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20 April 2026

From:

David Hill, Director General Strategy and Water, Defra
Chris Walters, Interim Chief Executive, Ofwat
Helen Campbell, Executive Director - Delivery, Ofwat

Subject: PAC follow-up

Dear Chair,

Following the Committee's evidence session on 22 January 2026, Defra and Ofwat committed to provide further written information on a number of points raised during the hearing. This letter provides a joint response to your letter of 23 February and sets out additional detail where Committee members requested clarification or updates.

Executive bonuses and pay transparency

Please review whether Ofwat has sufficient powers to enforce the bonus ban for poor performance and ensure executive pay transparency in the sector. Please inform us as to whether the Department concludes that there is scope to strengthen legislation in this respect and so improve its ability to enforce the bonus ban.

Water companies are now required – under powers from the Water (Special

Measures) Act – to meet high standards relating to consumer and environmental matters, and financial resilience which form the basis of Ofwat's performance related executive pay (PRP) prohibition rule. Following Royal Assent of the Act in February 2025, Ofwat's PRP prohibition rule came into force in June 2025. The rule requires water companies to prohibit PRP, such as annual bonuses, for directors who are members of the regulated company's board when the company fails to meet certain specified standards.

The specified standards must, as a minimum, relate to areas set out in Section 35B of the Water Industry Act 1991, which was recently inserted by the Water (Special Measures) Act 2025. The specified standards are:

1. **Consumer matters** – A water company must prohibit PRP in the financial year when Ofwat has made a final decision that a water company has breached a principal statutory duty (meaning either Sections 37 and/or Section 94 of the Water Industry Act 1991) and warranted a financial penalty or where the company has failed to subsequently comply with an enforcement order or undertaking linked to the breach.
2. **Environment** – A water company must prohibit PRP in the financial year when a water company has either:
 - a. A 1-star rating by the Environment Agency or Natural Resources Wales as reported in the Environmental Performance Assessment (EPA) for the preceding calendar year; or
 - b. A category 1 pollution incident reported by either of the environmental regulators in the EPA for the preceding calendar year.
 - c. A category 1 incident affecting water reported by the Environment Agency (this applies to water only companies). This new standard was introduced on 31 March 2026.
3. **Financial resilience** – A water company must prohibit PRP in the financial year when a water company has breached its licence requirement to hold sufficient credit ratings or has failed to subsequently comply with an enforcement order or undertaking linked to the breach.
4. **Criminal liability** – A water company must prohibit PRP in the financial year when a water company received a sentence, following a conviction for a criminal offence, unless the court has made low culpability or harm findings against the company.

The rule does include exceptions to these standards, as allowed in Section 35B of the Water Industry Act 1991, which include not requiring that PRP be prohibited if the director was not in post at the time of an incident that triggered the rule or for "double jeopardy" (where a water company has already prohibited PRP in relation to the standard, so does not need to prohibit it again).

Section 35B of the Water Industry Act 1991 defines "performance related pay" as "any payment, consideration or other benefit (including pension benefit) the giving of which results from the meeting of any targets or performance standards on the part of the relevant undertaker or the person to whom such payment, consideration or benefit is given". This is the same definition that Ofwat uses in the rule. In order to determine compliance with the rule, Ofwat needs to assess whether any payment or benefit given to a person in scope of the rule is linked to performance and if so, whether that link is connected to performance at the regulated company level. Payments or benefits which are not contingent on individual or company performance at the regulated company level are not in scope of the rule.

The Water Industry Act 1991 sets out that the rule could apply to PRP paid to any employee in a "senior role". Following consultations on the rule, Ofwat decided the rule should apply to directors who are members of the regulated company's board, on the basis that they hold the ultimate accountability for water companies' overall performance.

Where Ofwat concludes that a rule has been breached, it has powers to issue directions to the company, including directing the company to recover the PRP paid. If a company fails to comply with this direction, Ofwat may take enforcement action, such as issuing a financial penalty.

The government is aware of several recent high-profile cases of executive payments which risk undermining our collective efforts to reset the sector. Defra has called for Ofwat to assess the legality of all executive payments as a matter of urgency now that the PRP rule is in place. Nevertheless, the onus remains on companies in the first instance to fully comply with both the PRP rule itself and the overall intent behind the rule – which is to ensure executive remuneration is reflective of company performance.

The government will not tolerate any company attempting to circumvent Ofwat's PRP rule by introducing salary increases to offset bonus losses, new financial vehicles, payments through parent companies, or any other mechanism.

Ofwat's [assessment](#) of PRP for 2024-5 found that six water companies (Anglian Water, Southern Water, Thames Water, United Utilities Water, Wessex Water and Yorkshire Water) triggered the PRP Prohibition Rule for a variety of performance failures, mostly involving pollution incidents. Ofwat found that all six companies correctly applied the rule and estimated as a result that the companies prohibited approximately £4 million of potential annual bonuses and other PRP to the relevant directors.

Ofwat's assessment also looked at other issues surrounding PRP, including a lack of transparency in fees that some water executives were receiving from the (non-regulated) parent company. Ofwat has since introduced changes to its regulatory reporting to require companies to fully disclose all payments that directors in scope

of the rule receive from parent and associated group companies. This will apply to reporting of the 2025-26 financial year.

More broadly, Ofwat plans to review how the PRP prohibition rule has operated and its impact in 2027 (or sooner if circumstances merit an earlier review). Any proposals to update the rule that result from this review would be subject to consultation.

Securing value for money for customers

Please write to the committee detailing how the proposed regulatory reforms in the White Paper will ensure value for money for customers and avoid repeating the sharp increases we have just seen.

The government has been clear that the water sector must deliver for customers and the environment, bills should remain affordable, and customers cannot be expected to pay the price for years of underperformance in the past.

In delivering reform, we will ensure that higher ambitions for the water sector and better outcomes for customers are delivered in the most effective and efficient way. A core aim of the reforms is to unlock long-term efficiencies and savings (e.g. more streamlined planning, lower financing costs, using constrained discretion to inform outcomes-based decision making, enabling more efficient solutions such as smart metering). We are actively shaping our reforms to minimise customer bill impacts and provide strong value for money.

The government has taken action to increase customer protections by updating the Guaranteed Standards Scheme which came into force on 2 July 2025, increasing customer compensation by more than double when they have been failed by water companies. New standards have been introduced, including for the issuing of boil water notices and for the mishandling of debt recovery, further strengthening customer protections across the sector. Water companies are also more than doubling social tariff support for vulnerable customers by 2030 and the government is considering ways to drive more consistency across and increase awareness of the support consumers can access.

The government has also carried out a consultation on reforms to WaterSure, the statutory scheme which caps water bills for low-income customers with higher water usage due to medical conditions or large households, including whether additional customers should be brought into scope of the scheme. The government consulted on extending eligibility to more households where a medical condition is present and increasing support for up to 160,000 existing WaterSure recipients who could see a lower bill cap.

In addition, the government expects all water companies to put appropriate support in place for customers struggling to pay their bills and to proactively engage with their customers to ensure they know what support schemes are available and how to use them, and Defra also expects companies to hold themselves accountable for their public commitment to end water poverty by 2030.

Effective engagement and transparency in planning decisions

How you will ensure that the water sector contributes to the new plan-making system in a timely way, particularly in localities where plans have already been set?

To deliver the government's ambitious target to build 1.5 million new homes, Defra is working with MHCLG to implement a new plan-making system. This will ensure better join-up between water and development planning processes, making plans simpler, faster to prepare and more accessible. Under this new system, the government intends to prescribe water and sewerage companies in 'Requirement to Assist' regulations so they will be obliged to assist with plan-making, where a plan-making authority reasonably requests it.

The government also intends to list water and sewerage companies as consultation bodies for the new plan-making system, so they will be made aware of key plan-making consultations where the plan-making authority considers they have an interest. We will also consider the role of water and sewerage companies in relation to planning applications, as we consider responses to the current consultation on reform of statutory consultees, which includes proposed criteria for the adoption of any new statutory consultee.

A new cross-sector Water Smart Growth Board, including water companies and developers, has been established to support sustainable housing delivery through better, more integrated water management across England, building on Ofwat's Enabling Water Smart Communities (EWSC) project. This will be linked to Defra's Water Delivery Taskforce and aims to support new developments to integrate water-smart design principles - such as sustainable drainage, water reuse, improved water efficiency, and targeted enhancements to existing infrastructure — to help support growth and better understand and plan for demands on shared water systems.

The White Paper commits to an enhanced, more joined-up regional water planning function. This will support a more coordinated approach to water environment and supply planning, aligned with national priorities. The government plans to facilitate this through regional planning which will help identify lower-cost, higher-impact solutions across sectors, increasing preventative action and nature-based solutions

to reduce long-term costs and improve resilience.

How are you ensuring interventions from the water sector regulators in the planning process for new developments are timely and issues are identified early?

Defra is working across government, including with NISTA's 'ALIGN' spatial planning tool, to map where water supply and wastewater capacity could become an issue across the country, seeking to act before issues arise. Where issues are identified through the mapping, or issues arise outside of that process, Defra's Ministerially chaired Water Delivery Taskforce steps in to resolve those issues. Alongside this, the Government's recent SPS to EA on the exercise of its functions has a strong focus on facilitating growth. EA are already delivering more efficient planning consultation responses; for example, in Q3 25/26, EA responded to 98% of planning application consultations it received from local planning authorities within agreed timelines, up from 95% in Q1.

To support economic growth and to help facilitate the government's target to build 1.5 million homes over five years, Ofwat provided a significant increase in spending levels at PR24 to accommodate demand growth (domestic and business demand) during the 2025-30 period compared to historical levels. Ofwat allowed an additional £0.7 billion for companies to undertake additional network reinforcement above historical levels. This relates to investment to provide and upgrade water and sewerage assets to facilitate new developments. Ofwat also allowed £1.4 billion for site-specific developer services (service connections and on-site mains), and £1.8 billion to increase capacity at sewage treatment works. Network reinforcement and site-specific developer services is paid for directly by developers and not general water bill payers. For growth at sewage treatment works, money will be returned to customers if companies under-deliver via non-delivery price control deliverables (PCDs).

Since these spending levels were set, however, further demand has emerged. This includes growth associated with data centres and new housing. In response, Ofwat is allowing companies to submit proposals for additional spending to support investment linked to demand growth in 2026, 2027 and 2028. This gives companies more flexibility to deal with increased demand when it materialises. Through this process, Ofwat has further reinforced the need for developers, local authorities and MHCLG to engage earlier with companies and ourselves, in order to respond in a swift positive fashion.

What was the outcome of your review into extending the Environment Agency's annual reporting on objections to developments, beyond only flood risk and water quality grounds?

In our previous letter to the Committee we committed to exploring with EA its ability to publish objections to development applications on grounds other than flood risk or water quality. Our current assessment is that the digital systems that EA currently uses for development/planning applications make this challenging, and this is not currently a statutory requirement for EA. However, EA has now introduced a new IT system which went live on the 18 March and which is currently in its Minimum Viable Product stage. We are considering how this new system may enable the EA to publish all objections.

Capacity and capability of the new regulator

What is the Environment Agency's progress with clearing its enforcement backlog, and how you will manage this risk during transition to a new organisation?

The Environment Agency has now resolved all the backlog of enforcement cases from 2021 (with the exception of one complex case currently ongoing,) by targeting resources to priority cases, identifying where cases could be packaged together, and refining internal processes to accelerate case progression.

These improvements to processes, alongside working collaboratively with industry, have increased efficiency, enabling swift enforcement against wrongdoings and preventing any future backlogs.

Enforcement capabilities will be further supported through the ongoing implementation of the Environment Agency's digital programmes.

The government has also made improvements to the EA's regulatory capabilities to enable the regulator to take swifter enforcement action. The EA has recruited 500 additional staff for compliance, enforcement, and stronger regulation. The EA has quadrupled the number of water company inspections by March 2026, and the introduction of the Water (Special Measures) Act provides further enforcement powers for the regulators to take tougher action against water companies.

What action you are taking to address the current high staff turnover rates in Ofwat?

Ofwat remains focused on ensuring that staff are appropriately supported and that the organisation maintains a clear understanding of workforce turnover and the factors that influence it. Although it remains high by Ofwat's historic standards, the year-on-year attrition rate has stabilised over the past four months to a more manageable level of approximately 20%.

Ofwat has developed a Retention and Engagement Plan, which is intended to strengthen how the organisation monitors turnover and to consider what actions may

be available, within the relevant Civil Service frameworks. These matters were considered by Ofwat's People Committee when it met at the end of February. As a result of that meeting, Ofwat has introduced a number of new metrics to track including: overall turnover to track the scale of workforce movement, including why people are choosing to leave so Ofwat can monitor the health of the organisation, early turnover (<26 weeks), retention rates and recruitment campaign success for "hard to fill roles".

Note: "Hard to fill roles" are defined as, at certain grades: Finance and Financial Resilience, Legal, Economists, Policy, Infrastructure Specialists, Asset Management and Cyber Security/IT Specialist roles.

How will you ensure the new regulator has the capacity and funding it needs to regulate effectively?

The new regulator will have the powers it needs to deliver its responsibilities in full, supported by a New Chief Engineer will bring technical expertise to new regulator and dedicated supervisory teams, giving the new single regulator a thorough understanding of how each company operates. This new supervisory approach will shift regulation towards being more proactive and targeted to the specific needs of each water company – while also increasing grip over water company delivery. This will enable the regulator to effectively balance the interests of customers, investors and the environment.

We are considering the funding arrangements that will be needed for the new regulator. As part of the process of setting up the single regulator, the government is assessing options for appropriate cost recovery.

Securing value for money from infrastructure investment

Please write to the committee with more detail on how the procurement and contracting of large infrastructure projects in the sector will ensure transparency and value for money for customers.

Major Water Infrastructure Programme

Given the breadth and complexity of large-scale major water infrastructure projects, Ofwat has been reviewing ways to better support their delivery. Regulators have recently launched the new Major Water Infrastructure Programme combined gated process, which brings together the Regulators' Alliance for Progressing Infrastructure Development (RAPID's) oversight of early major project development with Ofwat's oversight and regulation of the later stages of infrastructure delivery.

The combined gated process comprises six stages and gates, from optioneering to project closeout. Gates A-D are formal decision points from optioneering to the start of construction. Companies are required to submit information about their work on a

project at each gate for regulators to assess progress, risk, cost, and readiness to advance to the next phase, so that further funding can be released.

Companies are required to publish the information that is submitted to regulators (with the exception of the commercially sensitive elements relating to procurement) and regulators put their draft decisions at each gate out for public consultation, in the interests of transparency. Gates E-F are to signpost for activity that may be required during construction, commissioning and closeout in relation to DPC or SIPR. Gates A-B are overseen by RAPID, with later gates overseen and managed by Ofwat's Major Projects team.

By combining two previous approaches into one, the combined gated process will streamline the delivery of the large, complex major infrastructure projects, ensuring customers' money is spent efficiently. RAPID and Ofwat's Major Projects team continue to carry out their regulatory roles, now operating using this single, combined process.

Water Resources Management Plans

Major water infrastructure projects approved under PR24 stem from the water companies' water resources management plans (WRMPs), which are agreed by the Secretary of State for Environment, Food and Rural Affairs before they are finalised. The joint regulator guidance for WRMPs (sections 9 and 10) sets out principles and considerations that should be taken into account. It defines the best value plan as one that considers factors alongside economic cost and seeks to achieve an outcome that increases the total benefit to customers, the wider environment and overall society. It also sets out that "a best value plan should be efficient and affordable with distributional impacts, societal equity and intergenerational equity considerations transparently discussed. It should be clear that the additional benefits identified could not be delivered more efficiently through other means".

The guidance sets out factors that companies should consider when compiling best value plans. This includes government policy and regulator expectations, collaborative regional plans, and any schemes approved for acceleration through transitional funding in advance of AMP8, alongside a number of other factors. The full list can be seen in s9.2 of the [guidance](#).

Ofwat is a statutory consultee for WRMPs. As part of this role, Ofwat undertakes pre-consultation during early development of the plans, and provides representations as part of draft plan public consultations. As part of this engagement, Ofwat will consider the methodologies the companies set out for its best value decision making process, including whether the company has considered a wide range of metrics and adequately explained the additional benefit gained from the best value plan, as opposed to a least cost plan.

Project costs were initially underestimated by water companies in the WRMPs as projects were at an early stage of concept and design. With more mature designs and environmental assessments, Ofwat is seeing more accurate cost estimates emerge through the RAPID gated process. There are mechanisms in place to enable increased costs to be rigorously assessed, to ensure value for customers, before any project begins construction.

The cost of these projects, while substantial, will be offset by their wider positive impacts. These include strengthening resilience, unlocking economic growth and securing environmental improvements through reducing unsustainable abstraction. Ofwat recently published a [report](#) on the [Economic Impact of Water Supply Infrastructure Investment](#) with analysis by KPMG UK which concluded that delivering the programme of major new water infrastructure projects could contribute up to £40 billion overall to the UK economy by 2050 in economic growth, over and above the benefits of the projects themselves to supply resilience. Longer-term, it also estimated that the programme could unlock around £4-12 billion in additional economic growth in 2050 – with benefits continuing beyond that point.

In line with government policy and the guidance, it is then the responsibility of water companies, informed by collaboration with the relevant regional water resources group and the regulators to develop their methodology for best-value decision making, that is both fit for purpose in determining best value plans for their customers and the environment. Water companies will need to justify their methodologies and decision making as they develop their WRMPs.

RAPID's role in ensuring transparency and value for money for customers

RAPID, which was formed in 2019, is a partnership between Ofwat, the Environment Agency and the Drinking Water Inspectorate which oversees the large-scale water supply infrastructure projects in their early development phases.

RAPID's oversight, through Gates A-B, is designed to take a project from early-stage conception up to planning submission. RAPID allows for agreed levels of funding allowance to be released for the development of water resource solutions – and applies rigorous scrutiny at checkpoints and at each gate within the overall combined gated process. This is achieved by scrutinising development costs and ensuring they are properly justified, with funding only progressing if submissions meet strict criteria.

RAPID is also taking a broader responsibility for cost discipline by improving benchmarking, requiring companies to demonstrate governance and capability, and applying lessons learned across the portfolio.

It is worth noting that RAPID gates evaluate the quality of the work undertaken to progress design and development work and does not replace or override the WRMP statutory process.

All major projects are required to demonstrate best value in the WRMPs, which are submitted in five yearly cycles and updated annually. Ofwat expects companies to do sufficient scenario testing around cost envelopes to ensure that cost increases which cannot be mitigated remain value for money for customers and that options remain the preferred best value option.

The role of competitive tendering in delivering projects

Competitive tendering plays a central role in driving value for customers in monopoly sectors by sharpening incentives for efficiency, innovation and cost control. In the water sector, Ofwat has sought to introduce competitive tendering where it can deliver better outcomes, while preserving the stability and protections of economic regulation. Competitive delivery models are intended to improve transparency, reduce delivery risk, improve customer outcomes, attract the requisite skills and expertise required to finance and deliver major infrastructure, and ensure that customers pay no more than is necessary for essential long-term infrastructure.

Most of the projects will be put out to competitive tender for third parties to design, build, finance and (in some cases) operate and maintain the assets. The current cost estimates will be market tested through a competitive bidding process to establish the market price and drive out value for customers. Through the competition, a fair balance of risk and reward will be set to attract bidders and broaden the investor pool needed to finance the projects. This approach will also draw in experienced infrastructure delivery organisations where water companies may lack capacity and capability to deliver what is often first of a kind infrastructure being delivered for the benefit of multiple water companies.

Two main competitive delivery models for major projects have been developed:

- **Direct Procurement for Customers (DPC)** is designed to introduce competition into the delivery of large, discrete water and wastewater infrastructure projects. It involves a water company competitively tendering key aspects of a project, resulting in the appointment of a third-party competitively appointed provider (CAP) to design, build, finance, operate and maintain the asset. By exposing major capital investments to market competition, DPC promotes innovation, efficient risk allocation and improved cost transparency, helping to deliver lower whole-life costs. DPC was introduced at the 2019 price review (PR19), and in the 2024 price review (PR24) methodology, Ofwat stated that major new infrastructure above £200m totex should, by default, be delivered through competitive delivery models where appropriate.
- The **Specified Infrastructure Provider Regime (SIPR)** goes further by allowing strategic water infrastructure to be developed, owned and operated by an independent, licensed provider rather than the incumbent

company. A project can only be specified under SIPR where its size or complexity could threaten the undertaker's ability to provide services, and where the use of SIPR is likely to deliver better value for money. Once specified, the appointee is required to put the project out to competitive tender. SIPR is intended to support new market entry, attract long-term investment and enable regional or cross-company solutions that enhance resilience and security of supply. To date, SIPR has only been applied in the case of Thames Tideway Tunnel because of the very high legislative threshold. It is planned that the legislative threshold will be lowered to apply to more projects and will be applied, reflecting its targeted role for particularly large or strategically significant schemes.

Together, DPC and SIPR form part of Ofwat's approach to introducing appropriate and proportionate competition while maintaining strong customer and environmental protections.

Timely publication of the Transition Plan

Please can you write to the committee and confirm the date for publication of the Transition Plan and give us assurance that the Plan will provide sufficient detail to maintain investor confidence and enable the sector to plan.

The Transition Plan will be published in due course. It will describe the transitional arrangements to enable the stable, successful delivery of reforms, and will be accompanied by a new Strategic Policy Statement for Ofwat and a Ministerial Direction for the Environment Agency to maintain investor confidence and enable the sector to plan.

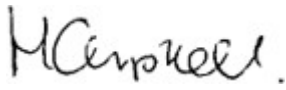


DAVID HILL
Director General for Strategy and Water



CHRIS WALTERS

Interim Chief Executive, Ofwat

A handwritten signature in black ink, appearing to read 'H Campbell'.

HELEN CAMPBELL

Executive Director – Delivery, Ofwat