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By email: Llyr.Gruffydd@Senedd.Cymru

Llyr Gruffydd MS  
Chair, Climate Change, Environment and Infrastructure Committee  
Welsh Parliament

22 October 2024

Dear Mr Gruffydd

## **Consultation – Rules of Remuneration and Governance**

Following my letter to you on 18 October 2024, I am writing to inform you that we have now launched a consultation requesting views on how Ofwat should introduce the new "Rules of Remuneration and Governance" as provided for in the UK Government's Water (Special Measures) Bill. Subject to the Senedd's legislative consent, these rules will apply to water companies operating in Wales. The consultation will close on 19 November 2024.

The consultation sets out our initial thinking on how we might design the three rules that are required in the Bill as it currently stands, with the intention to apply to both English and Welsh water companies. On performance related executive pay (PRP), we set out proposals for the standards where if companies fail to meet them, PRP could be prohibited. As required by the Bill, these include standards on consumer matters (as defined in the Water Industry Act 1991), environment (with a focus on serious pollution incidents), financial resilience (linked to a company's credit rating), and criminal liability.

For the "fitness and propriety" rule, we have set out a proposed approach which requires water companies to test Chief Executives and Directors as appointed to the board against certain criteria. These standards could include whether a person has been the subject of adverse findings of mismanagement in relation to a regulated activity and we are also asking for views on whether requiring adequate knowledge and understanding of a water company's legal and regulatory duties should be a factor in these tests.

Finally, to deliver the rule requiring greater consumer involvement in a water company's decision making, we have proposed defining core principles of effective representation and consideration of consumer views which companies would need to meet. We have also asked for feedback on what potential structures could be used to gather these views, as well as on

potential formal governance structures which companies could be asked to establish in order to comply with the Rule.

The consultation requests feedback from interested stakeholders to help support our policy development. Following the consultation and subject to Senedd approval, we will propose a final design of each rule we intend to implement which will be subject to statutory consultation.

Ofwat is committed to delivering these new rules in a way that can prompt tangible and lasting change to the leadership and culture of water companies to help reverse the worrying decline in public trust that recent surveys have shown, and to build greater accountability in the sector. I hope this consultation reassures you and the committee of this and I look forward to updating you on the development of these rules later this year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Black', written in a cursive style.

**David Black**  
**Chief Executive, Ofwat**