

Environment, Food and Rural Affairs Committee

Oral evidence: Reforming the water sector, HC 588

Tuesday 13 May 2025

Ordered by the House of Commons to be published on 13 May 2025.

[Watch the meeting](#)

Members present: Alistair Carmichael (Chair); Sarah Bool; Helena Dollimore; Sarah Dyke; Jayne Kirkham; Josh Newbury; Tim Roca.

Environmental Audit Committee member present: Barry Gardiner.

Questions 626-817

Witnesses

I: Chris Weston, CEO, Thames Water; Steve Buck, CFO, Thames Water; Sir Adrian Montague CBE, Chair, Thames Water.

Examination of witnesses

Witnesses: Chris Weston, Steve Buck, Sir Adrian Montague.

Q626 **Chair:** Good morning everyone, and welcome to this meeting of the Environment, Food and Rural Affairs Committee. This morning, we return our attention to our inquiry into reforming the water sector. We are pleased to be joined by witnesses from Thames Water. You are all very welcome and we appreciate your attendance and efforts to be here and answer our questions. Just for the benefit of those following our proceedings and indeed for our own official record can I ask you to introduce yourselves to the Committee?

Chris Weston: I am the chief executive of Thames Water.

Sir Adrian Montague: I am the chairman of Thames Water.

Steve Buck: I am the chief financial officer of Thames Water.

Q627 **Chair:** You are all very welcome. Sir Adrian, welcome back to the Committee; obviously a different committee from the one that you last appeared before. Chris, if I can just ask you for starters about what sort of company you want Thames Water to be. What are the culture and values that you want to bring in your leadership of that company?

Chris Weston: I would like Thames Water to be a high-performing company where the employees enjoy working there and feel supported in what they do, it delivers for its customers and the environment, is financially sound, and all the various operational metrics that you would look at in a water company are doing what they should and continuously improving.

Culture is absolutely fundamental. Thames is the eighth company I have run, and culture has been important in every single one of them. As I came into Thames, I have to say I was very impressed with, first, what we do every day. I know it gets overlooked, but 2.6 billion litres of clean water and 5 billion litres of waste are dealt with every day. I could not help but be impressed coming from outside the industry. Secondly, I was impressed with the people I met: committed and passionate about the company, working very hard, and very honest and transparent about what they do.

Where it had gone wrong was that Thames had lost direction a bit. I was the fifth CEO in five years, three CFOs and 26 members of the executive had been through the company. That creates confusion for people in the company. I do not think there was any lack of willingness to do the job or to take on accountability and be held responsible for what they do. It required clearer direction—which I have given—a clear organisation structure that matched resource to the performance that was expected of the people, and then a governance structure around it that allowed me and the board to understand our performance, how we were performing, and to discuss it with people. I want the people in the company to feel



HOUSE OF COMMONS

that they have clear direction and the right resources and are supported in what they do. My job is to make them feel supported and confident in what they are doing.

Q628 **Chair:** How are you doing on that journey?

Chris Weston: I am quite pleased with the progress we are making 16 months in. It is a big ship to turn around; it is very difficult. My two priorities coming in were, first, to create stability around the finances and restructure the balance sheet, which we have made good progress with, and secondly, to create a firmer operational foundation. With respect to that second, we have changed the setup within the company. I suppose it starts with recognising we are an infrastructure company and if we get our infrastructure right it delivers for our customers and the environment.

So I set up a team looking at the infrastructure and within that we have a team focused on water and a team focused on waste. We have also introduced a capital allocation and governance structure, which was not there before and is absolutely fundamental to a company such as Thames. By putting that structure in place, people were clear on the resources that they were being given and the performance that was expected of them. There is still a lot more to do.

I have also gone out of my way to invest in developing the leadership of Thames. Leadership is where culture starts; it is absolutely critical to setting the right culture. We have had a programme rolling out in the company looking at leadership, a lot of which is all about behaviour. So we are making progress, but this is a long task; it is going to take a long time to turn Thames around.

Q629 **Chair:** There is a basic lack of transparency and understanding about the structures. We will come to this later; I am not going to dwell on it at the moment, but it is apparent to few who actually controls and owns Thames effectively at the moment. That is important, given that you have laid some heavy emphasis on transparency and leadership. You yourself are on a total package of £2.3 million, which is a generous package for a very responsible job. Three months into your tenure, you accepted a bonus of £195,000. With hindsight, was that a wise thing to do if you were wanting to assert that sort of leadership in the company?

Chris Weston: My remuneration was agreed with the board before I came on board. It was not the only reason for me joining Thames, but it was a reason. Fundamentally, I joined Thames because it matters to society and I felt with my experience and track record I could make a difference, and I still believe that. When I came in, I agreed with the board that I would participate in the bonus structure and all its performance criteria, which had been set before I joined, and I would be a member of the whole leadership and management team. That was very important to me: to be consistent across the whole leadership and management team.



HOUSE OF COMMONS

By and large, people who I talk to recognise the magnitude of the job that is in front of me and that we have undertaken. I made a difference within the first three months: I started to put in place the new organisation structure and to give people confidence and reassurance about how proud they could be of the job they did and what we were setting out to do. That helped stabilise the company, which was important.

Q630 Chair: Ten months in, you had this BBC documentary, "Inside the Crisis," and you told that documentary, "I don't know how it got this way. I have only been here 10 months. I want to fix it. I don't know how it got this way." Ten months in—in a job of this sort—you were not able to explain how we had got to the place that we were. If you do not know what has gone wrong, it must be difficult to put things right. Where is your analysis today of how you got to where this company is?

Chris Weston: I am pretty clear about how we got to where we are now. I was pretty clear then, but I also question the value of talking about it publicly and pointing the finger.

Q631 Chair: Just between the two of us then.

Chris Weston: I am clear how we got here. The crisis that we face at Thames has been decades in the making, and all actors have had a role to play. The company and management have absolutely got it wrong. Five chief executives in five years is not a recipe for success, and I would argue consistency in leadership is a very important part of what we need to do now.

Equally, the fundamental problem has been with the regulatory regime. There are flaws in it, and that has been recognised by the recent NAO report and the Government commissioning Sir Jon Cunliffe to undertake a review of the water industry. There is a lot that goes right. It is absolutely necessary that we have a regulator, but the regulatory regime needs to attract investment and allow for companies of different types, operating in different environments, with different cost bases.

It also needs to allow for companies that might be in trouble and can turn around and improve their performance. I would argue the regulatory regime does not do that at the moment. There is a lot in the NAO's report and Sir Jon Cunliffe's review that agrees with what I have just said, so there are many authors to where we are now.

Q632 Chair: You cannot surely be blaming the regulatory regime entirely.

Chris Weston: No, I am not.

Q633 Chair: In 2022 you lost £1 billion in derivatives. Is that correct?

Chris Weston: I would have to come back on that.

Q634 Chair: It is a particularly serious situation when you are dealing with one of the most essential utility products on the planet. You have a complete



monopoly, you effectively have the Government standing behind you, and you still manage to come to this place. We want the session today to be forward-looking, but we need to gain from you—as a leadership team—a better understanding and acknowledgement of how we got to this place. The involvement with Macquarie, for example, is something that is fairly well documented. I am not going to rehearse it, but how much of that do you think played a role in bringing you to where you are today?

Chris Weston: That will have exacerbated the situation because the gearing went up during the time of Macquarie's ownership and it took dividends.

Q635 **Chair:** The gearing is now, what, 83%, is it?

Chris Weston: I think the most current is higher than that: about 88%. It has not been published yet; it is where we are in our annual financial reporting cycle. That will have absolutely contributed to the problem; it increases our gearing, which stresses the organisation, and that certainly has not helped us.

I would also add that debt is a very important part of the model for the water industry. We are making investments now that will serve generations to come and will be paid for over generations, and the most cost-effective way to deliver that is through investment-grade debt. But it is excessive now; it is not what it should be. As I said at the beginning, part of what I am setting out to do is to make sure we have firm, financial foundations, which will require a restructured balance sheet.

Q636 **Chair:** This question of debt brings us back to the price review and your current situation. I will leave my colleagues to come back to that later on. While we are talking about the churn within the senior leadership team, your former CFO left the business following criticism that he had slowed down time-critical decisions needed for basic functions. Do you share that analysis, and what impact has it had on your work as a CEO to have to bring in a CFO at such a critical time again?

Chris Weston: I am very grateful for the work that Al did for Thames Water over four years. It was a very stressful situation. He was largely the architect of the first restructuring plan, and I was grateful that he worked with me to manage his transition. I have known Steve for about 15 years now and I have great confidence in him. It is hugely helpful that he knows the water industry; that has helped me in managing the transition and getting Steve up to speed on all that needs to be done.

Finance is a problem for us. It is a very stressful bit of the organisation—its organisation and the way it runs—because of what we are dealing with. I am very confident that the work that Al has done and Steve will build on will give us what we need over the next few years.

Q637 **Chair:** We have seen it reported that senior staff were having no choice but to press ahead with purchases without sign-off. And these were not trivial things; it was safety-critical chemicals needed to clean water. That



cannot be a healthy set of financial regulation, can it?

Chris Weston: There is a lot that we need to improve on in Thames; I completely accept that, and it is going to take a while. Part of it is establishing the model more deeply in the organisation so people have their budgets and authority, which they largely do at the moment, and the company continues to function during a very stressful situation. I am confident that we have the controls and visibility that we need in place in the company at the moment.

Q638 **Chair:** On this point about the stress of the situation facing the company and your employees, to come back to that documentary that you took part in, we saw some really good quality people—very young and promising employees—leaving, and an increase in mental health illness and mental health reported absences. What are you doing to support staff at the sharp end here?

Chris Weston: I was very sorry to see Josh leave Mogden. He is someone who will go a long way in his career, and I was sorry that we had not been able to give him the support that he needed. I can only act on what is in front of me, and each area of the business—the way it is structured at the moment—is designed to deliver for our customers and the environment, and make it easier for our frontline to do so. That means that we give them the resources to be able to do that.

We are stepping up our investment over the next five years in terms of operating costs and capital costs, and both those things will make people's jobs easier. I have given a very clear direction that we should be planning to do 100% of our maintenance—that is not something that we have done in the past—because that will make people's jobs easier and less stressful. At the same time as we are doing that, we are bringing in more headcount. I do not know how many exactly, but it was probably about 500 in the last year. Over the next five years, there are circa another 1,000 heads that we need to bring in, which will undoubtedly alleviate the stress and make people's jobs easier.

I would also go back to leadership, which we are also investing in. A leadership that is supportive and there to try to create an environment where people can work confidently is very important. At the end of the day, that combination—it might not happen overnight, I accept that—should start to alleviate the stresses and strains in the business. But a fundamental starting point will be getting the balance sheets sorted out and attracting new equity.

Q639 **Josh Newbury:** Chris, one reason that many of your staff are so worried at the moment is the lack of long-term certainty over the ownership of Thames Water and what that picture might mean for them. You have the opportunity today to allay some fears, so can I ask you whether you are willing to guarantee that job numbers, pay, and terms and conditions will be maintained as they are now as you go through that process?



HOUSE OF COMMONS

Chris Weston: You used the word “guarantee”, which is very difficult to use because I do not know how circumstances will change. All I see is a growing employee base, both over the last year and over the next five years. People should look at that realistically and take comfort from it, unless we go into SAR, which is more difficult. Even in SAR, their jobs are guaranteed because we have to carry on providing service to the customers, but I cannot say what pressures come through that. Other than that, for at least the next five years, I see growing numbers of employees within Thames.

Q640 **Josh Newbury:** If you cannot use the word “guarantee”, can you commit as chief executive through this process of a change of ownership that you will fight for your staff’s jobs, terms and conditions as that ownership changes?

Chris Weston: Yes. When I look at Thames and some decisions that were made around headcount before I joined, I disagree with them; they should not have been done. They were very short-term in nature. I can understand that people were under a lot of pressure at the time to make those decisions, but I will fight for every job in Thames, and I would like to think that in doing so and with growing numbers, it will help people do their jobs.

Q641 **Josh Newbury:** So if you have a potential new owner who is looking to perhaps reduce terms and conditions and undermine staff numbers, you will make the case for that not to happen?

Chris Weston: Very much so. What might happen is that rather than growing by, let us say, 1,000, we might grow by 600, 700 or 800. It is about trying to become more efficient at the same time, which any business has to do. I firmly believe that to do what we do 24/7, you need the right staffing levels within the organisation. Without that, we cannot do it, and it creates unnecessary stress on the organisation, so I will absolutely be making that point.

Chair: We are going to move on to your performance turnaround planning. Sarah, can I ask you to start on this, please?

Q642 **Sarah Dyke:** Sir Adrian, Thames Water announced an eight-year turnaround plan in March 2021 under the previous chief executive, Sarah Bentley. In June 2023, Sarah resigned suddenly, reporting conflicts with shareholders. In December 2023, the then interim CEO, Alastair Cochran, informed the previous Committee they had refocused on a three-year turnaround plan to improve both the operational and financial performance. The aim of that was to improve the financial performance and stakeholder confidence in the business. How would you assess the success of that plan?

Sir Adrian Montague: The December plan is still current and making good progress. It is perhaps an opportunity to say that we realise there is a vast amount to be done to bring performance up to scratch. We know we are letting customers down. We know that pollutions, spills and supply



HOUSE OF COMMONS

interruptions cause inconvenience and sometimes real hardship. The right thing to do is to start a discussion of the turnaround plan by acknowledging that we have not always served our customers as well as we should, and through the Committee apologising to them.

In terms of the turnaround, we are starting to see real progress. There is a very long way to go, and sometimes it is difficult to see the green shoots, but there are green shoots. Chris is probably closer to this detail than I am, but we are seeing real improvements in supply interruptions and water quality. It is such a big business; you cannot hope to put everything right straightaway. You have to choose your targets and improve things little by little. Chris is doing a great job in that respect.

Q643 Sarah Dyke: There are the six priorities that you are delivering around health and safety, pollution, customer complaints, water quality leakage, and supply interruptions. Chris, how would you judge the performance against those measures that you have put in place over the period so far?

Chris Weston: Do you mind if I take each in turn?

Sarah Dyke: Please do, yes.

Chris Weston: Health and safety is extremely important to me and is something I have always focused on in the businesses I have run. Last year, we unfortunately had 35 lost time injuries compared to 41 the year before. I point out that we worked an additional 2.6 million hours, so that performance is actually quite good. Health and safety is taken seriously within Thames, and I have just appointed—six weeks ago—a very experienced health and safety lead to try to accelerate the progress in that area.

I have to say that in the first six or eight weeks of this year, we had seven LTIs, which pains me. There is no obvious trend in that. So that is how we are doing in health and safety. There is a comprehensive plan around health and safety. It is very firmly owned in the line. Esther, my COO, and David Bird, who heads up retail, both have large workforces out and about and understand the importance of it, as do their management teams.

The most frustrating area is leakage. We have made progress. Over the AMP and the last year, leakage is at about 569 megalitres a day, which is a huge amount, but it is coming down slowly and is as low as it has ever been. We have a comprehensive plan around that that looks at how we monitor our network and how we see what is going on in the network. It is broken down into a number of geographic areas, which are called district metre areas, DMAs, and we can see the difference between consumption and what we provide into those areas so you get a good idea of where leakage is. We then deploy acoustic sensors into those areas. We are increasing the number of acoustic sensors that we deploy into the DMAs, and as they indicate that there is a leak there, we deploy



HOUSE OF COMMONS

a gang to find the leak and fix it. That is a never-ending process. In the next five years, that find and fix will cost about £1.2 billion.

At the same time as doing all that, we are investing in pressure management within the system. This is large capital expenditure that allows us to manage the pressure more effectively across the whole network and into these DMAs. When we get it wrong—I am sure we will come to it—as in Crystal Palace, for example, when you get a pressure surge, it can cause a mains burst. So there is a lot going into pressure management as well.

We are also doing mains replacement and are aiming to replace about 560 km of mains in the next five years. We try to prioritise that so not only does it replace the oldest mains, it also helps in leakage, but leakage gives me a headache thinking about it. How do we improve it? What is the silver bullet?

The other area that is frustrating is pollutions. Over the last year, we have seen pollutions increase. The year before, the total number of pollutions was 350. They went up to 469 last year. Within that, there are 33 serious pollutions, and that is not acceptable. No one at Thames comes to work to cause a leakage, and everyone wants to try to minimise that as much as possible. When I look at what causes those leakages, about 60% of the cause is in the network as opposed to our treatment works. We have 110,000 km of network, so there is a lot of network to look after.

What are we doing about it? Last year, we cleaned 1,759 km of network, which is about 250-odd km more than we had planned to. So we are trying to be more proactive and use all the sensors that we have on the network and the data we get off it to predict where there is a blockage hotspot so that we can then go and clean it. We are developing that process slightly. At the same time as doing that, we are doing sewer rehabilitation. Last year, we did 21.6 km of sewer rehabilitation, again more than we planned to do.

Chair: I am appreciative of the level of details but sometimes detail can obscure the core truths.

Chris Weston: Sorry.

Q644 **Chair:** And I fear that we are steering into that territory at the moment. Can I maybe just give you one concrete example? Your desalination plant at Beckton, it is reported this morning that it is not going to be operational this year. It was not operational the last time we needed it in 2022. It is far from clear whether it has ever worked at all. That stands in rather stark contrast to some detail you have been giving us. Is that not the problem for Thames Water? When it really matters, you are found to be wanting. Let us deal with the desalination plant first.

Chris Weston: The first thing I would say is we have a team at the desalination plant that is working very hard to try to make it work.



HOUSE OF COMMONS

Q645 **Chair:** Has it ever worked properly?

Chris Weston: It has worked in the past.

Q646 **Chair:** It is not going to work this year though?

Chris Weston: No, and I share your concerns. The desalination plant is a big problem for us. I wonder why it was built in the first place.

Q647 **Chair:** Two hundred and fifty million pounds.

Chris Weston: Yes, I accept that. It is not a good story, it was not a good investment, and there are no excuses about it. I would point out one thing with the desalination plant: at the moment, it relies on a very complicated and expensive process. Within it, it has certain treatment membranes. Those treatment membranes are at the end of their life.

Q648 **Chair:** Let us just keep away from the detail. Why is it not working?

Chris Weston: We cannot replace those membranes because there is currently no testing facility in the UK that allows us to test the new membranes.

Q649 **Chair:** Has this come as something of a surprise to you?

Chris Weston: It has been going on for about a year and is an issue for the whole industry to try to address.

Q650 **Chair:** You are the only company in the country that has a desalination plant.

Chris Weston: The testing facility goes beyond just those membranes; it is any material that comes into contact with water that is being prepared for drinking.

Chair: Sarah, pick up on this if you want to, but we need to keep answers tight and focused on outcomes for customers. This is a problem with the industry as a whole here; a lot of it gets stuck down in process, but the service for the customers is bad and getting worse at the end of the day. It is your customers who send Members of Parliament to Westminster, and that is why we want to keep the focus on them.

Q651 **Sarah Dyke:** I think we would agree, as you are suggesting, that you are making solid progress—as a report showed recently—in those critical areas of performance. An article in the *Financial Times* said that Thames came dangerously close to running out of water supplies in the hot summer of 2022. This year is already proving to be very dry. What measures are you putting in place to ensure customers have a solid and continuous supply of water, and what are you doing to improve that supply?

Chris Weston: We are going through a process of making sure that all our assets are available and all the reservoirs are as full as they possibly can be. At the end of March, they were at 94%. They are still at about 94%, and we are trying to top that up more. We are going through all the



HOUSE OF COMMONS

water assets we have—including the big London plants and everything in the Thames Valley—to make sure that all critical maintenance is done so we are prepared—as best we can be—for a drought event.

We have four levels of drought preparedness. Typically, you are at zero. We have just elevated that to one, which means that we start to go through the preparedness I have just outlined and communicate with our customers about the importance of conserving water. At the moment, from what I can see, we have learned the lessons from the situation in 2022 and are doing all that we need to at the moment to prepare for water shortage. I hope that is not necessary.

Q652 **Sarah Dyke:** How is that looking going forward, given that we will see an increase in demand as climate change takes effect? What are you doing to future-proof that supply?

Chris Weston: Thank you very much for asking that. There is one very big and one slightly smaller capital project. SESRO—the biggest reservoir in the country— has been commissioned and will be near Abingdon. Building will start in 2028 and it will come into service in the late 2030s.

Q653 **Chair:** You will start building it in 2028. We have asked you a question about how you are going to ensure continuity of supply in 2025.

Chris Weston: Sorry, I misunderstood. I thought it was about the future.

Chair: The future would be July for a lot of people.

Sarah Dyke: Going forward.

Chris Weston: For this year, we are going through all our assets and making sure that all the critical maintenance is done so they will be available over the summer period. That is the most immediate thing that we can do, including filling reservoirs. Once we have a source of water, we are able to pull it through our assets, prepare it for our customers and deliver it to them.

Q654 **Chair:** You are still losing 56 megatons of water a day. How confident are you that you will avoid running out of water this summer?

Chris Weston: I am confident we will not run out of water. I am not confident that we will not have to restrict usage because that will depend on what the weather does and what rainfall happens between now and the summer.

Q655 **Helena Dollimore:** I would like to touch on some past experiences that customers have had with Southern Water. In 2019, you committed to the regulator, Ofwat, that you would undertake a series of vital infrastructure projects to prevent storm overflows, reduce pollution instances and improve water security, as we have just been talking about.

In 2023, Adrian, just after you became chairman, a letter was sent to



HOUSE OF COMMONS

Ofwat to say that you would not be taking those 100 projects forward; you would be delaying them further. Instead, the money allocated by Thames Water for those projects was spent on other parts of the business, including paying bonuses and dividends. Adrian, how can customers have any confidence in your turnaround plan and commitment to improve your infrastructure if—in just the recent history—you have rowed back on commitments made to the regulator to fix this vital infrastructure and instead spent it on bonuses and dividends?

Sir Adrian Montague: I will come to bonuses and dividends in a minute. I will talk about the decision we took in August 2023 to defer this further work.

Helena Dollimore: That was also to pay some money to bonuses and dividends; the two are linked, so address the two together.

Sir Adrian Montague: That was not the reason we took that decision; we took that decision because of the funding pressures on the business as a whole. It is true that this business—like many—needs to reward its staff effectively. We are in a competitive marketplace of staff and need to reward them competitively. But the amounts of bonuses paid to staff are very small compared with the capital cost of the works that we were considering at that stage.

The fact of the matter is—as we have noted on several occasions—in the last year, Thames has come very close to running out of money entirely. There were times in the last year when we had five weeks' liquidity. Running a £20 billion corporation on five weeks' liquidity is honestly hair-raising. What you were seeing in that decision we took in August 2023 was the start of the process. We felt we needed to conserve cash.

Q656 **Helena Dollimore:** How can customers have any faith that you are committed to turning around the business and reducing sewage pollution incidents and water outages if these 100 vital projects—projects that you committed to the legal regulator you would do in 2019—were rowed back on?

Sir Adrian Montague: Because, as I say, it was a funding crunch.

Q657 **Helena Dollimore:** Can customers have any faith now that what you have committed to do will be done if you row back on these commitments so easily?

Sir Adrian Montague: I do not think we rowed back on the commitments. We understand that this is work that needs to be done.

Helena Dollimore: You just said you do not think you rowed—

Sir Adrian Montague: There are many calls on our company's cash resources. We are having to prioritise, and we prioritise asset health and the routine expenses of the business in preference to this big capital



HOUSE OF COMMONS

programme, which will be carried forward into this current AMP and done as the funds become available.

Q658 **Helena Dollimore:** Just to be clear, these 100 projects were committed to be done in the 2019-24 period. Customers were charged on that basis for these works, but they were not done, so you have rowed back on those commitments.

Sir Adrian Montague: We have deferred the work. We are still committed to carrying out that work, but we cannot magic money out of nowhere.

Helena Dollimore: But the impact of that referral—

Sir Adrian Montague: Our problem is that this business has been under huge funding pressures ever since I joined and probably before, and we have to prioritise. We prioritised asset health and getting the existing infrastructure business working more effectively.

Q659 **Helena Dollimore:** You did not, because these were asset health projects that you deferred.

Sir Adrian Montague: These are projects designed to improve the asset health but we have other priorities.

Q660 **Helena Dollimore:** You clearly rowed back on commitments, and the impact of that is clearly seen. As Chris just alluded to, there has been a 40% rise in pollution incidents last year under your watch. Last year, you made profits of £140 million, so all this talk about not having the money to do these vital infrastructure projects, customers will come to their own conclusions about.

Sir Adrian Montague: All I can and must say is that the cash box was very nearly empty a lot of last year. We were running at one stage on five weeks' cash. Profit is a different measure. Cash is the only measure that counts; that is what you spend.

Q661 **Helena Dollimore:** So why pay the bonuses and the dividends?

Sir Adrian Montague: Because we have to keep staff. It is a very competitive marketplace out there. Thames Water has very good staff; Chris has brought together a great team. If we are unable to pay bonuses, people will come knocking and try to pick out of us the best staff we have. That is not in customers' interests.

Q662 **Helena Dollimore:** It is very clear you pay very large bonuses to those at the top of your company. The most junior employees in your company—the people out repairing the water leaks on the roads—what percentage bonus did they get last year?

Sir Adrian Montague: I cannot tell you that, I am afraid. I can write to you afterwards and explain that, but we have put in place a system—

Q663 **Helena Dollimore:** Are you not aware of that figure?



Sir Adrian Montague: No, not at the moment.

Q664 **Helena Dollimore:** As the chairman of the company, if you think bonuses are so important to rewarding performance—

Sir Adrian Montague: This is a structure of bonuses that goes right down through the company. I cannot give you the precise figure; I do not know if you have it, Chris.

Chris Weston: It goes to the frontline, and they can earn between 3% and 6% of their salary as a bonus. The last two years, they have been paid a lump sum because we have not had the capability to structure it in a way that allows it to be performance-related, and that is something that we are fixing at the moment.

Q665 **Helena Dollimore:** So you are awarding bonuses to the lowest-paid members of staff of between 3% and 5%?

Chris Weston: It is 3% and 6%.

Q666 **Helena Dollimore:** How does that relate to the percentage bonuses paid to the CEO?

Chris Weston: My on-target performance can be 156%.

Q667 **Helena Dollimore:** That is 70 times the bonus of the lowest-paid staff in the company. If the work that they are doing on the frontline—repairing mains and leaks and fixing sewers—is so vital, why is the percentage bonus that they receive so much less than what the top leadership of the company receives?

Chris Weston: I accept that it is a lot of money, and I accept it is considerably more than the frontline. As Adrian has said, we try to offer packages that are competitive in the market so we can attract and retain the people we need within the business.

Q668 **Helena Dollimore:** It sounds like you are interested in attracting and retaining those at the very top of the company, but those who are the most junior members of staff—doing the hard work on the frontline—are not receiving the same treatment, and that discrepancy is very clear for all to see. If you were truly committed to fixing your infrastructure, you would have more focus on the morale and support to those frontline members of staff.

I would now like to ask you about some examples of projects that other Members of Parliament have raised with us. We know that last year your customer complaints were up 10%, and in many cases, that was caused by a number of supply interruptions. There are specific incidents that have been raised with me by other Members.

In Reading, the Member for Reading Central—Matt Rodda—raised an incident where his constituents were left without water over a weekend, and some constituents had no water for up to four days. He has been repeatedly writing to Thames Water and raising this with Ofwat because



HOUSE OF COMMONS

your company is currently refusing to pay any compensation for that incident, arguably against the GSS standards. That does not seem like an honest and transparent approach as a company, so can you commit to taking that away and looking again at that decision?

Chris Weston: Very much so. If customers are out of supply for more than 12 hours, then compensation automatically kicks in. I will absolutely commit to taking that away and looking at it and making sure we compensate customers in accordance with the policy that we have agreed with Ofwat. I am very happy to do that.

Q669 **Helena Dollimore:** Thank you for that assurance. One issue is that the company is saying that customers' experience and what they have shared with their Member of Parliament in surveys does not match what your monitors say. Sometimes that can be because if there is extremely low pressure, there is no usable supply. Would you commit in this instance to honour the experiences of those customers that they are sharing with their Member of Parliament rather than bunkering down on this data, which we know from previous performance has often been incorrect? We know Thames Water has a history of sharing incorrect data.

Chris Weston: I am happy to do that. The requirement was at 0.3 bars, and we have recently upped it to 1 bar to try to address that issue. So I am happy to commit to that.

Q670 **Helena Dollimore:** Another area that people have raised with me is that often when there is a leak or repair to be done—which everybody understands that work needs to be done—the road is dug up and then it is left for inordinate lengths of time. Quite often, it appears that nobody is doing any work on that site, but huge delays are being caused by road closures in that time. A number of Members have raised that with me. Can you talk us through what your process is for roadworks and how you minimise disruptions to the public?

Chris Weston: Yes, and I know that is an area that we are not as good at as we could be. There are essentially two gangs that work, and it is meant to be a process that allows the gang that makes good to follow on immediately for the gang that has mended the issue. The process at the moment is not as effective as it should be, but it should happen within 12 hours of the work being done. That is a metric that we are not meeting all the time at the moment, and it all depends on the demands on the business. I accept we do not get that right all the time. We are very conscious of the chaos and issues it can create and are working hard to try to improve the process and get the right level of resource and gangs in place to be able to do that. I am sorry that it causes inconvenience to customers.

Q671 **Helena Dollimore:** In some cases, do those sites work overnight in order to complete it at a time when there is less disruption?



HOUSE OF COMMONS

Chris Weston: Very much so. We are an organisation that works 24/7, and that happens most of the time. If there is an issue, we will be fixing it overnight.

Q672 **Helena Dollimore:** This also relates to the previous conversation we had about bonuses and dividends, and the fact that 100 critical projects were delayed and some of that money was diverted to bonuses and dividends. Adrian, I just wanted to pick up with you on this point. You talked about bonuses, but you did not address the fact that some of that money was used to pay dividends, which is something Thames Water has been fined for doing. Can you comment on that?

Sir Adrian Montague: Yes, certainly. There were two dividends, one in October 2023, another in February 2024. The October dividend was paid to keep our discussions with the then shareholders alive about injecting more capital into the company. They told us—in terms—that we had to continue to pay those dividends to keep the prospect alive of more capital being injected into the company. That is the reason we took that decision, because we believed it was in the interests of customers to try to keep the existing shareholding base and capital structure alive as long as we could. In the event—as you know—that failed. But in October, it was not clear. We were dedicated to trying to get more capital into the company.

Q673 **Helena Dollimore:** How much was that dividend in October?

Sir Adrian Montague: From memory, £157 million.

Q674 **Helena Dollimore:** Which would have more than covered the 98 projects put back.

Sir Adrian Montague: But the point is that we needed to keep our discussions alive to bring more capital into the company.

Q675 **Helena Dollimore:** But it did not work.

Sir Adrian Montague: We did not know it was not going to work at that time.

Q676 **Helena Dollimore:** Perhaps a better use of that money would have been fixing pipes.

Sir Adrian Montague: No, that is wrong.

Q677 **Helena Dollimore:** Why is that wrong?

Sir Adrian Montague: The problem is we were in discussion with Ofwat throughout the period from when I joined in July 2023 until 31 March 2024. We were trying to find a basis—in discussion with the existing shareholders—for them to put substantial billions of new capital into the company. That was a goal worth striving for because that would have avoided much of what has happened over the last year. It was for that reason that we paid that dividend in October, to ensure that we kept those discussions alive because the shareholders said, “We need these



HOUSE OF COMMONS

dividends. We need to pay our debt service at the level of Kemble.” We have not got into the corporate structure.

Helena Dollimore: We will later.

Sir Adrian Montague: We spent a lot of time on that last time around. The point is that this was not paid to the external shareholders; our external shareholders have not received a penny since 2017. This dividend was an intergroup dividend to allow debt service to be paid at a higher level in the company.

Q678 **Helena Dollimore:** You have talked through your decision to pay that, and colleagues will come to discussions about this later, but customers will draw their own conclusions from this evidence session. A decision was made to defer vital infrastructure projects. We have seen pollution incidents go up in the time since. A more reliable investment of that money may well have been on fixing infrastructure.

I just wish to ask you one last question. We have seen huge changes in leadership at Thames Water. One reason you are before us at this Committee is that you are one of the more continuity members of Thames Water, having served as chair since 2023. As a Committee, we have seen many different CEOs and CFOs before us. Can you give us a commitment that the team we have in front of us is the team we will have throughout this Parliament?

Sir Adrian Montague: No.

Helena Dollimore: You cannot?

Sir Adrian Montague: No.

Q679 **Helena Dollimore:** In which case, how—

Sir Adrian Montague: The reason is that we live in a competitive marketplace, and we have to provide the right sort of packages to these people, otherwise the headhunters come knocking.

Q680 **Helena Dollimore:** Every time we have the Thames Water members in front of this Committee, they make assurances about turnaround plans and make commitments. Then when the next set of leaders come around—

Sir Adrian Montague: We have to live in the real world here. No one will give you a commitment that there will be no change in the leadership team over five years; it is simply not possible.

Q681 **Helena Dollimore:** Adrian, if you will allow me to finish the point, we ask the questions at this Committee. We have seen many changes of leadership. At every evidence session, the Committee have been given big assurances by that set of leadership. Then, at the next evidence session, we have a different set of leadership before us, apologising for the mistakes made under their predecessors. So how can the Committee have any faith in the assurances and the commitments that your team



HOUSE OF COMMONS

are giving us today when we have seen so many changes and row-backs on commitments that we will not simply have a new set of leaders in a couple of years explaining why this turnaround plan failed?

Sir Adrian Montague: We are the new kids on the block here. This is the team that came in with my arrival in July 2023. We are making progress. We all believe in the future of Thames Water and are here to try to put things right. That is the testament of faith we give you. We will not quit until the job is done, but it is not realistic to say there will be no changes in the team over five years.

Q682 **Helena Dollimore:** Can I just ask, why would headhunters come to recruit people from a failing company?

Sir Adrian Montague: It is not a failing company; it is a company in recovery. We are making progress. This is a good team. You can see how the progress is starting to become apparent, and people go for good teams. It is simply unrealistic to think there will be absolutely no change over five years.

Q683 **Chair:** If 40% increase in pollution incidents is a mark of success, what does failure look like?

Sir Adrian Montague: We must go back into those pollution incidents.

Q684 **Chair:** I come back to the point—this is a serious point here—about the experience of your customers and people enjoying the natural environment. There was a 40% increase in pollution incidents, but £770,000 was still paid out in performance bonuses. Why does a water company need performance bonuses? I can see why a merchant bank, a hedge fund or something of that sort might want to reward high-risk, but water is not a high-risk business; it is a sector that has lost its way, is it not?

Sir Adrian Montague: I have not watched the discussions you have had with all the other water company chief executives and their supporters in detail, but bonuses are featured in them all.

Chair: Yes, absolutely, and that is why I am asking you as a sector.

Sir Adrian Montague: The fact is that we are in a marketplace for talent. Talent goes where it thinks it is going to have the best future. We have a remarkable collection of people here because they are believers that we will turn this business around. That is what they get their satisfaction for, but there are limits.

Q685 **Jayne Kirkham:** Just quickly to go back to the other people who work for Thames Water—the water engineers and others—I have just had a quick look on the website and there are numerous vacant roles there, so would the same not apply? As Helena was saying, you need those talented people to work on the ground as well. So why is so much attention paid to the bonuses of the people at the top and not those of people doing the work on the ground when you have vacancies?



HOUSE OF COMMONS

Chris Weston: We have a lot of vacancies that we are advertising for at the moment—about 700—because we recognise the ramp-up in capital that we have to deploy over the next five years. Some areas are much more difficult to recruit than others, such as mechanical and electrical engineers and process controllers, and we are always assessing whether the level of compensation—remuneration—that we offer in the market is competitive. In many instances, we are finding at the moment that we are having to pay above market to attract people into Thames Water. That is happening.

Chair: I am going to move on to Price Review 2024. Barry, you are going to lead our questioning on this.

Q686 **Barry Gardiner:** Could I make a mention of my Register of Members' Financial Interests? Sir Adrian, we have crossed swords before.

Sir Adrian Montague: Pleasant discussions before, Mr Gardiner.

Barry Gardiner: Indeed. I do not want to incur the wrath of the Chair, so I have formulated my questions to you in such a way that they do not demand an explanation; they only demand an answer, and usually that answer can be either one word or a very short sentence. So let us see what I can do to oblige.

Chair: That does not incur wrath at all. That is an example; fill your boots.

Barry Gardiner: That is why I have tried to do it that way, Chair. The £3 billion of debt funding that you arranged is in two tranches of £1.5 billion, is it not?

Chris Weston: Yes.

Q687 **Barry Gardiner:** The second tranche was conditional on you putting in a challenge to the CMA against Ofwat's PR24 price control ruling, was it not?

Sir Adrian Montague: No. I do not believe that is right.

Barry Gardiner: You do not believe that is right?

Sir Adrian Montague: I do not believe that is right.

Q688 **Barry Gardiner:** You put your CMA challenge on hold, did you not?

Sir Adrian Montague: Yes.

Q689 **Barry Gardiner:** Is it still on hold, or have you abandoned it?

Sir Adrian Montague: No, it is still on hold.

Q690 **Barry Gardiner:** Did you put it on hold because the CMA challenge could not report back in time to let potential equity investors see the final price control in order to invest or develop their engineering plan of what they



HOUSE OF COMMONS

are going to spend and how they are going to deliver it?

Sir Adrian Montague: No.

Q691 **Barry Gardiner:** So when was PR24 capital investment programme due to start? Was it April 2025?

Sir Adrian Montague: At the beginning of this AMP. April 2025.

Q692 **Barry Gardiner:** So the CMA challenge would only have reported back in October, which would have been a six-month delay. Is that correct?

Sir Adrian Montague: Probably later than that.

Q693 **Barry Gardiner:** So even more than a six-month delay.

Sir Adrian Montague: Just a word of explanation, if I may. The CMA has six months from the date of its referral but has liberty to apply for a longer period, and in complex cases, it applies for a longer period, as it did in 2020.

Q694 **Barry Gardiner:** As I said, the CMA challenge would have put the final adjudication and decision on what your investment allowance was back beyond the point at which your future potential equity investors would have wanted to start the programme, would it not?

Sir Adrian Montague: I do not think it follows.

Q695 **Barry Gardiner:** It certainly follows if AMP8 was supposed to start in April 2025, and yet you could not get investors in if they did not know how much they were going to be allowed to invest in the company and how much work was going to be agreed to be done with the regulators.

Sir Adrian Montague: They knew that—as we knew that—on 17 December, when the final determination was handed down.

Q696 **Barry Gardiner:** But you were going to appeal it, and you told me that you had put the appeal on hold in order to challenge that determination by Ofwat.

Sir Adrian Montague: We agreed with Ofwat that in the light of the equity interests we have had, it would be worthwhile for the equity holders—the equity bidders—to discuss with Ofwat whether there were understandings that could be reached that would allow them to accept that determination. For us, we had determined it was neither financeable nor investable.

Q697 **Barry Gardiner:** Let us move on to those understandings. How far behind are you on the investment programme on AMP7, PR19?

Sir Adrian Montague: I do not think I can answer that; Chris may be able to.

Chris Weston: Compared to the allowance that we agreed with Ofwat, we have spent an additional £1.7 billion.



HOUSE OF COMMONS

Q698 **Barry Gardiner:** How far behind are you on not just AMP7, but also on WINEP7 programmes?

Chris Weston: I was going to then go to the point that your colleague brought up. We are behind on the WINEP7 project, and that will complete during AMP8. One or two of the larger schemes might even go into AMP9.

Q699 **Barry Gardiner:** You said that it is behind in time. What about in financial terms?

Chris Weston: Yes. It is also more expensive.

Q700 **Barry Gardiner:** So it is going to be more costly because of the delays. The failure to achieve your ODIs—your Outcome Delivery Incentives—on sewage and leakage, and your MeXes—the measures of experience—the more penalties you incur, and the more difficult it will be to sucker in new investors. Sorry, let us put that another way, the higher interest return that they will demand. Yes?

Chris Weston: The ODIs in the last AMP were about £500 million.

Q701 **Barry Gardiner:** Of course the same applies to AMP8, so the further behind you fall with the work of AMP8, the more expensive it gets and the more penalties you incur. Is that right?

Chris Weston: Correct.

Q702 **Barry Gardiner:** Given AMP8 is at least two times the capital work of AMP7 and you have made no attempt to source the additional contractors that you will need, this means you have only re-engaged the existing contractors. This means your ability to press on with AMP8 is constrained, and in this first year of AMP8, you will probably only just be completing AMP7, will you not?

Chris Weston: I do not agree with all that. We are ramping up capital expenditure quite significantly. In the last year, capital expenditure is up on the year before by 38%, so quite considerably. I accept we are behind where we would like to be in AMP8, and we are going through a process of improving our capital governance so we can invest more for the benefit of our customers and the environment.

Q703 **Barry Gardiner:** But your problem is that because you are behind in both AMP7 and AMP8, you are incurring additional penalties. You just said £500 million hangover from last year in AMP7. That means that it is going to become even more expensive to get the capital in and persuade investors to come in because they see that the further you fall behind, the more problems you have with penalties.

Chris Weston: I agree with that. The final determination was about £20 billion. We felt that we needed to spend a lot more than that, getting on towards £24 billion, and that our performance would not be what was demanded by our regulator. That leads to the penalties increasing in AMP8 as you suggested, and that is an issue for incoming shareholders and our creditors.



HOUSE OF COMMONS

Q704 **Barry Gardiner:** Absolutely. The Environment Agency has also said that it will significantly increase its inspection and enforcement regime on Thames Water. What amount has Thames internally estimated that this might cost? Maybe this is one for Mr Buck. You have made an internal assessment of that, so what is it?

Steve Buck: I do not have that information to hand.

Q705 **Barry Gardiner:** Have you made an internal assessment?

Steve Buck: Of the additional cost of the inspections?

Q706 **Barry Gardiner:** The additional cost that you are factoring in will come from the fines the Environment Agency levies against you for those additional inspections that they have promised to fulfil.

Steve Buck: In terms of our future financial planning, I have factored in the additional investment costs that Chris has referred to, the extra £4 billion, and an extra £900 million for the ODI penalties in AMP8.

Chris Weston: There has been an assessment done of the penalties that may arise from what the EA has done.

Q707 **Barry Gardiner:** That is what I was asking.

Chris Weston: And we have made that available.

Q708 **Barry Gardiner:** How much is that assessment of the additional penalties from the EA?

Chris Weston: Forgive me, I will have to come back to you on that.

Q709 **Barry Gardiner:** If you can write to us on that, thank you. The revised regulatory business plan that you are developing requires a reduction in penalties from Ofwat, does it not?

Chris Weston: Absolutely. The aim is to be able to deliver the performance that we agree within the allowances that Ofwat gives us, but it is going to take many years to get to that point.

Q710 **Barry Gardiner:** If Ofwat refuses to reduce those penalties, is the equity investment still on the table from KKR?

Chris Weston: That will be a decision for KKR, but as you have pointed out, it is much more difficult for an investor to come in, being very aware of those penalties. It will go to the return.

Q711 **Barry Gardiner:** If not, will it be too late to go back to the other potential investors that you have excluded from the process, or would it result in a special administration regime?

Chris Weston: It is a very fluid situation, but those are both possibilities.

Q712 **Barry Gardiner:** Are they? Are the others still there? Are they still keen and showing interest?



HOUSE OF COMMONS

Chris Weston: Apologies, it will depend on the timeframe that you are looking at. If the current process fails, you have to consider what the creditors may or may not do, because they may step in, do a debt-for-equity swap, and restructure the balance sheet. We would probably go back into a CMA process that would run, and there is no guarantee that we would not stay on a market-led solution as opposed to a special administration. But it is a very fluid situation, and those are all possibilities.

Q713 **Barry Gardiner:** When KKR was bidding, because of its size—£638 billion—it boasted that it could, “Bully the Treasury into stopping Ofwat and the EA from imposing the penalties and fines.” Is that why you chose them as your preferred bidder?

Sir Adrian Montague: No, certainly not.

Q714 **Barry Gardiner:** You will recognise that that was a claim that they did make.

Sir Adrian Montague: I do not recognise the quote, and I do not support the sentiment.

Q715 **Chair:** But it is a strategic choice that you made to keep KKR as the only show in town.

Barry Gardiner: Indeed.

Sir Adrian Montague: In every bidding situation, at some stage or other, you have to go down to a single bidder. That is when you are in sight of the finish.

Q716 **Chair:** At the point at which you chose though, you still had the option of keeping other live options and you chose not to take it, so the consequences that fall from that—

Sir Adrian Montague: In practical terms, we did not have that option, Sir. The work that KKR is doing to move from preferred bidder status to a complete contract is extraordinary.

Q717 **Barry Gardiner:** You are paying for it.

Sir Adrian Montague: We have a limited amount of resource.

Q718 **Barry Gardiner:** You are paying for all the work that KKR wants. Let us not try to bluff.

Sir Adrian Montague: I am not suggesting that we are not doing so; I am just pointing out that they are posing immense demands on the business.

Q719 **Barry Gardiner:** Let us get back to the point that the Chair and I were in the process of making, and that is that you chose to eliminate those others from the bid. In response to the Chair, what you said was that there came a point when you had to do this, it was the right thing to do,



HOUSE OF COMMONS

and those bids fell away. Yet we have heard from Mr Weston that actually we might be having to go back to looking at those bids. At the time, Ofwat and the market looked at what you were doing and said, "Well, why are you doing this so early?" So what we are trying to get at is why did you do it so early?

Sir Adrian Montague: We need to go back a little in time, Mr Gardiner.

Barry Gardiner: Oh no, not another explanation. Come on. Just answer it.

Sir Adrian Montague: You are asking me, and I am giving you an explanation, which is that this was part of a long-running process that eventually looked at six bids. Two of those bids fell out of contention pretty quickly, so we were left with four bids. We conducted a detailed evaluation of all those bids, and I can tell you that the KKR bid was—by far and away—the best. Technically, financially, in terms of the commitment to provide equity, it was ahead. So, conscious of the need to create a disciplined process towards completion, we chose KKR. It is true that KKR said, "We are only going to do this if we are the only person in the field," and we agreed with that because we could not have handled more than one.

Q720 **Barry Gardiner:** So you did not choose KKR because it could bully the Treasury. Did you choose KKR because it committed to giving the senior debtholders less of a haircut?

Sir Adrian Montague: No.

Barry Gardiner: But they did, did they not?

Chair: We are going to come to this later on in the session.

Q721 **Barry Gardiner:** Investors would normally want to see the board structure as well as the investment structure of the company, but you have said that the entire board will step down as soon as the new investment goes in. Is that because the Court of Appeal removed immunity from Thames directors against any claims a future special administration regime might bring?

Sir Adrian Montague: No.

Q722 **Barry Gardiner:** Why was it?

Sir Adrian Montague: Why was what, Mr Gardiner?

Q723 **Barry Gardiner:** Why have you said that the whole board would step down? Because when you were answering my colleague, you said that you could not give an assurance that they would stay in place, but you did not say, "I can give you an assurance that they will not be in place over the next five years because we have already said that we will all stay."



HOUSE OF COMMONS

Sir Adrian Montague: Your colleague was discussing the executive team, and I was referring to the executive team. If you are talking about the board, then it is true that when you have a change of control of a big company like this, you have to expect there will be huge changes in the board. It may be that the new equity owners will want some people to stay, but the expectation is that a majority will step down.

Q724 **Barry Gardiner:** Why did you not say that to my colleague?

Sir Adrian Montague: Because she was talking about the executive team.

Q725 **Barry Gardiner:** No. She was talking about the board as well, you know that.

Sir Adrian Montague: No, she was talking about the team.

Barry Gardiner: More specifically about you three.

Sir Adrian Montague: No, she did not. She talked about the executive team.

Barry Gardiner: I am sure Hansard will tell us who is right.

Chair: Are we done? I will move on to the question around securing emergency funding. We have touched on this already, but Tim, you are going to lead us on this.

Q726 **Tim Roca:** Can I ask about the £3 billion loan from your Class A bondholders including Elliott Management and Silver Point? We have had a note from your Class B creditors—you will not be surprised to hear—who described it as a payday loan style arrangement. Can I ask Chris perhaps for your assessment of the loan and its potential risks to the future viability of Thames?

Chris Weston: Certainly. You also have to consider how it came about and the timing of it. We started talking to the creditors as a whole in July last year. We had to come to an agreement by 25 October, and coming up to that time, the As and Bs were working together. On 22 October, we had an approach from the Bs entirely separate from the As, and that was a surprise to us. Given the deadline was the 25th and there was no certainty that the Bs could deliver what they were suggesting, we went with the outcome from the As that was most certain to give us the firm financial foundation that we needed. Anything that the Bs proposed had to be agreed by the As, and I could see no prospect of that happening.

Q727 **Tim Roca:** So the reason you went with the A proposition is because you could not see an agreement. The difference between the two offers was quite substantial, was it not? The As offered an interest rate of 9.75% and the Bs offered an alternative at 8%, which would have potentially saved £375 million.



HOUSE OF COMMONS

Chris Weston: It will be put forward by each of them. I do not think the difference was as stark as you suggest, and I go back to that we had absolutely no confidence that the Bs would be able to deliver what they proposed. It just came in too late, and we were working to a liquidity runway that demanded action be taken by 25 October. We had spent months negotiating it with the As; it takes a long time with a lot of paperwork to get the certainty you needed, and we just could not have done it with the Bs.

Q728 **Tim Roca:** But that was not the assessment of everybody at Thames, was it? Because actually there were members of the board who thought the Bs' offer was better. That was reported in the *Financial Times*.

Sir Adrian Montague: With respect, the *Financial Times* was not in the boardroom. I was in the boardroom. Everyone was united in dismissing the Bs' offer.

Q729 **Tim Roca:** And that was on the principle that that was a solid offer that you needed immediately, whereas the other offer—which was a lower interest rate—there was no certainty of it being accepted.

Sir Adrian Montague: Yes. We have talked a little about the pressures on liquidity already today. We were concerned that we might run out of liquidity in December unless we pressed on with the As' offer.

Q730 **Tim Roca:** We are talking about alternatives. The High Court suggested you might have found better terms in the market from new funders. What is your assessment of that?

Chris Weston: We were in a very difficult situation. I have seen absolutely no evidence that there was any funding from elsewhere on better terms, and I would have been very surprised if we had found it.

Q731 **Tim Roca:** Again, the Class B creditors have suggested there are hidden terms and conditions in the terms that you agreed to in the end. Can you talk a little about what they might be referring to?

Chris Weston: I am afraid I do not know what they are referring to.

Q732 **Tim Roca:** Are there any hidden conditions?

Sir Adrian Montague: No. Bear in mind that there was an extraordinary amount of disclosure in the court proceedings, thousands and thousands of pages of documents. We are not aware of any hidden terms.

Q733 **Tim Roca:** Was this at the point where you had five weeks left of liquidity that you were talking about earlier?

Sir Adrian Montague: Yes.

Q734 **Tim Roca:** Does the deal include any financial retention incentives for executives at Thames?

Sir Adrian Montague: The deal required us to put in place a retention plan for a limited number of senior executives.



HOUSE OF COMMONS

Q735 **Tim Roca:** Can you give us an idea of what those incentives might be?

Sir Adrian Montague: We have created incentives to try to retain our most precious resource, which is the senior management team. We have a bonus paid in completion of the first restructuring plan, another one at the end of the second restructuring plan, and then a large amount right at the end of the process.

Q736 **Tim Roca:** What sort of size are these bonuses?

Sir Adrian Montague: In the case of the first two instalments, it is 50% of salary.

Tim Roca: So very substantial bonuses.

Sir Adrian Montague: Very substantial. To be honest, this is the first time that I have encountered this. I have done a few reconstructions in my time, and I do not think we would have got there but for the fact that the lenders insisted, should we say.

Q737 **Tim Roca:** A layperson looking at this would see that there was an offer from the A's at 9.75% that came with financial incentives to retain people, and there was an offer from the B's at a lower interest rate, and there might be some scepticism or a suggestion that one offer was gone with for other reasons. What would you say to that?

Sir Adrian Montague: I would say that would be inappropriate at that conclusion. The team was working astonishingly hard. We have talked a little about the vital importance of keeping the team. In my answer to Ms Dollimore, I was trying to emphasise the importance of the team. We need this team to stay until the completion of the transaction.

Q738 **Tim Roca:** The Class A offer involves an incentive scheme for executives that could be worth up to £1 million for yourself, I suggest, Chris. Is that correct?

Chris Weston: At the moment, I am not part of that scheme.

Q739 **Tim Roca:** But it would be up to £1 million for some executives, would it not?

Sir Adrian Montague: It is certainly a large amount of money.

Q740 **Tim Roca:** Customers will find that extraordinary in view of that earlier amount.

Sir Adrian Montague: Customers should also take into account that they will pay none of that amount. This is an amount that will be funded by the lenders, and at the end of the day, borne by the lenders because we wanted to isolate this scheme from the general run of customers. It is the lenders who attach so much importance to the completion of these transactions, and they are paying for the privilege.

Q741 **Tim Roca:** Can we talk a bit about the time pressure? We have just



HOUSE OF COMMONS

talked about the five weeks' liquidity. The Class B group said that the loan took advantage of the time pressure Thames is under. So was the urgency that drove the deal solely about liquidity?

Sir Adrian Montague: That is right. We have had very, very tight liquidity at a number of points over the last nine months. In October, we needed to complete a change to the agreements to release some reserves and get to the start point for the reconstruction plan. We had about five weeks' liquidity at that time. When we were in the High Court and the Court of Appeal, liquidity was also very, very tight. We are talking about a huge corporation of 8,000 employees. Having five weeks' liquidity is a nightmare.

Q742 **Tim Roca:** But urgency will have worsened the conditions that you will have got from lenders, will it not?

Sir Adrian Montague: I do not think it worsened it. They are tough conditions, I would not pretend otherwise. But we were in a beggars cannot be choosers situation. We were running along the edge of the precipice, and we had to secure the financial future of the company.

Chris Weston: Could I also just add that that liquidity runway was short, but it allowed us to carry on investing—as we needed to—the capital investments to meet the legal, regulatory and environmental obligations. As the creditors came in and became more engaged, they recognised the importance of doing that. They did not constrain us in cash and constrained that investment. That could have been an option and would normally be an option in that situation, but it was not, and that is what also constrained the runway.

Q743 **Chair:** Just to go back very briefly to the question of financial retention incentives in Class A, who pays these?

Sir Adrian Montague: The lenders pay for that.

Q744 **Chair:** The Lenders will pay these?

Sir Adrian Montague: We know this is a sensitive point, so we have set up an auditable process which traces the monies that are paid in these incentives back to the lenders. They get funded out of our new facilities, and those facilities will not be repaid by customers.

Q745 **Chair:** And that will not be recycled through some other process to come out of customers' pockets?

Sir Adrian Montague: No.

Chair: Okay. We are going to move on to the court proceedings. Barry, do you want to lead the questions on this?

Q746 **Barry Gardiner:** Just before we do, Mr Weston, you said that you had seen no evidence that you could have sourced additional funding on better terms from anywhere else. I believe you received an offer in early September from one of the groups that eventually put a bid in of £1



HOUSE OF COMMONS

billion, which was on better terms, was it not?

Chris Weston: I will have to come back to you on that. There were offers that came in, the substance to them was often debatable. As a team we certainly felt that the A's, with the certainty they provided and the proportion of the creditor base that they spoke for, was an important factor in any decision-making process. But I would have to come back to you on the particular one that you are referring to.

Q747 **Barry Gardiner:** Do you know the one I am referring to?

Chris Weston: Not particularly, no.

Q748 **Barry Gardiner:** The Class A bondholders argued that there was insufficient time to implement an alternative restructuring plan, if the A plan could not be implemented. The Court of Appeal described the enormous time pressure of the case as unacceptable, and requests to expedite the appeal proceedings as, "Frankly, ridiculous". To what extent did time limitations force the court's hand?

Sir Adrian Montague: I do not think the court would ever be in a position of allowing its hand to be forced: it is very professional in its approach—the judgment at first instance ran to 176 pages—it looked minutely at every aspect of the plan, and it was an extraordinary performance.

Q749 **Barry Gardiner:** But it did say that the plan you were putting up was unacceptable. Were you intentionally trying to—

Sir Adrian Montague: Clearly not, we were in a position where we were very tight on liquidity, we were working all hours that God sent to try to finalise a package to allow us to start those court proceedings. This whole process goes back to when the existing shareholders decided not to provide further capital to the company. As soon as that happened, we had our backs to the wall, we started a twin track process of trying to find equity and trying to bring the lenders together, in the first instance, to provide this extra liquidity. It was a very close-run thing.

Q750 **Barry Gardiner:** What impact would a SAR have on Thames Water's operations and on the senior staff?

Sir Adrian Montague: A SAR would make life extremely difficult for everyone. We think that the suppliers would wonder how long they wanted to continue working for Thames because obviously their future would be in doubt, and the same would be true of the senior staff, "Who knows what the outcome will be if we went into SAR?" We think they would be receptive to offers from elsewhere. We think the burden on the Government would be considerable.

At the court of first instance, the expert said that he thought it would amount costs of about another £5 billion for the Government—I think I have that figure right—so wherever you look, there is additional strain on the process. The Government would have to finance this programme



HOUSE OF COMMONS

because there will be no other liquidity available. If you remember, that is what happened in Railtrack—I do not know whether we share that experience, we probably do—and the Government would seek to recoup that amount, we guess, by having to sell the business to someone else, but many months later.

Q751 Barry Gardiner: In fact, under the new Water (Special Measures) Bill they have the right to recover that and to make sure it is not the public that are paying the bill. The High Court judge said that he might have refused to sanction the plan from the outset if the, "Eye-watering level of the adviser's fees had been clear up front." Why were those costs so high, and how much have you spent on legal costs to date?

Chris Weston: The costs reflect the magnitude of the restructuring that is underway. It is the largest restructuring of a balance sheet in British history, and the number of parties involved and the costs reflect that. The costs incurred are extremely high and that reflects what I have just outlined, and to date, over the last 12 months, it is about £159 million.

Q752 Barry Gardiner: Why do you think the judge said that he might have refused to sanction the plan from the outset if he had known those costs were so high?

Sir Adrian Montague: What he perhaps would have wanted was an explanation of why those costs were so high.

Q753 Barry Gardiner: No, I do not think he did because as you say, Sir Adrian, he had perused all the data by this stage and then he came to a conclusion that actually he would not have gone down that road had he realised that at the beginning. That is what he said.

Sir Adrian Montague: Might not have gone down that road. Might not have gone down that road.

Chris Weston: I do not know what the judge was thinking about by that.

Chair: It's certainly a remarkable statement from the Master of the Rolls.

Sir Adrian Montague: Yes, I think it was a remarkable statement, and that it would have been necessary to explore the consequences of not endorsing the plan.

Q754 Barry Gardiner: It rather suggests that he believed that so much money, so much money, could have been being spent in, let us call it more productive ways, directly addressing the concerns.

Chair: This is a judge who is highly experienced in the area, this is not somebody who spent his life doing criminal legal aid. You have to accept that when he says that it is eye-watering, then something has generally caused eyes to water here.

Sir Adrian Montague: We agree that may have paused him when he perused the plan.



HOUSE OF COMMONS

Chair: Yes, we would have the exact same thought.

Chris Weston: We agree that they are eye-watering costs, sorry.

Chair: We should be careful about talking about judges, obviously. My bad.

Q755 **Barry Gardiner:** Indeed. What was the purpose of the Civil Immunity Clause in the original loan agreement?

Sir Adrian Montague: I am sorry, you will have to explain that. I do not understand the question.

Q756 **Barry Gardiner:** Why was there a Civil Immunity Clause in the original loan agreement? Do you have to write to us on that one also?

Chris Weston: Say again?

Barry Gardiner: Will you have to write to us on that one also?

Chris Weston: Yes, I think we will have to.

Chair: Okay. Jayne, you have been very patient; your question is on Ownership of the company.

Q757 **Jayne Kirkham:** Yes, I am going to ask about ownership. I was not here at the last Committee, I know that you did deal with this then, but if you could just go through the structure a little with me?

You said last time, Sir Adrian, that you would love to simplify the opaque and complex structure but I am looking at it now and it seems that we have the external shareholders, Kemble Water Holdings Limited, Kemble Water Eurobond PLC, and then Kemble Water Finance Limited and Thames Water (Kemble) Finance PLC, which together hold £18 billion of gross debt, it says here. And then Thames Water underneath: we have Thames Water Utilities Limited, Thames Water Utilities Finance PLC, and Thames Water Utilities Holdings Limited that have £14.7 billion of debt held. Is that right so far?

Sir Adrian Montague: More or less. Would it be helpful if I tried to simplify it?

Q758 **Jayne Kirkham:** Yes. One of the points that was made at the last hearing was that you were the chair of the board for Kemble—

Sir Adrian Montague: Briefly.

Jayne Kirkham: Yes, as well as Thames Water, and you stepped down. Why did you step down? There were issues pointed out that there was a conflict there because of the debt, is that why you stepped down?

Sir Adrian Montague: No, when I took over at Thames Water there was some difficulty in relationships between the Thames board and the shareholders. The shareholders were having lots of discussions with Ofwat, to which the Thames board was not privy. I discussed this with



HOUSE OF COMMONS

Owat before I took either appointment, and I said, "For a period of time I need to chair both boards in order to bring them together, in order to stamp out any lack of co-ordination between the boards." So that is what I did: we used to have combined board meetings with the shareholders and the board at Thames Water, each taking separate decisions on the matters that affected them, but with a good degree of co-ordination between them. It was always right that there was potential for a theoretical conflict of interest.

Q759 Jayne Kirkham: Yes, because Thames Water pays dividends: not to the shareholders, but to Kemble, did it not?

Sir Adrian Montague: Let me come back to dividends, it is a decent point there. It was clear to me, let me see, in February 2024, that this was heading for an impasse and where the future of Thames Water needed to be divorced from the future of Kemble. That is the reason why I stepped down from Kemble at that stage.

If you go back to dividends, one of the instances we had identified with Owat was that there might have been a conflict of interest. So when it came to the October dividend, which we have already discussed, I did what the governance textbook tells you to do: I wrote to the directors of both boards and I said, "If there is a potential conflict here, would you like me to step down? Would you like me to recuse myself from the discussion? And you can both discuss it free of any potential conflict that I might have had." And all them said, "We trust your objectivity, please carry on." So I did.

Q760 Jayne Kirkham: Owat changed the rules, did it not, about the dividends? So Thames could no longer pay dividends to Kemble, and then it defaulted on that £400 million loan in April 2024. What impact did that then have on Thames?

Sir Adrian Montague: It started the process that we are now in the late stages of. When I was here in December 2023 I pointed out, in response to a question from my learned friend up there, that there was a risk that the loan would go into default and that would deter the shareholders from putting new equity into Kemble, which is what actually happened.

Chris Weston: We lost our investment grade and when that happened it became a licence breach. That then meant that we could not distribute any funds outside the regulated entity.

Q761 Jayne Kirkham: The *FT* has stated that the current shareholders are now basically divorced from the company: they have no skin in the game or motivation to act to provide any kind of oversight to the board. Do you agree with that and if so, who is controlling the board?

Sir Adrian Montague: It is true that once we got to the 31 March last year the shareholders effectively abandoned Thames. They took their representatives off the board, so the board was slightly marooned. It was



HOUSE OF COMMONS

that withdrawal that started the process of recapitalisation and debt support that we are now going through.

The Board is really a custodian of Thames for its future owners. We are working astonishingly hard: in the first of those years, 2023-24, we had 37 board meetings. In the last year we have had 59 board meetings so that we are absolutely glued to what happens day by day and it is the board that is in control of this process. We have discussions with the lenders, but they are not members of the board and we do not have them at board meetings.

Q762 **Jayne Kirkham:** At the hearing your General Council accepted that the Class A creditors are basically now the economic owners of the company.

Sir Adrian Montague: Yes, that is correct.

Q763 **Jayne Kirkham:** So, would you say that they essentially control the company?

Sir Adrian Montague: The board is in control of what happens in the company. We have representations from the A creditors and we listen to them. It is quite difficult to take an entirely different course from what they want us to do, but it is the board that controls the company. That is very important.

Q764 **Jayne Kirkham:** It is just the *FT* reported that in the potential sale to KKR, those bondholders may end up with quite a substantial stake.

Sir Adrian Montague: Possibly.

Q765 **Jayne Kirkham:** Is that the case?

Sir Adrian Montague: That is a matter for discussion between KKR and the bond holders.

Q766 **Jayne Kirkham:** That then does make it look like there is a conflict. If they are the ones basically invested in and essentially economically controlling the company, and they are going to end up with a large stake if this deal goes through, as Barry was saying earlier, it rings alarm bells.

Sir Adrian Montague: Yes, I am not sure there is reason for any alarm bells to ring because we have an independent group of creditors. They are the leading—

Q767 **Jayne Kirkham:** Have the creditors played any role in the preferred bidder process?

Sir Adrian Montague: No.

Jayne Kirkham: None at all?

Sir Adrian Montague: No, that was considered by a special committee of the board, because—

Q768 **Jayne Kirkham:** With no discussion at all with the creditors?



HOUSE OF COMMONS

Sir Adrian Montague: We have had a brief discussion with them, but the evaluation was conducted by Rothschilds on behalf of the board. We took Rothschilds through the evaluation, we have had six or seven meetings of the special committee we established, and it was that committee that decided on the preferred bidder.

Q769 **Chair:** Surely the views of the Class A creditors must have informed that decision?

Sir Adrian Montague: The Class A creditors were scrupulous in not trying to influence that decision.

Q770 **Chair:** Your special committee was not looking over its shoulder asking, "What are they going to do?"

Jayne Kirkham: Because there were other bidders, were there not?

Sir Adrian Montague: We asked the creditors for their input.

Q771 **Chair:** This comes back to our earlier questioning about the decision that you took to leave KKR as the sole show in town.

Sir Adrian Montague: Yes.

Q772 **Chair:** This is quite a remarkable state of affairs. Normally, with standard corporate governance, you have your board that is accountable to your shareholders.

Sir Adrian Montague: Yes.

Q773 **Chair:** The shareholders have written you off, they have taken their people off the board, and you no longer have that. So the board manages the company without actually controlling it. The control is vested in the creditors now, you have agreed that, have you not?

Sir Adrian Montague: We will have to define our terms a little. What Ms Kirkham said was that the creditors are the economic owners of the company.

Chair: Yes.

Sir Adrian Montague: I believe that is correct because we have no equity at the moment; the shareholders have written off their equity.

Q774 **Chair:** To whom are they accountable? They are not accountable to the shareholders of the company because you have no shareholders.

Sir Adrian Montague: We will have an accountability as soon as we get through this process and have a new equity shareholder.

Jayne Kirkham: Were the bidders aware—

Sir Adrian Montague: How can we create more accountability than the circumstances allow us?



Q775 **Jayne Kirkham:** Was the board aware that the Class A bondholders were being offered this large stake? And was the board aware whether any of the other bidders were doing something similar?

Sir Adrian Montague: The terms that we had from at least the leading bidders indicated that they expected discussions to take place with all creditors, to invite them to take part in the recapitalisation of the company. There was no detail because things had not advanced at that stage, but that is what will be discussed between KKR and the Class A creditors as we move forward; it is just too early in the process.

Chair: Okay. Sarah, we are going to come on to the next steps in ownership, where we will try to compute some that.

Q776 **Sarah Bool:** Looking forward on all this, I understand that you have this emergency loan for liquidity, but obviously you need to sort out the long term because it is clearly very complicated for everyone to manage. I understood that Thames Water hoped to secure new ownership by June: are you on track for that?

Chris Weston: There is a clear process that we are working to, so both the creditors and KKR are pulling together a business plan which includes the turnaround of Thames, largely based on management's plan. That will be complete by the end of this month.

During June there will be discussions with Ofwat and the EA about any flexibility in the final determination so that KKR and the creditors can understand that. That will inform the shape of the balance sheet, the extent of the write-off and the returns that they will get. That process is due to run until the end of June. If it is agreed between the creditors and KKR, the process will require a second restructuring plan. That will have to go through the courts and will not happen until the autumn. So the deal is not likely to complete until after that.

Q777 **Sarah Bool:** If all that goes wrong and does not go to plan, what is the back-up and the timing for that, then?

Chris Weston: If agreement cannot be reached in June then a decision will have to be made as to whether we are referred to the CMA—it is deferred at the moment, not withdrawn—and we would have to decide whether we go to the CMA and then join in the CMA process. As we are talking about a situation that has failed, in that instance I assume the creditors would have to decide what they wanted to do: whether they want to pursue a debt for equity swap or not. If all that fails then a SAR is still a possibility.

Q778 **Sarah Bool:** Ofwat recommended that all this time you should basically continue talking to the other parties that had come in, along with KKR. Why did you not do that?

Chris Weston: At the moment we are not talking to anyone but KKR and, to clear up any misconceptions, I am not suggesting that any of the



HOUSE OF COMMONS

other interested parties would come back. But it is a possibility at some point in the future.

If we went into a SAR—I do not know how long we would be in a SAR for, I worry it would be a long time—it would have an impact on the company. To come out of SAR we would still have to go through an equity process and a process of agreeing with the creditors what the shape of the balance sheet looked like. Any incoming equity would also have to talk to Ofwat about the regulatory environment that we operate in.

Q779 Sarah Bool: Yes, because I understand that some other offers that were put forward were actually asking about significant credit haircuts, and then they were obviously talking about a debt for equity swap. Had you discussed that with Ofwat or the other regulators at this time?

Chris Weston: Yes, I have had discussions with David Black at Ofwat about the absolute need for restructuring the balance sheet. It also goes to the regulatory regime that we operate in. Just to extend the point I made earlier a little, one of the reasons that we referred the final determination to the CMA was because the FD does not allow for the turnaround of the company. Without that being recognised in the FD, I feared that we might restructure the balance sheet and in five years' time end up back where we are now. None of us want that to happen, so discussing with the regulator the concept of a turnaround regime that might provide some relief from the normal regulatory environment while a company recovers its operations is an absolute imperative for Thames, otherwise we will not be invested in.

Q780 Sarah Bool: If you do actually go down this element of the senior creditors wanting to do this debt for equity swaps and if, as you said, that is a real possibility, are you happy about a distressed debt specialist taking ownership of a regulated water company?

Chris Weston: The most important thing is that we restructure the balance sheet, we get gearing down to where it needs to be, and we get a fresh injection of equity. The types of numbers we are talking about are in the order of £15 billion with new equity; I cannot guarantee that number but that kind of order: it is a lot of money. We operate a book that is traded. I know headlines are grabbed by some members of our creditor group, but it covers banks, insurance companies and pension funds: it is a very broad church of institutions that are in our creditor base that could end up in debt for equity being on our shareholder register.

Q781 Sarah Bool: Just in terms of the gearing feature, you mentioned earlier that you think actually you are at around about 88%. I know that Ofwat always says that a company over 70% is in distress, so what is the target gearing figure that you are ultimately aiming for?

Chris Weston: The number that Ofwat is seeking is something between 55% and 65%.



HOUSE OF COMMONS

Q782 **Sarah Bool:** Is that your aim?

Chris Weston: It would be a very good outcome if we were somewhere within that range.

Q783 **Sarah Bool:** What time frame are you working to?

Chris Weston: The deal will only complete when it is in, and it would reflect that type of structure. At the end of the day I am not going to be party to those discussions, it will be between creditors and KKR, and Ofwat will be involved, but that would be a very workable range. You then have to make sure that the performance of the company and the regulatory environment that it is operating in does not lead to a deterioration, over the next five to ten years, that sees the company back in the same place.

Steve Buck: Could I just add a comment on gearing? In its determinations, Ofwat assume 55%; what we see is that we need to get an investment grade rating, which we do not have today. We must get that: it is a mandatory requirement of our licence. As Chris said, that will be in the range of 60%, 65%; you might be able to get away with a bit higher. But actually that is conditional on how much downside risk is perceived to exist in the business. If you look at the downside risk we have had in the past, we have had to over-invest: it has not delivered what we wanted it to and therefore we have continued to incur penalties.

So if you go from AMP 6, the over-investment penalties, in AMP 7 the over-investment and the penalties got bigger, and our forward look is that it gets even worse in AMP 8. So part of that will be around the turnaround regime that will be agreed to give the safety of that recovery, in effect.

Q784 **Barry Gardiner:** Mr Buck, when I asked you specifically about that earlier you seemed to be unsure whether you had quantified it, but you now say you know it will be even bigger in AMP 8. Have you quantified it, and how much?

Steve Buck: I did not quite understand the question as I did not hear it properly, but when you restated you asked me about the penalties. I do have a quantification of that, that £900 million downside is an estimate of what the AMP 8 position will look like after investing an additional £4 billion, over and above what is in the determination.

Chris Weston: Can I add to that? That is the £900 million penalties from ODIs, but then there could be environmental penalties on that.

Barry Gardiner: Yes, exactly, and they are fines rather than penalties.

Chris Weston: Yes; we have done an estimation on that and I said we would come back to you on that.

Q785 **Barry Gardiner:** Okay, thank you. What you actually mean by a turnaround regime—you have used that phrase a number of times now—



HOUSE OF COMMONS

is effectively that you manage to persuade Ofwat not to require the payments of those ODI penalties, is it not? That that is what a turnaround regime looks like for you?

Chris Weston: I am sorry, I might characterise it slightly differently.

Barry Gardiner: I am sure you would.

Chris Weston: I would argue we need to recognise the reality of Thames and other water companies as entities and where they are in their cost base and operating performance. I believe there is no point in continually penalising someone if it is going to exacerbate the situation. It is in everyone's interest that we restructure the balance sheet and continue to improve the performance of Thames Water. Although we might not be meeting Ofwat's targets, we are generally improving performance year on year. We need to recognise that and then re-set things to allow the company to continue to recover.

Q786 **Barry Gardiner:** Let me give you another way of looking at that. What you have outlined is that, "Look, Ofwat, if you decide that we do not have to pay these penalties, then we can work our way to becoming the company that you have outlined you want us to be." What about you saying to Ofwat, "Look, Ofwat, give us the capacity to raise more funds, and invest more funds up front, and then we will not end up needing to pay those penalties. We would rather do it the other way round and be proactive in stopping getting the penalties, by putting that investment up front. But the investment framework that you have given us in PR24 would not allow us to do that at the moment."

Chris Weston: Would not allow, or would allow, sorry?

Barry Gardiner: Would not allow.

Chris Weston: I do not think the framework allows us to do that.

Q787 **Barry Gardiner:** It does not allow you to get out of doing the penalties either. So if Thames Water is going to become a viable and investable proposition, you have to sort it out one way or the other. You either have to stop doing the things that are incurring the penalties, which are making your cost of capital so much higher, or you have to get Ofwat to allow you to make that investment up front so you are not incurring the penalty.

Chris Weston: We need to do both those things. We need to do the investment, that has to be enabled by Ofwat, and we have to be in a situation where we can attract that investment from international investors who have a choice to invest not only in the water industry but other utility industries, and elsewhere in the world.

So we have to create the conditions that give them the confidence that they can earn a return when they invest in Thames Water, and we can put the necessary investment in place to fix the operations of the



HOUSE OF COMMONS

company. They are not going to do that if they think that there will be penalties that detract from it, that do not reflect the true situation of the company.

Chair: Can we keep this tight?

Q788 **Barry Gardiner:** One last thing, Sir Adrian: was that not the reason that Thames withdrew from the CMA process? There is no way that the CMA could agree to what we have just outlined, given that it has to operate fairly between all the water companies and it could not argue for the special position that you believe is necessary. Why did you put it on hold?

Sir Adrian Montague: Because, in agreement with Ofwat, it was felt that there was a chance that we could avoid a huge expense and delay on the CMA reference in getting understandings between the bidders and Ofwat as to how they were going to apply the regime going forward.

Q789 **Barry Gardiner:** That is what you denied before when I asked you about KKR saying that they could bully the Treasury into bullying Ofwat.

Sir Adrian Montague: I did not.

Chair: This is beginning to sound like one of these cartoons where you see Bugs Bunny laying the track as the train follows on behind him.

Sir Adrian Montague: What I disagreed with was the characterisation of the discussions of anyone trying to bully the Treasury. I used to be in the Treasury and it is completely immune to these sort of entreaties.

Chair: We will be happy to take consultancy on how to bully the Treasury In other areas of the Committee's work. Josh?

Q790 **Josh Newbury:** We would like to return to this discussion around KKR. Obviously, we have spoken a lot about it this morning but there is still some clarity that we need to get. KKR has obviously been designated as the sole bidder, in effect. Is that because KKR offered senior bondholders a smaller haircut? So in other words, it is offering them a bigger stake in the company?

Sir Adrian Montague: The process of deciding how much of a haircut the senior creditors will take will be decided between the creditors and KKR going forward. It was one of the evaluation criteria, though not the major one. The major evaluation criteria is: would KKR be a good shareholder, a good owner of this company?

Q791 **Josh Newbury:** Okay, well on that point we understand that CKI was an alternative bidder. It was expecting a far bigger haircut because it wanted to reflect the extremely strained state of the business. So is this really about getting a new owner that understands the state of Thames Water, or is it about making sure that everybody who has a stake in the business can get as much out of it as possible?



HOUSE OF COMMONS

Sir Adrian Montague: CKI has experience in the water industry, as does KKR. It is a 25% holder, CKI is 75% in Northumberland Water, and KKR used to own 100% of a small water company. So it is as equipped as anybody to take ownership of Thames Water and it has been going about it in the most professional way.

Q792 **Josh Newbury:** Okay, I would like to come back to that in a second but Sir Adrian, you acknowledged earlier that Thames Water is funding some, or possibly all, of KKR's due diligence costs. Are your customers footing the bill for that?

Sir Adrian Montague: No, it is funded through our super senior facility which will be consolidated in the reorganisation of the balance sheet that we are expecting as part of the secondary structuring plan. But the customers do not pay it.

Q793 **Josh Newbury:** Okay, thank you for that clarity. Recently, a peer and accountant, Lord Sikka, told the Lords that KKR's business model is, "Profiteering, high leverage, low investment, asset stripping, and high cash extraction." As you mentioned, KKR previously owned South Staffs Water, which is my local water company, for five years. That description from Lord Sikka smacks of what we saw under Macquarie's ownership of your company, and to me begs the question: what potential risks does KKR's ownership actually pose to Thames Water?

Sir Adrian Montague: It is very difficult dealing with unsubstantiated, blistering attacks of that sort because we are each prisoners of our own conceptions. I tend to think that KKR is a responsible bidder, and we have been through its due diligence very minutely. It is demonstrating a great deal of understanding of water companies. Its bona fides can partly be attested by the fact that it has explicitly said it does not intend to take a dividend out of Thames Water until the completion of the reconstruction programme, sometime in the early 2030s: that is testament of good faith.

Q794 **Josh Newbury:** For a company like KKR, the size that it is and the way it operates, taking dividends out is small fry, really. It is looking for the sale price at the end of its ownership period. Sometimes these things are shrouded in mystery, but it is pretty clear publicly that KKR expects to make a profit selling Thames in seven to 10 years. Where is that added value going to come from, given all the pressures that we have discussed?

Sir Adrian Montague: The added value is going to come from the fact that it will be a prime mover in the reconstruction of Thames and the achievement of what needs to happen to make sure that our operating performance comes up to scratch.

Q795 **Josh Newbury:** Thames is clearly a company that needs long-term stability and stewardship in what is going to be a very difficult period, as you have said. Yet it is clear that KKR will be in it for a quick return and a quick exit. Is that really the right approach? To me that seems reckless.



Sir Adrian Montague: I do not think you can take that for granted. As I said, we are each prisoner to our own perceptions. Our perception is that it will be responsible owners: it is in it for the long term. At some stage or other it may realise its investment, but it has said that it believes that a listing will be the right way forward, which would return Thames to the listed sector.

You will find that Ofwat believes that governance in the listed sector is of a higher standard than in the unlisted sector; I might debate that point, but that is certainly what Ofwat believes. So KKR is positioning itself to help the business improve, get back on track with its operating performance, and not to take a dividend until the early 2030s. There is no imminent suggestion of realisation—that would be completely inappropriate—but the public markets seem to be a more attractive way of realising investment, in due course, than private equity.

Q796 **Josh Newbury:** But the best predictor of future behaviour is past behaviour, and as I said, KKR has a long history of quick exit from companies to make a profit.

Sir Adrian Montague: I can see a hearing with the Committee in due course with KKR as its principal witness, and I do not want to deprive you of that opportunity. But you have to bear in mind that there is a big difference on the spectrum between private equity investing and infrastructure investing. This is coming out of a long-term infrastructure fund. I have not looked minutely into the realisations in the fund, but they are long-term holds designed to improve the businesses, and that is what we are after in KKR's money.

Q797 **Josh Newbury:** You mentioned that Ofwat might look more favourably on listing, but it has also said that it is concerned that there is only one bidder left in this process, and that there is no ongoing competition. You have kind of effectively ruled everybody else out very early on in the process. Do you have any comments to make on that?

Sir Adrian Montague: I think I said, "There comes a point in time where you have to come down to a single bidder." We have so many resources dedicated to servicing KKR's due diligence requirements that the business physically could not take another one on. Chris Weston was quite clear on that when we were looking at the appraisal of the bids. I had my reservations about it at the outset, but I am sure he is right now. We have been swamped by KKR people, and that is a good sign, because it is seeking to understand the business and make sure it knows what it is stepping into, which is what you would expect any responsible equity investor to do.

Q798 **Josh Newbury:** The alternative view could be that it is trying to spot opportunities to extract as much value from the business as possible, given that it wants a quick exit. But I would like to move on, if I may, to my final question.

Sir Adrian, you mentioned KKR's existing shareholdings in Northumbrian



HOUSE OF COMMONS

Water which we understand is around 25% and it is a passive shareholding, as you mentioned, CKI, the controlling company. Do you expect that shareholding in Northumbrian Water to have any impact on Thames Water's operations, and the water sector more broadly?

Sir Adrian Montague: It is more a question of how Ofwat will regard these shareholdings. Ofwat is always keen to maintain distance between comparative shareholdings and it likes to see independent management. So with independent management there will be no impact on Thames.

Q799 **Chair:** To Josh's point about the best indicator of future behaviour being past behaviour; that is not just true of KKR, is it? It is also not true of Thames. It looks to me as if we are just going through the same cycle, but it gets worse and worse. In five years' time, this Committee and its successors will be sitting with a different dramatist personae, asking why that turn of the wheel did not work. Can you tell me I am wrong here?

Sir Adrian Montague: We believe that will not happen and that this team is setting about the rebuilding of the Thames business in a healthy way. We want to see standards of service and performance return to where they should be. That is what we are all dedicated to do.

Q800 **Chair:** The use of the word belief here is fascinating. I have had a lot of different faith influences in my life, and people will tell me they believe all sorts of things. Over the years I have learned that when somebody tells me that this is their faith or their belief, I want to look, in this context, for some evidence. And while I am delighted that you are prepared to accept KKR as born-again philanthropists, I am not seeing just an awful lot of evidence about it. The difficulty is that if your belief turns out to be wrong and the evidence is correct, then in fact the consequences for the customers get worse and worse.

Sir Adrian Montague: That is a legitimate point of view, against which I have tried to explain that it is a point of view based on experience in the private equity business rather than the infrastructure business, where modes of investment are entirely different. But you are right to say it is a belief, and you are right to challenge me on that belief.

Q801 **Chair:** The evidence is that, at the point where you could have kept live competition going, you chose not to, but to take those who now are seen as born-again philanthropists.

Sir Adrian Montague: With respect, I have tried to explain that we did not think it was a practical opportunity to keep two in the field. It is working us to the bone.

Q802 **Chair:** Do you accept that there were consequences in that it limits the choices that are available to you at this stage in proceedings?

Sir Adrian Montague: I must go back to what I said originally: there is always a point at which you have to go to one bidder.

Chair: Helena, you wanted to come in here, and then we will finish with



HOUSE OF COMMONS

Sarah and the question of staff pensions.

Q803 **Helena Dollimore:** Thames is obviously a company with a lot of issues to sort out and a lot of challenges, as we have talked about today. Sir Adrian, I wanted to ask, how often does the Board meet at present?

Sir Adrian Montague: Ordinarily in a company of this size you would expect routine board meetings six to 10 times a year. In 2023-24 we met 37 times. In the last year, if you include our restructuring committee, we met 50 times. That is evidence of how close to the action the board is: we have our fingers on the pulse, we know what is happening and we take the decisions.

Q804 **Helena Dollimore:** During your evidence this morning, the bonds on the stock market have fallen which would suggest the market does not have a huge amount of confidence in the turnaround plan and the leadership of your company.

Sir Adrian Montague: I do not think that is the conclusion you should draw. The conclusion you should draw is the market has been listening intently to what we have been saying about the need for financial reconstruction and the likely outcome for the creditors.

Q805 **Sarah Dyke:** You have previously confirmed your commitment to attracting and retaining good staff, but there has been considerable concern about the future of Thames Water staff pension, which is 12,000 members and is currently facing a £119 million deficit as at the end of March. Worryingly, in 2023 Thames Water proposed charging customers £156.6 million to address the shortfall, and Ofwat found that this lacked sufficient and convincing evidence that it is appropriate for customers to pay these costs, rightly so, and blocked Thames Water from doing so. What steps are you taking to reduce the deficit?

Chris Weston: We have agreed the valuation with both of the pension funds and we have agreed top-up amounts that are currently being made to the trustees and the pension fund.

Q806 **Sarah Dyke:** What confidence does this give potential new staff when they are looking for new roles?

Chris Weston: It should give them every confidence in that we are making those payments and we have an agreed schedule of payments that will go into those pension funds. We are about to start the triennial valuation of the pension funds. That process will then reassess, as it always does in the normal course of business, whether those top-up payments are appropriate, and Thames Water would have to agree a mechanism to make up the shortfall. Of course, the whole thing is made a little more concerning because of the current situation that Thames is in, but at the moment we have an agreement and we are making those payments.

Q807 **Sarah Dyke:** What confidence does it give your customers that the first



HOUSE OF COMMONS

place you go to is to them to make that deficit up?

Chris Weston: I am afraid I cannot comment on the instance that you refer to, but at the moment our only source of funding is customer revenue in our super senior facility, and we are using the funds that we have to make the payments that we need to into those pension schemes.

Q808 **Sarah Dyke:** Are you not aware that in 2023 Thames proposed charging customers £156.6 million to address the shortfall?

Chris Weston: I am not questioning whether you are right or wrong, I am just not aware of that, nor the details in it.

Q809 **Sarah Dyke:** There needs to be accountability there, that that decision was made and that request was made. If that is so, what confidence do customers take from that?

Chris Weston: I am not shying away from our accountability for making sure the pension funds are funded in the right way. It is a process and we have been through that and agreed a payment profile, and we are making those payments. So I am sorry, I am struggling to see what is wrong with that. We have made an agreement and we are sticking to it.

Q810 **Sarah Dyke:** For me, I wanted to get down into a little more detail about why you proposed going to your customers first to try to claw back some that deficit in 2023.

Sir Adrian Montague: I think this may have been before Chris and I arrived. I do not recognise the discussion.

Q811 **Sarah Dyke:** Okay. How confident are you that staff pensions are going to be protected in the case that Thames were to go into special administration?

Chris Weston: If it goes into special administration, there will be an impact on the pensions.

Q812 **Sarah Dyke:** What would that impact be and how will you mitigate it?

Chris Weston: What is done about that will be up to the administrator at the time, so it will not be my decision. But there will be an impact on the two different pension schemes and to different cohorts, depending on whether they are existing pensioners or are receiving or are about to receive a pension, and there will be a reduction across the board of about 10% to payments. It is not pretty.

Q813 **Sarah Dyke:** No, and the BBC reported that employees could see their future pension entitlements reduced.

Chris Weston: Yes, and that is the last thing I want to happen.

Q814 **Sarah Dyke:** On that, what discussions have you had with DEFRA and the Pensions Regulator on safeguarding staff pensions to avoid any derogatory effects on their pensions?



HOUSE OF COMMONS

Chris Weston: We have had discussions with the Pensions Regulator about the situation of agreeing the valuation and the new schedule of payments that I have already talked to you about. If we were to go into SAR, the pension funds would go into the Pension Protection Fund, and that is how it would be managed. That is a process that is outside of my hands and it would have to decide what was done about it with the administrator.

Q815 **Sarah Dyke:** Going back to my first question, just to confirm, do you think everything that you are putting in place will attract and retain good staff?

Chris Weston: I hope so. We are working very hard to attract and retain good staff. Part of that is making progress with the process that we are going through of recapitalising the balance sheet and bringing in the new shareholder, and in constructing a transformation, a turnaround plan that improves the operation. So I would like to think all that we are doing allows us to continue to attract and retain good people.

Chair: Josh, you wanted to come in?

Q816 **Josh Newbury:** Yes, thank you, Chair. Just finally, Chris, you have painted a very concerning picture. This clearly is not a pension scheme that is in good health. It is not unique there, but it is obviously very concerning to staff. I asked earlier about staff headcount, pay, terms and conditions, but can you assure your staff, past, current and future, that you will do everything that you can, as CEO, to maintain pension benefits as they are now?

Chris Weston: Yes, I will. I will do all that I can.

Q817 **Josh Newbury:** Again, through the potential change of ownership, the concerns that we have expressed about KKR's ownership, will you make the case to it?

Chris Weston: Yes, I will.

Josh Newbury: To ensure that pensions are as they are now?

Chris Weston: Yes. It is in everyone's interest that we do exactly that.

Josh Newbury: Okay, thank you.

Chair: Okay, we are out of time; we are just a little over the allotted session time, so I am going to conclude proceedings at this stage. As you indicated earlier in your evidence, Sir John Cunliffe has been charged by the Government with coming up with proposals for reforming the sector. It is our intention that the evidence we have had from you and others will be our submission to that. It is for Sir John to come up with solutions about how to fix this.

The Committee has determined its wish to lay bare the difficulties currently faced by the industry and it is fair to say that, in the last two



HOUSE OF COMMONS

hours and however many minutes, we have added some more insight to that. We are grateful to you for your attendance and for your evidence. The Committee will publish its determination at a later date, but for today, we conclude the proceedings.