

The Rt Hon Mr Alistair Carmichael MP
Chair, Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA
By email: efracom@parliament.uk

28th March 2025

Dear Chair,

Thank you for the opportunity to provide oral evidence to the Environment, Food and Rural Affairs (EFRA) Committee on its inquiry, *Reforming the Water Sector*. During the session, we committed to providing further information about why leakage levels have changed so significantly between the Draft and Final Determinations made by Ofwat and more information about the structure of executive variable pay and remuneration model.

Leakage levels

In July 2024 Moody's ratings agency assessed Welsh Water's Business Plan leakage proposed targets compared to Ofwat's Draft Determination (DD) targets and incentive rates. Moody's calculated an overall penalty of £121m for all ODIs including a £64m penalty for leakage mainly as a result of an assumed step reduction in leakage levels in 2025/26.

In December 2024, when the Final Determination (FD) was issued this assessment changed because Ofwat accepted the representations we made in response to the DD. Rather than targeting the bulk of the leakage reductions in 2025/26, the reductions were spread over the 5 years. These reductions were consistent with our own business plan proposed leakage targets meaning that if we deliver our Business Plan we will not incur the leakage penalties in 2025/26 as previously expected at DD stage. Our leakage target remains the same in the FD as it was for DD at circa 25% (it was the profile of leakage reductions that caused the penalty at DD).

Remuneration Arrangements

Our Remuneration Policy for Executive Directors considers the perspectives of our internal and external stakeholders, including our customers, employees, Members, relevant regulatory bodies and wider society. We look at this in terms of how stakeholders should influence the setting of remuneration policies, as well as their influence on pay outcomes. Throughout all such decisions, there is the need to balance stakeholder expectations with the need to attract and retain key individuals with the relevant experience and capabilities.

The AMP7 Remuneration Policy was approved by the Glas Members at the AGM held on 7 July 2023, and the key elements are set out in the table below:

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To help attract, retain and motivate high calibre employees.	Normally reviewed annually and any increases typically applied with effect from 1 April. Salary reviews will reflect: • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector.	Annual increases generally linked to those of the wider workforce, though the Remuneration Committee retains discretion to award increases to individuals above or below this level where appropriate.	Annual Performance Reviews.
Benefits	To provide a market-competitive benefits package to help attract and retain employees. Healthcare benefits also promote business continuity.	Directors may be eligible for private health cover and permanent health insurance. Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.	Value of benefits is based on the cost to the Company and is not predetermined.	None
Pension	To help attract and retain high-calibre employees.	All employees, including Executive Directors, are entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance. If the maximum employer contribution rate for the wider workforce changes then this new rate would also apply to Executive Directors. Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan.	The maximum cash allowance is equivalent to the employer contribution of 11% of salary less employer NI contribution.	None

AVP	To incentivise the annual delivery of stretching targets and delivery of strategic goals.	AVP targets are reviewed annually by the Committee. Performance is measured against threshold, target and maximum levels. Outturn against targets is determined by the Remuneration Committee after the year end, based on performance against targets. Awards earned are paid as cash, are not pensionable, and are subject to clawback provisions (see details below). AVP awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. The AVP rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	Maximum AVP potential of 100% of salary, for the achievement of stretching performance targets.	Measures are selected by the Committee each year with at least 80% of the award based on Customer and Operational measures aligned to regulatory measures contained within our Business Plan.
LTVPS	To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders. To incentivise achievement of the Company's long-term strategy.	Cash awards based on stretching performance targets. Performance is measured against threshold, target and maximum levels. Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis, normally capped at the overall target opportunity for the year, unless the Committee determines otherwise. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. Awards are subject to clawback provisions (see details below). The LTVPS rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum). For other Executive Directors, the maximum potential award is 300% of salary over the five-year regulatory period (to a maximum potential award of 60% per annum).	Unless the Remuneration Committee determines otherwise, 50% based on Totex performance and 50% based on a range of performance development measures relevant to achieving the Company's long-term goals and aligned to regulatory measures contained within our Business Plan.

Executive Directors AVP Scheme 2024-25

Scheme construct & measures

			Threshold		Target		Maximum	
			Level	Award	Level	Award	Level	Award
Metrics	Units	Weighting						
Part 1 - Customer service			3%		18%		30%	
C-Mex	Rank	62.50%	5th	1.88%	3rd	11.25%	1st	18.75%
D-Mex	Rank	18.75%	11 th	0.56%	9th	3.38%	6 th	5.63%
B-Mex	Score	18.75%	4.3	0.56%	4.4	3.38%	4.5	5.63%
Part 2 - Operational performance			5%		30%		50%	
Water and Wastewater		Weighting						
Tap Water Quality Compliance Risk Index	Score	10.0%	7.7	0.50%	5.1	3.00%	4.5	5.00%
Interruptions to supply	mm:ss	10.0%	23:16	0.50%	12:39	3.00%	10:00	5.00%
Leakage	MI/d	10.0%	261.6	0.50%	218.7	3.00%	208	5.00%
Mains repairs	Nr/1,000k m	10.0%	146.2	0.50%	134.2	3.00%	131.2	5.00%
W and WW Treatment works compliance	Percent	10.0%	97.34	0.50%	98.67	3.00%	99	5.00%
Pollution incidents (Cat 3)	Nr/10,000 km	20.0%	27.86	1.00%	21.17	6.00%	19.5	10.00%
Pollution incidents (Cat 1 – 2)	Nr	20.0%	7	1.00%	3	6.00%	2	10.00%
PCC	l/h/d	10.0%	150.7	0.50%	149.2	3.00%	148.8	5.00%
Part 3 - Strategic Goals			2%		12%		20%	
PR24 finalisation and AMP8 readiness		25%	Satisfactory	0.50%	Good	3.00%	Excellent	5.00%
Length of river improved	%	25%	418	0.50%	478	3.00%	569	5.00%
Credit rating status		25%	2 notch downgrade	0.50%	1 notch downgrade	3.00%	Current ratings	5.00%
Female Senior Management	%	25%	17%	0.50%	23%	3.00%	29%	5.00%
Total award			10%		60%		100%	

FY 2024 Outturn

The overall performance achieved for FY 24 in the Executive Directors' AVP was 25.77%.

This level of performance resulted in total awards to the Executive Directors of:

Peter Perry (CEO): £91k (25.77% of salary) paid in July 2024.

Mike Davis (CFO): £72k (25.77% of salary) paid in July 2024.

Element	Weighting	Metric	Threshold performance	Target performance	Maximum performance	Performance achieved	Award
Customer service	30%	C-MeX (Ranking)	6th	3rd	1st	5th	5.00%
		D-MeX (Ranking)	12th	9th	6th	11th	1.50%
		B-MeX (Score out of 5)	4.3	4.4	4.5	4.3	0.56%
Total percentage of Salary for Customer Service			3	18	30		7.06%
Operational performance	50%	Water:					
		Tap water quality (CRI Score)	5.45	4.50	2.0	7.74	0.0%
		Interruptions to supply (mm:ss)	16:12	08:48	08:00	23:16	0.0%
		Leakage (Ml/d)	239.3	225.3	218.3	261.61	0.0%
		Acceptability of Water (contacts/1000)	2.35	2.02	1.75	2.48	0.0%
		Wastewater:					
		W and WW Treatment Works compliance (%)	98.32	99.16	100	97.34	0.0%
		Pollution Incidents (Incidents)	91	81	71	108	0.0%
		Internal sewer flooding (Incidents)	217	210	203	201	6.25%
Total percentage of Salary for Operational Performance			5	30	50		6.25%
Strategic Goals	20%	PR24 preparation	Achieved	Exceeded	Outstanding	Outstanding	7.00%
		Km of river improved	170	294	418	345	3.06%
		Credit Rating performance	1 notch downgrade	Negative outlook	Current Ratings	Negative outlook	2.40%
		% of female senior managers	26	29	32	24	0.0%
Total percentage of Salary for Strategic Goals			2	12	20		12.46%
Total percentage Award Achieved							25.77%

Executive Directors LTVP Scheme

Scheme construct & measures

The AMP7 LTVP scheme was approved in June 2020, consisting of two elements:

- Totex: 50% weighting
- Performance development: 50% weighting (breakdown of the measures below).

Measure	CEO CFO	Threshold level of performance	Target level of performance	Maximum level of performance
		(5% achievement) (3% achievement)	(30% achievement) (18% achievement)	(50% achievement) (30% achievement)
Continuous service measures	Units			
Acceptability of drinking water	Contacts per 1,000 population	2.56	2.48	1.75
Water mains bursts	# per 1,000km of Mains	130.80	130.5	133.1
Lead supply pipes replaced	Number	5,600	5,600	5,600
Leakage	%	8.8	11.7	11.7
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2
Community education	Individuals	73,000	74,000	74,000
Visitors to recreational facilities	Individuals	720,000	775,000	775,000
Per capita consumption	%	2.1	3.4	4.0
Investment programme measures				
Km of river improved	Km	25	25	160
Surface water removed from sewers	Roof equivalents	862,150	862,150	862,150
Combined sewer overflow storage systems	m3	13,500	13,500	13,500
Delivery of reservoir enhancement programme	Sites	17	17	17
Delivery of zonal studies programme	Zones	N/A	N/A	N/A
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	Date	N/A	N/A	N/A
Direct procurement for customers: Cwm Taf Water supply strategy scheme (outperformance)	Date	N/A	N/A	N/A
Delivery of a new visitor centre	Delivered	N/A	N/A	N/A
Delivery of the Company's South Wales Grid water supply resilience scheme	% complete	95	95	95

Outturn

Based on the measure's details in the first section, the LTVP has returned a nil payment for the last two years.

2020/21 Final	2021/22 Final	2022/23 Final	2023/24 Final
CEO 23.1%	CEO 30.0%	CEO 0%	CEO 0%
CFO 13.8%	CFO 18.0%	CFO 0%	CFO 0%

I hope this is useful but please let us know if you require any additional information.

Your sincerely,



Peter Perry

Chief Executive, Dŵr Cymru Welsh Water