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By email

Laura Farris MP
Member of Parliament for Newbury
House of Commons
London
SW1A 0AA

5 June 2023

Dear Ms Farris

Thank you for your letter dated 25 May 2023 regarding bonus and dividend payments by water companies.

We share the public's concerns that – in too many cases – bonuses paid do not reflect the reality of water company performance.

That is why I am pleased to confirm that we have recently outlined [new plans](#) to ensure customers do not fund executive bonus payments where they have not been sufficiently earned through the company's performance for customers and the environment.

Ofwat will regularly review all bonus payments and, where our expectations have not been met, customers will no longer pick up the bill.

Our proposed guidance sets out our expectations on water company remuneration committees to take full account of performance for customers and the environment, and performance overall, when deciding whether to award bonus payments to senior executives. Company policies and decisions on bonus payments will need to align to these expectations.

Water companies will remain responsible for setting performance related pay but in their role as a monopoly provider of essential public services, they need to demonstrate greater accountability. This recovery mechanism will apply new regulatory scrutiny to Board room and remuneration committee decision-making.

Our review of companies' decisions on pay awards will be based on a wide range of criteria, including environmental performance, delivery for customers, overall financial health, and compliance issues – all factors which Ofwat expects water companies to consider themselves. The proposals are the latest step in Ofwat's programme of work to link Board-level financial decision making to company performance.

We have been clear that should water companies not sufficiently address these concerns, we would take action, and that is exactly what we are doing.

Alongside our [new rules on dividend payments](#) – which you referenced in your letter – this is part of our ongoing work to make companies more accountable for their actions.

I hope this information is helpful.

Yours sincerely

Mark Anderson
Director of Corporate Communications