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Performance-related executive pay – 2024-25 assessment

Ofwat

About this document

This document sets out Ofwat's assessment of how companies have complied with our Performance related executive pay (PRP) Prohibition Rule and met our broader expectations for decisions on PRP outcomes for 2024-25. It explains which companies triggered our rule, what actions they took as a result, as well as which companies triggered our PRP cost recovery mechanism which protects customers from paying for PRP decisions that do not meet our expectations. It covers the 16 largest water companies in England and Wales.

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1. Introduction

Performance related executive pay (PRP) in the water sector has become a subject of growing scrutiny and concern among customers and other stakeholders. When designed in the right way and overseen by a robust decision-making framework, it can be a useful tool to incentivise leadership to drive improvements in performance for customers and the environment. We also recognise the role that PRP has to attract and retain talented people to lead water companies who must compete with comparable companies across the world.

Nonetheless, as part of a natural monopoly delivering an essential service, water companies must retain the trust of their customers and the wider public. This trust has in recent years been damaged by declining performance, especially around pollution, which has not been adequately reflected in remuneration decisions. This is why we introduced the PRP cost recovery mechanism[1], to protect customers from funding PRP for directors which do not meet our expectations.

Ofwat's powers have recently been strengthened in this area by the Water (Special Measures) Act 2025, which introduced new section 35B into the Water Industry Act 1991 requiring us to set a rule, among others, for water companies to prohibit all PRP for directors in certain circumstances. We introduced this rule in June 2025 which applied to PRP decisions made in relation to the 2024-25 financial year. This is therefore the first year in which we have assessed PRP decisions against both the PRP Prohibition Rule and the PRP cost recovery mechanism, which has resulted in significant amounts of PRP either being prohibited or prevented from being paid by customers. This represents a significant increase in accountability for water companies with regards to executive remuneration which also plays an important role in rebuilding public trust in the sector and improving performance as we enter a new period of significant change for the sector.

This report explains how the rule and the recovery mechanism interact, sets out our main findings of how companies have approached PRP decision-making in 2024-25, and describes our assessment of how water companies have complied with the rule and our expectations under the recovery mechanism. It also sets out what next steps we intend to take on PRP, including how we will be preparing for the review of the rule which is currently planned for 2027.

[1] https://www.ofwat.gov.uk/wp-content/uploads/2023/03/Protecting-customer-interest-on-performance-related-executive-pay-%E2%80%93-recovery-mechanism-guidance.pdf

2. How the PRP rule and recovery mechanism interact

The PRP Prohibition Rule and the PRP cost recovery mechanism are both designed to meet our core objectives that water companies' decisions on PRP substantially incentivise the delivery of stretching performance for both customers and the environment, do not reward poor performance, and contribute towards the restoration of public trust in the sector.

While the definition of PRP and the scope of companies[2] and individuals[3] captured under the rule and mechanism are the same, they do differ in their approach. Put simply, the PRP Prohibition Rule is focused on **whether a water company should pay PRP or not** and the recovery mechanism is focused on **when customers should fund PRP,** if the company has not triggered the PRP Prohibition Rule. These two tests have their own distinct performance thresholds that reflect the differing severity of sanctions when a company fails either test, but the accountability to meet both of these thresholds still ultimately rests with the water company. As the economic regulator, Ofwat's responsibility is to hold companies to account for the decisions they make in relation to both the PRP Prohibition Rule and the cost recovery mechanism, but not substitute companies' own decision-making.

The following briefly summarises how the rule and the mechanism work in practice.

2.1 PRP Prohibition Rule

As required under the Water Industry Act 1991, the rule sets standards which, if triggered, requires the water company to prohibit all relevant PRP due to be awarded to directors who are members of the regulated company's board. These standards are when a company has:

- been found by Ofwat to have breached a principal statutory duty[4] during the PRP year and where Ofwat made a final decision that the breach warranted a financial penalty or where they have failed to subsequently comply with an enforcement order or undertaking linked to the breach;
- received a 1 star rating by the Environment Agency (EA) or Natural Resources Wales (NRW) as reported in the Environmental Performance Assessment (EPA) for the calendar year finishing in the PRP year;
- had a category 1 pollution incident reported by environmental regulators in the EPA[5] for the calendar year finishing in the PRP year;

[2] The largest water undertakers and sewerage undertakers appointed under Chapter 1 of Part II of the Act.
[3] Directors who are members of the regulated company's board.
[4] This means either the general duty to maintain a water supply system under section 37 of the 1991 Act, or the general duty to provide a sewerage system under section 94 of the 1991 Act.
[5] The EA defines a category 1 incident as having "a serious, extensive or persistent impact on the environment, people or property and may, for example, result in a large number of fish deaths".

- breached its licence requirement to hold sufficient credit ratings (in the PRP year) or has failed to subsequently comply with an enforcement order or undertaking linked to the licence breach; or
- received a sentence in the PRP year, following a conviction for a criminal offence, unless the court has made low culpability or harm findings against the company.

If one of these standards have been triggered, the rule requires companies to prohibit all eligible PRP due to be awarded to the relevant directors, with some limited exceptions (for example, if the director was not employed in their role when a category 1 pollution incident occurred). If a company fails to comply with the rule, we can issue a direction to the company which may include requiring the retrieval of the PRP that was paid. If a company does not comply with this direction, we will take enforcement action which could lead to an enforcement order unless certain exceptions apply, for example undertakings are offered and accepted.

The complete prohibition of PRP is a significant sanction which is why the standards that trigger it are intended to be for the more egregious regulatory and performance failures that a water company can commit. However, if a company has not triggered the rule but is nonetheless poor performing, we still expect any PRP decisions to adhere to the expectations set out in our PRP cost recovery mechanism.

2.2 PRP cost recovery mechanism

The PRP cost recovery mechanism is a price control tool which adjusts companies' allowances to ensure customers do not fund PRP outcomes when they do not meet our expectations. We assess each company's PRP decisions annually to determine whether an adjustment should be made, with the final decisions regarding the total amount of revenue recovered through the mechanism taken at the end of the 2025-2030 price control period.

We provide guidance to companies on the mechanism and our expectations[6] which can be summarised as:

Alignment to delivery for customers and the environment: the criteria for awarding both the short- and long- term elements of PRP in the year should demonstrate a substantial link to stretching delivery for customers and the environment.

Stretching targets: award decisions for the year should be based on stretching targets.

[6] Protecting-customer-interest-on-performance-related-executive-pay---recovery-mechanism-guidance.pdf

Overall performance: award decisions for the year should take into account overall performance delivered for customers, communities and the environment, and not reward poor performance.

The mechanism has been in place for two years. In our 2023-24 report[7], we confirmed that £6.8m of PRP payments made by nine water companies that year did not meet our expectations and should therefore not be funded by customers. Of those, six companies stated that the costs of PRP were not borne by the regulated company, meaning we made adjustments to the payments of the remaining three companies to stop customers funding a total of £1.5m in PRP payments.

This is the first year in which we have assessed PRP decisions against both the PRP Prohibition Rule and the PRP cost recovery mechanism, which has resulted in significant amounts of PRP either being prohibited or prevented from being paid by customers. Our main findings and results of these assessments are explained in the following chapters.

[7] Protecting-customer-interests-on-performance-related-executive-pay-2023-24-assessment-.pdf

3. Our main findings on companies' PRP decisions

The key findings of our PRP assessment for 2024-25 are:

- The rule and the mechanism are helping to better align companies' PRP outcomes with customers' expectations, requiring that bonuses are not paid or charged to customers if performance is poor.
- Six water companies (Anglian Water, Southern Water, Thames Water, United Utilities Water, Wessex Water and Yorkshire Water) triggered the PRP Prohibition Rule for a variety of performance failures, mostly involving pollution.
- All six companies correctly applied the rule. We estimate as a result that the companies prohibited more than £4 million of potential annual bonuses and other PRP to the relevant directors.
- Five water companies' decisions on PRP which was not prohibited by the rule failed to meet our expectations under the recovery mechanism. In total, this meant we judged £2.4m of PRP payments should not be funded by customers.
- This was largely due to the companies failing to justify paying a bonus when the company had been found to have poor environmental and operational performance as well as receiving criminal convictions.
- Most of these companies had decided not to charge customers for the costs of these PRP payments. In the case of Dŵr Cymru, which has currently withheld payment of £147,000 of PRP that could be awarded to directors, we will use our cost recovery mechanism to prevent customers funding these bonuses if the company decides to pay them.
- The measures used by all companies to calculate PRP are substantially linked to delivery for customers and the environment, in line with our expectation.
- However, most companies have once again failed to provide sufficient explanation of how the targets used for these measures are stretching with more than half providing only high level statements.

Our assessment of PRP decisions in relation to 2024-25 took place during a period of renewed and intense public scrutiny of performance related pay in the water sector. In particular, there was increased stakeholder attention given to water companies who had introduced new 'retention payment' schemes or did not fully disclose the payments given to directors by parent or other group companies for services they provided to them. Ofwat scrutinised these payments closely, requesting and assessing further evidence from companies to determine their compliance with our rule.

While we have concluded that the companies did not breach our rule (further details can be found in chapter 4), we are concerned over how the lack of transparency on executive remuneration further impacts public trust in the sector. Transparency is vital to ensuring Ofwat, customers and other stakeholders can hold companies accountable, but it is clear the sector could do a lot more to reveal the full details of their executives' remuneration. Greater transparency can also result in quicker assessments of compliance with the rule, providing greater certainty for companies and their remuneration committees. While we expect companies to be proactive in sharing their remuneration plans with Ofwat as they relate to their regulatory responsibilities, there is clearly more they can do publicly.

We therefore intend to update the requirements for companies' annual regulatory reporting – the Regulatory Accounting Guidelines (RAGs) – to require companies to publicly report in full the details of remuneration received by directors from the regulated, group and parent companies, including explanations of what the remuneration relates to. We will consult on these changes early next year, with the intention that it applies to company accounts for 2025-26.

More broadly, while there has been some progress in certain areas on accountability, water companies must better demonstrate that they understand the feeling of public anger on bonuses and the expectation that they are accountable, and reflect this better in their decisions on executive remuneration. We want to see companies exhibit the right behaviours expected of them by customers and undertake careful consideration of any decisions that might harm public trust or give the appearance of trying to circumvent the rule or recovery mechanism.

The following chapters summarise the assessment of PRP we have undertaken for both the cost recovery mechanism and the rule as well as some general observations on PRP in the sector. All of this work is feeding into a review of the rule we have planned for 2027. We will also consider our methodology for using the cost recovery mechanism from 2025-26, as we enter the new 2025-30 price control period.

4. Compliance with PRP Prohibition Rule

Ofwat undertook a thorough assessment of companies' performance and their remuneration decisions for the financial year 2024-25 in order to determine their compliance with the PRP Prohibition Rule.

We first evaluated all water companies in scope to see if they had triggered one of the standards we set in the rule, such as checking if they had any criminal convictions or serious category 1 pollution incidents as recorded by the Environment Agency (EA) and National Resource Wales (NRW). For those companies that did trigger the rule, we then evaluated companies' annual accounts and annual performance reports (APRs) to see if they had prohibited PRP correctly, in line with the rule's requirements. As part of this assessment, we asked these companies for further evidence on what remuneration their directors received, including from group and parent companies.

Following this process, we concluded that all six water companies that triggered the rule had prohibited PRP in accordance with the rule, which we estimate totalled more than £4 million of potential bonuses and other PRP. The next section explains our findings for each of these companies.

4.1 Ofwat's assessment of companies that triggered the rule

Anglian Water

Anglian Water triggered our rule with a category 1 pollution incident reported in the EPA which was recorded by the EA in September 2024[8]. This was before Anglian Water's new CFO had started at the company and as such, only the CEO's PRP was covered by the rule. Anglian Water's CEO did not receive any bonuses or other PRP from Anglian Water, its parent company or other associated companies.

Southern Water

Southern Water had a category 1 pollution incident in 2024 recorded in the EPA[9]. As this triggered the rule, neither the CEO nor CFO received an annual bonus from parent or group companies. The CEO and CFO did receive a payment from a Long Term Incentive Plan scheme which started in April 2023 and covered a performance period between 2023-25. While this sort of scheme would normally be within scope of the rule, as the scheme started before the date for when Ofwat was able to apply the rule (April 2024), the payment was not prohibited.

[8] Anglian Water EPA data report 2024 - GOV.UK
[9] Southern Water EPA data report 2024 - GOV.UK

Thames Water

Thames Water triggered our rule across three standards in the rule: seven category 1 pollution incidents recorded in the EPA that took place in 2024[10], breaching their licence to hold a sufficient credit rating[11], and a 1 star ("poor performing") rating recorded in the EPA. No bonus or other PRP was paid to the CEO or former CFO (who left Thames Water in March 2025), nor did they receive PRP from the parent or group companies.

Following Thames Water's disclosure of a "Management Retention Plan" (MRP) to the Environment, Food and Rural Affairs Committee[12], we wrote to the company to seek further information on payments made under the scheme in order to assess compliance with the rule. The company confirmed that no directors who were in scope of the rule had received a payment from the MRP. The current CFO was due to receive a payment under the scheme in June 2026 however, Thames Water has said it has currently "paused" the MRP.

The lack of openness that the company has shown in regard to this scheme is unacceptable and speaks to a broader issue of transparency in executive remuneration across the water sector. This is why we intend to consult on changes to annual regulatory reporting requirements to ensure companies share full details of what executives receive, both from the regulated and associated companies. In relation to Thames Water, we are closely monitoring any further developments on the MRP scheme as well as other remuneration schemes the company may plan in the future.

United Utilities Water

The EA recorded in the EPA a category 1 pollution incident for United Utilities Water in 2024[13]. As a result, the company prohibited payment of annual bonuses to the CEO and CFO. Both directors are also participants in a three-year Long Term Plan (LTP) bonus scheme which started in 2024. Under the rule, assuming United Utilities Water does not trigger the rule again in that three-year period, when the award is due to be vested we would expect this payment to be reduced by a third to reflect the year when PRP was prohibited. The CEO and CFO did not receive any PRP from the parent or group companies. United Utilities Water did charge a recharge to other companies in the United Utilities group in relation to the provision of executive directors' services for non-appointed activities.

Wessex Water

Wessex Water was convicted in November 2024 for a sewage pumping station failure which killed more than 2,000 fish and resulted in the company paying a fine of £500,000.[14] This was

[10] Thames Water EPA data report 2024 - GOV.UK
[11] Thames Water Utilities Limited ('Thames Water') - undertakings under Section 19 - Ofwat
[12] committees.parliament.uk/oralevidence/15880/pdf/
[13] United Utilities EPA data report 2024 - GOV.UK
[14] Wessex Water fined £500,000 for sewage killing thousands of fish - GOV.UK

a serious criminal conviction which triggered our rule. The CEO was not in post at the time of the incident (2018), but the Director of Finance was a member of the regulated company board. While this would have meant the Director's PRP would be prohibited, Wessex Water decided not to pay any executive bonuses as the company did not achieve three-quarters or more of its customer and environmental targets in 2024-25. The decision not to award its directors any bonuses given its performance is a welcome move towards the objective of rebuilding public trust in the sector. However, the company did not state what those targets were nor demonstrate how they were stretching, and therefore stakeholders were not able to assess the significance of the targets which have been missed. As we note in the next section, many other companies have not clearly demonstrated how the targets are stretching and we will clarify our reporting requirements in this area.

The former CEO of Wessex Water, who left his position in September 2024, did not receive PRP related to the regulated company. However, he did receive a bonus as Group Chief Executive of YTL UK Group – the parent company of the Wessex Water – a position which he still retains. After reviewing the payment, and considering a number of factors, we concluded that it was a reasonable assessment that this bonus was not related to the director's work at the regulated company and therefore not in scope of the rule.

Yorkshire Water

Yorkshire Water triggered the rule twice – first, for a category 1 pollution incident in 2024 that was recorded in the EPA[15] and second, for breaching its section 94 duty under the Water Industry Act 1991 in March 2025[16]. Section 94 is one of the company's principal statutory duties to provide a sewerage system which Ofwat found it had breached by failing effectually to provide drainage and deal with the contents of its sewers. The offences were severe enough for Ofwat to judge it warranted a financial penalty (£36.9 million), but we decided to accept undertakings from the company in lieu of the penalty worth £40 million. Nonetheless, given the breach was severe enough to warrant a penalty, and the breach was found to be ongoing during the CEO and CFO's tenure at the company, this triggered the "consumer matters" standard of the PRP Prohibition Rule.

The CEO and CFO waived their annual bonuses for 2024-25 and the company has already reduced by a third a three-year LTIP scheme for both directors which began in April 2024. Yorkshire Water did note in their annual report that the CEO and CFO received payments for services to other companies in the group although neither the company nor its parent (Kelda Holdings) provided any detail of these payments. After reviewing evidence provided by the company, we determined that these payments do not fit the definition of PRP provided in the Water Industry Act 1991 and are therefore not in scope of the rule.

[15] Yorkshire Water EPA data report 2024 - GOV.UK
[16] Enforcement case in Yorkshire Water's management of its sewage treatment works and sewerage networks - Ofwat

The lack of transparency on these payments prompted public criticism of the company from eNGOs, local politicians and other stakeholders. Yorkshire Water has since acknowledged it should have disclosed more about the payments and has committed to several actions to improve transparency of their remuneration reporting going forward. This includes disclosing the value of payments made to directors by the group and aligning their reporting approach on executive pay to the standards required of FTSE 100 companies.

While greater transparency on executive remuneration is always welcome, we consider this should be the minimum of what should be expected of all water companies to follow. This is something we will be consulting to include in our planned updates to company reporting requirements on PRP for next financial year so that customers can clearly see what a director receives and why.

5. PRP recovery mechanism assessment

In this section we set out our assessment of how companies have met our expectations, as set out in our recovery mechanism guidance, for their decisions on PRP outcomes for 2024-25.

5.1 Alignment to delivery for customers and the environment

If PRP is substantially linked to delivery for customers and the environment, this will help to incentivise executive directors to prioritise these areas. All companies use performance against targets for individual measures, which together form a weighted basket of measures, to help determine the level of PRP payments. We assessed the mix of measures used for PRP payments made for 2024-25 to determine the total weighting of measures which related to delivery for customers and the environment. Examples of some of the measures used, which related to delivery for customers and the environment, included the customer measure of experience (C-MeX), leakage, water supply interruptions and pollution incidents.

We found that for the short-term elements of PRP (annual bonuses) all companies used a basket of measures that is substantially linked to delivery for customers and the environment. We are pleased that South West Water has taken action to address the issue that we raised in our 2023-24 report[17] where we explained that less than half of measures, by weighting, it used were linked to delivery for customers and the environment. The basket of measures it used for 2024-25 was substantially linked to delivery for customers and the environment.

We also note that Anglian Water's executives were all subject to a basket of measures for 2024-25 that is substantially linked to delivery for customers and the environment. In last year's report we highlighted that one director was subject to a special PRP arrangement for 2023-24 which we did not consider was substantially linked to delivery for customer and the environment.

In the case of the long-term elements of PRP (long-term incentive plans (LTIPs) or similar), of those companies that had long-term schemes which vested in 2024-25, the measures used for all but two companies were substantially linked to delivery for customers and the environment. In the case of Severn Trent Water and South West Water, less than half, by weighting of the measures used were linked to delivery for customers and the environment.

However, as we explained in our 2023-24 report, the measures being used for the LTIPs which are now in place for those companies are substantially linked to delivery for customers and the environment. It can take some time to make changes because these schemes relate to a

[17] Protecting customer interests on performance-related executive pay: 2023-24 assessment

multi-year performance period, three years in the case of these two companies, and therefore measures need to be set well ahead of when the schemes vest. Given this, and the fact that the companies state that the payments are funded by a parent company rather than by the water company, we do not consider it is necessary to use the mechanism in relation to the LTIP payments at either of these two companies. This is consistent with the approach we took in relation to 2023-24.

5.2 Stretching targets

The use of stretching targets for the measures which are used to calculate PRP payments means that such payments should only reward performance which clearly leads to improvements for customers and the environment. This helps make sure that executive directors are incentivised to drive performance which results in better outcomes.

We highlighted in our 2023-24 report that it was disappointing that, once again, most companies had failed to explain how the target for each measure used to determine PRP payments was stretching. We reviewed companies' 2024-25 reporting to look for explanations of how targets were stretching.

We are pleased that some companies have improved their reporting to include measure by measure explanations of why the targets chosen were stretching, to join the small number of companies which did so last year. However, it is unsatisfactory that more than half of companies have, as in previous years, failed to provide anything other than high level statements that measures are stretching. We were clear in our 2023-24 report that companies needed to address the issue and as part of our proposed updates to companies reporting on PRP within its annual regulatory reporting, we will clarify our requirements in this area. Companies must comply with these requirements and we expect this to improve the quality of reporting for 2025-26 onwards.

5.3 Taking into account overall performance

Decisions on PRP outcomes should not be restricted to assessing performance against the criteria which form part of the scheme and whether or not this has met the targets set out; it is important that decisions also take account of the wider overall performance of the company. If this does not happen, overall PRP outcomes may not be properly reflective of significant issues which impact the company in the year, and this reduces the trust and confidence which stakeholders have in those outcomes.

We explained in our 2023-24 report that nine companies did not meet our expectations because they did not take sufficient account of overall performance when making their decisions on PRP outcomes. In our recovery mechanism guidance, we set out factors which individually, or taken together, could be indicators of overall company performance. These include financial resilience, compliance issues and performance as reflected in our Water Company Performance Report (WCPR) and/or the EPA. We explained that award decisions should demonstrate that poor performance overall has not been rewarded.

As explained in section 4 above, in some cases no PRP has been paid for 2024-25 because companies have triggered our PRP prohibition rule. However, where PRP has been paid, we considered whether the decisions made on the level of PRP paid had taken sufficient account of overall performance.

We identified three companies (Northumbrian Water, South West Water and United Utilities Water) which had received an EPA rating of two stars ("company requires improvement") for 2024 but where at least some element of PRP was paid. None of these companies provided sufficient justification in their annual reporting of why any PRP award at all was justified in the context of the poor environmental performance which was reflected in the star rating. We note that the final EPA star rating would have not been known to the company at the time at which PRP payment decisions were finalised, however companies would have been aware of the poor environmental performance which contributed to the low EPA score.

Southern Water both had a two star EPA rating and was in the lagging category as reported in our 2024-25 WCPR, indicating poor performance in a number of operational areas. However, the company did not explain why, in the context of the issues set out above, any PRP payment at all was justified. As noted above, in relation to the EPA score, while the company would not have known the final outcome, it would have been aware of its poor performance which contributed to its WCPR categorisation.

The four companies referred to above all reported that PRP was paid for by a parent company, meaning that the cost is not borne by customers. Had this not been the case we would be making an adjustment to those companies' costs to ensure that customers were not paying for PRP which we do not consider has been fully justified by those companies.

Dŵr Cymru was the subject of a successful criminal prosecution by the EA and was fined £90,000 for breaking conditions of an environmental permit at a sewage treatment works[18]. The company also received a two star EPA rating and was in the lagging category in our 2024-25 WCPR. The company did make a downward adjustment to the annual bonus outcome, to take account of overall performance, and there was no payment under the long-term element of its PRP. However, the company did not explain in its annual reporting why any PRP payment at all was justified when it has received a criminal conviction and performed poorly in environmental and other areas, as evidenced by its WCPR and EPA categorisations.

In the annual report for Glas Cymru (Dŵr Cymru's parent company), the company indicated potential bonuses totalling £147,000 that could be awarded to the CEO and CFO, but said that it had "withheld" payment of these bonuses until the final publication of our PRP Prohibition

[18] Welsh Water fined £90,000 for polluting River Wye near Hereford - GOV.UK

Rule. The lack of justification for the potential PRP payment indicated for the year, in the context of the criminal conviction and poor performance, means that if the company decides to pay these bonuses, we will use the recovery mechanism so that Dŵr Cymru will not be able to recover the costs from customers.

6. Other PRP observations

While some water companies have made efforts to demonstrate greater accountability in executive remuneration decisions over the past few years, the sector as a whole must better reflect on the level of public anger surrounding bonuses that are paid despite significant failures in company performance. We expect companies to show careful consideration of remuneration decisions which could be perceived as circumventing the rule.

Our review of executive remuneration decisions revealed that there is a need for greater transparency in what remuneration is disclosed and an explanation of what a director is paid for what services or activities. For this reason, we will be consulting on updating the requirements for water companies' annual regulatory reporting to require more transparent disclosures of remuneration received by relevant directors which will be in force for companies' reporting of the 2025-26 financial year.

We also noted that in the evidence provided by companies some remuneration committees did not thoroughly assess whether payments a director received from a group or parent company was compliant with our rule. In particular, paragraph 12 of the rule[19] requires water companies to take all reasonable steps to ensure PRP is not paid by another person to a director for performance, activities or responsibilities at the regulated company. These steps should include a remuneration committee undertaking thorough due diligence to determine whether any remuneration paid to a director by an associated company complies with the rule when the undertaker has triggered one of the rule's standards. This is something we will be taking a closer look at in future to assess whether companies have taken all reasonable steps as required in the rule to ensure PRP is not paid via another route.

The introduction by some companies of retention payments, which are not linked to performance, into a director's remuneration package is also something we will be monitoring carefully and considering in our review of the rule, which is expected in 2027. Retention payments are not an uncommon practice but are often for limited exceptional periods which justify the need for retaining leadership, such as during mergers and acquisitions or leadership transitions. They do not tend to be a regular feature of an executive's remuneration package. In other sectors, some global investors have expressed concern over executive retention awards with no link to performance.

Our rule relates only to performance related pay, as defined in the Water Industry Act 1991, but retention payments, especially those deemed excessive, can harm public trust if a company does not clearly explain the exceptional circumstances for why they are needed. Where companies do introduce such schemes in the future, we will be examining their

[19] "In circumstances where the payment of PRP is prohibited…the undertaker must take all reasonable steps to ensure that the Director does not receive PRP from another person, in so far as the PRP relates to the Director's performance, activities and responsibilities at the undertaker".

justifications for these payments closely and consider them, along with other companies' remuneration behaviour such as on base pay, in the future review of our rule.

7. Next steps

As explained above, we plan to consult early next year on changes to the Regulatory Accounting Guidelines (RAGs) to require greater transparency on remuneration disclosure . We will also consider what changes may be needed to reflect the new wording in the new methodology for the EPA for the 2026-2030 period[20] as well as the EA's future plans for reporting on environmental performance by water only companies (where they are not part of a water and sewerage company). We plan to work with companies to improve the quality of their annual reporting when explaining how the targets for the measures which they have used for PRP are stretching, as set out in section 5.

Longer term, we will be closely engaging with the sector and interested stakeholders to evaluate the effectiveness of the rule as well as begin to gather evidence and feedback to inform our review of the rule which is currently planned for 2027. As we stated when implementing the rule, we may bring this review date forward if circumstances arise which we consider merit an earlier review.

[20] Water and sewerage companies: EPA methodology for 2026 to 2030 - GOV.UK

A1 Companies that triggered the rule or mechanism

Water company	PRP prohibited by rule [reason for prohibition]	Total PRP amount (£000)	Paid for by regulated company	Decision under mechanism	Notes
Anglian Water	Yes – CEO's PRP prohibited **[category 1 pollution incident]**	No PRP paid			
Dŵr Cymru	-	147	Yes	Make adjustment equivalent to CEO and CFO bonuses, if currently withheld amount is paid	There was no LTIP payment made in relation to 2024-25
Northumbrian Water	-	406	No	Adjustment would be made if regulated company had paid	
South West Water	-	236	No	Adjustment would be made if regulated company had paid	There was no bonus payment made in relation to 2024-25 – LTIP payment only
Southern Water	Yes – CEO and CFO's PRP prohibited **[category 1 pollution incident]**	1,225	No	Adjustment would be made if regulated company had paid	PRP paid relates to an LTIP payment to CEO. Payment was not prohibited by the rule as the LTIP scheme started before the rule came into force
Thames Water	Yes – CEO and CFO's PRP prohibited **[seven category 1 pollution incidents, breaching licence to hold a sufficient credit rating, and a 1 star EPA rating]**	No PRP paid			

Water company	PRP prohibited by rule [reason for prohibition]	Total PRP amount (£000)	Paid for by regulated company	Decision under mechanism	Notes
United Utilities Water	Yes – CEO and CFO's PRP prohibited **[category 1 pollution incident]**	407	No	Adjustment would be made if regulated company had paid	PRP paid relates to LTIP payments to CEO and CFO. Payment was not prohibited by the rule as the LTIP scheme started before the rule came into force.
Wessex Water	Yes – Director of Finance's PRP prohibited **[criminal conviction]**	No PRP paid			Company did not award any bonuses as it did not achieve three-quarters or more of its customer and environmental targets in 2024-25
Yorkshire Water	Yes – CEO and CFO's PRP prohibited **[category 1 pollution incident and s94 breach]**	6	Yes	Not material	PRP paid relates to an LTIP payment to CFO. Payment was not prohibited by the rule as the LTIP scheme started before the rule came into force

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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