status for all chalk streams in England. Good ecological status is a high standard that represents a thriving aquatic environment with only minor disturbances from natural conditions.

High ecological status equates to water that is almost entirely undisturbed from its natural conditions. If we set high ecological status as the objective for all chalk streams, overriding cost-benefit assessments, it would have wide-ranging impacts on future planning developments and human interaction with chalk streams, including by restricting farming and fishing. Any planning for housing developments that would have even a minor impact on the water quality of chalk streams would be restricted

[Emma Hardy]

without impractical and disproportionately costly mitigation measures. The new clause would place achieving that demanding objective on water companies only, as the hon. Member for Broadland and Fakenham highlighted, regardless of the pressures that are actually impacting chalk streams. This would not allow for the consideration of technical feasibility or costs, which would ultimately be borne by water bill payers. The new clause would necessitate amendments to the water environment regulations and habitat regulations, creating complexity and difficult delivery implications.

3.15 pm

The Government are carrying out our review to look at how we transform our water system and clean up our rivers, lakes and seas for good. This review is the appropriate vehicle for considering broader reforms, including to the overarching target for the water sector, which is why the Government will not accept new clause 12. However, I highlight that I recognise the intent behind it.

I thank the hon. Member for Westmorland and Lonsdale for tabling new clause 27. The Government agree that national parks form a vital part of our environmental heritage and must be protected. I have also been known to go for a swim in Windermere occasionally, so maybe I will bump into the hon. Gentleman there one summer. The Government have committed to strengthening the statutory purposes of national parks and national landscapes, giving them a clear mandate to recover nature. We will also strengthen the role that public bodies, including water companies, must play in delivering better outcomes for nature, water, climate and access to nature in national parks through new regulation.

For example, the Government will seek to use powers in the Levelling-up and Regeneration Act 2023 to ensure that relevant authorities, including water companies, deliver better outcomes in protected landscapes. Regulations made under powers in the 2023 Act will provide a holistic approach to conserving and enhancing our nation's treasured protected landscapes. This is preferable to making piecemeal changes through several different pieces of legislation.

The Government are absolutely committed to ensuring significant reductions in sewage discharges in a way that ensures customers are not faced with unmanageable increases in their water bills. For example, through the storm overflows discharge reduction plan, we require the elimination of ecological harm from sewage discharges, and we require water companies to prioritise action at high-priority sites, such as sites of special scientific interest and bathing waters. Illegal sewage discharges are not permissible in any circumstances or at any locations—by their nature, they are illegal, including in the national parks. I want to assure the Committee that, where evidence of illegal action is identified, the regulators will not hesitate to take action. I would also like to assure the hon. Member for Westmorland and Lonsdale that the 2024 price review package will include allowances to fund projects to reduce pollution in Lake Windermere. The storm overflows discharge reduction plan also front-loads action in particularly important and sensitive areas, such as Lake Windermere.

New clause 27 also puts in place several other requirements, which I will turn to now. It suggests a special administration and licensed eligibility provision that means that, where water companies fail to comply with the other requirements of the new clause, or where they cannot demonstrate adequate progress in reaching the requirement, they must be put into special administration. This would be inappropriate and does not meet the high bar for use of a special administration regime. That can only be initiated from a performance perspective if the company can no longer fulfil its principal statutory duties or where there have been, or are likely to be, serious breaches of an enforcement order.

Like new clause 12, new clause 27 requires sites to maintain "high ecological status". I have already spoken about the high standard that "good ecological status" represents, but I will touch on it further. Surface waters with good ecological status support a diverse group of aquatic invertebrates, fish, mammals and birds, and therefore I want to reassure the Committee that "good ecological status" is in fact a very high standard to achieve.

Jerome Mayhew: I would like the Minister's comments on the issue that we have, and I am focusing primarily on the Norfolk broads, of which I represent a good chunk. There is the requirement to make a mandatory obligation on the water undertaker to ensure "high ecological status", which is above "good ecological status"—that is the point the Minister is making. Does she agree that, while they are a primary input into the quality of the water in the Norfolk broads, they are not the only influencer? While the intention to create and encourage high ecological status in the broads is a very good one, and it is one that I share, does the Minister agree that the drafting of this new clause is not appropriate?

Emma Hardy: The hon. Gentleman is right to highlight that the pollution caused in the Norfolk broads and in many other areas does not come from water companies alone. As has been discussed, it comes from the environment, road run-off and various other places. "High ecological status", as we have stated, could involve not being able to fish in those waters at all, which I know is a recreational activity in his area. It may also restrict planning for housing developments with any minor effects on the water quality of water bodies in national parks. The Government therefore cannot accept either new clause, although I recognise the intention behind them. I hope that the hon. Gentleman feels able not to press both.

Tim Farron: In short, I am happy not to push new clause 12 to a vote now, nor will I seek to push new clause 27 to a vote when we get to that stage. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 13

GUIDANCE ON POLY- AND PERFLUORINATED ALKYL SUBSTANCES

"After section 86ZA of the Water Industry Act 1991, insert—

'86ZB Guidance on poly- and perfluorinated alkyl substances

(1) The Secretary of State must by regulations made by statutory instrument make provision for the regulation of poly- and perfluorinated alkyl substances in drinking water based on guidance issued by the Drinking Water Inspectorate.

(2) Until the Secretary of State makes provision for the regulation of poly- and perfluorinated alkyl substances, water and sewerage companies must implement any relevant guidance issued by the Drinking Water Inspectorate.

(3) 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.'"—(*Tim Farron.*)

This new clause would require the Secretary of State to make regulations relating to the presence of poly- and perfluorinated alkyl substances in drinking water based on guidance issued by the Drinking Water Inspectorate, and require water companies to follow the Inspectorate's guidance in the interim.

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

New clauses 13 and 14 are connected, so with the Chair's permission, I might speak to both of them.

The Chair: Yes, that would be fine.

Tim Farron: Thank you—I do not want to detain the Committee any longer than I need to. The new clauses are about a vexing and serious issue: the presence of polyfluorinated and perfluorinated alkyl substances in our waterways and in our drinking water, in particular. I pay tribute to my hon. Friend the Member for Twickenham (Munira Wilson) for championing this issue in this place and outside it.

The new clause attempts to raise the existing guidance from the Drinking Water Inspectorate on PFAS levels in drinking water to a statutory level; that is the key point. The Bill seeks to increase regulatory power over water companies, and the new clause will increase the Drinking Water Inspectorate's power to enforce the guidance regarding PFAS. There is currently no legal limit on the amount of PFAS present in our drinking water. There is only guidance, even though the Environment Agency and the Health and Safety Executive have both recommended that there should be a legal limit.

New clause 13 would require water companies to prioritise and take a proactive stance on limiting PFAS in drinking water. Currently, if a water company were to breach PFAS guidance, its regulatory compliance score would not be affected as it would if, for example, lead was found in its water. This would encourage them to invest in treating water to remove PFAS. This is an important first step in prompting the Government to create a fully-fledged chemical strategy to deal with chemical pollutions of all kinds, starting with the most direct threat to human health, which is the direct consumption of PFAS through drinking water. PFAS are toxic, they are forever and they are very pervasive. Links have been found between PFAS chemicals and a host of health issues, such as, but not limited to, cancer, thyroid disease, fertility issues, lowered birth weight, weakened bones in children and immune resistance to vaccinations.

New clause 14 would put the duty on the water companies to take responsibility for the reduction and prevention of PFAS chemicals in water systems, ensuring that each water company is responsible.

Emma Hardy: I thank the hon. Member for proposing new clauses 13 and 14 on this incredibly important issue, and for highlighting the importance of PFAS monitoring. I want to reassure everybody that the quality of drinking water in England is exceptionally high and among the best in the world. It is important to me that it remains that way.

Across Government, we are working to assess PFAS levels occurring in the environment, as well as their sources and potential risks, to inform future policy and regulatory approaches, safeguard the current high drinking water quality and ensure our regulations remain fit for purpose. Water companies have a statutory obligation under the Water Supply (Water Quality) Regulations 2016 to carry out risk assessments to identify anything that could pose a risk to health or cause the water supplier to be unwholesome. That includes the risk of PFAS.

I will explain which PFAS are tested for in drinking water. The Drinking Water Inspectorate issued a series of information letters to water companies to set out a risk-assessment methodology and associated monitoring strategies for up to 48 individual PFAS compounds. The guideline values of PFOS, or perfluorooctane sulfonic acid, and PFOA, or perfluorooctanoic acid, are agreed with the UK Health Security Agency, and have been applied to 48 individual PFAS. The DWI guidance will be reviewed and updated where necessary.

The Drinking Water Inspectorate has provided guidance on PFAS to water companies since 2007 and, as I explained, that is regularly updated as new research emerges. In July 2024, DEFRA announced a rapid review of the environmental improvement plan to deliver on our legally binding targets to save nature. That includes how best to manage chemicals, including the risks posed by PFAS, and we are working closely with the DWI on all matters, including PFAS.

I reassure the hon. Member for Westmorland and Lonsdale that the Water Industry Act 1991 already provides the necessary powers to amend existing regulations to deal expressly with PFAS, should the Government wish to do so. I will have a meeting with his hon. Friend, the hon. Member for Twickenham (Munira Wilson), on this issue. I hope that the hon. Gentleman is reassured that this new clause is not suitable for the Bill, so I ask him to withdraw it.

New clause 14 focuses on chemical contaminants entering our waterways. I agree with the hon. Member for Westmorland and Lonsdale about the importance of the issue, which is why, as I announced, we will have the rapid review of the environmental improvement plan to deliver on our targets to restore nature. That includes looking carefully at the risks posed by PFAS. The review will consider and set out effective measures to mitigate harmful chemical substances entering our water through the environment. Through the chemical investigations programme, we are working with the water industry to understand how levels of contaminants in treated waste water affect our water environment. The programme will provide valuable information to understand the effectiveness of different measures to tackle chemical contamination of our rivers.

Significant costs are associated with end-of-pipe technologies at sewage treatment works to manage the more challenging chemicals, such as PFAS. We therefore need to prevent contaminants entering the water system in the first place, before they get to the waste water treatment works, where the cost for treatment will be unfairly borne by water customers, rather than the polluters. Work continues across Government to help us to assess the levels of PFAS occurring in the environment,

[Emma Hardy]

their sources and the potential risks, so that those can inform future policy and regulatory approaches to safeguard our high drinking water quality and to ensure that regulations remain fit for purpose.

The DWI expects water companies to plan to reduce PFAS concentrations in treated water progressively by implementing a reactive and systematic risk-reduction strategy. That is why we need to need to prevent them entering the water in the first place. I hope that the hon. Member is reassured by the actions that we are taking and will not press new clause 14.

Tim Farron: I am substantially reassured that the Minister is taking this issue seriously, and I am grateful that she is to meet my hon. Friend the Member for Twickenham, who has championed it so well. All the same, while I do not agree, I accept the Minister's point about the way in which we are doing this—which, I guess, is contained in new clause 14, so I will not press that to a vote—but new clause 13 simply says what the Health and Safety Executive and the Environment Agency are already saying, which is that those chemicals are deeply dangerous and that the restrictions on them should therefore be moved from guidance to a statutory level. That ought to be a no-brainer, so we will press that new clause to a vote.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 15]

AYES

Farron, Tim
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 15

CITIZEN SCIENCE

"(1) The Secretary of State must take steps to engage citizens regarding the monitoring of water and sewerage undertakers, as part of its regulatory efforts.

(2) This engagement must include the production of toolkits and data sharing.

(3) The Secretary of State must also consider funding citizen science projects regarding the monitoring of water and sewerage undertakers."—*(Tim Farron.)*

This new clause would require the Secretary of State to take steps to facilitate citizen science regarding the monitoring of water companies.

Brought up, and read the First time.

3.30 pm

Tim Farron: I beg to move, That the clause be read a Second time.

I will try to be brief, I promise. The new clause is based on the fact that we seriously approve of the Government's approach to monitoring. We want the regulatory bodies to be well equipped and resourced to be able to hold water companies and other potential polluters to account. But the Government have made a clear decision, of which I totally approve, to lionise and put front and centre citizen science and voluntary groups around the country—groups such as Windrush Against Sewage Pollution, Save Windermere in my constituency, the Clean River Kent group and the Rivers Trusts in Eden and South Lakeland. These are wonderful people, pretty much all of them acting in a voluntary capacity. The groups contain lots of incredibly clever, bright people who are passionate about our environment.

The Government are doing something we approve of by seeking to deploy and mobilise people in their communities. The new clause is about trying to make sure that we equip them, underpin what they do and provide resource to support them, and that the Government use some resource to proactively look to fill in the gaps. We are simply saying that we approve of the mobilisation of citizen science across the country to hold water companies to account through use of the real-time database and a variety of other tools. But if we are going to rely on a group of people, let us support them. We will seek to push this to a vote, because we think it is a central part of what the Bill should aim to achieve.

Emma Hardy: I thank the hon. Gentleman for tabling new clause 15. We fully support greater involvement of citizen science to hold water companies to account. I thank them for all the work that they have done in this area up and down our country. Local people know their rivers best, and their campaigns on pollution issues have been crucial in bringing the scale of the issues to light.

The Bill already includes several amendments to support transparency to make it easier to scrutinise water companies. Clause 2 will enable the public to scrutinise the measures that water companies are taking to reduce pollution incidents. Clause 3 will make information on discharges from emergency overflows available in near real time. This data, in addition to the near real-time information already available on storm overflow discharges, will be provided in a way that will enable citizens to identify trends and key issues. That will supplement the significant information that the Environment Agency already publishes.

The Environment Agency also operates a 24-hour environmental incident hotline to enable the public to report incidents that they observe in their local area. The Environment Agency shares the enthusiasm and values the expertise and local knowledge of citizen scientists. It has recently funded an internal project supporting citizen science, which will run until March 2025.

I welcome the hon. Gentleman's approval of the Government's work on this issue. The question is whether we require primary legislation to continue doing something we are already doing successfully. This project, along with many others that are being supported by the Government or the Environment Agency, is considering how to facilitate better engagement with citizen scientists. The Government believe that the existing measures are more effective for supporting citizen science than creating a fixed legislative duty on the Secretary of State. We are already doing work in this area, so we will not support the new clause.

Tim Farron: I am grateful for the Minister's remarks, but we think that seeking to mobilise thousands of people around the country is so central to the ethos of the Bill that we should also seek to resource them and proactively seek to fill in the gaps, where they exist, so that every community has this level of scrutiny. We will press the new clause to a vote.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 16]

AYES

Farron, Tim
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 17

Introduction of single social tariff

"(1) The Secretary of State must, within 12 months of the passing of this Act, make provision for the introduction of a single national social tariff.

(2) A 'single social tariff' means a national scheme for the charging of consumers which enables consumers who meet certain criteria to be subject to discounted charges.

(3) For the purposes of this section, 'certain criteria' may include, but not be limited to, a consumer's age, income, or employment status.

(4) The provision of a single national social tariff is to be without prejudice to any special provision under section 143A(2)(d) of the Water Industry Act 1991."—*(Tim Farron.)*

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

Water bill poverty is a reality, and many people will require greater water use because of disability, age or health conditions. Although WaterSure benefits exist, they are patchy and are something of a postcode lottery. Which benefits a person may receive under WaterSure depends on supplier and catchment, and whether someone qualifies depends on which water company they get water from. That is not right. There should be a single social tariff that is applicable and understandable for everyone. A postcode lottery should not dictate whether a person gets the support they may need, and which water company someone lives under should not dictate whether they can afford their bills.

Some water companies require three or four pieces of evidence and some just a quick assessment of finances, and the savings range from 15% to 90% off a bill. We would bring that under one simple tariff. We have certainly heard Government Members regularly talk about the value and importance of such a measure, and we simply want to put it on the face of the Bill. A unified and universal social tariff is about basic social justice. It would help those people for whom paying water bills is most difficult, for a variety of reasons—health and disability reasons, as well as financial ones. This is something that the Government should accept, or else we will seek to press it to a vote.

Emma Hardy: I thank the hon. Member for tabling new clause 17. It is clear that consumers are concerned about their bills, and this Government want to do everything they can to help and support people who are struggling, particularly given that water bills are due to rise following Ofwat's final determinations. Although this Government do not consider it suitable to adopt the new clause at this time, we will continue to consider all measures available to best support vulnerable customers, and we are exploring options to improve social tariff arrangements and improve fairness and consistency in who is eligible for support and in the levels of assistance provided.

There are already customer assistance schemes in place. WaterSure caps water and sewerage bills for vulnerable customers who have the higher essential water use requirement for family or health reasons. Under the scheme, £66 million of support was provided to 230,000 households in '23-24, with an average bill discount of £286. That sits alongside debt measures, water efficiency measures and company social tariffs, which are all targeted at supporting customers who are struggling to pay. Company social tariffs, which water companies design themselves and offer to customers who are struggling to afford their water bills, are forecast to provide an average of £640 million a year in support between 2025 and 2030.

Prior to the introduction of any new support scheme, in-depth research and analysis must be completed to ensure a properly designed policy. Therefore, the Government are continuing to work with the water industry to explore options to improve affordability arrangements, including by holding the sector accountable for its public commitment to end water poverty by 2030. For that reason, I ask the hon. Member for Westmorland and Lonsdale to withdraw new clause 17.

Tim Farron: In-depth analysis is not going to tell us anything other than that there is massive inconsistency across the country. Of course, WaterSure provides benefits, but it is different depending on where someone lives. The benefits received by someone living in a Yorkshire Water area, United Utilities or Northumbrian Water area will differ, as will the qualifying criteria. That means that some people in poverty, and some people with serious disabilities or health needs, who therefore have higher water usage requirements, will be hit by higher bills simply because of the lack of a single social tariff. We think that the new clause is important to ensuring social justice and helping those most in need in our communities, and therefore that it is very important to put it to the vote.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 17]

AYES

Farron, Tim
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 19

Ofwat responsibility for the financial stability of water companies

"In section 2 of the Water Industry Act 1991, after subsection (2D) insert—

'(2DZA) For the purposes of ensuring that relevant undertakers are able to finance the proper carrying out of their functions under subsection (2A)(c), the Authority must establish rules for the purposes of ensuring the financial stability of water or sewerage undertakers.

(2DZB) Rules produced under subsection (2DZA) must include—

(a) a prohibition on water or sewerage undertakers having offshore holding companies;

(b) a requirement that the Regulated Capital Value for each undertaker is annually reconciled against the market values of the undertaker's equity and debt.'"—*(Charlie Maynard.)*

Brought up, and read the First time.

Charlie Maynard: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 23—*Ofwat to publish guidance on debt levels after administration—*

"In section 2 of the Water Industry Act 1991, after subsection (2D) insert—

'(2DZA) For the purposes of ensuring that relevant undertakers are able to finance the proper carrying out of their functions under subsection (2A)(c), the Authority must establish guidelines to be followed by relevant undertakers who have been in special administration.

(2DZB) Guidelines produced under subsection (2DZA) must—

(a) set out a maximum level of debt which can be accrued by the undertaker;

(b) set out a process for agreeing capital expenditure necessary for service improvements, bill increases, and changes to operating costs while the undertaker is subject to the Special Administration Regime;

(c) state the penalties which will be imposed for breaches of such guidelines, which may include –

(i) financial penalties;

(ii) prohibitions on the payment of dividends or other bonuses; or

(iii) such other special measures as the Authority deems appropriate.'"

Charlie Maynard: I will speak first to new clause 19, which has three parts. Proposed new section (2DZA), which I will cover very quickly, essentially ensures the financial stability of water or sewerage undertakers. I think we discussed that at length in the debate on new clause 4, which I will not rehash, as I think we all know each other's views.

Proposed new section (2DZB) has two subsections, (a) and (b). Subsection (a) is

"a prohibition on water or sewerage undertakers having offshore holding companies".

Why would a UK-regulated water company need an offshore holding company? Maybe to dodge some tax? Maybe to make it as untransparent as possible? I would like a straight answer as to why we are not going to kill this possibility off today. Do we really need to push this out another six, maybe 12 or maybe 24 months—until maybe never—with the water commission? I do not know. I think each of us could just find our way to saying that offshore holding companies are not good for our rivers, our citizens or our country. I really hope we get there.

It is getting a bit late, but there is something I would really like Members to engage their brains on. It is a difficult and complicated subject, but it is the key to understanding what is going wrong with our water companies. It is called regulated capital value. What is in proposed new section (2DZB)(b)? It would introduce

"a requirement that the Regulated Capital Value for each undertaker is annually reconciled against the market values of the undertaker's equity and debt."

What on earth is regulated capital value? The key thing to remember is that it decides how much money the water companies make, so a higher regulated capital value is good for water companies.

The bizarre thing is that regulated capital value has not really been a proxy for enterprise value, which basically means the equity value of the company—what the shareholders' value of the company is worth—plus the net debt. That was set up—this is really one of the original sins—back in the mists of time, around 1989 and beyond, when the companies were originally privatised. It has been carried forward every year: "Take last year's, and add a bit for inflation and a bit for capex. Never, never, never reconcile it with reality." That is what has gone on for decades.

Now we have this thing called regulated capital value, which is the critical thing the water utility companies are focused on: "This is how we make money, so we want this number as big as possible." What we are advocating here is taking that apart, because of the reality on the ground. I will take Thames Water as my usual guinea pig. Many, many of Thames Water's equity shareholders have declared that their holding in Thames Water has no value. That includes OMERS—the Ontario Municipal Employees Retirement System—and the UK's Universities Superannuation Scheme, and I think the Abu Dhabi Investment Authority may have done it as well. They have said, "Our equity is toast. It's written off."

The debt is not that hard to calculate either, because people can just look at what Thames Water is trading at; these are bonds, and people can see what discounts they are trading at. People can add that up, and they have a number that is much, much smaller than the regulated capital value of Thames Water today. But if it is a water company or Ofwat, they say, "Let's just put a big pair of mufflers on and ignore that fact," because it is safer to be in fantasyland.

3.45 pm

This matters because, if that is the case, it is unreasonable to expect consumers to be paying prices that are artificially inflated purely to compensate investors, whether they

are debt or equity investors, for the cost of their poor historical decisions. I believe that what Ofwat has just done by sticking a 35% price rise to all the customers in the Thames Water catchment is basically bail out, or attempt to bail out, the existing shareholders and particularly the lenders to Thames Water. That is wrong, and we should be doing everything in our power to stop it.

It is ridiculous that we are relying on the concept of RCV, which is found on calculations done more than 30 years ago, bears no relation to reality and is never reconciled against the company's balance sheets. That is one thing. Secondly, the continued use of an inflated RCV works to the advantage of investors and lenders at the expense of consumers—bill payers—and enables lenders to avoid the economic consequences of their poor lending decisions. In crude terms, consumers are bailing out the banks. I sincerely doubt the balance sheet strength of the water companies, as the asset lives are entirely unrealistic, but they have enabled water companies to claim sufficient financial strength to be able to pay excessive dividends and management bonuses.

I am really keen to highlight another thing. Again, I feel a little sorry to bring this on the Minister, but I am going to do it. If we look at the asset depreciation rates of these water companies, they are the biggest I have ever seen in 25 years in finance. Let us say that someone has a waste water network asset—people might immediately think of Bazalgette's great big pipe, which he built 150 years ago. They might think, "Well, that is pretty good for purpose," and perhaps they do not need to depreciate it over more than 150 years. But let us think about places in my patch, such as Aston and Standlake, where pipes were put in 30, 50 or 70 years ago and are leaking hand over fist. We have half a million hours of sewage dumping, but do you know what the depreciation rate on that asset is, Dr Huq? It is not 20 years, 30 years, 40 years or 50 years. It is 150 years.

Jerome Mayhew: This is a genuinely interesting point. I know it is late, but I would be grateful if the hon. Member could expand in further detail. While he is referencing regulated capital value and the difference between what is on the sheet and what is reality, could he explain in a bit more detail, for the benefit of the Committee, what that means in reality? If there were to be a rebase of regulated capital value, what would be the practical impact of that?

Charlie Maynard: I question what value regulated capital value, given how completely out of whack it is with reality, is bringing to the table. I do not have all the answers, but I question whether this has any utility to the conversation. What is happening here is that a business is generating £1.2 billion of cash flows, and it has this enormous balance sheet and this enormous regulated capital value. Because of those essentially false premises—I believe that we do not actually have assets of that value—regulated capital value is essentially a figment. We are grappling with things that have no basis, and we would do well to reconcile and to look at the facts—at what these assets are actually worth—and then to build out from there.

Jerome Mayhew: One possible reason why regulated capital value is important is that the assessment of whether bills are reasonable or not relates—in part, at least—to what is considered to be a reasonable return on capital. Does the hon. Member agree that if one's regulated capital value has depreciated to zero, there might be an adverse knock-on impact on what is considered a reasonable bill, to take account of the debt and the capital investment? Does he think that that might be something to do with it?

Charlie Maynard: The whole thing is reverse engineered—I am completely in agreement on that—and that is not necessary or useful in terms of where we are getting to, and that is causing a lot of the trouble. I would like to find a way out of that, and I would really recommend that the water commission digs into this to find a way out. I am on the Business and Trade Committee and I will be asking the Financial Reporting Council, which oversees the accounting body, to ask these accounting firms whether they actually think those numbers—those incredibly slow depreciation periods of 150 years—are valid and, if so, why.

Jerome Mayhew: I am grateful to the hon. Member for allowing me another intervention, this time on proposed new subsection (2DZB)(a), which refers to

"a prohibition on water or sewerage undertakers having offshore holding companies".

He referenced some of the international investors who have holdings in Thames Water, and perhaps in the majority of the other water companies. Access to international markets is very important for raising investment into our water utilities. Does he accept that using offshore holding companies might be a mechanism that allows for easier transfer of funds, easier investment and easier access to international finance, and may therefore have a benign rationale? We always assume that offshore holding companies are somehow suspicious, or that their motivation is tax avoidance, and I believe that the hon. Member referenced that earlier. That might be the case—in which case, they should not be encouraged—but with his 25 years' experience in finance, which he referenced, does he think that there is an argument for saying that offshore holding companies make it easier to access international investment?

Charlie Maynard: I have the name of one here: Thames Water Utilities Cayman Finance Holdings Ltd. Why Cayman? If I say "Cayman", people say "tax haven". That is why it is there. We should be doing our best to stop that. Last I looked, London was still a financial capital, and equity and debt could still be raised in this country, and I sincerely hope that remains the case. So I do not see a good reason to have holding companies offshore. Hon. Members might be happy to hear that that was all I wanted to say on new clause 19.

New clause 23 is also being considered in this tranche, and I will highlight proposed new subsection (2DZB)(b), which refers to

"a process for agreeing capital expenditure necessary for service improvements, bill increases, and changes to operating costs while the undertaker is subject to the Special Administration Regime".

We have to spend a huge amount of money on our water utility companies, because they have not been spending enough over the last decade or two. When a special administrator is appointed in such instances, the goal is to ensure that the special administrator takes that future spend into account in considering how much debt needs to be cut. We do not want to come out of

[Charlie Maynard]

special administration with debt that is still high, which will prevent the investments from being made that will be required over the next. That is the goal of the new clause.

Emma Hardy: I thank the hon. Member for Westmorland and Lonsdale for the intent behind new clause 19. As highlighted, it seems in parts to contradict new clause 18, which was also tabled in his name.

It is important to highlight that Ofwat already has a core duty under section 2 of the Water Industry Act 1991 to ensure that water companies are able to finance the proper carrying out of their statutory obligations. Ofwat already monitors information it receives about companies and their financial positions on an ongoing basis. That includes carrying out a detailed review of the financial information published by companies in annual performance reports, statutory accounts, interim accounts, investor reports and other sources. Ofwat also directly engages with companies where it sees an increased level of risk. Additionally, Ofwat has recently updated water company licences to require companies to take account of service delivery for customers and the environment, as well as financial resilience when deciding whether to pay a dividend.

More broadly, the independent commission into the water industry will look at long-term, wider reform of the water sector, as I have mentioned. Company financial structures are one of a number of areas that could be explored under the commission, and we do not want to pre-empt the outcome of the commission through this new clause. The former deputy governor of the Bank of England, Sir Jon Cunliffe, chairs the commission. As mentioned, he has decades of financial, investor and regulatory experience. His appointment demonstrates the Government's ambition to fix the foundations of the industry. As I have mentioned previously, there will be a call for evidence, and the hon. Member will be able to make his points to Sir Jon Cunliffe and the commission. Given the existing monitoring of the financial resilience of the sector and the forthcoming recommendations of the independent commission, we do not believe that the new clause is appropriate, and I ask the hon. Member to withdraw it.

Turning to new clause 23, which was also tabled by the hon. Member for Westmorland and Lonsdale, a special administration regime enables a company that provides vital public services—water, energy or rail—to be put into administration in certain circumstances to ensure that the public service will continue to be provided pending rescue, via a means such as debt restructuring or transfer, via a sale, to new owners. There is no need for a company exiting a SAR to be placed under an enhanced regime regarding its debt levels. Water companies are allowed to raise debt to fund the delivery of their services, and it is for companies to decide their financial structures. I will resist the urge to repeat my previous comments about the water commission looking at the financial structures of all the water companies, and I hope the hon. Member will take what I outlined previously as read.

In relation to capital expenditure during a SAR, it is not necessary to establish a statutory process for agreeing that expenditure, as that would be agreed under a court-appointed special administrator in the lead-up to a SAR. The Government can provide funding support to a special administrator. Any company under a SAR will still be subjected to the same regulatory regime and expected to meet its statutory obligations.

I hope the hon. Member understands why we cannot accept his new clauses, but I repeat the offer made: he will be able to talk to Sir Jon Cunliffe and present to him the evidence he has just presented to the Committee, so that he can consider it as part of the wider evidence gathering. I therefore ask the hon. Member not to press his new clauses.

Charlie Maynard: It is very kind of the Minister to have so much faith in, and be so charitable towards, Ofwat, given its record over the last decade or two, particularly with regard to its management of water companies' financials. We will not press new clause 23, but would like to call a vote on new clause 19.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 18]

AYES

Farron, Tim
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 20

Review of the water industry

"(1) The Secretary of State must consider as part of any review into the water industry the following—

(a) the functions and performance of the Water Services Regulation Authority, and the case for its abolition;

(b) whether a public benefit company could better perform the role of current undertakers.

(2) The consideration under subsection (1)(a) must analyse the case for replacing the Water Services Regulation Authority with a new corporate body known as the Clean Water Authority, with the following general duties—

(a) to issue guidance to undertakers, and enforce the implementation of that guidance, requiring undertakers to meet excellent standards concerning—

(i) the provision of clean drinking water,

(ii) the maintenance of bathing waters of excellent quality,

(iii) the maintenance of lakes, rivers and beaches of high ecological status,

(iv) the conservation of water resources, and

(v) the charging of reasonable water bills;

(b) to issue rules prohibiting a relevant undertaker from giving to persons holding senior roles performance-related pay in respect of any financial year in which the undertaker has failed to meet any relevant targets set by the Authority;

(c) to swiftly revoke the licence of water companies that have performed poorly, as defined by the Authority, with particular regard to the standards set out in paragraph (a);

(d) to require relevant undertakers to have arrangements in place for environmental experts to be members of a board, committee or panel of the undertaker;

(e) to issue stringent and legally-binding targets concerning sewage discharges affecting bathing waters and highly sensitive nature sites;

(f) to mandate that undertakers publish publicly-accessible live time data on the recorded volume, duration and number of sewage spills on a single site maintained by the Authority;

(g) to perform unannounced inspections with regard to the duties under this subsection."—*(Tim Farron.)*

Brought up, and read the First time.

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

The Committee divided: Ayes 3, Noes 11.

Division No. 19]

AYES

Farron, Tim
Maynard, Charlie
Ramsay, Adrian

NOES

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

Question accordingly negatived.

New Clause 21

REVIEW OF PRICE REVIEW PROCESS

"In section 2 of the Water Industry Act 1991, after subsection (2B) insert—

'(2BA) In furthering its objectives and purposes under subsection (2A), the Authority must, within 12 months of the passing of the Water (Special Measures) Act 2025, review its practices as to reviewing price limits.

(2BB) A review under subsection (2BA) must consider—

(a) whether the current practice of price reviews every five years should be replaced with an annual, or otherwise more frequent, system;

(b) how changes to inflation and other financial or economic changes could or should be reflected in prices charged by water companies;

(c) how any future system of price reviews could better support undertakers in planning and delivering investments beyond a single asset management plan period.'"—*(Charlie Maynard.)*

Brought up, and read the First time.

4 pm

Charlie Maynard: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 29—*Ofwat consideration of pollution targets for price reviews*—

"(1) The Water Industry Act 2011 is amended as follows.

(2) After section 17I insert—

'17IA Duty to have regard to pollution targets in carrying out price reviews

When carrying out a periodic review for the purpose of setting a Price Control in respect of one or more relevant undertakers, the Authority must have regard to the performance of the relevant undertaker or undertakers against pollution targets across the previous five years.'"

Charlie Maynard: I will be brief. We just want to highlight the five-year price review and the shoehorning in of that time period. It might have worked for Lenin—maybe not—but we do not think it works well in the water sector, so we want to see whether we can release ourselves from it. We will come to new clause 35 later, but in certain situations we will all be better off if we look over a longer time period. We have some really big problems and we need to think about reducing them not just over the next five years, but over a 10 or 15-year period. We need to work towards some really big fixes over a longer period. If we are always locked into these five-year cycles, we are not serving ourselves well. That is the point of new clause 21.

New clause 29 states that

"the Authority must have regard to the performance of the relevant undertaker or undertakers against pollution targets across the previous five years."

At the moment, how companies do is not very well linked to their reward. Most of the time, with water companies, everybody is thinking about sticks—I certainly am—but we ought to think a little about carrots as well. Let us say that ultimately we do good things such as setting pollution reduction targets. If companies beat those targets, we should work towards a solution whereby they do well out of that. They could have a carrot as a reward for doing well, as opposed to endlessly being given the stick. That is the point of new clause 29. We will not push either new clause to a vote.

Emma Hardy: I thank the hon. Members for Witney and for Westmorland and Lonsdale for the intention behind their new clauses. The water sector is facing multiple challenges and growing pressures. Resolving them will require transformational change.

The Government agree that it is crucial to conduct a fundamental review of the water industry regulatory system. We want to ensure that we have a system that supports strategic planning and investment, with fairness to customers and environmental improvement at its core. I reassure the hon. Member for Witney that such a review is already under way—I might have mentioned this once or twice before—through the independent commission, led by Sir Jon Cunliffe. That comprehensive review is addressing the three elements that the new clause raises: planning, financing and investment. It is taking a holistic approach to assessing the system, and it will make recommendations to ensure that the water sector is better equipped to ensure clean rivers, lakes and seas and a sustainable water supply for the future.

The commission will report to the Government by the second quarter of 2025, ahead of the timeframe recommended in the new clause. I trust that the hon. Member for Witney is reassured that the requirements of the new clause are already being addressed through the work of the independent commission.

On new clause 29, which was also tabled by the hon. Members for Westmorland and Lonsdale and for Witney, I reassure them that the Government are fully aware of

[Emma Hardy]

the scale of damage that pollution is causing to our waterways. We are committed to working with the water industry regulators to address that.

As a regulator, Ofwat has a range of primary duties, including ensuring that companies properly carry out their functions and can finance the delivery of their statutory obligations, including environmental obligations. Ofwat sets the total spending envelope for companies through its price review process and it reviews company business plans to ensure compliance with statutory obligations. I am pleased to inform the Committee that Ofwat published its final determinations for the 2024 price review on 19 December, which included confirmation of £104 billion-worth of expenditure over the next five years. That is the highest level of investment in the water sector since privatisation and will fund reducing the number of spills from storm overflows by 45% through upgrading 2,800 storm overflows.

In addition, companies will improve river water quality by improving more than 1,700 waste water treatment works. Furthermore, Ofwat has increased the number of outcome delivery incentives against which companies must deliver, including targets on reducing serious pollution incidents, such as a reduction in storm overflows and operational greenhouse gas emissions. That means that serious pollution incidents will lead to clear and robust financial penalties for companies. I trust that the hon. Member for Witney is reassured that his new clause is not required, as pollution targets are already closely factored into the current price review model, and I ask him not to press it.

Charlie Maynard: I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 22

Prohibition on bail-out of water company shareholders and creditors

"(1) The Secretary of State and His Majesty's Treasury must not directly or indirectly discharge, assume, or guarantee any debts of legal entities in any water company group subject to proceedings under section 24 of the Water Industry Act 1991 (special administration orders made on special petitions), except in accordance with subsection (2).

(2) The special administrator of a water company may reduce the debts owed by the regulated entity to its creditors by up to 100 per cent, taking into account the future forecast expenditure over the short, medium and long term and subject to the administrator's confidence in the company's ability to accommodate this spending.

(3) The prohibition set out in subsection (1) and the reduction of debts set out in subsection (2) must not include pension, wage and other obligations owed to employees, excluding any past or current member of a board of directors, within the water company group."—*(Charlie Maynard.)*

This new clause aims to allow up to 100% of debts to be cancelled in the event of special administration proceedings, taking into account the scale of investment required to hit the future targets established by the Authority.

Brought up, and read the First time.

Charlie Maynard: I beg to move, That the clause be read a Second time.

We have covered this already, so I will be brief. I highlight subsection (2):

"The special administrator of a water company may reduce the debts owed by the regulated entity to its creditors by up to 100 per cent, taking into account the future forecast expenditure over the short, medium and long term and subject to the administrator's confidence in the company's ability to accommodate this spending."

We have already discussed this. I am not going to go through it further, and I am not going to push it to a vote, so I will leave it at that.

Emma Hardy: I thank the hon. Members for Westmorland and Lonsdale and for Witney for tabling new clause 22. As the hon. Member for Witney says, we have already had a debate on this issue. I hoped that we had made the situation quite clear about what the special administration regime is and what it is not, but here we go again.

I must reject the new clause, because it would jeopardise the main purpose of the water special administration regime: the continued provision of vital public services. The role of a special administrator does not include a power to cancel debt, and the purpose of the administration is not to bail out water company creditors or shareholders. The new clause is therefore unnecessary. It would divert from long-established insolvency principles of treating creditors equally according to their rights as commercial entities. When a water company enters special administration, creditors are unable to enforce their debt repayments unless they seek leave of the court or receive permission from the special administrator. When a water company exits from special administration either by rescue, such as debt restructuring, or by transfer, such as a sale, the special administrator determines the level of repayment to credits. That will be calculated according to the statutory order of priority.

It is very unlikely that all debt would be repaid at the end of a special administration, because of the order in which payments are required to be made. Debts can be cancelled only according to a restructuring plan or under court supervision. The Government do not directly or indirectly make any decisions relating to the exact quantity of debt recouped by creditors or equity recouped by shareholders.

I must reject the new clause, because the changes that we are making align the water industry special administration regime with regimes in other sectors. We do not intend to alter the regime's relationship with the existing framework of insolvency legislation.

Charlie Maynard: I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 26

Rules about performance-related pay

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

(2) After section 35D (inserted by section 1 of this Act) insert—

'35E Rules about performance-related pay

(1) The Authority must issue rules prohibiting a relevant undertaker from giving to persons holding senior roles performance-related pay in respect of any financial year in which the undertaker has failed to prevent all sewage discharges, spills, or leaks.

(2) The rules issued under subsection (1) must include—

(a) provision designed to secure that performance-related pay which, if given by a relevant undertaker, would contravene the pay prohibition on the part of the undertaker, is not given by another person;

(b) that any provision of an agreement (whether made before or after the issuing of the rules) is void to the extent that it contravenes the pay prohibition;

(c) provision for a relevant undertaker to recover any payment made, or other property transferred, in breach of the pay prohibition.

(3) For the purposes of subsection (1)—

(a) "performance-related pay" means any payment, consideration or other benefit (including pension benefit) the giving of which results from the meeting of any targets or performance standards on the part of the relevant undertaker or the person to whom such payment, consideration or benefit is given;

(b) a person holds a "senior role" with a relevant undertaker if the person—

(i) is a chief executive of the undertaker,

(ii) is a director of the undertaker, or

(iii) holds such other description of role with the undertaker as may be specified.""—*(Tim Farron.)*

This new clause creates a new section in the Water Industry Act 1991 to require Ofwat to ban bonuses for water company bosses if they fail to prevent sewage discharges, spills, or leaks.

Brought up, and read the First time.

Tim Farron: I beg to move, That the clause be read a Second time.

I do not really want to press this new clause to a vote, but we tabled it because my noble Friend Lady Bakewell withdrew it in the Lords after being given assurances by the noble Baroness, Lady Hayman, for whom I have enormous respect and of whom I think very highly. It seeks to ban bonuses for senior company executives who have been found guilty of a category 1 or 2 discharge. It would prevent any loopholes such as pay rises and share options that might enable bonuses to be paid under those circumstances.

From the Dispatch Box in the other place, Baroness Hayman said:

"However, we are very aware that water companies need to attract investment so, as outlined in Ofwat's consultation, the circumstances under which performance-related pay bans are being proposed represent very serious failures by a company. I reassure the noble Baroness, Lady Bakewell of Hardington Mandeville, that this includes instances of criminal convictions, credit ratings falling below investment grade and Ofwat's proposed metric for bonuses to be prohibited if a company has had a serious category 1 or 2 pollution incident in the preceding calendar year…I would like to be clear with all noble Lords that we are not asking companies to meet any higher or new standard than that which is already expected of them."—[*Official Report, House of Lords,* 20 November 2024; Vol. 841, c. 247.]

We were grateful for that assurance, but nothing of that sort has appeared in the Bill since. Will the Minister give me some reassurance as to why we should not press the new clause to a vote? I do not see anything in writing that gives us confidence, other than the words of the noble Baroness.

Emma Hardy: I thank the hon. Gentleman for tabling new clause 26. The Government agree that we need to rebuild trust in the water sector and that executives should be firmly held to account for companies' serious failures to meet environmental standards. That is why clause 1 will give Ofwat new powers to issue rules on remuneration and governance. The legislation requires Ofwat to set rules that make the payment of bonuses contingent on companies achieving high environmental standards. It is more appropriate for Ofwat, as the independent regulator, to determine the performance metrics to be applied when setting the rules for performance-related pay.

As outlined in the initial policy consultation, Ofwat is currently considering prohibiting bonuses where companies have had a serious category 1 or 2 pollution incident in the preceding calendar year. That is not on the face of the Bill, but it is very clearly in Ofwat's consultation. It is looking to consult on prohibiting bonuses after a category 1 or 2 pollution incident, as my noble Friend outlined. That provides an early indication of the direction of travel on the environment metric.

Ofwat would be able to use its direction-giving power and wider enforcement framework to hold companies to account where it has reason to believe that they are in breach of the rules. However, banning bonuses, even in cases of unwanted but legal spills, would effectively ban bonuses for all companies. That could unnecessarily threaten the sector's ability to attract and retain talent. I refer the hon. Member for Westmorland and Lonsdale to the consultation that Ofwat has launched so that he can see for himself the pollution metric that I have mentioned. On that basis, I hope that he feels able to withdraw new clause 26.

Tim Farron: I am reassured to a large degree by what the Minister says, but I am concerned that it is not on the face of the Bill. Simply handing this over to Ofwat, given its track record, does not fill me with confidence. We will reserve our position on this one—we may potentially talk about it further on Report—but we will not press new clause 26 to a vote. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

Ordered, That further consideration be now adjourned.—*(Jeff Smith.)*

4.16 pm

Adjourned till Thursday 16 January at half-past Eleven o'clock.

Written evidence reported to the House

WSMB13 Geoff Sallis

WSMB14 Port of London Authority

WSMB15 Campaign for National Parks

WSMB16 Ofwat

WSMB17 Surfers Against Sewage and River Action

WSMB18 Water UK

WSMB19 Solent Protection Society

WSMB20 The Sewage Campaign Network