



Department
for Environment
Food & Rural Affairs

The Rt Hon Michael Gove MP
From the Secretary of State for Environment, Food
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Jonson Cox
Chairman, Ofwat
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Dear Jonson,

The water sector has rightly come under even closer scrutiny in recent months with growing concern about the behaviour of water companies. The use by some water companies of opaque financial structures based in tax havens and high gearing is deeply concerning. I also share your concern that some water companies have for many years been making excessive profits. Concern about water companies' behaviour will only deepen if the dry weather experienced in the autumn means that some water companies bring in hosepipe bans or other restrictions on customer use.

Ofwat has a key role to play. I am hugely grateful to you for the leadership you have shown. You have been pressing companies hard over the last year or more to change their behaviour, not least where it has a direct bearing on their corporate, financial and operational resilience. I also know that you have been pursuing companies to increase the transparency of the sector and the trust customers can have in it.

We both agree, however, that there is more to be done. Certain behaviour undermines trust, such as:

- Off-shore financial arrangements
- Securitisation
- Highly geared structures
- High levels of executive pay
- High dividend payments

If the current regulatory framework does not provide Ofwat with the powers necessary to tackle these kinds of behaviour properly, then the government will consider what changes could be made. I would therefore be grateful if you could investigate these matters further and come back to me with your findings and any recommendations.

With every good wish,

Michael Gove