

Llyr Gruffydd MS
Chair, Climate Change, Environment, and Infrastructure Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

28th March 2024

Dear Chair,

Response to Report on Performance of Dŵr Cymru by Senedd, Climate Change, Environment and Infrastructure Committee (February 2024)

The Senedd's Climate Change, Environment and Infrastructure Committee published its report on the performance of Dŵr Cymru on 9th February 2024. The Committee's investigation had been prompted by media coverage of issues at Cardigan wastewater treatment works and the downgrading of its performance rating by both Ofwat and Natural Resources Wales (NRW).

The report makes 12 recommendations to the company, the Welsh Government and NRW. No response from Dŵr Cymru has been formally requested, though some items require follow-up actions. We are therefore submitting this response on an informal basis to the Committee.

The purpose is to underline our commitment to implementing the recommendations relating to the company and to provide any clarification required to assist the Committee in its work on this issue.

Response to recommendations pertaining to Dŵr Cymru

Recommendation 1. *Within six months of the publication of this report, Dŵr Cymru should report back to the Committee with an update on progress towards delivery of its service commitment plan required by Ofwat.*

We will report back as requested. The Service Commitment Plan (SCP) required by Ofwat is available on our website [here](#). We are providing detailed quarterly updates to Ofwat on the progress of the actions required. We will publish a summary of progress on the SCP as of end March by the end of May. The latest annual performance figures will be available in July when our Annual Performance Report is published.

Recommendation 2. *Dŵr Cymru should explain how it is planning against future climate pressures to mitigate the risk of serious pollution incidents such as those which occurred during the drought and high temperatures experienced in 2022.*

We are targeting zero serious pollution incidents going forward, and particularly any pollution caused by asset failure. Any such pollution incidents can have a more serious impact during periods of drought when river levels are lower, as implied by this recommendation. This is why we have included additional expenditure in our plan for AMP8 (2025-30) to renew or replace the wastewater assets, mostly sewer rising mains, which pose the highest risk of failures that could cause pollution in sensitive environmental areas. Subject to Ofwat scrutiny and approval, we're investing £2.5 billion to improve the environment between 2025 and 2030.

Recommendation 3. *Dŵr Cymru should commit to setting a more stretching target for reducing pollution incidents by 2030, rather than the current target of 24%. It should also commit to an ambition of zero pollution incidents in the shortest time possible, with future targets reflecting any ban on wet wipes containing plastic.*

While this target of a 24% reduction in pollution incidents may appear modest, this is in fact a stretching target in view of our strong industry performance on this measure (we recorded the second lowest level of total pollutions of water companies in England and Wales in 2022). For clarification, this performance measure includes Category 1, 2 and 3 pollution incidents, and the vast majority of the incidents - over 93% of incidents in 2023 - are currently classed as Category 3 or considered as "low level". While we accept in principle the ambition of zero pollution incidents, the Committee should be aware that with 36,000km of sewer network and hundreds of pumping stations and treatment works, it is unrealistic to expect this to be achieved in practice. The right thing to do is to seek continual improvement in performance, minimise the impact of such incidents when they do occur, ensure proactive and accurate reporting, and ensure our asset base is fit for the long-term.

One of the things we are doing is to install 20,000 in-sewer monitors over the next five years, which should help to reduce incidents. We also need the help and support of local authorities in diverting land and highway drainage or 'flows' away from our sewer network, as the main cause of the increase in pollutions in 2023 was the hydraulic overload of our network, caused by inundation linked to surface water.

Recommendation 4. *The Welsh Government should seek to introduce a ban on wet wipes containing plastic as soon as possible. It should report back to the Committee on the outcome of the joint consultation on a proposed ban and on the timeframe it is working towards for the introduction of a ban in Wales.*

We fully support this recommendation and measures to reduce the use and disposal of microplastics. Our Environment Director recently published an article in Wales Online and the Western Mail arguing for exactly this. (Article available [here](#)). We respond on average to 2,000 sewer blockages per annum at a cost of over £7m, and almost a quarter of these blockages are caused by wet wipes.

Recommendation 5. *Dŵr Cymru should provide details of its internal governance arrangements and demonstrate how they are being utilised to hold company executives to account and to drive performance improvements. In particular, Dŵr Cymru should explain the role of the members of Glas Cymru within its governance structure, the response of the members to the recent performance of Dŵr Cymru, and the actions the members are taking to secure improvements.*

Our Corporate Governance Framework is described in full in the Glas Cymru Annual Report and Accounts (see latest publication [here](#)). We comply fully with the UK Corporate Governance Code (2018). Our Members play an important role in the absence of shareholders in holding the Board to account and challenging the company on its performance. Our Members are recruited from the communities we serve, and we aim to have an effective representation of experience, expertise and capability within our Membership. We are not only looking for them to have an interest in our activities but for them to also be able to challenge us constructively and hold the Board to account. The recruitment of Members is an openly advertised process and our Member Selection Panel currently has Sir Paul Silk as its independent Chair. We currently have 68 Members and they are made up with people from many of the geographical areas we serve and have a broad range of backgrounds, covering for example, commercial, corporate governance, environmental, local government and third sector experience.

There are two full meetings a year, one of which is at the Annual General Meeting of Glas Cymru, and there are further regional meetings. Performance is a principal agenda item at all of these meetings. A number of our Non-Executive Directors have FTSE experience and have commented that the scrutiny provided by Members is akin and even perhaps more detailed than seen in some listed companies.

Members also vote annually on renewal of individual Board Director appointments and periodically on other key governance matters, such as the appointment of our external auditors and executive remuneration policy.

Our Members have been vocal about expressing their concerns about the recent reported performance of the company. While it is incumbent on the company rather than the Members to secure improvements, they expect the company to deliver rapid improvements and to report in detail on progress at each Members meeting. We have a long-standing track record of being fully open and transparent with our Members on all the issues of significance

impacting the business. This not only includes performance, but issues linked to governance and our long-term strategy. We also take into account the views of Members in terms of our regulatory planning cycle and their views and input contribute to our formal price review process, the latest being our 'PR24' submission. Members are also briefed between meetings on key issues that arise affecting the company or wider industry.

Recommendation 7. *Dŵr Cymru should commit to year-on-year improvements on its current 80% alignment of performance-related pay awarded to company executives with overall performance delivered to customers and the environment. It should also commit to an ambition to achieve 100% alignment in the shortest time possible.*

There appears to be a misunderstanding here on the nature of the measure pertaining to the 'alignment of performance-related pay with overall performance delivered to customers and the environment'. Ofwat's report on performance-related executive pay (available [here](#)) does not recommend 100% 'alignment' of the measures underpinning the performance-related pay award with performance. This is because there are other important and entirely justifiable objectives which merit inclusion in a list of drivers of performance related pay. In our case these include the company's credit rating (which ultimately helps keep bills down), and the level of diversity on the company's Board.

Ofwat says that "we identified 60% alignment to delivery for customers and the environment as good practice among the companies we regulate at PR19". Dŵr Cymru's level of alignment was above 80%.

For the reasons set out above, we do not commit to an ambition to achieve 100% alignment as this would require dropping measures that we consider important from those used to drive performance-related pay.

Recommendation 8. *The Welsh Government and its key partners, including Dŵr Cymru, should identify ways to effectively communicate Wales' approach to tackling sewage discharges from storm overflows to improve public understanding of the approach.*

We fully support this. It will be vital to bring the public with us in our efforts to minimise the ecological impact of storm overflows, as well as to tackle all causes of poor river health. Tackling storm overflows causing ecological harm first, as opposed to focusing on the number of spills as in England, will enable us all to go further and faster in improving river and coastal water quality. This is a complex issue where simplistic but well-meaning approaches can do more harm than good. Stakeholders will need to work together to implement effective strategies and communicate our approach to the wider public. This involves continuing to work with the Wales *Better River Quality Taskforce* which brings regulators, government and water companies together to *improve river water quality*.

Recommendation 9. *Dŵr Cymru should publish details of its programme of work to tackle sewage discharges from storm overflow covering the short, medium and long-term. This should include ambitious targets for completing ecological assessments and eliminating environmental harm from permitted and unpermitted storm overflows. Dŵr Cymru should commit to publishing reports on progress towards delivery periodically.*

We published a lot of detail on our plans to tackle sewage discharges from storm overflows in our PR24 Business Plan submitted to Ofwat in October 2023 and available online [here](#). This included our Storm Overflows [Strategy](#).

The plan does include ambitious targets for completing ecological assessments, focused on those overflows which may be causing the most environmental harm. As the committee is aware, our strategy follows the policy set by Welsh Government and NRW which seeks to minimise ecological harm rather than achieve the maximum reduction in the number of spills per se.

We remain committed to upgrading every Storm Overflow that is causing environmental harm by 2040, with the first 100 done by 2030 on a prioritised basis, subject to approval of our plan by Ofwat. With 2,300 Storm Overflows in Wales and a relatively small customer base, the pace of implementation will be largely driven by the affordability of bills. However, we are confident that we will deliver a real and significant improvement to river water quality that will benefit the aquatic environment in Wales.

Progress will be reported in our Annual Performance Report and the Glas Cymru Annual Report and Accounts.

Finally, you may have seen that Ofwat recently published the findings of its report after we notified them last May of our intention to restate performance data for 2020-2022 on leakage and per capita consumption (i.e. the amount of water used per customer). This was after our year-end assurance process identified that elements of the calculations we had submitted did not comply with regulatory requirements. Having proposed a customer redress package of £30m which included a £10 rebate for customers (made during 2023), we also proposed £59 million of expenditure to improve leakage and per capita consumption performance. Ofwat has accepted these proposals and issued a nominal penalty of £1. We know that achieving the planned reduction in leakage will be challenging but I wish to reassure Committee Members that we have committed to a substantial increase in investment in this area and strengthened the relevant operational teams to help us achieve our targets.

I hope we have addressed the relevant recommendations made in the Committee's report and please do not hesitate to contact me should you need any further information.

Yours sincerely,



Chief Executive
Dŵr Cymru Welsh Water