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## Protecting Customer interests on Performance Related Executive Pay: Proposed Guidance

Affinity Water is committed to ensuring that the performance related element of executive pay is aligned with the interests of our customers. We fully support the principles that a fair remuneration policy should incentivise strong environmental and service improvements, and that full transparency is vital for engendering trust and accountability for our customers.

Our current remuneration policy, published on our website<sup>1</sup>, clearly recognises these factors and ensures that more than 60% of both the annual assessment metrics and long-term incentives are based on customer outcomes. The schemes also take a broader view of the company's responsibilities and overall performance, taking into account the priorities for the 2025-30 period and wider Environmental, Social and Governance objectives.

Both our short term and long-term incentive plans already include provisions to enable the company to recover or withhold payments in circumstances of malus within a period of 3 years. Therefore, we are of the view that our remuneration policy is already compliant with the principles enshrined in the current regulation. However, we recognise that performance of the sector continues to be called into question, particularly regarding the environmental performance of wastewater companies, and we understand the importance of the principle that performance related pay is applied fairly and appropriately.

Company Boards are accountable for setting the corporate strategy and delivering the performance expected from all stakeholders, including customers. Incentivisation plays a fundamental role in facilitating these outcomes, and consequently, we believe that company Boards remain best placed to exercise their judgment on the appropriateness and effectiveness of remuneration policies within the explicit guidelines set out by Ofwat.

While we support the factors outlined in the consultation that need to be taken into consideration in determining executive performance related pay, we note that full details of the operation of the mechanism will not be available until revisions to the PR19 (and PR24) reconciliation rule book are consulted on.

As Ofwat have set out the intention that the PRP reconciliation mechanism will apply for the recently completed financial year 2022/23, companies will necessarily have to make decisions related to Executive pay awards for the previous year in absence of a clear understanding about how the mechanism will work.

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<sup>1</sup> [https://www.affinitywater.co.uk/docs/governance\\_assurance/Executive-Remuneration-Policy-2022.pdf](https://www.affinitywater.co.uk/docs/governance_assurance/Executive-Remuneration-Policy-2022.pdf)

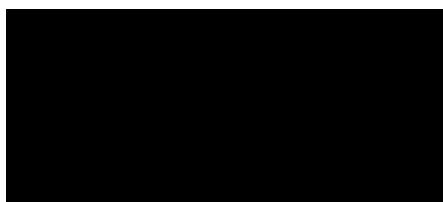
The retrospective application of this mechanism risks undermining the consistency and predictability of the regulatory framework. We would encourage Ofwat to consult on the details of the reconciliation mechanism at the earliest opportunity to ensure the principles of best regulatory practices are upheld.

We also note that the guidance sets out that although any adjustment will be based on the whole award of the PRP for the corresponding year, the final decision regarding the total amount of revenue recoverable will only be made as part of the 5 yearly reconciliation process. Consequentially, this means that there is a potential 6-year lag between the annual PRP regulatory assessment, and a final decision on the totality of the adjustment. As with all reconciliation mechanisms, this will then be returned to customers over a further 4-year period to ensure smooth bills.

While the potential 10-year time lag for fully returning executive performance related pay adjustments to customers reduces the immediacy of customer protection, it is not dissimilar to all other revenue reconciliation mechanisms and so provides a consistent regulatory approach. We would however encourage Ofwat to clarify in the reconciliation guidance the permanence of the annual assessment, so that the final 5-year reconciliation decision relates only to the cumulative total of annual decisions, rather than introducing further retrospective uncertainty into the process.

We look forward to consulting further on the PR19 reconciliation rulebook, and note the requirements published in the Final Methodology to include our proposed policy for performance related executive pay in our PR24 business plan.

Yours sincerely



Keith Haslett  
Chief Executive Officer