



Anthony Browne MP
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David Black
Chief Executive
Ofwat
BY EMAIL

28th September 2022

Dear David,

Re: Water company dividends and executive bonuses

In your consultation on the financial resilience of water companies, you briefly mention the merit of aligning dividend payments with environmental performance. This, I believe, is an essential step in curbing the endemic poor behaviour of water companies. In fact, you need to go further and link the bonuses of senior management to environmental performance as well.

Like many of my constituents, I have been dismayed to hear about frequent, illegal discharges of effluent into our rivers and waterways. In the last year alone, there were 62 incidents deemed 'serious' by the Environment Agency. It is simply unacceptable that the environment is so blatantly damaged, and people's safety put at risk, whilst the water companies pay large dividends to shareholders and bonuses to senior managers.

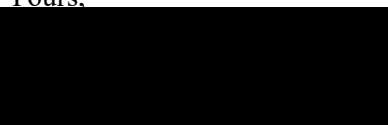
Although the Environment Agency pursued seven prosecutions last year, resulting in £102 million of fines, the penalties are often treated as minor operating expenses by water companies. Six of the seven fines were less than £4 million, which is equivalent to the sums the top executives take home each year. This is an ineffective deterrent and there has been no downward trend in pollution incidents in the last decade; 2021 had the most 'serious' incidents since 2013. New measures are needed that make it more costly to pollute our waterways than invest in adequate infrastructure and maintenance to prevent further incidents.

While I welcomed the privatisation of the water companies and the access to private finance that it provided, the balance between customers and shareholders needs to be redressed. £1 billion in dividends were paid to shareholders in 2021 and water companies have paid out, on average, more than £2 billion per year in dividends since privatisation. It is source of great anger for their customers that they make these payments when they have not kept leakage to reasonable levels and continue to illegally discharge sewage into our waterways.

The most effective way of forcing change is to incentivise key executives by linking the payment of bonuses and dividends to meeting environmental targets. Therefore, you should consider extending the scope of the consultation on financial resilience to include not just dividends to shareholders but bonuses to senior managers. The Environment Agency sets clear environmental targets for the water companies and if they are not met on an annual basis then dividends and bonuses should be capped in that financial year.

The financial incentives should also draw a distinction between meeting environmental targets and making illegal discharges. We must make it absolutely clear to the water company managers that it is unacceptable for them to allow their companies to make illegal discharges, and they should be hit where it hurts: in their pockets. If a water company makes illegal discharges and is fined, then it should be prevented from paying any bonus to senior managers or dividends to shareholders for that year. Bankers rightly lose their bonuses if they break the law. So should senior water company managers.

Yours,



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