

January 2026

Consultation – Proposed update to Performance related executive pay prohibition rule

About this document

This consultation, issued under section 35C of the Water Industry Act 1991, invites comments on our proposals to update the Performance related executive pay (PRP) prohibition rule to reflect new changes in environmental reporting for "water only" companies (WOCs)¹. If implemented, the changes would require WOCs to prohibit PRP if they have had one or more category 1 incidents affecting water as reported by the Environment Agency (EA) in the calendar year preceding the end of the PRP payment year. This would align with existing requirements for water and sewerage companies in relation to category 1 pollution incidents reported in the "Water and sewerage companies in England: environmental performance" report².

No other changes are proposed and this consultation does not seek views on other changes to the PRP rule. We still intend to commence a review of the entire PRP rule in 2027 which will be subject to a separate consultation.

We are asking for responses to the consultation by 27 February 2026. Subject to consultation, we are proposing the change takes effect for any PRP paid in relation to the 2026-27 financial year.

¹ These are (as at 30 January 2026): Affinity Water Limited, Portsmouth Water Limited, Sutton and East Surrey Water Plc, South East Water Limited, South Staffordshire Water Plc.

² [Water and sewerage companies in England: environmental performance report 2024 - GOV.UK](#)

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Responding to this consultation

We welcome any comments on the consultation questions by 27 February 2026. Please send any responses via email to: RemunerationGovernanceRules@ofwat.gov.uk.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this consultation, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

1. Background

In June 2025, Ofwat implemented our PRP prohibition rule³ ("the Rule"), using new powers inserted into the Water Industry Act 1991 by the Water (Special Measures) Act 2025 to require water companies to prohibit PRP for any director who is a member of the regulated company's board, in certain circumstances. These include when a water company has had one or more category 1 pollution incidents as reported by the EA or Natural Resources Wales (NRW) in their respective annual environmental performance reports which include an Environmental Performance Assessment (EPA) for several core requirements.

There are five WOCs in the water sector currently, all of which operate wholly or mainly in England and are therefore regulated by the EA rather than NRW. The EA does not currently publish an annual environmental performance report nor apply the EPA for WOCs. As such, the Rule's specific trigger on category 1 incidents does not apply to these companies.

Recently, the EA has recently concluded its consultation proposing to annually report on WOC environmental performance for the 2026 to 2030 period⁴. The EA has confirmed that this annual reporting will include how many category 1 "incidents affecting water" each WOC has had in a calendar year. As a result, we are proposing to update the "Environment" trigger of the Rule to require WOCs to prohibit PRP if a category 1 incident affecting water is recorded in the EA's annual reporting. This would align with the category 1 pollution incident trigger in the existing rule for water and sewerage companies (WaSCs) and ensure that the most serious environmental performance failures are treated consistently across water companies.

We are proposing this change will affect any PRP paid to directors of the regulated water only company's board in relation to the 2026–27 financial year onwards. All other existing requirements in the Rule, for both WaSCs and WOCs, will continue to apply to current and future financial years.

The following sections explain our rationale for the proposed change, the draft wording of the amendment to the Rule, what questions we are seeking feedback on, and our future plans for the Rule.

³ Ofwat, [Performance related pay prohibition rule](#), June 2025

⁴ Environment Agency, [Environment Agency environmental performance reporting for water only companies – Conclusion of consultation responses summary](#), November 2025

2. Rationale for the proposed change

Throughout our consultations on the remuneration and governance rules, we have been clear that a core objective of the policy is to improve public trust in the water sector. We also set out several intended outcomes we were aiming for the rules to achieve which are that they:

- deliver the legislation's intentions;
- are clear and unambiguous;
- retain company accountability;
- are proportionate; and
- focus on prompting culture and behaviour change in the sector.

WOCs are already subject to the Rule's triggers on "Consumer Matters", "Financial Resilience", and "Criminal Liability" but the "Environment" trigger has not been in application as the EA does not currently include WOC performance in its annual environmental performance report. In our June 2025 decision document⁵ we explained that the EA is planning on publishing water only company environmental performance information in the near future, and that we would consider how the Environment Standard could be revised to reflect this. Now that the EA is planning to publish WOCs' category 1 incident information, in a similar way to the WaSC annual report, we believe it is reflective of Parliament's intention and necessary to improve public trust in the sector to require WOCs to prohibit PRP if a category 1 incident affecting water is recorded in the EA's annual reporting.

As with WaSCs, a category 1 incident affecting water by a WOC is the most serious environmental incident that can be recorded by the EA. The EA's common incident classification scheme (CICS) guidance describes a category 1 incident as having a "major, serious, persistent and/or extensive impact or effect on the environment, people and/or property". In its consultation response, the EA confirmed that metrics in the WOC reporting involving category 1 incidents will be "consistent with that of the WaSC EPA metric"⁶. The major difference between the two will be that the WaSC EPA metric includes incidents relating to sewerage assets which WOCs do not have. However, there are no WOC-specific incidents which are not also covered in the WaSC EPA metric.

If this change was not made, it would create an inconsistency between how the Rule treats WaSCs and WOCs and create an unfairness over incidents which will be similarly published for stakeholder scrutiny by the EA as well as considered the most serious environmental failures a water company can commit. As a result, given that poor environmental performance is still a major concern of customers and other stakeholders, we believe it is

⁵ See section 2.3, page 11: <https://www.ofwat.gov.uk/wp-content/uploads/2025/03/prp-decision-june-25.pdf>

⁶ Environment Agency, [Environment Agency environmental performance reporting for water only companies – Conclusion of consultation responses summary](#), November 2025

proportionate that WOC category 1 incidents being recorded and reported by the EA are incorporated into the Rule.

WOCs will still retain accountability for their decisions to comply with the Rule, as with the other triggers. The CICS definition of category 1 incidents and the EA's planned annual reporting of them ensures the Rule remains clear and unambiguous. As the 2025 calendar is already over, and the 2025–26 financial year is likely to have ended before this proposed change, if we decide to proceed with it, is adopted, we believe it is proportionate to implement this change to the Rule for PRP paid in relation to the 2026–27 financial year onwards. The proposed change would therefore relate to category 1 incidents in the 2026 calendar year and reported by the EA in 2027, meaning that WOCs can prepare to make decisions in relation to 2026–27 on this basis.

The “Environment” standard of the Rule also includes when a water company has received a 1 star rating in the EPA report. For the time being, this will continue not to apply to WOCs as we understand that EA reporting for WOCs will not contain a similar rating as they do in the EPA for WaSCs. However, if a similar rating system is introduced in the future, we will consider what updates may need to be made to the Rule to align it to current expectations of WaSCs.

3. Proposed wording and consultation questions

We propose the following new wording (in **red**) be added to paragraph 6b) of the Rule which would state that PRP is prohibited if an undertaker:

b) has:

i. been given a 1 star rating as reported by the Environment Agency or Natural Resources Wales in its Environmental Performance Assessment (EPA) for the calendar year finishing in the PRP Year; or

ii. had one or more category 1 pollution incidents recorded in the EPA for the calendar year finishing in the PRP Year; **or**

iii. had one or more category 1 incidents affecting water recorded in the annual reporting for water only companies by the Environment Agency for the calendar year finishing in the PRP Year

("Environment Standard"); or....

If we decide to proceed with this change, we will also update our guidance⁷ to the Rule to clarify Ofwat's expectations about WOCs' compliance with this new requirement.

Our consultation is seeking comments and feedback on the following questions:

- 1. Do you agree with the proposed amendment to the PRP prohibition rule? If not, please explain why.**
- 2. Do you agree with the draft wording of the amendment? Are there any changes or clarifications you think are required?**
- 3. Are there any potential risks or concerns with this proposal that are not addressed in this consultation?**

As mentioned above, we are not considering any further changes to the Rule in this consultation. Potential changes to both this new "Environment" trigger and the rest of the Rule will be consulted on in our formal review that we have planned in 2027.

⁷ Ofwat, [Guidance on performance related executive pay prohibition rule](#), June 2025

4. Future work programme

In addition to the proposals above, we are currently reviewing the guidance provided to companies to comply with the Rule⁸ and reflecting on feedback to consider what additional guidance would be helpful to support compliance going forward. We intend to publish this revised guidance before the start of the 2026–27 financial year.

We will continue to gather feedback, review compliance and compile evidence concerning the Rule to inform the planned review of the Rule in 2027. This will include engaging with key stakeholders to understand what elements of the Rule are most effective and those which may need improving. However, as we mentioned when first publishing the Rule, we may bring this date forward if circumstances arise which we consider merit an earlier review. We will also be closely monitoring the Government's planned legislative reforms following the final report of the Independent Water Commission⁹, to ensure any changes that may impact the Rule are considered in our review.

The EA and NRW have published their methodology for the EPA¹⁰ for WaSCs during the 2026–2030 period which include minor changes to the labelling of category 1 incidents (from "serious pollution incidents" to "serious incidents affecting water") and the EPA rating system (from a 4 star rating to an eventual 5 numerical rating). These changes do not alter the substantive definitions of a category 1 incident nor the threshold for achieving the lowest EPA rating available. As such, assuming no review of the Rule has taken place before, we intend to update the Rule before the beginning of the 2027–28 financial year to reflect these new labelling changes. As we consider these minor changes that do not necessitate a consultation, we do not intend to consult on these changes.

⁸ [Guidance on performance related executive pay prohibition rule](#), June 2025

⁹ [Independent Water Commission: review of the water sector – GOV.UK](#)

¹⁰ [Water and sewerage companies: EPA methodology for 2026 to 2030 – GOV.UK](#)

**Ofwat (The Water Services Regulation Authority)
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