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Llyr Gruffydd MS
Chair, Climate Change, Environment and Infrastructure Committee
Senedd Cymru

5 November 2025

Dear Llyr Gruffydd

Monitoring Financial Resilience and Performance Related Executive Pay

I am writing to inform you and the Climate Change, Environment and Infrastructure Committee of two annual reports we have published today; our Monitoring Financial Resilience report, setting out our observations and approach to water companies' financial resilience, and our Performance Related Executive Pay Report which contains our regulatory findings of companies' performance related executive pay (PRP). Both reports cover the 2024-25 financial year.

Monitoring Financial Resilience (MFR)

Our MFR this year marks the end of the AMP investment period of 2020-25, during which time we have strengthened our oversight of water companies' financial resilience, alongside our protections for customers and the environment where financial resilience may be at risk.

For example, we have made licence modifications requiring all companies to take account of their performance, financial resilience and investment needs in their dividend decisions, and increasing the credit rating trigger for cash-lock up where a water company is unable to make certain payments, including dividends, without Ofwat's approval.

This year's report confirms that Dŵr Cymru and Hafren Dyfrdwy remain in the "Standard and Routine Monitoring" category, which means that on the basis of the information we have, we have no specific concerns with the financial resilience of either company at this time and that no specific company action is expected to be required over the next year. The MFR notes that during the financial year, Dŵr Cymru's credit ratings monitored for licence purposes were downgraded to Baa1 (Stable) with Moody's and BBB+ negative outlook with S&P. This is the lowest that they have been for Dŵr Cymru, although they remain well within the investment grade. This was in part due increased gearing, risks of performance penalties and overspend, but also reflecting the sentiment of credit rating agencies about the wider sector and risks arising from factors like increased public scrutiny, political and regulatory focus as well as the scale of investment required in the next price control period.

Helen Campbell, Executive Director, Delivery

The next investment period of 2025–30 will require a significant increase in investment across the water sector, with our recent price review (PR24) providing a quadrupling of investment in new infrastructure and resources. Delivery of this investment is at the forefront of our work with the sector, but we are also very mindful of the critical need for water companies to maintain financially resilient structures to ensure they can raise the level of finance necessary and withstand potential downside risk. We will continue to closely monitor the delivery of commitments made by both Welsh water companies as well as keep under review the regulatory protections to protect customers.

Performance Related Executive Pay Report

This report is the first to be published since the implementation of our PRP Prohibition Rule. The report also provides our findings of our PRP cost recovery mechanism for PRP paid for 2024–25 performance that was not prohibited by the rule. This mechanism protects customers from funding PRP that does not meet our expectations.

While neither Dŵr Cymru nor Hafren Dyfrdwy triggered the PRP Prohibition Rule in 2024–25, we did conclude that Dŵr Cymru's decision to award PRP did not meet our expectations. It had failed to explain in its annual reporting why any PRP payment at all was justified when it was given a 2 star rating in its Environmental Performance Assessment, received a criminal conviction for breaking conditions of an environmental permit at a sewage treatment works, and was in the 'lagging' category in our 2024–25 Water Company Performance Report. Dŵr Cymru has currently withheld payment of £147,000 of PRP that could be awarded to directors, however if they decide to pay these bonuses, we will use our cost recovery mechanism to prevent the company from recovering the costs from customers.

Our report also contains Ofwat's reflections on water companies' behaviour surrounding PRP and challenges the sector for the lack of transparency surrounding PRP payments. As a result, we intend to make changes to the requirements for companies' annual regulatory reporting, so that companies will need to publicly report in full the details of remuneration received by directors from the regulated, group and parent companies. Further details of our proposed changes will be revealed in the coming months.

I hope you find both reports useful in understanding water companies' financial resilience and executive remuneration decisions. I would be very happy to meet with you and other committee members to discuss these findings in more detail if that would be helpful.

Yours sincerely



Helen Campbell
Executive Director, Delivery