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EDITOR: David Ross

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O’HALLORAN: As shortages of water continue, the companies that supply it are back in the news.

EXTRACT FROM NEWS PROGRAMME

REPORTER: Now Thames Water’s performance has been branded unacceptable by the water regulator, OFWAT. The company has announced a 31% rise in profit.

O’HALLORAN: Other water companies have also been recording big profits. But three of them are under investigation over allegations of giving false information to the regulator, OFWAT. The kind of data used to determine charges. So how firm a grip does the regulator have on these monopoly companies to prevent customers being cheated? And are there enough controls on what they’re doing to keep the taps running? File on 4 has learned that water companies are being blamed for causing damage to many of Britain’s top wildlife sites, by taking too much water from rivers and bore-holes.

SIGNATURE TUNE

ELLIS: These stones would normally be fully submerged during the winter, but they've been exposed during the months of February, March, April, which just goes to show how low the level of water is.

O'HALLORAN: Greg Ellis, Estate Manager at Godmersham Park in Kent. Two hundred years ago, the lush green acres here inspired Jane Austen. But in recent times the river which flows through the parkland has been showing signs of stress.

ELLIS: This river we're standing by is known as the Great Stour. I've lived at the side of it for nearly eighteen years now, and I've seen its character change over the years and I've never seen the level of water, winter flow, so low as this year, which has been very worrying, because the flora and the fauna and the fishing and everything else depends on the flow of water.

O'HALLORAN: Kent depends for most of its water supplies on the natural storage capacity of its rocks – mainly the chalk hills of the North Downs. But Greg Ellis fears that water is being drawn from those aquifers faster than they can be recharged by rainfall.

ELLIS: I think the rate of abstraction is far too much for what it will stand. I'm no expert on it, but it seems to me that you can't keep on taking water from a source without replenishing it. And we're obviously ignoring all that.

O'HALLORAN: His view is backed by the Campaign to Protect Rural England, which has its own expert on Kent's water resources. Graham Warren worked here for many years for the Environment Agency and the National Rivers Authority. He says groundwater resources have become more and more overstretched, as water companies have abstracted greater quantities from boreholes.

WARREN: For the last hundred years or more, there's been an increasing rate of pumping from boreholes that have been drilled. The whole of the Downs is peppered, from Dover to London, you might say, with deep boreholes drilled by the water companies to provide domestic water and industry. And the story there is one of

WARREN cont: a progressive increase to the position today, where of all the rain falling on those hills and percolating down into the water table, nearly 100% of that is used for supply one way or another.

O'HALLORAN: So what has happened to the level of water within the aquifer, within the chalk that underlies these green fields and hillsides of the North Downs here?

WARREN: The main water table that the water companies and industry draw from has been getting progressively lower, we know that because the springs and streams that were originally fed from this particular source are drying up. We've looked at the records for the flow of this river and the record for the last thirty or forty years suggests very strongly that the total amount of genuine chalk stream flow has pretty well halved over the period of thirty or forty years. And that's a staggering reduction. Essentially it means over a period of time we are taking water out faster than nature is restoring it.

O'HALLORAN: One of the main companies in Kent, Southern Water, says it's reviewing the amounts it takes from boreholes. But its planning and strategy manager, Meyrick Gough, says he's not aware of any long term decline in flows on the Great Stour.

GOUGH: There hasn't been an annual decrease in flow, there is a fluctuation, so in one year you would see low flows, in the following year you'd see some quite high flows. It really is just during the drought periods that you end up with the lower flows.

O'HALLORAN: But the charts I've seen from the Campaign to Protect Rural England do show ten year averages and those blocks in the last forty, thirty, twenty, ten years come down and down and down in terms of that summer flow. I mean, they've got some good evidence there, by the look of it.

GOUGH: I'd have to have a look at the evidence, but everything that we've seen in terms of the daily flow records that we see on the Great Stour as well as the ground water levels does show this natural variation of levels within the river flows.

O'HALLORAN: So when it's argued that the chalk aquifers are peppered with water company boreholes and that this is having a long term damaging impact on this vital resource, how do you answer that?

GOUGH: Well, all our abstractions from the chalk aquifer blocks are licensed by the Environment Agency, and if they believe that it's having a long term detrimental impact on the environment, then studies are undertaken and licence rates can be cut back or even licences given back, and there is an example over in Hampshire where we actually ended up handing back the licence, where we thought there was some environmental damage. So there are mechanisms in place and at the moment nothing has been flagged up to us.

O'HALLORAN: Southern Water says its main problem has been two very dry winters in a row. By January this year, these had left Kent's largest reservoir, Bewl Water, near Tunbridge Wells, only 35% full, before action was taken to put that right.

ACTUALITY AT BEWL WATER RESERVOIR

O'HALLORAN: Today on a hot sunny day, Bewl Water looks almost back to its maximum level, with people boating on the water and children playing in the leisure areas nearby. It all gives the appearance of normality, but in fact the refilling of this vital reservoir has only been achieved by exceptional measures. They involved the suspension of environmental limits designed to protect the river Medway about ten miles away from here.

Back in the winter, things were so bad that Southern Water decided it must refill the reservoir by pumping water up into it from the distant River Medway. But the flow in the Medway was already low, and to take more would breach the minimum flow permitted by the Environment Agency. So Southern Water applied for a drought permit to get that

O'HALLORAN cont: environmental protection limit lifted. They succeeded, but the move was opposed by the Campaign to Protect Rural England, says Graham Warren, because of the ecological damage it could inflict on the Medway.

WARREN: Our concern was that in order to achieve normality, full capacity in the reservoir, they had to suspend this very important environmental condition and that was our particular concern.

O'HALLORAN: So the effect on the Medway of all that water being taken out to refill this reservoir would be what?

WARREN: Well, such as to reduce it to, in our view, a dangerously low level under those sort of conditions. The point at issue essentially was that this was a panic measure by the water company originating, frankly, from their failure to develop an effective strategy long term that would have made these sort of options unnecessary.

O'HALLORAN: While refilling the reservoir, Southern Water also applied for drought orders to impose restrictions on its customers. Those orders were eventually granted in late May. But then Southern Water announced it didn't yet need to impose them after all. The company denies that it lacks a long term strategy or that it took panic measures over Bewl Water. Meyrick Gough says to combat drought, Southern Water has been mending more leaks and taking other steps to reduce demand from customers. And he at first suggested that a wet spring had been the main factor in refilling Bewl Water.

GOUGH: In May we had 180% of the rainfall that we would normally expect in that month. Now for us, that came late in the season, but it has increased the storage levels in the reservoirs, particularly in Kent, it's helped take Bewl all the way up to being 91%, which for this time of year now is exceptionally high.

O'HALLORAN: But Bewl Water reservoir in Kent is 91% full because you got a drought permit to refill it from the River Medway, isn't it?

GOUGH: No, the drought permit actually ran out in April.

O'HALLORAN: Yeah, but that helped you to massively increase its level after January, didn't it?

GOUGH: It did. The drought permit for Bewl Water did help us to refill.

O'HALLORAN: But by getting a drought permit to refill Bewl Reservoir, you had to get overturned environmental measures designed to protect the River Medway, didn't you, so it must have had an environmental impact, that?

GOUGH: At the drought hearing, we went through all the environmental evidence and it was judged that it would be prudent to grant the order to ensure that the reservoir is refilled. We have undertaken and continue to undertake monitoring on the River Medway. As yet we have not found any significant environmental impact due to the drought order.

O'HALLORAN: But is it possible that you're more willing to take measures which impact on the environment than you are to take measures which impact on the convenience of your customers?

GOUGH: We are doing everything we can to try and improve resources and drive leakage down, so we're not trying to hit the environment all the time.

O'HALLORAN: Nevertheless, the water industry's environmental regulator, the Environment Agency, is worried about the amount of water being abstracted by the companies at hundreds of points, including at boreholes and on rivers. And these extend far beyond the South East of England, says the agency's Water Resources Manager, Ian Barker.

BARKER: We're concerned about levels of abstraction across many parts of England and Wales. We believe there may be some areas where excessive abstraction is occurring, which means it's not sustainable, more water is being pumped out than is going in and the environment is damaged as a result. There are over six hundred sites across England and Wales where we believe there's excessive extraction maybe having an effect.

O'HALLORAN: Conservation groups have told File on 4 that abstraction by water companies is impacting on many of Britain's best wildlife sites. Philip Burston of the Royal Society for the Protection of Birds believes hundreds of sites, including 130 designated as of international importance, are at risk of being left high and dry.

BURSTON: I think it's fair to say that most of our wetland habitats are in very poor condition and a lot of those habitats are reliant upon spring water. That's groundwater welling to the surface. And obviously if you have a public water supply borehole quite close to those sites, then that's drawing down the general level of groundwater and impacting upon the levels of water in the wetland. We've understood the problems for a number of years now, but the systems have not been put in place to reverse those damaging trends and those damaging activities.

O'HALLORAN: And what are you saying should be happening?

BURSTON: The Wetlands we're talking about here, a lot of them are designated as internationally important wetlands under the Habitats Directive, and that came into force in England and Wales in 1994.

O'HALLORAN: Now that's an EU directive?

BURSTON: It is, that's right. The Habitats Directive said that as a member state you had to review all of the different things that could be impacting upon those sites and rectify them if they were identified as causing a problem.

O'HALLORAN: So that EU directive on wildlife habitats has been in force now since 1994?

BURSTON: Yes that's right, for twelve years.

O'HALLORAN: And what has actually happened in terms of improvement?

BURSTON: Unfortunately, nothing.

O'HALLORAN: The Environment Agency says to put things right, it needs to curb or revoke many abstraction licences. To do that it's been gathering scientific evidence at the sites. But it will also need to pay out millions of pounds in compensation, mainly to water companies. It's been told it must raise that money by increasing what it charges for abstraction licences. But, says the Agency's Ian Barker, the government is placing tight limits on how far it can raise its charges.

BARKER: We have the powers within law to reduce or revoke abstraction licences, but when we do so we may be liable to pay compensation, and the compensation can potentially run into many millions of pounds, which we would have to recover from our charge payers. We believe that the total costs of compensating for damaging abstractions is of the order of £450 million, the Habitats Directive sites, but also other sites which are important for wildlife which aren't European designated, but which we believe still matter. In the first instance, government has asked us to concentrate just on the most urgent and damaging sites, totalling some £85 million. Many people are concerned that so far we only have funding for £85 million and we're concerned that we only have that funding and we're in discussion with ministers over extending that.

O'HALLORAN: But is there a danger that if you don't get more than the £85 million in the next few years, then the majority of the sites that are in trouble could be left, in the words of the Royal Society for the Protection of Birds, high and dry?

BARKER: There a risk that the longer the abstraction continues, then the greater the damage that may occur to those sites.

O'HALLORAN: Certainly conservation groups are dismayed by the mismatch between the £85 million sanctioned by the government and the £450 million the agency believes it needs, says Phil Burstson of the RSPB.

BURSTON: Unfortunately the system they came up with to raise those funds seemingly didn't get the approval of Treasury and of DEFRA, because probably it was going to raise the cost for abstraction licence holders by too much in any one year. Unfortunately, how they created the system meant that that was only really going to pay compensation for a small subset of the sites it had identified, and it wasn't even going to cover the full cost of compensating for the priority Habitats Directive sites, so in our view that was a woeful way of trying to implement their duties under the Habitats Directive.

O'HALLORAN: And you're saying the amount of money at the moment available, or likely to be available, isn't going to tackle more than a fraction of those sites?

BURSTON: It would only deal with just a small fraction of those sites. Now if you're talking about the general sustainability of abstraction across England and Wales, that is peanuts compared to the scale of the problem.

O'HALLORAN: There's also a risk that Britain could be ruled in breach of the EU Habitats Directive and be ordered to pay heavy daily penalty charges. A demand for urgent action to save the sites and avoid such EU penalties will be made in a water manifesto, which wildlife groups plan to take to the government in the autumn. It will highlight the lack of practical remedial measures at most sites in the twelve years since the directive came into force. A point I put to Environment Minister, Ian Pearson. Twelve years - that's an awful long time?

PEARSON: It does seem a long time. I agree with that, but the key point ...

O'HALLORAN: Nine of those years with a Labour government in power...

PEARSON: Well the key point that I'm saying to you is that a number of EU countries are looking at how we implement the EU Habitats Directive. And I'm not aware that we're particularly further behind than a lot of other EU member states here. What is important is that we do act to protect the environment and where there

PEARSON cont: is clear evidence of environmental damage, we look to do something about it and that's what the Environment Agency is going to do in the future.

O'HALLORAN: The Environment Agency reckons it needs £450 million to revoke or curb the water abstraction licences for all these sites that are damaged or being damaged. Why has the government really only signalled to them they can raise £85 million?

PEARSON: Well, this is a big programme that will need to take place over the coming years. £450 million is an estimate and it's not necessarily an estimate that will turn out to be the correct one in the fullness of time.

O'HALLORAN: So when the wildlife bodies - and there are really many of them who support this point of view - believe that the sites will be left high and dry under this kind of regime, you respond to them how?

PEARSON: We have no intention of leaving these sites high and dry. What we want to do is to take action where there is clear evidence that there is an effect on the environment.

O'HALLORAN: Of course if Britain were judged to be in breach of the Habitats Directive by the EU, that would mean expensive payments on a daily basis?

PEARSON: Well, I agree with that. We don't want to get into a situation where we see infraction proceedings.

O'HALLORAN: That is a risk at the moment, isn't it?

PEARSON: It is a potential risk at the moment and that is why we want to come up with an action plan to deliver a solution in the future.

O'HALLORAN: Among the wildlife groups there's also concern about more immediate penalties - the level of fines likely to be imposed by the courts when the companies abstract more water than they're legally allowed to.

ACTUALITY OF FISHING REEL AND LINE

O'HALLORAN: On the River Dove, near Burton on Trent, a lone fly fisherman prepares to cast, more in hope than expectation, close to a Severn Trent Water abstraction point. In recent years here, say anglers, flows in the river have often been low. Dave Clark, of the Burton Mutual Angling Association, says that's hit the fishing badly.

CLARK: The area used to be fantastic for fishing. The fishermen were almost shoulder to shoulder, thoroughly enjoying it. Absolutely marvellous catches of fish. And then, sadly, as the water levels declined, fewer and fewer people came here, fewer and fewer people caught the fish, to the point where virtually no one even bothers to come down this stretch of the river at all now.

O'HALLORAN: So what is the cause of the problem here?

CLARK: It's that intake, the Egginton intake owned by Severn Trent.

O'HALLORAN: That's the pumping station.

CLARK: You can see it through the willow trees over there. Back in October 2003 one of our water bailiffs came down to do some fishing. He was that absolutely disgusted that he just didn't even bother putting his tackle up, he just turned round and stormed off and rang me up complaining. He was saying there was virtually no water in the river.

O'HALLORAN: But there are limits to water abstraction set by the Environment Agency. And last year, Severn Trent Water was convicted of breaching them, here on the River Dove in October 2003. The company, whose profits recently rose to over £300 million was at first fined £5,000. That was later cut to £1,250. For Guy Linley-Adams of the Anglers' Conservation Association, the penalty was too small.

LINLEY-ADAMS: Given that they are a big company, they've got all the expertise they have, I think a fine in the thousands - you know £20,000 - would have been much more appropriate and it would have sent a warning to other water companies to say, 'Well look, you can't look at breaches of extraction licence as some sort of occupational hazard, you must avoid doing this'.

O'HALLORAN: The Environment Agency says it too would like to see higher fines. But Severn Trent Water insists it normally takes great care not to exceed the limits. The company's Managing Director, Tony Wray, says it's all tightly regulated.

WRAY: We do not have carte blanche to take water from rivers when we choose, in whatever volume we choose, it is strictly governed, strictly managed and we monitor it and measure it very very carefully. Everybody has a view about what an appropriate level of extraction is. The Environment Agency go to great lengths to determine what the appropriate level is, and in fact in many instances, we're actually part of helping the Environment Agency to moderate and manage the flow on rivers.

O'HALLORAN: So if you monitor things so carefully, how come you over abstracted in October 2003?

WRAY: On a given day the flows on the rivers can be very variable. If you have a downpour, if it suddenly goes dry the flows can change. Sometimes it can be problematic to respond to that. On this one occasion, on one day, we over abstracted slightly, but that's one day out of a whole year. We have an exemplary record of compliance on our abstractions.

O'HALLORAN: You were fined initially £5,000 – it was cut down to £1,250. That seems to the fishermen, some of them, a bit of a pittance.

WRAY: I don't think it is. As I said, we have an exemplary record, this was a change in the flows, it was not possible for us to react quickly, we admitted it. We made it known to the Environment Agency, we acted very quickly.

O'HALLORAN: But meanwhile, Severn Trent Water has a rather bigger problem over leaking pipes.

ACTUALITY OF PIPE-LAYING TEAM

SPORNE: What we've got here is a piece of blue polyethylene pipe that's been installed using a low dig technique. What we've done is replace the old cast iron main with a new pipe fit for the 21st century.

O'HALLORAN: At a crossroads in Stirchley, Birmingham, Nigel Sporne and his Severn Trent Water team are replacing old and leaky pipes. They need to. Because more than a quarter of all the water put into supply by the company escapes into the ground before it reaches the taps.

SPORNE: We have round about 44,000 kilometres of water main and we are replacing round about 0.6% per annum.

O'HALLORAN: By my calculations that means you could take getting on for 140 years to replace the whole network, that's a long time.

SPORNE: It is a long time, it's very similar to painting the Forth Bridge. By the time we get to the end of it, we've got to start again.

O'HALLORAN: The point is, is Severn Trent's leakage rate actually rising or falling at the moment?

SPORNE: The figures that we have just issued show a slight rise. But Severn Trent is putting all the necessary facilities in place to enable us to reduce the amount of leakage.

O'HALLORAN: But what exactly Severn Trent Water's leakage figures have been in earlier years has become the focus of a Serious Fraud Office investigation. OFWAT has also been probing other performance figures the company has given it in the past. Figures which can play a key role in fixing the charges customers pay.

O'HALLORAN cont: It all began when a Severn Trent Water employee, accountant David Donnelly, made serious allegations within the company and to OFWAT in 2004. The whistle-blower later told Radio 4's 'You and Yours' programme that four years earlier he and others had been required to make what he called "certain adjustments" to the accounts. He alleged those altered figures had then been used improperly by Severn Trent Water.

DONNELLY: It became clear to my colleagues that in using the accounts that we'd adjusted, or in some part falsified, the company was now seeking to deceive the Regulator into making a special price increase which wasn't justified.

O'HALLORAN: He claimed that when OFWAT later agreed a price increase, he had decided to gather more evidence. In 2003 and 2004, he said, things got worse.

DONNELLY: Having duped our external auditors and having duped the regulator, the company made its formal submission to increase prices to customers, to OFWAT. I knew customers were being overcharged. I knew customers were likely to be further overcharged going over the forthcoming five years if somebody didn't do something about this.

O'HALLORAN: One of David Donnelly's central claims was that the company had exaggerated the level of its bad debts. At first, Severn Trent Water denied that customers had suffered. However, in March this year, OFWAT announced that the company had "provided data that had been deliberately miscalculated and which meant customers had been overcharged." It ordered Severn Trent Water to repay £42 million to customers. Much of that covered price limits which had been already set in the years up to 2010. But OFWAT said customers had already been overcharged by £2 million up to last year because of deliberate miscalculation. OFWAT also warned the company it faces a major penalty payment – which may run to tens of millions of pounds. Responding to the findings, Severn Trent Water apologised to customers over failures of internal processes, controls, ethics and culture. Four senior executives had left the company. Managing Director, Tony Wray, who joined Severn Trent Water only last year, says there's now been wholesale change there.

O'HALLORAN: Near the outset of the saga, the whistleblower contacted Paddy Tipping, the MP for Sherwood, in Severn Trent Water's region. And since then he has followed developments closely. He believes that what's already come out has damaged OFWAT's reputation.

TIPPING: I'm extremely disappointed and quite shocked. I've got a high regard for OFWAT. I see it as a very professional body, but it's clearly the case that they have not been totally in control of this situation and reliant on other people, the whistleblower and the SFO. On the face of it, it seems that OFWAT are over-reliant on the information produced directly by the company and there's not sufficient double-checking and investigation behind those figures. OFWAT should be involved in that, they say that they are involved in that, but this particular episode doesn't give you confidence. The reputation of OFWAT has been severely damaged and the regulator needs to be reviewed its role, because I'm not sure that it's being rigorous enough and has got a firm grip on the situation.

O'HALLORAN: A second company, Southern Water, is also being investigated by OFWAT and the Serious Fraud Office after it admitted it had misreported information on customer service. And a third, Thames Water, is being investigated by OFWAT over customer service standards and compensation payments to customers. The regulator has warned all the water companies that mis-stating figures can be a criminal offence. In gathering performance data from the industry, OFWAT uses both the companies' own auditors and independent engineering consultants, known as reporters. This is meant to help prevent companies giving false information. But OFWAT chairman, Philip Fletcher, concedes there are now question marks against how well the system works.

FLETCHER: I think certainly that's an issue for us, for the reporters, for the companies themselves. It is a concern to me that it appears a possibility in some cases deliberately inaccurate information was being presented to us over a period of some time.

O'HALLORAN: So are you conceding really that the reporting and auditing system didn't work effectively for a period of possibly years in some cases?

FLETCHER: No, I'm not accepting that it didn't work effectively, I'm saying it didn't do as much as I would have hoped it would do. I regard it as an extremely important safeguard, I think it has done a very good job for customers, but in these cases, you need to learn the lessons, and we will certainly learn them for OFWAT and for the reporters, auditors and the companies themselves on behalf of customers.

O'HALLORAN: So you're saying, are you, that you've identified weaknesses in that system of reporters and auditors?

FLETCHER: Well, I think we're in the course of doing so.

O'HALLORAN: How would you answer Paddy Tipping, an MP in the Severn Trent region? He feels OFWAT lost its grip on the water companies for a time and that these instances prove that?

FLETCHER: Well I would rebut that. I've already made it clear that we're not complacent, but the implication that there is some general loss of grip, loss of proper regulation - that I rebut. I don't think that's justified by what we've found in relation to these three companies, nor the very careful attention which we give to our job of protecting consumers from aspects of monopoly.

O'HALLORAN: The current OFWAT investigations are said to be unprecedented since water privatisation a decade and a half ago. But David Hall, of the Public Sector International Research Unit at Greenwich University, believes the regulator has been misled in a different way by water companies in the past, in relation to their capital spending plans. Plans, which he points out, can play a crucial part in setting the price increases they're allowed by the regulator.

HALL: We can see that consistently in the past, since privatisation in 1989, the companies do seem to have succeeded in persuading OFWAT that they were going to make much higher levels of capital expenditure than they actually have made. As a result of that, they've been able to charge higher prices that provide them with a larger profit, because their capital expenditure has been lower than the assumptions built into the prices. Hundreds of millions of pounds were saved by the companies in this

HALL cont: process. And what happened to it was very simple - it was distributed as profit to the shareholders.

O'HALLORAN: So what you're suggesting really is that figures that turned out to be wrong, that that is nothing new in the water industry when it comes to their dealings with OFWAT?

HALL: No, we see a repeated pattern of this, this pattern of prices set on high forecasts of capital expenditure followed by lower capital expenditure, leading to higher profits for the companies is a pattern we see repeated every five years - review after review after review.

O'HALLORAN: To what extent has this been going on in the last four or five years?

HALL: Capital expenditure has been about 9% below what was projected, which equates to £1.7 billion which the consumer's been charged for, which has not gone into capital expenditure, but gone into company profits.

O'HALLORAN: OFWAT says that if the companies deliver capital projects for less money than planned, this is called out-performance. OFWAT chairman, Philip Fletcher, says that giving companies an incentive to do such work more cheaply than planned helps to deliver value for money for customers.

Isn't it the shareholders who are benefiting time and time again by this repeated undershooting over the years by about 9% on planned capital spending?

FLETCHER: Well the shareholders will benefit if the companies outperform. If the companies fail to perform, if they fail to meet the targets set by the regulator, then they will not get the dividends and the capital growth that they're looking for. That's the way the system works, they take a risk, they assess the risk and they choose to invest or not, and they may find that their assumptions are either exceeded, met or underperformed.

O'HALLORAN: But if this is routine over-estimating of capital expenditure

FLETCHER: This is certainly not routine. On each of the five yearly price limits, OFWAT basing itself on what's been achieved over the period since privatisation - including the last period of five years - has set still more stringent standards. And going forward...

O'HALLORAN: But even so, on the last period there was a capital under-spend of about £1.7 billion.

FLETCHER: But I think what customers should be interested in is what's being done for the money? Are they achieving, are they maintaining their systems properly? And the answer is, broadly yes they are.

O'HALLORAN: Even so, a major company, Thames Water, has just drawn the wrath of OFWAT for failing its leakage targets. Yet another warning from the regulator has gone out. And Severn Trent Water's leakage levels are still well above 25%. So with profits high and the companies under fire from wildlife groups over abstraction, does Environment Minister, Ian Pearson, accept that all is not well with the water industry?

PEARSON: We have a drought in the south-east and that has brought the spotlight onto the water industry. But when you look at long term rates of return for the industry, when you look at leakage rates and the fact that leakage rates have come down by about 20% since 1997, when you look at the capital investment programme which is running at something like £3.6 billion a year at the moment, money is being invested to improve the water environment, to improve water drinking quality, and to tackle leakage as well.

O'HALLORAN: But what do you think fiddled figures and things like over-abstraction, leakage figures of some water companies that are still very high, what do those do for the trust that the customer is supposed to place in the water companies at a time when the customers are being told to use as little as possible and to do everything in their power to conserve water?

PEARSON: Water companies need to recognise that there perhaps isn't the public confidence in the industry as a whole that there should be.

O'HALLORAN: But what the public might ask is whether you, as a government, in view of everything that's happened and everything we've investigated, are any more inclined than you've ever been to do anything tough with the water industry.

PEARSON: Well, I'm certainly not complacent in any way, shape or form about the situation. We made it clear to the water companies that we do believe that there is a public perception issue there in terms of the future of the industry. And we want to see the water companies doing their utmost when it comes to leakage rates. We need to have confidence that the right information is being given to the regulator. We also need to make sure that, when it comes to protecting the environment, that we deal with the problem of over-abstraction - and that's what we're going to do.

O'HALLORAN: If the fiddling of figures or cheating of customers has been confined to a few people in a minority of companies, the government hopes the new powers of OFWAT to impose swingeing penalties of tens of millions of pounds or more will put a stop to it. But the chances seem much lower of the regulators delivering rapid solutions to the problems of damaged wildlife sites, overstretched water resources, and the vast wastage through faulty pipes. And yet the need to get those things right is urgent, because there's evidence that in the last year or so, public trust in the companies has, like the water in the wetland habitats, been ebbing away.

SIGNATURE TUNE