

Ofwat's submission to call for evidence on the Water (Special Measures) Bill

The following is an update from Ofwat to the Water (Special Measures) Bill Committee on progress we have made to develop new rules of remuneration and governance as provided for in the Water (Special Measures) Bill ("the Bill").

Context

Clause 1 of the Bill would give new powers to Ofwat to set rules on remuneration and governance to water and sewerage companies (or 'undertakers') in England and Wales (subject to approval by the Senedd). The Bill requires that these rules must achieve the following effects:

1. Prohibit performance related executive pay where company performance fails to meet specified standards;
2. Require companies to appoint, and have in place, individuals in senior roles only if they meet standards of 'fitness and propriety'; and
3. Ensure companies have arrangements for involving consumers in company decision-making.

In October 2024, Ofwat launched a consultation with our initial thinking on how the rules could be designed.¹ This requested feedback on initial proposals for all three rules required under the Bill as well as set out key intended outcomes for what we wanted to achieve with the rules:

- **Deliver the legislation's intentions.** The rules should achieve the intended effects of the eventual legislation.
- **Clear and unambiguous.** The rules should be clear what constitutes non-compliance to ensure potential remedial or enforcement action is not frustrated or delayed.
- **Retain company accountability.** Companies should maintain ownership over their decisions so they are held properly accountable for complying with the rules. The

¹ [Consultation on new rules on remuneration and governance provided for in the Water \(Special Measures\) Bill - Ofwat](#)

rules should also not stifle actions of companies to go above and beyond what is required.

- **Proportionate.** The rules should be proportionate and have regard for Ofwat's adherence to best regulatory practice and duties, including the growth duty.
- **Prompt culture and behaviour change in the sector.** The rules should help drive change in the culture and behaviour of leadership in water companies over the longer term so they better meet customers' expectations.

Progress update

Our consultation closed on 19 November 2024 and we received over 11,000 responses. We received representations from water companies, regulators, independent challenge groups (ICGs), investors, charities and non-government organisations, and members of the public. The responses have all been very helpful in informing our continued design of the rules. We will be publishing a report summarising the responses we have received and engagement we have conducted to date, as well as publishing the responses themselves, in the coming weeks.

Ofwat also hosted a public webinar during the consultation period and we have organised roundtable meetings with interested stakeholders to discuss the consultation and the rules in greater detail. Throughout we have kept the Secretary of State, Welsh Ministers, and other statutory consultees required in the Bill, such as the Consumer Council for Water (CCW), updated on our ongoing policy development.

Pending Royal Assent of the Bill and the Senedd's approval, we intend to implement our final rules following further statutory consultations later this year. Subject to legislative requirements, we plan to consult first on the performance related executive pay prohibition rule in the first quarter of 2025, before then consulting on the other two rules in the summer. Following those consultations and wider legislative processes, we aim for all three rules be in force during the latter part of 2025.

For more information

We would be very happy to meet with committee members to discuss this work further. If this would be of interest or if you require any further information on this or anything else, please contact: MPCorrespondence@ofwat.gov.uk.

Helen Campbell, Senior Director for Sector Performance

January 2025