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By email

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Dear Andrew

Thank you for your recent correspondence received 4 June in respect of the Council's recent vote of no confidence in the management of South West Water.

South West Water's performance

We continue to monitor the company's performance through our Water Company Performance Report (WCPR), joint regulator performance meetings, and through performance commitments set for the company during the 2024 Price Review for the period 2025-30. These mechanisms ensure that there are financial consequences to companies of underperformance against their performance commitments for customers and the environment.

South West Water was assessed as average in our most recent 2024-25 WCPR report, the same category it received in 2023-24. We found that the company had performed well in some areas over the period, for example it was a top performer in all five years for internal sewer flooding. We recognise there is more work to be done. Reducing pollution incidents and water supply interruptions are both areas where we expect the company to improve.

At the 2024 Price Review, we set South West Water several performance targets. This includes reducing storm overflow spills (one of the major causes of sewage pollution) by at least 21% by 2029–30. It also includes improving performance on the duration of interruptions to customers' water supply by 46% compared to 2023-24. You can view all the performance targets for South West Water in our summary of their final determination.

Enforcement action against South West Water

I recognise, as you have expressed in your letter, that water pollution is a serious issue. In 2021 we and the Environment Agency announced investigations into all water and wastewater companies in England and Wales, including South West Water. This was after several water companies explained that they might not be treating as much sewage at their wastewater treatment works as they should be, and that this could be resulting in sewage discharges into the environment at times when this should not be happening.

Last year, Ofwat concluded the investigation into South West Water and whether it was managing its wastewater treatment works and networks appropriately. As a result of our findings, a total enforcement package of £24 million is to be paid by the company, not by customers.

Ofwat's investigation found that South West Water had breached its legal obligations by failing to operate, maintain and upgrade its wastewater assets adequately. In addition, South West Water had not only failed to effectually provide drainage and deal with the contents of its sewers but has also failed to have in place adequate processes and oversight by its senior management and Board to ensure that it was meeting the legal requirements expected of it.

The £24 million redress package will deliver a better outcome for customers and the environment by means of:

- Investing £20m during 2025-30 to reduce spills from specific storm overflows. This investment will target overflows in environmentally sensitive areas or within focused community areas.
- Establishing a £2m local fund to tackle sewer misuse and misconnections, which can contribute to environmental pollution.
- Providing £2m of funding through a Nature Recovery Fund to support environmental groups in delivering local environmental improvements.

The £24m enforcement package Ofwat secured with South West Water is greater than the penalty that would otherwise have imposed on the company (which would have been £19m, 6.5% of South West Water's annual turnover).

Performance figures enforcement

In addition to the wastewater enforcement case described above, we have an open enforcement case into South West Water to investigate the accuracy of performance figures. The performance figures in question are those the company reported for its leakage and per capita consumption (PCC) performance for the regulatory reporting period 2021-22. Companies have outcome delivery incentives linked to performance in these areas as part of their price controls, receiving outperformance payments for exceeding targets and incurring underperformance payments where they miss their targets. This investigation follows Ofwat's determining in November 2022 that we would defer our decision on these performance commitments for South West Water to ensure the reported values represent the most accurate record for the period concerned.

The investigation continues to be a priority for Ofwat, and we are working as quickly as we can to progress the case. As ever with investigations, our timetable is dependent on a range of factors - such as whether we need to gather further information, and the next steps we decide to take to deliver the best outcomes for customers and the environment. Final decisions on our investigation will follow in due course.

You can find updates regarding the investigation, when they become available on our website.

Financial resilience

In terms of company debt, companies are responsible for being financially resilient. This requires them to be prudent and have long-term financing structures in place. For a number of companies in the sector, this is embedded in how they operate, with a strong equity base and strong investment grade credit ratings. At the same time several companies do need to take action to address weak financial resilience, and we monitor closely the steps they are taking.

In our Monitoring Financial Resilience Report 2024-25, we categorised South West Water as standard – the same categorisation as in 2023-24. This means we had no specific concerns with the financial resilience of the company that we were aware of at the time, and no specific company action was expected to be required at the time.

Executive remuneration and dividends

I also note your comments about executive bonuses and shareholder dividends at water companies. In 2023, we strengthened the dividend policy condition in all company licences to require companies to link dividends with their performance for customers and the environment.

In setting price controls, we must make a judgement on what is a reasonable rate of return on the capital that investors have provided. This return must be sufficient for the company to attract investors and lenders to finance the investment programmes. The level of dividends which a company pays makes no difference to the amount which companies can charge customers, which is determined by Ofwat. We also have powers to stop the payment of dividends if they would risk the company's financial resilience.

Ofwat's new performance-related executive pay (PRP) prohibition rule came into force in June 2025 following the passage of the Water (Special Measures) Act 2025. This rule requires water companies to prohibit PRP, such as annual bonuses, for directors who are members of the regulated company's board when the company fails to meet certain standards.

Special Administration

I acknowledge the Council's request for South West Water to be placed into special administration (SAR). As a regulator we have different mechanisms that we can use to hold a company to account, whether that be through board and SLT level meetings, through to formal enforcement action. We are continuing to work through the mechanisms available to us in the case of South West Water, including monitoring its compliance with undertakings provided in our wastewater enforcement case.

The ultimate sanction in relation to a breach of a principal duty or enforcement order is an application for SAR under section 24 of the Water Industry Act 1991. It is only with the consent of the Secretary of State that Ofwat may apply to the High Court for a SAR order. The High Court can only make a SAR order in certain circumstances, including where it is satisfied that there has been or is likely to be a breach of a principal duty or an enforcement order where, in either case, it is serious enough to make it inappropriate for the company to continue to hold its appointment or licence, or the company is or is likely to be unable to pay its debts. These are high bars. While the SAR order is in force, the affairs, business and property of the company will be managed by a person appointed by the High Court pending the rescue of the company or transfer of the relevant parts of the company's undertaking to another company or companies.

Ofwat update

Ofwat is working with the UK and Welsh governments on the implementation of water reforms while strengthening our collaboration with partner regulators.

Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment.

Thank you once again for writing. I hope you find this information useful and should you require any further information, please do not hesitate to get in touch.

Yours sincerely

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