

Centre City Tower, 7 Hill Street, Birmingham B5 4UA
11 Westferry Circus, Canary Wharf, London E14 4HD

By email

Helen Whately MP
Member of Parliament for Faversham and Mid Kent
House of Commons
London
SW1A 0AA

30 March 2026

Dear Helen,

Thank you for your recent correspondence of 25 March in respect of the proposed enforcement action against South East Water. I understand you are seeking to understand whether this enforcement action will have any bearing on bonuses for executives at the company.

Executive bonuses

Ofwat's new performance-related executive pay (PRP) prohibition rule came into force in June 2025. This 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 standards. These standards relate to four specific areas set out in section 35B of the Water Industry Act 1991, which was recently inserted by the Water (Special Measures) Act 2025: consumer and environmental matters, criminal liability and financial resilience. The 1991 Act also defines what PRP is in scope of the rule. It is important to note that Ofwat's regulatory powers, including the PRP Prohibition Rule, only relates to the activities of the regulated water company and not holding or parent companies.

The 1991 Act empowers Ofwat to issue a rule requiring companies to prohibit PRP on the basis of standards in four specific areas: consumer and environmental matters, criminal liability and financial resilience. Aligning to these legislative requirements, our rule contains several standards that if a company triggered, would result in a prohibition of PRP in that financial year:

- **Consumer matters** – when Ofwat makes a decision that a breach of a principal statutory duty (as defined in the Water Industry Act 1991) warrants a financial penalty and/or subsequently fails to comply with an associated enforcement order of undertaking.
- **Environment** – if a company has had a category 1 pollution incident as recorded by the environmental regulators' Environmental Performance Assessment (EPA) for the calendar

year finishing in the PRP year or has received a 1-star (“poor performing”) rating in the EPA.

- **Financial resilience** – if a company breaches its licence requirement to hold a sufficient credit rating and/or subsequently fails to comply with an associated enforcement order or undertaking.
- **Criminal liability** – if a company is convicted of an offence (with some exceptions outlined in our guidance).

If we conclude that the PRP rule has been breached, we have 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, we can take enforcement action, such as issuing a financial penalty.

If a final decision is taken to issue an enforcement order and impose a penalty on South East Water as a result of section 37 of the WIA91 and Condition P12 of its licence, the PRP rule would be triggered and would apply to the financial year in which the penalty is imposed. [Consultation on this proposal is currently open](#), and no final decisions have yet been taken.

Ofwat update

Ofwat is working with the UK and Welsh governments on the implementation of water reforms while strengthening our collaboration with partner regulators.

Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment.

I hope you find this information useful and should you require any further information, please do not hesitate to get in touch.

Yours sincerely

Felicity Beverley
Director of Engagement