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By email

Chairs of Remuneration Committees for all regulated water and wastewater and water-only companies, copied to company board chairs

5 December 2022

Dear Committee Chair

Performance related executive pay

At PR19 we set our expectation that performance related executive pay should demonstrate a substantial link to stretching performance delivery for customers. We have developed and reinforced transparency requirements on performance related pay in recent years, and reflected the central principle in our Board Leadership, Transparency and Governance principles.

More recently, I wrote to you in February highlighting that high levels of scrutiny and concern around water company performance risked eroding trust and confidence in the sector, and the resonance of this for your approach to decisions on performance related pay for 2021-22. Water companies are appointed monopolies established to provide an essential service and executive remuneration should reflect this privileged status.

Our board is deeply concerned that, generally, companies have not taken sufficient action to respond to the measures we have taken to date. This is in a context where the performance of the sector as a whole continues to be called into question, including through a sector-wide investigation into companies' compliance with their statutory and licence obligations in relation to wastewater treatment works and a parallel Environment Agency investigation.

Events over the summer, when customers experienced temporary use bans alongside disruption from burst water mains and ongoing leakage, as well as deep concerns about sewage discharges into the environment, have clearly demonstrated the erosion of trust amongst customers and stakeholders when levels of performance are not seen to relate to the awards being received by executives, which customers are ultimately paying for.

We are following up on specific issues arising from 2021-22 remuneration committee decisions with relevant companies in the context of our Board Leadership requirements and the expectations we have set.

For all companies, we want to be clear that we expect companies to much better account for overall performance in making decisions on performance-related elements of executive pay. Companies need to develop policies and implement them in way that truly demonstrates trust and accountability. We would also expect remuneration committees to take account of any identified shortcomings and outstanding processes in exercising their judgement on executive remuneration in the round.

While not every company is starting from the same position, in anticipation of decisions to come for the 2022-23 performance year and for the rest of this price control period, we would like your response on how you account for overall performance for customers and the environment in decisions on performance related elements of executive pay, and an explanation as to how you intend to develop your approach both to policy and decision-making to ensure the above points are appropriately into account. It needs to be clear that these concerns are recognised and what is going to change as a result.

We also remind you that we are considering other mechanisms to reinforce our expectations in this area, including disallowing the recovery of performance related pay from customers as part of reconciliation at PR24 where companies are unable to demonstrate their decisions have reflected our expectations, including by reference to overall performance.

Please respond by Friday, **6 January 2023**. We expect to follow up with meetings early in the New Year.

Yours sincerely

David Black
Chief Executive