July 2026

Consultation – Water Governance Code Rule

Ofwat

About this document

This consultation invites views on the introduction of an updated governance code for the water sector. The Water (Special Measures) Act 2025 (referred to here as the WSMA) inserted sections into the Water Industry Act 1991 (referred to here as the Act) which give Ofwat powers to introduce new rules on remuneration and governance.

Responses to this consultation will inform a subsequent statutory consultation to implement a rule on governance (referred to here as the Water Governance Code) under section 35D of the Act.

The proposed new Water Governance Code will replace the existing Board Leadership, Governance and Transparency Principles 2019 (referred to here as the BLGTPs). The code will form part of our wider evolution of remuneration and governance measures for the sector. Other rules have already been introduced under section 35B of the Act covering performance-related executive pay, fitness and propriety, and consumer involvement in decision-making. See the glossary (A1) below for information about where to find these rules.

The Independent Water Commission's final report[1] and a New Vision for Water[2] published by the Department for the Environment, Food and Rural Affairs set out recommendations for reforms to improve regulation of the water sector. Both reports include references to the WSMA and alignment with the UK Corporate Governance Code (referred to here as the Corporate Governance Code).

We propose that the Water Governance Code will apply to the 16 largest companies holding an appointment as a water and/or sewerage undertaker under the Act (referred to here as water companies or the companies).[3] We do not propose to extend the Water Governance Code to new appointees at this time, but the approach taken to the governance of new appointees will be given consideration in due course. Application to infrastructure providers will also be given consideration although this would require changes to legislation.

We will use the feedback obtained through this consultation to inform the design of the Water Governance Code. This will be subject to a statutory consultation which will include a draft of the Water Governance Code. The purpose of this initial consultation is to seek preliminary views on our most material proposals for the new code.

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[1] Independent Water Commission: review of the water sector - GOV.UK

[2] A New Vision for Water.

[3] These are, as at the time of publication of this consultation: Affinity Water Limited, Anglian Water Services Limited, Dŵr Cymru Cyfyngedig , Hafren Dyfrdwy Cyfyngedig, Northumbrian Water Limited, Sutton and East Surrey Water plc, Portsmouth Water Limited, Severn Trent Water Limited, South East Water Limited, South Staffordshire Water plc, South West Water Limited, Southern Water Services Limited, Thames Water Utilities Limited, United Utilities Water Limited, Wessex Water Services Limited and Yorkshire Water Services Limited.

Contents

Responding to this consultation

We welcome any comments on this consultation. We encourage responses to be submitted via our consultation platform: https://consult.ofwat.gov.uk

However, you can also respond by email to governancecode@ofwat.gov.uk or post it to:

Water Governance Code Rule consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

The closing date for this consultation is 10 September 2026. If you have any questions about this consultation, please contact us at governancecode@ofwat.gov.uk.

We intend to publish responses to this consultation online, on the relevant consultation platform. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication. If you think that any information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), you should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response. An automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. We will consider your request when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential. In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our privacy policy explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this consultation, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

1. Background

Public trust in the water sector is low, and it is critically important to rebuild trust. Requiring high standards of governance in line with recognised good practice is a key element in helping to give stakeholders confidence that decisions are being made in the right way. This includes taking stakeholders' interests into consideration, as well as supporting corporate resilience, which are both critical aspects for a public utility.

Ofwat first started introducing governance standards for companies in the late 1990s, and most recently in the Board Leadership Transparency and Governance Principles (BLTGPs). However, requirements need to be further enhanced, in order to respond to scrutiny of the sector and evolutions in standard UK governance practices.

The new Water Governance Code will draw materially from the Corporate Governance Code which is widely recognised as being comprehensive. It is also well-established and includes best practice, and the majority of water companies already state that they voluntarily follow the Corporate Governance Code.

However, the Water Governance Code will also contain requirements bespoke to the nature of the water sector. For example, it will include relevant content from the BLGTPs and address the existing governance arrangements of water companies.

Through our proposals we also intend to further enhance the concept of water companies as standalone regulated entities within wider corporate groups, as well as underpin the important role an effective independent voice has on water company boards. This is critical given the particular responsibilities which water companies have to stakeholders and the environment as monopoly providers of an essential public service.

2. Intended outcomes from the new code

2.1 Up to date bespoke and comprehensive governance requirements

As public utilities and stewards of a natural resource, water companies have a vital role in our communities and society, and companies also have multiple stakeholders to whom they need to be accountable. It is therefore important that the water sector has appropriate governance standards to support this. In this context, we propose to update our governance requirements, currently set out in our BLTGPs, so as to reflect latest good practice in UK corporate governance. In addition, our new code will include appropriate additional areas to reflect the needs of the sector including drawing on relevant aspects of the BLTGPs.

2.2 High standards of decision-making fit for purpose for the water sector today

Water companies have to fulfil a wide range of regulatory responsibilities and take account of diverse stakeholder interests as part of their decision-making. Meeting different stakeholders' needs can be complex, and boards of water companies need to be composed effectively to be able to discharge these responsibilities. The objective challenge which independent non-executive directors (INEDs) can contribute to this is key. INEDs already play a crucial role in water companies and their board committees and these proposals build on this.

2.3 Enhanced understanding and accountability through increased transparency

It is intended that the Water Governance Code will provide the foundation for more transparent and effective reporting, through expanded explanations including for non-compliance. In turn transparency allows stakeholders and the regulator to understand companies' fulfilment of the requirements effectively and, where needed, challenge companies and hold them to account. This increased flow of information would enable the regulator to take further steps where reporting or actions are not sufficient, and also support any future evolutions to more supervisory regulation.

3. Core elements of the Proposals

3.1 Corporate Governance Code

The Corporate Governance Code applies to companies listed in the commercial companies category and closed-ended investment funds category on the London Stock Exchange. A number of water companies have group companies which are formally subject to the Corporate Governance Code.[4] Although none of the water companies are listed themselves many make reference to the Corporate Governance Code in their reporting.

The Water Governance Code will be based upon the latest version of the Corporate Governance Code. However, it will be tailored appropriately for the water sector in England and Wales. in order to reflect the existing governance arrangements of water companies and their group structures.

Question 1: Are there particular aspects of the existing BLTGPs or other sector codes which would be useful to consider?

3.2 Form of the new Water Governance Code

The Water Governance Code would be structured in the same way as the Corporate Governance Code as follows:

- principles which are apply and explain, and the emphasis is on explanations which focus on outcomes as well as activities; and
- provisions which are comply or explain, so non-compliance is acceptable provided there is a clear explanation in public reports as to why this has occurred, how the related code principle has been met in another way, or when full compliance with provisions will be achieved.

3.3 Decision-making for the standalone regulated entity

The constitutional documents of water companies may require or allow group companies to take decisions or endorse recommendations made by the water company. Alternatively, shareholders may be the decision-makers for certain matters. Another way to describe this is that certain decisions are 'reserved' to group companies or shareholders. Whilst this approach is not an unusual feature within corporate groups more generally, it is important

[4] The ultimate parent company for Hafren Dyfrdwy and Severn Trent Water is Severn Trent plc; the ultimate parent company for United Utilities Water is United Utilities Group plc; and the ultimate parent company for South West Water and Sutton and East Surrey Water is Pennon Group plc. These parent companies are all listed on the London Stock Exchange in the commercial companies category and therefore subject to the Corporate Governance Code.

that the board of a water company has responsibility, and is accountable, for all matters to do with that company as far as possible because if decisions are made elsewhere then it may be that these are not always made in the best interests of the regulated company. Where decisions can or must be made by another company or by shareholders then arrangements must be transparently reported by water companies.

We propose that the Water Governance Code includes a 'comply or explain' provision that water companies should decide all matters relating to the company themselves. See 3.2. If any matters can or must be decided by shareholders or group companies then the water companies must set out the theory and practice in their annual reports:

- what matters the company cannot decide itself, explained specifically and clearly;
- why a different company or shareholders are better placed to decide on a matter rather than the water company itself; and
- which matters were decided by shareholders or other companies, and when and how the relevant decisions were reached, for example, whether the water company provided the group company or shareholder making the decision with a recommendation.

Question 2: Do you consider that there should be a comprehensive transparency requirement covering reserved matters? Or can other measures be used to generate greater clarity and understanding in this area?

3.4 Independent non-executive directors

As privately owned and monopoly providers of an essential public service, water companies consequently have a range of important stakeholders, and specified responsibilities to customers and the environment, as well as their shareholders and wider stakeholder groups. They therefore need to have boards which are equipped to balance the potentially conflicting or competing needs of these multiple stakeholders. This gives INEDs a particular and important role on the boards of water companies. INEDs are in a position to bring balance and perspective to board discussions and decisions.

3.4.1 Definition of independence

The benefits of INEDs will be optimised if they are fully empowered by being demonstrably independent. Although the BLGTPs refer to INEDs and independence, neither of these terms is specifically defined.

We propose that the Water Governance Code includes a two-part definition of independence which is set out in 3.4.4.

Question 3: Do you agree that it is important to have a definition of independence for INEDs?

3.4.2 Groups of companies

All water companies have at least one group company. See glossary (A1).

Currently it is commonplace for INEDs who sit on the boards of water companies to also sit on the boards of the group company or other companies in the group. This may create a conflict of interest, which can compromise the robustness of board decision-making. All directors who sit on the boards of water companies need to be able to take a wide range of factors into consideration when they reach judgements and vote, but the objective perspective which INEDs bring is particularly important in this context.

Part one of our proposed definition of independence would not allow individuals to act as INEDs for water companies if they also sit on the boards of other companies in the same group as the water company. See 3.4.4.

Question 4: Do you agree that the independence of an INED who also sits on the board of another company in the same group may be compromised? Do you agree with our proposal to prohibit individuals from being an INED on the board of a water company if they sit on the board or boards of other companies in the same group?

3.4.3 Owning shares

If INEDs own shares in group companies this could impair their independence, or be perceived as a barrier to their independence, because personal share ownership could incentivise share value above other considerations. Whilst it is recognised that some chairs and INEDs of water companies currently own shares in publicly listed companies in the same group as the water company, we propose defining independence in a way that prevents companies from making any future allocations of shares to chairs or INEDs, however acquired. See 3.4.4.

This would be an enhanced requirement as compared to the Corporate Governance Code but we consider it an appropriate approach in the context of water companies' roles as public utilities.

Question 5: Can share ownership impede actual or perceived independence? Should future allocations of shares to INEDs be prohibited?

3.4.4 Full definition of independence

We propose that the definition of independence in the Water Governance Code is divided into two parts.

Part one: code principle

Our view is that some characteristics should automatically prevent an individual from being considered independent, and as such should prevent an individual from being an INED in a water company. We set out those characteristics below:

I. sits on the board of another company in the same group[5];
II. represents a shareholder of the company or group company;
III. is or has been an employee of the company or group within the last five years;
IV. has or has had within the last three years, a material business relationship with the company, either directly or as a partner, director or senior employee of a body that has or has had such a relationship with the company within the last three years;
V. directly and personally accrues shares in the company or in other companies in the same group[6];or
VI. has close family ties with any of the company's advisers, directors or senior employees.

Question 6: Do you agree with the characteristics which we think should prevent an individual from being independent and therefore being an INED? Should characteristics be deleted, or other characteristics added?

Part two: code provision

Our view is that the flexibility of comply or explain is more appropriate for other characteristics which may impair independence. We set out those characteristics below:

I. holds cross directorships or has significant links with other directors through involvement in other companies or bodies;
II. has received or receives additional remuneration from the company (or from companies in the same group) apart from a director's fee, participates in a performance-related pay scheme, or is a member of the company's pension scheme; or
III. has served on the board for more than nine years from the date of their first appointment.

Under this proposal, if a board still considers that a non-executive director can be objectively and reasonably regarded as independent, despite a characteristic included in the relevant

[5] With the exception of a financing subsidiary, as defined in each company's instrument of appointment (licence).
[6] Allocations of shares that post-date implementation of this new code principle.

code provision, then the company must include a clear explanation of how the board has reached this conclusion in the company's annual report. See 3.2 for a description of 'comply or explain' and reporting expectations.

Question 7: Do you agree with the characteristics which we think may impair independence, and which should therefore be subject to careful consideration by boards, and reported by companies if applicable? Should some characteristics be deleted, or other characteristics added?

3.5 Board chairs

Boards are companies' most important governance bodies. The boards of water companies are subject to particularly high expectations and face multiple pressures. The credibility of the individuals who chair these boards is vital to the reputation of companies and the sector more broadly. This is why it is important that we address who can chair the board of a water company and what other roles they can perform in parallel.

Chairs must achieve and sustain credibility with customers, communities, directors, employees, investors, regulators and others. They need to form constructive working relationships with executive directors in order to support or challenge them as appropriate. Chairs may also act as the external spokesperson for a company in times of significant change or crisis.

The success of chairs depends upon their reputation as open and candid interlocutors. Their effectiveness may be compromised if they could be regarded as favouring one stakeholder group over another.

3.5.1 Board chairs' independence

Chairs must be a trusted source of expertise, with high levels of authority and autonomy. It is critical to the reputation of companies and the sector that chairs are perceived as impartial. This can only be achieved through the highest levels of independence.

We therefore propose that the Water Governance Code includes a requirement for chairs to be independent. See 3.4.4.

Question 8: Do you agree that the definition of independence, and associated reporting obligations, should be consistent for INEDs and chairs?

3.5.2 Multiple chair appointments

One of the practical outcomes arising from our proposed ban on cross directorships, between water companies and companies in the same group, is that the chairs of the boards of water companies cannot chair other companies in the same group[7].

We have set out concerns about the potential conflict between the interests of water companies and the interests of their group companies in 3.4.2. We have also set out the importance of chairs' independence in 3.5.1.

Question 9: Do you agree with our proposals relating to multiple chair appointments? Are there other measures we should consider?

3.6 Board composition

Board composition is central to good governance. Success requires the right blend of different perspectives. Sufficient independent voice is key to balancing the needs of different stakeholders, including the interests of communities, customers and the environment.

The BLGTPs refer to INEDs being the largest single group on the board. The approach in the Corporate Governance Code is for at least half the board, excluding the chair, to be independent. However, the Corporate Governance Code allows the flexibility of comply or explain.

We are considering making at least half the board, excluding the chair, a requirement for water companies, in view of their role as public utilities serving a wide range of stakeholders. Furthermore, we note that a number of water companies already comply with the Corporate Governance Code in this respect.

Question 10: Do you agree with a requirement for all water companies to have boards which include a greater proportion of INEDs? Is an implementation date of 1 April 2028 appropriate for companies which currently have a lower proportion of INEDs on their boards?

3.7 Parent board for committees

The way water companies manage audit, remuneration, and nominations for board directorships, is central to effective governance. Therefore, we are proposing that the Water

[7] With the exception of a financing subsidiary, as defined in each company's instrument of appointment (licence).

Governance Code will set out the roles and responsibilities for the board committees which cover these particular areas.

Currently some water companies share committees with other companies in the same group.

We are concerned about this as it conflates the governance structures of water companies and their group companies – this raises potential conflicts of interest and a concern as to whether a committee can fully fulfil its responsibilities to a board if it is serving more than one company's board.

For this reason we propose that the new code will require boards of water companies to have their own dedicated audit, remuneration and nomination committees.

Question 11: Do you agree with the principle that audit, remuneration and nomination committees of water companies should not also serve the boards of other companies?

3.8 Additional matters

This initial consultation will be followed by a statutory consultation which will include a draft of the new Water Governance Code, which will draw materially from the Corporate Governance Code, although it will not be an exact replica. For example, the specific matters outlined in 3.3-3.7 will be addressed and certain water specific concepts from the BLGTPs will be retained and clarified. Water companies which already follow the Corporate Governance Code will be familiar with the concepts, but it will still be necessary for all companies to review the proposed Water Governance Code carefully; for example, they will need to assess whether the flexibility of 'comply or explain' applies to certain areas and understand the implications of this for their own arrangements. See 3.2 for a description of apply and explain versus comply or explain.

The following is an outline of some of the additional matters which may be covered a draft Water Governance Code (the detail of which will form part of the subsequent statutory consultation on the new code).

3.8.1 Company secretary requirement

Company secretaries are a line of defence in terms of ensuring legal and regulatory compliance, and guarding against the risk of poor record keeping and unethical practices. We consider that they should play a key role in the implementation of the Water Governance Code in conjunction with INEDs. Recognising and formalising the role of company secretaries will support efficient implementation of the new code. This aligns with the Corporate Governance Code.

3.8.2 Alternate directors[8]

Public trust demands clarity as to the leadership of companies, and the efficient running of companies requires continuity of the individual directors who take decisions. As such, we are likely to propose that the new Water Governance Code should confine the use of alternate directors to exceptional circumstances such as serious illness or other unavoidable emergencies, or long-term leave, which temporarily prevent directors from personally fulfilling their duties.

3.8.3 Risks

We are likely to propose that the Water Governance Code will task boards with carrying out robust assessment of the company's emerging and principal risks, with associated reporting obligations for principal risks aligned with the approach in the Corporate Governance Code. This may include declarations on the effectiveness of material controls by boards.[9]

3.8.4 Senior Independent Director

The new Water Governance Code may include a comply or explain provision that one of the INEDs will be nominated as the Senior Independent Director, to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders, and to lead separate meetings for the INEDs. This aligns with the Corporate Governance Code.

3.8.5 Annual performance evaluations

We are likely to propose that the Water Governance Code should include a 'comply or explain' provision concerning a formal and rigorous annual review of the performance of the board, its committees, the chair and individual directors. Board reviews should be facilitated externally every three years. This aligns with the Corporate Governance Code. The conduct of these reviews will provide the regulator and other stakeholders with reassurance around the implementation of the Water Governance Code including monitoring effective integration of new INEDs onto boards.

[8] An alternate director is a person appointed to substitute for an absent director at board meetings, with the power to act on their behalf.
[9] Corporate Governance Code Guidance: paragraphs 295-300.

3.8.6 Remuneration

Our proposed new Water Governance Code will use the remuneration section of the Corporate Governance Code[10] largely unchanged as we consider that this can work with our existing performance-related executive pay rule and our performance-related pay cost recovery mechanism. See glossary (A1). We are however proposing that the establishment of a remuneration committee, and its composition, become an apply and explain requirement.[11] This is because we consider that the role of a remuneration committee to be so vital to making good decisions on remuneration that its existence should not be optional. It also aligns with the Corporate Governance Code.

3.9 Implementation date and transition period

It is proposed that the Water Governance Code will apply to companies in scope from the financial year beginning 1 April 2028.

Once the finalised Water Governance Code has been published, the companies which will be subject to the code will need to identify what changes they need to make to their existing governance arrangements, and then map out the steps they need to take before 1 April 2028. These details will be shared with the regulator.

Companies are encouraged to refer to their preparations for the Water Governance Code in Annual Performance Report (APRs) as soon as possible. Companies may wish to outline the benefits they expect to arise from the new code, changes which have already been made and other ongoing preparations.

We intend to require companies to include detailed reporting on the Water Governance Code in APRs for the financial year 1 April 2028- 31 March 2029, and in the APRs for subsequent years. The regulator will engage with companies about its reporting expectations and the necessity for clear explanations if provisions are not complied with.

Question 12: Do you have views as to whether any of the proposals set out above would reasonably take longer than 1 April 2028 to implement?

[10] Financial Reporting Council, UK Corporate Governance Code, January 2024. Section 5.

[11] Composition of remuneration committees to comprise INEDs with a minimum membership of three. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on the remuneration committee for at least 12 months.

A1 Glossary

Table title

Abbreviation	Full reference/location
The Act	Water Industry Act 1991.
WSMA	Water (Special Measures) Act 2025.
Performance related executive pay prohibition rule Fitness and proprietary rule Consumer involvement in decision-making	Remuneration and Governance Rules - Ofwat
Performance related executive pay recovery mechanism	Guidance, June 2023.
Group companies	Any subsidiary or holding company of the Appointee.
Water companies or the companies	The 16 largest companies holding an appointment as a water and/or sewerage undertaker under the Act (see footnote 4).
BLTGPs	Board Leadership Governance and Transparency Principles 2019
INEDs	Independent non-executive directors.
Water Governance Code	Statutory rule made under s.35B of the Act.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.