

Blueprint for Water response: Performance related executive pay (PRP) Prohibition Rule consultation

29th April 2025

This response is on behalf of nature and animal welfare coalition Wildlife and Countryside Link (Link). The response is supported by Angling Trust, Friends of the Earth, Marine Conservation Society, River Action, The Rivers Trust, The Wildlife Trusts.

Blueprint for Water welcomes the opportunity to share thoughts on Ofwat's proposals to introduce a rule to prohibit performance related executive pay (PRP) as part of new powers introduced by the Water (Special Measures) Act 2025.

Performance-related pay should be dependent on the delivery of statutory obligations to customers, communities and the environment, *and* stretching performance. Pay rewards should be a tool to drive ambition, not to reward basic compliance.

Blueprint for Water responded to the previous consultation on Ofwat's proposed PRP rules in November 2024. We were broadly welcoming of the proposed rules, but raised our concern that the current state of the water environment – and the strength of public feeling regarding the industry's consistently poor performance – were not yet adequately reflected. Whilst we agree that companies responsible for serious pollution incidents should not be able to award PRP, serious pollution incidents alone are not a sufficient proxy for overall environmental performance.¹ We therefore challenged the use of serious pollution incidents as the environmental standard for the PRP rules.

However, the new environmental standard proposed by Ofwat to prohibit PRP for companies who have only achieved 1-star under the Environmental Performance Assessment (EPA) also raises serious concerns. We urge that the environmental standard for applying PRP must be urgently reviewed, and would be pleased to meet with Ofwat to discuss further. We outline our concerns in further detail below.

¹ Please refer to our November 2024 consultation response for further detail on why using solely serious pollution incidents as a metric is not sufficient for the environmental standard:

[WCL Response Ofwat Remuneration Governance Nov 2024.pdf](#)

Concerns with the proposed environmental standard

Ofwat's decision to use the EPA means that the new proposed environmental standard only applies to Water and Sewerage Companies (WASCs). This means that Water Only Companies (WOCs) are effectively excluded from the environmental standard. This is a critical omission. Not a single WOC achieved the top category of 'leading' in Ofwat's industry performance report for 2023-2024. In this 2023-2024 period, no WOCs met or exceeded performance commitment levels on per capita consumption, and only two WOCs met or exceeded performance commitment levels on leakage.²

The EPA rating scheme for 2026-2030 is currently being reviewed and updated by the Environment Agency, which means that WOCs could be brought into scope. However, that the EPA is under active review and reform means that Ofwat would be using a tool that could significantly change to determine if companies can award PRP. The consultation document does acknowledge this, but states that Ofwat will only take into account any changes when the PRP rules are reviewed in 2027. If Ofwat proceeds with the EPA as the basis for the environmental standard, this timeline must be brought forward; as soon as the 'new' EPA is confirmed, Ofwat must review the rules and ensure that the environmental standard is sufficiently rigorous and stretching given any changes.

Within the consultation document, Ofwat states that using the EPA to set the environmental standard for PRP will help to ensure that regulatory expectations across Ofwat, the Environment Agency, and Natural Resources Wales are better aligned. We are supportive of greater coordination and consistency across regulation. However, the proposed approach to use 1-star as the cut-off for allowing / prohibiting the awarding of PRP is *not* consistent with broader regulation. For example, the Environment Agency requires companies to achieve a 3 or 4-star rating to be allowed to implement innovative catchment and nature-based solutions, such as catchment nutrient balancing.

Using a 1-star rating also means that there is no incentive for companies to improve their performance. The consultation document acknowledges the potential role for PRP in improving water company performance through 'creating incentives', yet the environmental standard as

² Ofwat. (2024). <https://www.ofwat.gov.uk/wp-content/uploads/2024/10/WCPR-23-24.pdf>

drafted would allow companies with 2-stars – ‘requires improvement’ – to award PRP without requiring any such improvement.

Crucially, the proposal to use a 1-star rating under the EPA as the environmental standard for determining PRP does not reflect the current poor state of the water environment, nor the scale and scope of water industry underperformance and non-compliance to-date. Indeed, the EPA is fundamentally concerned with water industry asset performance, rather than environmental outcomes.³

Industry performance is considered to be so poor that Ofwat CEO David Black stated in the latest annual water industry performance report that “there has never been a stronger case for a culture change in the water sector”. Ofwat currently has active enforcement activity underway against all 11 Water and Sewerage Companies in England and Wales for potential failures to fulfil obligations to protect the environment and minimise pollution.⁴ Analysis by the OEP suggests that just 21% of WFD waters are predicted to reach Good Status by the 2027 deadline due to insufficient action⁵ - nearly 45% of these waters are impacted by the water industry.⁶

Yet none of this has significance under the proposed environmental standard, as not a single company currently holds a 1-star rating under the EPA; indeed, the last time 1-star was awarded was for Southern Water and South West Water in 2021. That the proposed environmental standard so significantly contradicts wider views and metrics of water company (under) performance demonstrates that it is not fit for purpose.

³ Please refer to our December 2024 response to the Environmental Performance Assessment consultation for further detail: [WCL Response EPA Review Dec 2024.pdf](#)

⁴ [Ofwat announces enforcement cases against four more companies in wastewater treatment investigation - Ofwat](#)

⁵ OEP. (2024). ‘A review of implementation of the Water Framework Directive Regulations and River Basin Management Planning in England’. [OEP finds ‘deeply concerning’ issues with how the laws in place to protect England’s rivers, lakes and coastal waters are being put into practice | Office for Environmental Protection](#)

⁶ Analysis from the Independent Commission on the Water Sector Regulatory System. (2025). ‘Call for Evidence’.

Recommendations

Ofwat must use its new powers under the Water (Special Measures) Act 2025 to drive culture change within the water industry, through encouraging, requiring and rewarding ambitious action and exemplary performance. To do this, PRP must be dependent on the delivery of statutory obligations to customers, communities and the environment, *and* stretching performance, rather than basic compliance.

In response to the November 2024 consultation, Blueprint for Water recommended that an environmental standard could *take inspiration from* frameworks such as the EPA, in order to develop an environmental standard that considers company performance in the round.

Further metrics that Ofwat could consider in the development of the environmental standard include the Ofwat water industry performance report categories of 'leading', 'average' and 'lagging behind', with 'leading' companies able to award more PRP than 'average' companies. Under this approach, PRP should be prohibited for companies 'lagging behind'. Ultimately, the environmental standard should be concerned with environmental outcomes; for example, based on the achievement of Good Ecological Status and action taken to address and resolve water industry Reasons for Not Achieving Good Status (RNAGS) under the Water Framework Directive Regulations.

However, if a bespoke environmental standard will not be developed in the immediate term, Ofwat should tighten requirements in the proposed draft rule. Crucially, Ofwat must amend the draft rule to prohibit PRP if a company has received 1 or 2 stars in the EPA – 'poor performing' and 'requires improvement'. This would bring the rule in line with wider regulatory standards – for example, the Environment Agency's requirements for catchment nutrient balancing - and ensure that PRP is only awarded when companies are performing well.

Alternatively, Ofwat could implement a 'sliding scale' approach, whereby PRP allowance increases with the number of stars a company holds. 1-star rated companies would remain ineligible to award PRP. To ensure that PRP is an incentive to improve, under this approach any companies who remain on 2-stars for 3 years should also have PRP removed.

As stated above, if the environmental standard does continue to make use of EPA star ratings, Ofwat *must* review the efficacy and impact of the rule once the Environment Agency has

confirmed the new EPA, rather than waiting until 2027. This should include consultation with stakeholders, and should be repeated whenever the EPA is reviewed and updated.

Wildlife and Countryside Link (Link) is the largest nature coalition in England, bringing together 89 organisations to campaign for nature, climate, animal welfare and a healthy environment for everyone. Wildlife and Countryside Link is a registered charity number 1107460 and a company limited by guarantee registered in England and Wales number 3889519.

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This response is supported by the following organisations:

- Angling Trust
- Friends of the Earth
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