

Report on performance of Dŵr Cymru

February 2024



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February 2024



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddClimate

Current Committee membership:



**Committee Chair:
Llyr Gruffydd MS**
Plaid Cymru



Janet Finch-Saunders MS
Welsh Conservatives



Huw Irranca-Davies MS
Welsh Labour



Delyth Jewell MS
Plaid Cymru



Jenny Rathbone MS
Welsh Labour



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Chair's foreword

The water sector in England and Wales is facing a crisis. Following years of underinvestment in ageing infrastructure, mounting debts for some of England's largest companies, and under-performance becoming the norm rather than the exception, the future of the sector has never been more uncertain.

The 'not-for-profit' status of Dŵr Cymru means it has escaped some of the heavy criticism of many of its debt-laden privately-owned counterparts. But, recent performance reports show it's barely treading water when it comes to delivering for its customers and the environment. Pollution, leakages, drinking water quality and supply interruptions are just some of the issues Dŵr Cymru is struggling with. Add to this growing public anger over sewage discharges and there's only one conclusion to be drawn - Dŵr Cymru seriously needs to up its game.

It's only fair to acknowledge the pressures facing the water sector. Extreme weather events and temperatures resulting from climate change are wreaking havoc on the ageing water and sewage system. But with the effects of climate change set to worsen over the coming years, Dŵr Cymru needs to find long-term sustainable solutions that are affordable to customers. It's a challenging task, but it's one Dŵr Cymru must rise to.

Increases in customer bills are never welcome - even less so during a cost-of-living crisis. With investment in infrastructure sorely needed, regrettably, there's no escaping them. Customers will, quite rightly, expect to see more for their money.

As public and political scrutiny of the water sector is set to continue, there is no room for complacency. Dŵr Cymru must work harder and faster to return to an industry leader in environmental performance - something it has already demonstrated it's capable of. It must make strides to rid itself of the unenviable label of 'lagging' for overall performance, and sooner rather than later. Anything less simply won't cut it.

Our report includes a series of recommendations to Dŵr Cymru and its regulators aimed at improving the company's performance and ensuring better accountability. We expect all parties to respond positively and decisively to our recommendations.



Llyr Gruffydd MS

Chair, Climate Change, Environment, and Infrastructure Committee

Recommendations

- 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..... Page 20
- 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. Page 20
- Recommendation 3.** Dŵr Cymru should commit to setting a more stretching target for reducing pollution incidents by 2030 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.....Page 21
- 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.Page 21
- 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.....Page 21
- Recommendation 6.** Ofwat should clarify whether and how its performance-related pay recovery mechanism applies to Dŵr Cymru, given its ‘not-for-profit’ status.....Page 21
- 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.Page 21

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. Page 30

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. Page 30

Recommendation 10. The Welsh Government should consider extending NRW’s enforcement powers to enable the regulator to accept environmental undertakings for permit breaches under the Environmental Permitting Regulations (England and Wales) 2016. It should report back to the Committee on the outcome of its consideration..... Page 30

Recommendation 11. NRW should review its regulatory and environment response to the issues at Cardigan Wastewater Treatment works with the aim of learning lessons. It should report back to the Committee on the findings of the review..... Page 30

Recommendation 12. The Minister should provide an update on action taken to relieve pressure on the sewage system since the publication of the Committee’s *Report on storm overflows in Wales* (March 2022). This should include progress towards implementation of the recommendations arising from the review of Sustainable Drainage Systems. Page 30

1. Introduction

- 1.** Dŵr Cymru is a water and sewerage company covering most of Wales and some adjoining areas of England. It serves over three million people and, since 2001, has been owned by Glas Cymru, a single-purpose company formed to own, finance and manage Dŵr Cymru.
- 2.** Following reports of a decline in Dŵr Cymru's performance and recent media coverage of 'illegal spillages of untreated sewage' from several of its Wastewater Treatment Works ('WwTW'), the Committee agreed to undertake a short piece of work to consider these and related matters.

Our approach

- 3.** On 9 November 2023, the Committee held evidence sessions with representatives of Dŵr Cymru, Natural Resources Wales ('NRW') and Ofwat. Further details can be found at the end of this report.
- 4.** We would like to thank all organisations for their continuing engagement with the Committee in this policy area.

2. How is Dŵr Cymru performing?

About Dŵr Cymru

5. Dŵr Cymru is responsible for maintaining the water and sewer network, ensuring there is sufficient capacity and meeting legislative and environmental obligations. Its asset base is extensive, with over 36,000km of sewers and 27,000km of water mains, over 800 wastewater treatment works, 69 water treatment works, 2,300 storm overflows, and over 2,500 sewerage pumping stations, with almost 3,500 environmental permits associated with them.

6. Unlike other water and sewage companies in Wales and England, Dŵr Cymru is a 'not-for-profit' and has no shareholders. Its corporate governance functions are the responsibility of its Board, which has a majority of independent non-executive directors, and its Members, around 50 individuals appointed following a process undertaken by an independent membership selection panel.

Who oversees Dŵr Cymru's performance?

7. NRW is responsible for regulating Dŵr Cymru's operations in Wales. NRW monitors Dŵr Cymru's activities to minimise the impact their assets and activities have on the environment. It does this by checking Dŵr Cymru's environmental performance throughout the year in areas such as reducing pollution incidents, complying with permits and licences and delivering environmental improvement schemes.

8. Ofwat (or the Water Services Regulation Authority) is the economic regulator for Wales and England. It operates independently of industry and the UK and Welsh Government, but within a policy framework set by UK and Welsh Ministers. Its duties include protecting the interests of consumers, ensuring that water companies carry out their statutory functions, and furthering the resilience of water companies. Ofwat has a range of powers, including setting price limits and performance targets through the five-yearly Price Review process.

9. Both regulators monitor Dŵr Cymru's performance and publish annual reports comparing it with the rest of the industry. If performance fails to meet the expected standards regulators have a range of enforcement options at their disposal, up to and including prosecution.

Latest performance reports

10. In July 2023, NRW published its [Annual environmental performance report for Dŵr Cymru Welsh Water 2022](#). The report shows Dŵr Cymru achieved a 2-star overall company rating, which means “the company requires improvement”. This compares to a 3-star rating in 2021 and a 4-star rating in 2020.

11. The table below summarises Dŵr Cymru’s performance in 2022.

EPA metric	2022 result	Comparison to previous years’ performance
Metric 1: Total pollution incidents (sewerage)	25 (Amber)	Dropped back to amber after achieving green for 2 years
Metric 2: Serious pollution incidents (sewerage and water supply assets)	5 (Red)	Dropped to red after being amber last year and green for 2 years prior
Metric 3: Self-reporting of pollution incidents (sewerage and water supply assets)	69% (Amber)	Remained amber
Metric 4: Discharge permit compliance (numeric)	98.5% (Amber)	Remained amber
Metric 5: Satisfactory sludge use and disposal	100% (Green)	Excluded metric 2018-2020, green shadow metric in 2021
Metric 6: Asset Management Plan National Environment Programme Delivery	100% (Green)	Remained green
Metric 7: Supply Demand Balance Index	100% (Green)	Remained green
Overall company star status	2-star	Dropped to 2-star after achieving 3-star in 2021 and 4-star for the first time in 2020

Key: Metric status

Green	Performance better than target
Amber	Performance below target
Red	Performance significantly below target

Key: Overall company star rating

4-star	Industry leading company
3-star	Good company
2-star	Company requires improvement
1-star	Poor performing company

(Source: [Annual environmental performance report for Dŵr Cymru Welsh Water 2022](#))

12. Headline messages from the report include:

- The total number of sewerage pollution incidents (category 1-3) metric saw a deterioration in performance, dropping from green in 2021 to amber. Pollution incidents increased by around 7% compared to 2021, with 89 incidents (84 of these were categorised as having a low environmental impact, five were classed as having a high or significant impact).
- There were five serious sewerage pollution incidents (i.e. having a high environmental impact) meaning performance for this metric also deteriorated, dropping from amber to red; and
- Self-reporting of pollution incidents performance also saw a deterioration. This metric remained at amber, but self-reporting dropped by 7% compared to 2021.

13. Shortly after the report was published, the Committee wrote to Dŵr Cymru to express concern at the decline in its environmental performance. Dŵr Cymru responded on 4 August 2023.

14. Each year, Ofwat looks at the performance of the 17 largest water and wastewater companies and produces a Water Company Performance Report. It categorises companies' performance as 'leading', 'average' or 'lagging' against a set of common metrics, including pollution incidents, customer service and leakage.

15. In September 2023, Ofwat published its Water Company Report for 2022-23. It shows Dŵr Cymru is one of seven companies that have been categorised as 'lagging', meeting just five of its 12 key performance targets. This is the second year Dŵr Cymru has been in the bottom category.

Performance related pay

16. Latterly, Ofwat has taken steps to "crack down on inappropriate pay outs in the sector" in the form of performance-related pay. It has introduced a performance-related pay recovery mechanism in relation to 2023-34 pay onwards to ensure that shareholders, not customers, will pay for water company executive bonuses where they do not meet expectations. Dŵr Cymru's 'not-for-profit' status means it does not have shareholders.

17. In May 2023, Dŵr Cymru announced that Peter Perry (Chief Executive Officer) and Mike Davis (Chief Finance Officer) would not receive performance-related pay for 2022-23.

18. In November 2023, Ofwat published its report, **Protecting customer interests on performance-related executive pay: 2022-23 assessment**. The report assesses how performance-related pay awarded to water company executives during 2022-23 was aligned to delivery for customers and the environment, and overall company performance. According to the report, Dŵr Cymru achieved 80% alignment. In any event, as outlined above, company executives waived their entitlement to performance-related pay for that year.

Future investment plans to improve performance

19. Every five years water companies set out their plans for how much they will charge customers, and what they will deliver, through the 'Price Review process'.

20. The majority of water companies operate as monopolies, meaning that most consumers have no choice of provider. Ofwat therefore sets price limits that each individual company can charge. It does this by scrutinising water companies' business plans, and balancing the need for affordable water and sewerage services with the investment the companies need to make, maintain and improve infrastructure and meet environmental standards. The extent to which Ofwat is balancing these needs effectively is the subject of continuing debate. Ofwat has come under criticism for focusing on the desire to keep customer bills low at the expense of investment in infrastructure, which is urgently needed.

21. In October 2023, Dŵr Cymru submitted its proposed Business Plan for 2025-2030 to Ofwat as part of the current Price Review (PR24). According to Dŵr Cymru, if approved, its Business Plan will result in the company's biggest ever investment programme, worth £3.5 billion over the five years, which will be equivalent to a 68% increase on the investment in 2020-2025.

22. A key focus of the Business Plan is "to adopt a collaborative approach to reducing its impact on the environment, in particular playing its part in helping improve river water quality". Dŵr Cymru is committing to invest nearly £1.9 billion in the environment in 2025-2030, which is 84% more than in 2020-25. This will include substantially reducing phosphorous discharges from wastewater treatment to rivers in Special Areas of Conservation and starting on a multi-Asset Management Plan programme to stop its network of 2,300 storm overflows causing ecological harm to rivers in its operating area.

23. Based on current performance (2022-23), Dŵr Cymru's other key commitments by 2030 include:

- Improving drinking water compliance and reducing by 57% contacts from customers about tap water quality;
- reducing leakage by a quarter in its network (against 2019-20 baseline) and helping customers address leaks in their homes and businesses;
- reducing the total number of pollution incidents by 24%;
- working towards a 'lead free Wales' by replacing 7,500 customers' lead pipes;
- delivering £42 million of savings on operating costs through efficiencies and innovative ways of working;
- contributing £13 million a year between 2025-2030 to help maintain its social tariffs schemes and provide capacity to increase their coverage from 133,000 to 190,000 customers.

24. To fund the investment programme, the average monthly customer bill will increase by £5 in 2025, and £10 by 2030. However, Dŵr Cymru plans to increase the support it provides to customers through its social tariff schemes, using funding made possible by its 'not-for-profit' status.

Evidence from Dŵr Cymru

25. Peter Perry (Dŵr Cymru) told the Committee, "we were very, very disappointed to drop down to 2 star".¹ He explained the downgrading was primarily as a result of the increase in the number of serious pollution incidents. He said, "this is not what I would call a massive increase. We don't want any, to be honest with you—we don't want any at all. But when you think of 36,000 km of sewer, to have five incidents on there—. It's five too many, let me be clear—".²

26. Peter Perry highlighted the need to take into account the drought and high temperatures experienced in 2022 when assessing Dŵr Cymru's pollution performance. He explained:

"During the drought we saw some of the lowest ever river levels in Wales whereby any blockage leading to a sewage spill had a

¹ Record of Proceedings (RoP), paragraph (para) 56, 9 November 2023

² RoP, para 56, 9 November 2023

*higher impact. Similarly, the lower flows in sewers saw our blockage rate increase by 7% leading to an increased risk of pollution”.*³

27. Steve Wilson (Dŵr Cymru) said “The blockage problem of the sewer network is still the biggest cause of pollution in Wales”.⁴ He set out a range of actions Dŵr Cymru is taking to reduce the number of blockages, including more regular flushing of the sewer network; better identification of blockage hotspots; and increased monitoring. Peter Perry said a ban on wipe wipes “would be more than welcome” in order to help reduce the number of blockages.⁵

28. Peter Perry told the Committee the greatest risk in terms of future pollution incident lies with failure of a number of strategic sewage pumping mains, including the South East Wales Coastal Main. He said over £150 million planned investment has been included in Dŵr Cymru’s Asset Management Plan for 2025-2030 to address this.

29. Peter Perry expressed disappointment at the decline in Dŵr Cymru’s self-reporting in 2022. He explained with the drought conditions and low river levels pollution incidents were more visible and reported directly to NRW by the public. He added that since the Covid-19 pandemic “people are reconnecting with their local environment”⁶ and therefore are more likely to report potential pollution incidents to NRW.

30. Peter Perry outlined actions Dŵr Cymru is taking to increase its ability to self-report, for example, using new technology such as CCTV at remote assets or on treatment works outfalls where standard telemetry equipment is not effective.

31. In terms of improving Dŵr Cymru’s environmental performance, Peter Perry told the Committee, “we are targeting returning to a 3-star performing company in 2024 and our AMP8 investment plan [for 2025-2030] will allow us to further target returning to a 4-star company”.⁷

32. In commenting on Ofwat’s categorisation of Dŵr Cymru’s performance as ‘lagging’, Peter Perry said, “We’re not at all comfortable having our performance in

³ Written evidence, Dŵr Cymru

⁴ RoP, para 62, 9 November 2023

⁵ RoP, para 69, 9 November 2023

⁶ RoP, para 60, 9 November 2023

⁷ Written evidence, Dŵr Cymru

a number of areas not where it should be, and I want to reassure the committee that not only do we take it seriously, but we have plans to address those”.⁸

33. Peter Perry highlighted drinking water quality, water supply interruptions and pollution as some of the areas in which Dŵr Cymru had not performed in line with its commitments. He identified supply interruptions as “one of our real challenges”, citing climatic changes and water mains “nearing the end of their lives” as contributing factors to interruptions in west Wales in December 2022.⁹ He explained:

“At present, around 45 per cent of our supply interruptions occur on our network in the west, and that’s something we’ve got to seriously address. This isn’t just about fixing those mains, this is about replacing that infrastructure. So, we’ve got a clear plan. As soon as we get the green light from Ofwat for that investment, as part of the price review 2024 process, we will be starting.”¹⁰

34. Peter Perry emphasised that replacing the water mains will take time, “So, getting back to the place that we’ve been in the past, in terms of performance, is probably going to have a trajectory of at least a couple of years”.

Evidence from the regulators

35. In commenting on Dŵr Cymru’s latest annual environmental performance report, Gareth O’Shea (NRW) said, “we are not happy with a 2-star performing company, and we are not happy with the impact of that on the environment in Wales”. He added:

“Our ambition for [Dŵr Cymru] is clear. We want zero serious pollution incidents. We want more self-reported incidents...We have a tripartite meeting with Ofwat, a regulatory meeting, once a year. We’re really clear on our position on that. We get invited to the sub-group of the Dŵr Cymru board, and we’re quite challenging in that environment...Now, we seek assurances.”

36. When asked what action NRW is taking to address the decline in Dŵr Cymru’s performance, Gareth O’Shea told the Committee the regulatory process

⁸ RoP, para 66, 9 November 2023

⁹ RoP, para 67, 9 November 2023

¹⁰ RoP, para 68, 9 November 2023

has led to the companies planned “record investment”¹¹ in its Asset Management Plan for 2025-2030.

37. David Black said Dŵr Cymru’s recent performance was “a cause for concern”. He explained Dŵr Cymru will incur underperformance adjustments which reduce customers’ bills where they do not meet committed levels of service. He added “we will also look at enforcement action, should we think that their failures actually cross the line and mean they’re failing to comply with their legal obligations”.¹²

38. David Black told the Committee, “We’re interested in effecting change. We’re interested in seeing Dŵr Cymru turn around its performance. It’s not just about holding them to account; we want to see them improve, we want to see them deliver for customers and the environment in Wales”. He explained Dŵr Cymru was required to prepare a service commitment plan to identify “what’s driving their failures...and then getting Dŵr Cymru to commit to addressing those performance issues”.¹³

39. When asked whether there are limitations to Ofwat’s regulatory and enforcement role given Dŵr Cymru’s not-for-profit status, David Black said:

“We think the regulatory framework we’ve got can and does work for Dŵr Cymru, but, equally, like any company, they can get into a situation where they’re not performing as they ought to be for customers and the environment, and that’s when we’ll step in.”¹⁴

40. David Black said “there are differences between a for-profit ownership model and the Dŵr Cymru model” and “as a regulator, we need to be conscious of that when we’re regulating the company, and we are”.¹⁵ He highlighted the “ability to recycle returns back to customers” as a benefit of Dŵr Cymru’s ‘not-for-profit’ status and the absence of shareholders to drive performance and hold managers to account as a ‘gap’. He added, the ‘not-for-profit’ model “shouldn’t excuse poor performance and it shouldn’t excuse inefficiency”.¹⁶

¹¹ RoP, para 179, 9 November 2023

¹² RoP, para 279, 9 November 2023

¹³ RoP, para 279, 9 November 2023

¹⁴ RoP, para 281, 9 November 2023

¹⁵ RoP, para 295, 9 November 2023

¹⁶ RoP, para 320, 9 November 2023.

Our view

Overall performance

The pressures facing water companies in Wales and the rest of the UK are well-known: archaic infrastructure, population growth and the effects of climate change. Nonetheless, water companies have statutory duties to fulfil, regulatory requirements to adhere to, and service commitments to meet. Based on Dŵr Cymru's latest performance reports, it is struggling with some of these.

Within a two-year period Dŵr Cymru's environmental performance, assessed by NRW, has dropped from a 4-star 'industry lead' rating to a 2-star rating, with the company classed as in need of improvement. Not only that, its wider performance has been categorised as 'lagging' by Ofwat for the second year in a row. This is deeply disappointing. Dŵr Cymru's current level of performance must not become the norm.

We note Dŵr Cymru's planned investment for 2025-2030 is at a record level and is more than double the level of its current investment programme. While this is encouraging, ultimately Ofwat will have the final say. The task of balancing the financial needs of customers during a cost-of-living crisis with the need for infrastructure investment is an unenviable one. While increases in customer bills are never welcome, the water and sewage system requires urgent investment. We expect Ofwat to play its part in ensuring that sufficient investment is made available for 2025-2030.

We are mindful that Dŵr Cymru's planned investment will result in an increase in customer bills, which are already among the highest across the sector. We were therefore pleased to hear the company plans to increase capacity of its social tariff schemes to help mitigate the impact of bill increase on customers who are already struggling with affordability.

The planned investment will, we hope, enable much-needed improvements in infrastructure and, in the medium-term, enable the company to address on-going challenges, such as supply interruption, which are impacting on its current performance. We expect, however, to see more immediate improvements in Dŵr Cymru's pollution and self-reporting performance. Anything less than a return to a 3-star rating for its environmental performance in 2024 would be unacceptable. We look forward to the publication of Dŵr Cymru's service commitment plan. We would like Dŵr Cymru to report back to the Committee on progress towards delivery of the plan.

We intend to keep Dŵr Cymru's performance under review and will hold a further session with the company as and when required.

Pollution

We are concerned about the increase in serious pollution incidents, which was one of the main reasons for Dŵr Cymru's downgrading to a 2-star rating. Despite Dŵr Cymru's assertion that the increase was 'not massive', by definition, these incidents had a 'high' impact on the environment. Downplaying the increase is unhelpful and serves only to undermine Dŵr Cymru's assertion that it is not complacent regarding its decline in environmental performance.

We acknowledge the drought and high temperatures experienced in 2022 meant pollution incidents had a higher environmental impact. However, this does not make the increase any less concerning. On the contrary, we know the effects of climate change are only predicted to worsen, increasing the risk of serious pollution incidents. We would welcome an explanation of how Dŵr Cymru is planning against future climate change pressures to mitigate this risk.

We note Dŵr Cymru's commitment by 2030 to reduce the total number of pollution incidents by 24%, providing a 'target' of 69 incidents or less. This lacks ambition. There is only one acceptable level for pollution incidents: zero. We expect Dŵr Cymru to work harder and faster to achieve zero pollution incidents.

Three of the five serious pollution incidents in 2022 were caused by blockages. Blockages are the main cause of pollution incidents, with wet wipes accounting for the overwhelming majority. We are aware that the Welsh Government has recently consulted jointly with the UK Government, the Scottish Government and the Department of Agriculture, Environment on a proposed ban on wet wipes containing plastic. We are pleased that progress towards a ban is finally being made. Once implemented, the ban will help eliminate pollution incidents, making zero pollution incidents an achievable ambition. We would welcome clarification from the Welsh Government on the timeframe it is working towards for the introduction of the proposed ban.

The 'not-for-profit' model

It is important to recognise that Dŵr Cymru's 'not-for-profit' model sets it aside from other water companies in Wales and England, which are privately-owned. Dŵr Cymru benefits from not having to pay dividends to shareholders. Instead, any financial surpluses can be used to accelerate investment and provide

additional funding for social tariffs. Nevertheless, the 'not-for-profit' model should not become an excuse for under performance.

While we acknowledge that no model is perfect, Ofwat's suggestion of an 'accountability deficit' arising from Dŵr Cymru's 'not-for-profit' status is a cause for concern. We expect Dŵr Cymru's internal governance arrangements to be sufficiently robust to hold company executives to account and to drive performance improvements. We seek assurance from Dŵr Cymru on this issue.

Performance-related pay

We are aware that performance-related pay is a contentious issue and it is not something we have considered in any detail. However, the practice of awarding bonuses to company executives who are failing to meet their commitments cannot be allowed to continue. At a time when households are struggling with the cost of living crisis, and customer bills are expected to rise, the awarding of eye-watering bonuses to under-performing executives does nothing to build public trust in the sector. We are pleased, therefore, to see Ofwat finally making progress in tackling this issue, including through the introduction of its performance-related pay recovery mechanism. However, it is unclear whether and how this mechanism applies to Dŵr Cymru, given its 'not-for-profit' status. We seek clarification from Ofwat on this.

We are encouraged by the findings of Ofwat's report on PRP for 2022-23, which shows Dŵr Cymru had an 80% alignment to delivery for customers and the environment, and overall company performance. Nevertheless, there is room for improvement. We would like to see a year-on-year improvement in Dŵr Cymru's current weighting, with an ambition to achieve 100% alignment. We acknowledge that Dŵr Cymru executives waived their entitlement to PRP for 2022-23, given the company's decline in performance. This is an important step in building public trust in the company.

Recommendations

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.

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.

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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.

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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.

3. Continuing public concern over sewage discharges

'Illegal spillages of untreated sewage'

41. On 19 October 2023, it was reported that Dŵr Cymru “admitted illegally spilling untreated sewage at dozens of treatment plants for years”. The analysis that led to the report was undertaken by Professor Peter Hammond from campaign Windrush Against Sewage Pollution ('WASP').

42. Data on 11 Dŵr Cymru Waste Water Treatment Works ('WwTW'), obtained by Professor Hammond through Environment Information Regulation (EIR) requests, showed “2,274 days with permit breaches involving discharges of untreated sewage” from 2018 to 2023. According to WASP, 77 (3.4%) were dry spills, i.e. no rain on the day or day before the spill with treatment flow above capacity, and the remaining 2,197 (96.6%), were early spills, i.e. treatment flow was below capacity at some point during the spill. The data also showed the number of days with illegal spills reduced each year by 10% to 20%, with the exception of Abererch, which increased in 2022, and Cardigan. Professor Hammond explained that “Cardigan was particularly bad, spilling for more than 200 days each year from 2019-2022”, referring to it as “the worst sewage works I've come across in terms of illegal discharges”.

43. Both Dŵr Cymru and NRW released statements in response to the media reports.

44. On 24 October 2023, it was reported that Dŵr Cymru had breached its permits more than 200 times in the last six years but had only been fined twice. In response, Dŵr Cymru admitted it currently has “between 40 and 50 wastewater treatment plants currently operating in breach of their permits”.

Ongoing action to reduce the impact of storm overflows

45. In June 2021, the Welsh Government set up the Better River Quality Taskforce ('the Taskforce'), whose membership includes water companies operating in Wales, NRW and Ofwat. The role of the Taskforce is to evaluate the current approach to management and regulation of storm overflows in Wales and develop plans for change and improvement. In July 2022 the Taskforce published action plans for each of the five areas identified as requiring additional action.

46. In line with the action plans, in October 2023, NRW issued water companies in Wales with new, tightened guidance about the conditions in which it is acceptable for a storm overflow to spill. It also issued guidance on unpermitted overflows, including the actions water companies must take to inform NRW of newly identified, unpermitted overflows.

47. In the same month, the Welsh Government published its [Storm Overflows in Wales Report](#) (also known as ‘the Stantec report’). The report compares the costs and benefits of different policy options for the regulation of storm overflows. The Welsh Government’s current approach of tackling those storm overflows causing environmental harm is identified as the most affordable, with an estimated cost of between £1.5 billion and £2.7 billion. According to the report, this would permanently add between £30 and £90 to a typical household water bill.

48. In welcoming the publication of the Stantec report, the Taskforce said:

“In order to achieve the results we need for managing storm overflows, there are no short-term fixes; we need to take a long-term approach. We will now carefully consider the options to scope out the appropriate next steps, including how the options could align with the proposed business plans for 2025-30 submitted by water companies to Ofwat on 2 October.”¹⁷

49. In a [letter](#) to the Committee, dated 18 December 2023, the Minister for Climate Change said the Taskforce is reviewing the Stantec report “with a view to developing an achievable and affordable short-, medium- and long-term programme for the prevention of ecological harm of our riverine waters”. She added, “The programme and priorities will be communicated more widely in due course”.

Evidence from contributors

Cardigan WwTW

50. In commenting on the Cardigan WwTW, Peter Perry told the Committee, “The situation at Cardigan is unusual, because this isn’t a matter of flow necessarily coming into the works from infrastructure; this is saline intrusion from the sea into the network surrounding Cardigan”.¹⁸ This affects the treatment process and can

¹⁷ [Written Statement: Publication of the Storm Overflow Evidence Report for Wales. Welsh Government. 26 October 2023](#)

¹⁸ RoP, para 7, 9 November 2023

result in the site not having the capacity needed to deal with wastewater entering the WwTW, which can cause storm overflows to discharge more than they should.

51. Peter Perry emphasised Dŵr Cymru had “initiated the proper regulatory process”, by reporting issues at the Cardigan WwTW to NRW “As soon as we became aware [of them]”.¹⁹ Gareth O’Shea confirmed this.

52. Peter Perry and Gareth O’Shea summarised the actions taken by Dŵr Cymru and NRW in relation to Cardigan WwTW from the time the issues had been identified up to October 2023. Peter Perry told the Committee:

“This is a complex process; it’s a live treatment works. But, all the way through, we’ve agreed a series of actions with Natural Resources Wales in an attempt, as soon as we knew, to try and fix this. I want to emphasise that. We haven’t been complacent about it. It’s taken some time, but these things do...”²⁰

53. Peter Perry and Gareth O’Shea explained that, despite Dŵr Cymru complying with enforcement notices and taking the required remedial action, it became evident that the issues at the site were unresolvable. It was therefore agreed that the WwTW would need to be replaced. Peter Perry said Dŵr Cymru was investing £20 million in the rebuild, with work commencing in 2025.

54. When asked why it had taken so long to identify an appropriate resolution, Gareth O’Shea said, “it was a complex site. We thought the notices...would have resolved the problem, but obviously they didn’t. But we kept going via that mechanism because we believed it was the best way of securing the outcome”.²¹ He added, “[the regulatory and enforcement process] has worked in getting the investment into the system, and the plant will be delivered”.²² Gareth O’Shea explained NRW had not chosen to prosecute “on the factors available to us and on the fact that we believe [the enforcement options utilised were] the best way of securing the best outcome for the environment in Wales”.²³

¹⁹ RoP, para 7, 9 November 2023

²⁰ RoP, para 7, 9 November 2023

²¹ RoP, para 161, 9 November 2023

²² RoP, para 159, 9 November 2023

²³ RoP, para 159, 9 November 2023

Wider permit breaches

55. Peter Perry told the Committee Dŵr Cymru has a total of 3,500 permits, so the reported 200 permit breaches represents around 6%. He added:

“With that number of permits, with 36,000 km of sewers, 830 sewage works, 2,500 pumping stations and 2,300 CSOs, it's inevitable, with an imperfect infrastructure, you're going to find things. But we've always had a policy of being totally open and transparent. When we find those problems, we flag them. We then work with Natural Resources Wales to prioritise fixing them.”²⁴

56. On the 40 to 50 sites currently operating in breach of their permits, Peter Perry explained:

“... we will get to a point where somewhere between 15 and 20 is all that will be left by 2025, but we have investment to tackle those early in the next regulatory period from 2025 onwards. So, we've got funding to fix nearly half of them; the other half we will fix. And the reason I say this is that some of these will involve complex civil engineering work. This isn't just a simple fix. This is where we will have to construct major civil engineering activity.”²⁵

57. He added, “The others then relate to our unpermitted CSOs, and by and large we will be working through that process during the next regulatory period”.²⁶

NRW's approach to enforcement

58. In supplementary written evidence, NRW highlighted the range of enforcement tools available to address environmental offences, including advice, warning notices, enforcement notices, and prosecution. It explained the choice of enforcement tool “depends on the severity and nature of the offence, as well as the willingness of the offender to comply with regulatory requirements”. NRW said for minor or unintentional offences, “we may see greater benefit in seeking to educate or use less formal approaches”, for example, advice and guidance. However, it added:

²⁴ RoP, para 4, 9 November 2023

²⁵ RoP, para 51, 9 November 202

²⁶ RoP, para 52, 9 November 2023

“NRW is wholly committed to using prosecution for the most serious of offences across those we regulate. We take companies or individuals to court where other enforcement tools have been ineffective or where the offence is particularly serious and in the public interest.”

59. Gareth O’Shea explained that fines resulting from prosecution would return to HM Treasury rather than “go back to [the] environmental issue on the ground”.²⁷ Peter Perry said the use of fines “[strips] the company of much needed finance that could otherwise be invested in improving infrastructure. As a company without shareholders, there is no alternative source of income to cover such costs”.²⁸

60. Both Peter Perry and Gareth O’Shea explained that, unlike the Environment Agency in England, NRW is only able to accept environmental undertakings²⁹ in limited circumstances (i.e. for an offence committed under the Salmon and Freshwater Fisheries Act 1975 leading to fish kill). Peter Perry said:

“This leaves NRW with only prosecution as a last resort, over and above a warning letter or caution, with all fines going to the UK Treasury as opposed to being used on environmental betterment in Wales.”³⁰

61. In its supplementary written evidence, NRW told the Committee:

“At the moment NRW only has limited civil sanction powers and would be keen to work further with [Welsh Government] on opportunities to introduce additional civil sanctions for activities with environmental permits.”³¹

²⁷ RoP, para 195, 9 November 2023

²⁸ Written evidence, Dŵr Cymru

²⁹ An environmental undertaking is a commitment to address the conduct causing the breach in environmental law; rectify the consequences of any breach or restoring the position, e.g., funding an environmental eNGO to improve the environment as a way of “offsetting” the harm caused by the incident; or an offer of reparations to those impacted by the incident.

³⁰ Written evidence, Dŵr Cymru

³¹ Supplementary written evidence, Natural Resources Wales

Reducing the impact of storm overflows

62. Peter Perry explained that Dŵr Cymru had begun a programme of work to reduce the ecological impact of storm overflows. He added:

“The first stage of this programme, assessing the impact of our storm overflows, is underway in the current investment programme with around 800 storm overflows scheduled for investigation. The remaining assessments will be completed in the next investment programme. The results of the first 253 assessments on frequently spilling storm overflows confirms our view that spill frequency on its own is a poor indicator of impact.”³²

63. Peter Perry said the order in which storm overflows were improved was based on their ecological impact and the environmental sensitivity of the receiving water body. Storm overflows with the greatest impact discharging to the most sensitive areas scheduled for investment as early in the programme as possible and those with a lower impact will be improved in successive Asset Management Plan periods.

64. Peter Perry said in Dŵr Cymru Business Plan for 2025-30 it had “tripled the amount we’re going to invest in storm overflows to over £350 million, compared to the current period”.³³ He also asserted, “Our investment programme will ensure that by 2040 we will have reduced the impact of all our storm overflows to “no / very low”.³⁴

65. David Black referred to sewage discharges from storm overflows as “a complex and challenging issue”.³⁵ He added:

“I think the sector’s been slow to respond, so it’s been overly complacent, and I don’t think there’s been enough urgency in addressing the issues; I think that’s starting to change, but there’s still a long way to go.”³⁶

³² Written evidence, Dŵr Cymru

³³ RoP, para 27, 9 November 2023

³⁴ Written evidence, Dŵr Cymru

³⁵ RoP, para 349, 9 November 2023

³⁶ RoP, para 350, 9 November 2023

Our view

In March 2020, we published our *Report on storm overflows in Wales*. It included a series of recommendations to the Welsh Government, water companies and regulators aimed at improving transparency around sewage discharges from storm overflows and reducing their impact. Overall, water companies and regulators responded positively to our recommendations.

Since our report, work on storm overflows has been progressing with the publication and on-going delivery of the Better Water Quality Taskforce's action plans, and publication of the Stantec report. There are encouraging signs that storm overflows are finally being given the attention they deserve. However, recent media coverage of 'illegal sewage spills', in particular from Cardigan WwTW, has thrown storm overflows back into the spotlight and, understandably, has led to criticism of Dŵr Cymru and NRW.

In the case of Cardigan WwTW, Dŵr Cymru and NRW provided us with assurances they had been working to resolve the issue since it was first discovered by Dŵr Cymru over eight years ago. It is only latterly that the decision was taken to rebuild the WwTW as a permanent solution. We acknowledge the complexities involved in this case. However, we question whether Dŵr Cymru and NRW's responses were as swift as they could otherwise have been, which delayed the agreement of a permanent solution. If the rebuild is delivered to time (April 2027), it will have taken well over a decade to fully resolve this matter. This is far from satisfactory.

In our *Report on storm overflows in Wales*, we concluded that public confidence in the current regulatory and enforcement regime was low. The recent media reports on sewage discharges suggest that, since then, not much has changed. Public perception is that Dŵr Cymru is complacent regarding sewage spills and that NRW is reluctant to take strong enforcement action against permit breaches. There is a clear sense that Dŵr Cymru is operating with seeming impunity. Building public confidence will not be easy, but it is a must.

The current approach to tackling sewage discharges from storm overflows prioritises eliminating environmental harm rather than reducing spill frequency. This is based on the premise that spill frequency is not a reliable indicator of environmental harm. The approach seeks to strike the balance between effective action to improve water quality and affordability. We acknowledge that this approach will take time to deliver results and, as evidenced in the Stantec report, will require substantial, long-term investment. Ultimately, costs will be borne by customers in the form of bill increases. Public buy-in is therefore essential. To

achieve this, there needs to be public understanding and acceptance of the approach. We are not convinced this is currently the case. The Welsh Government and its key partners should take action to address this.

Dŵr Cymru's ecological assessments of storm overflows will not be completed for several years, and it will be 2040 before environmental harm from its storm overflows is eliminated. The public will rightly be concerned that progress is not happening quickly enough. Dŵr Cymru needs to reassure the public that its progress is planned and deliberate, and will deliver the results they expect. This will help build public trust.

Enforcement

We welcome NRW's detailed explanation of its approach to enforcement. We are aware that NRW has come under criticism for its progressive approach and apparent reluctance to prosecute Dŵr Cymru for permit breaches. While prosecution is, quite rightly, available to NRW, we do not believe it should be viewed as the ultimate outcome.

It is essential that NRW has available the full range of enforcement options to address permit breaches and improve environmental outcomes. We note that, currently, NRW is not able to accept environmental undertakings for breaches under the Environmental Permitting Regulations (England and Wales) 2016 ('the 2016 Regulations'), unlike the Environment Agency in England. In the right circumstances, environmental undertakings can offer a viable alternative to prosecution, depending on the offence and the harm caused. We believe the Welsh Government should give consideration to this.

Given the seemingly protracted process in reaching a permanent solution to the issues at Cardigan WWTW, we believe NRW should review its regulatory and enforcement response with the aim of learning lessons.

Relieving pressure on the sewage system

We reiterate the views we expressed in our *Report on storm overflows in Wales* that managing demand on the sewage system, and encouraging more efficient use of drains and sewers, will be essential to reduce sewage discharges. This will require cross-sector considerations, including interventions in planning to better address 'urban creep'.

We would welcome an update from the Minister on action taken to relieve pressure on the sewage system since our report. This should include progress

towards implementation of the recommendations arising from the review of Sustainable Drainage Systems.

Recommendations

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.

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.

Recommendation 10. The Welsh Government should consider extending NRW's enforcement powers to enable the regulator to accept environmental undertakings for permit breaches under the Environmental Permitting Regulations (England and Wales) 2016. It should report back to the Committee on the outcome of its consideration.

Recommendation 11. NRW should review its regulatory and environment response to the issues at Cardigan Wastewater Treatment works with the aim of learning lessons. It should report back to the Committee on the findings of the review.

Recommendation 12. The Minister should provide an update on action taken to relieve pressure on the sewage system since the publication of the Committee's *Report on storm overflows in Wales* (March 2022). This should include progress towards implementation of the recommendations arising from the review of Sustainable Drainage Systems.

Annex 1: Oral evidence session

The following witnesses provided oral evidence to the committee on the date noted below. Transcripts of oral evidence sessions and additional written information can be viewed on the [Committee's website](#).

Date	Name and Organisation
9 November 2023	<p>Peter Perry, Dŵr Cymru Welsh Water</p> <p>Mike Davis, Dŵr Cymru Welsh Water</p> <p>Steve Wilson, Dŵr Cymru Welsh Water</p> <p>Gareth O'Shea, Natural Resources Wales</p> <p>Mark Squire, Natural Resources Wales</p> <p>David Black, Ofwat</p> <p>Gwenllian Roberts, Ofwat</p>