# PR24
# Executive Remuneration

**Anglian Water**
October 2022

**Executive Remuneration**

Over the last AMP period, there has been intense interest in the wider performance of water companies and the interest in how performance is reflected in variable reward has increased. The AMP8 submission assumes a significant increase in capital expenditure to ensure that all stakeholders can be satisfied with the outcomes for customers (both individuals and businesses), affordability and for the environment.
The Board and its Remuneration Committee seek to balance various competing interests when considering both the appropriateness of the remuneration policy and in determining actual pay out-turns. These include:

- A commitment to ensure that overall pay levels are appropriate and not excessive, balancing the need to avoid paying more than is necessary or appropriate with the need to ensure that Anglian can attract, retain and motivate the highest quality talent to lead the Company through this complex period of investment and improvement;
- Ensuring that fixed pay levels reflect the size and complexity of the group, noting that a greater degree of sensitivity is required in this sector than in many others and that, when benchmarking pay levels, an appropriate discount is applied to data suggested by the Company's market cap alone (currently around a 25% discount being applied);
- Designing variable pay arrangements which are suitably linked to wider stakeholder concerns with a bias to non-financial measures and with target ranges which reflect the aspiration to deliver clear improvements for consumers;
- Assessing out-turns on a non-formulaic basis having regard to the amount payable for on-target performance (currently 70% of max);
- Justifying the outcome in the Company's Annual Report with a clear explanation of the extent to which it felt the position to reflect over/ under achievement against those targets so all stakeholders should be clear on how the outturn compares with a target level of performance.

In each of the last two financial years, the headline bonus out-turn (before further reduction of the deferred elements) was below the on-target level demonstrating the level of stretch within the targets set. In the 2023/24 financial year, the CEO's variable remuneration was further reduced when the Remuneration Committee considered performance "in the round" (i.e. the Committee reduced the pay out from the formulaic out turn), and this process, informed and guided by an annual audit & risk report, will continue in AMP8.
Transparency: we have set out, and will continue to set out, the details of our policies in our Annual Report each year. We take our responsibility as a monopoly supplier very seriously and go beyond our required disclosure obligations, incorporating all key aspects of best practice disclosure recommendations.
We will update our policy to reflect the new AMP review and publish this in our Annual Report for 2023/24.
The structure of our executive reward is split into two areas:

1. **Base Pay & benefits.** These are fixed, and tested annually against the market. Our policy is to target median rewards when judged against our sector and organisations of similar scope and scale, noting that, reflecting our position as a utility, a discount is typically applied to pan-sector data of other companies with a similar market cap (currently applying a discount of c. 25%). While the variable pay arrangements outlined below consciously do not include targets linked to shareholders returns and the deferred components of pay cannot be linked to share price movements, executives are currently provided with the opportunity to invest up to a specified sum of their post-tax earnings in a plan which attracts interest at a rate aligned to shareholder returns. This was introduced to reflect the practice in listed companies of requiring executives to hold shares. The sums of money can decrease or increase in value dependent on the value of the Company. The Remuneration Committee has not decided whether to extend this scheme into AMP8 – this decision will be taken in the round at the conclusion of this AMP, when the current scheme lapses.

2. **Deferred Bonus Scheme**: we operate a single integrated bonus plan (i.e. we do not run a separate bonus scheme and LTIP) which only rewards performance in respect of measures that customers have indicated are important to them. There will be no reward directly linked to securing shareholder returns. The Remuneration Committee believes that achieving these customer focused goals will be in everyone's long term interests – an efficient, sustainable organisation with customers' interests at its heart will deliver for everyone, including shareholders. We believe we are the only WASC to have taken such a customer centric approach.

We intend to focus the deferred bonus scheme on the 12-15 measures each year that customers have indicated are the most important to them, and also which reflect both short and long-term goals. The Remuneration Report each year will give detail about each measure and how performance is assessed. We assess performance for the previous year, but the measures for the coming year will also be set out clearly. This will enable the Remuneration Committee to respond to feedback within AMP – an example of this is the Storm Overflow measure. Storm Overflows were not featured as an Outcome Delivery Metric in AMP7, but this is an issue that is clearly now top of mind for many customers. This year (2023-24) the Remuneration Committee has included a spill reduction target in the bonus plan in recognition of stakeholder interest. We will build on this principle in AMP8, ensuring that the metrics used each year are relevant to customer outcomes.

The precise metrics selected for each year will be dynamic and reflect the priorities at the start of that year. Each year the performance conditions which underpin the bonus scheme will be reviewed, but it is intended to keep the structure broadly the same, with environmental outcome targets accounting for at least 35% of the bonus amount. The broad categories are set out below and will remain broadly the same for AMP8:

- Delivery for the Environment - 35%
- Delivery for Customers - 30%
- Customer Efficiency - 30%
- Delivery of our Purpose - 5%

We set out below the measures which currently underpin these four broad objectives. It is envisaged that similar measures will be used in AMP8, but this will depend on both the finalised ODIs and other key measures given feedback from stakeholders:

**Delivery for the Environment** currently consists of the following measures:

- Leakage
- Pollution incidents
- SO spills
- Biodiversity net gain
- Operational Carbon
- Capital Carbon
- WINEP delivery

**Delivery for Customers** currently consists of the following:

- CMEX position
- Internal Sewer Flooding

- External Sewer Flooding
- DMEX position
- Helping those struggling to pay
- Priority Services Register (PSR) participation
- CRI

**Customer Efficiency** is currently determined by reference to Totex expenditure and Operating cashflow during the 2023/24 financial year. These measures are important to customers as they have an impact on bills, the financial health of the business and the speed of delivery. Totex expenditure measures whether the Company has spent the money allocated – it is not intended to target savings. In AMP8, we would also expect to add in delivery targets related to large capital spend to demonstrate that the Company is on the right track in delivering the infrastructure needed for the AMP.

**Delivery of our purpose** will be assessed by reference to our performance in relation to BITC Responsible Business Tracker in the 2023-24 year. By AMP8, it is intended that this will have been replaced with the BSi performance standard. The change in our Articles of Association in 2019 was a key moment in the journey to become a Company truly rooted in its region and delivering for all its stakeholders. Monitoring ourselves against this standard and demonstrating this to all our stakeholders is a key objective.

Executives will be clear about both the level of ambition contained in our targets and the on-target level of their variable reward and the Remuneration Committee will set a range of targets annually and then assess performance against those targets at the year-end to determine whether performance overall is such as to justify an above or below on-target level of performance. Target setting will consider what upper quartile performance would be and where an appropriate level of stretch would be applied. An appropriate level of stretch will be applied to current performance either to achieve upper quartile performance where that is not already the case or to achieve a glidepath to that level of performance, recognising that some measures are absolute and not relative. Similarly, where performance is already at or above an upper quartile level, targets will be set cognisant of this starting point. This will involve both assessment against a range of pre-set performance scales and a no less critical judgmental overlay. Each Annual Report will clearly disclose the Remuneration Committee's overall assessment which led to the out-turn.

In 2023, we also introduced a practice of commissioning a report from the Head of Risk (who is not remunerated against these targets) which would sit alongside the assessment of the formulaic targets, and assist the Remuneration Committee in assessing performance "in the round". We intend to commission an independent report of performance in future years[1] as the Remuneration Committee found the report to be very helpful in 2023/24 and this approach mirrors best practice in the Financial Services sector, based on FCA regulations.

Consistent with Ofwat's guidance 'Protecting customer interest on performance related executive pay – recovery mechanism guidance', the Remuneration Committee is, therefore, assessing performance in the round and against targets which reflect the ambition inherent in the AMP8 submission.
At the end of the year for which the bonus has been set, achievement will be calculated and half of the reward earned will be paid.

The remaining half will be paid out in two tranches – two years and three years after the first payment – and therefore three and four years after the performance period begins. These payments will depend on the achievement of serviceability measures during the deferral period, to ensure that performance is sustained in the long term (it is worth noting that this is not simply a formality and that the out-turn has been reduced on 3 of the 5 assessments to date).

The rules of our Deferred Bonus Scheme contain clawback provisions and the Remuneration Committee is entitled to reduce, or entirely withdraw, deferred payments if there are events outside the specific terms of the scheme which, in the opinion of the committee, mean that it would be inappropriate to pay out. An example of this could be enforcement action by a regulator. The Committee would assess the extent to which the action a) suggested that remuneration had been paid against performance which was now not valid, b) the extent to which the action called into question performance in the current year / affected the financial status of the Company (e.g. through fines) and c) how far this had a reputational impact on the organisation, when deciding what impact this should have on deferred awards, or current awards. Such thinking will be detailed in the annual Remuneration Report.

The targets discussed will form the basis for the entire payment of variable reward paid for by the Water company, so that all remuneration funded by the Water company will be linked to specific, measurable targets, which will be disclosed in the Remuneration Report.

It is likely that Executive Directors will have an element of variable reward relating to their duties in the wider group, dependent on personal objectives, which will cover such issues as strategy for the wider group and performance of other group companies, and will not be paid for by the Water company. Any payments made against these objectives will be disclosed. This will not be funded by the Water company. The elements of our variable pay strategy are therefore linked to stretching customer centred goals, whether that is through the achievement of ODIs, Regulatory Goals or cost efficiencies which flow through into financial outperformance which is shared with the customer. We have demonstrated in our Remuneration Report in the past years an exceptional level of transparency, detailed the objectives and the base and stretch targets and outcomes, and we are committed to continuing this practice in the next AMP and beyond.