

Environment, Food and Rural Affairs Committee

Oral evidence: Reforming the water sector, HC 588

Tuesday 15 July 2025

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Watch the meeting

Members present: Alistair Carmichael (Chair); Sarah Bool; Charlie Dewhurst; Helena Dollimore; Sarah Dyke; Jayne Kirkham; Josh Newbury; Andrew Pakes; Jenny Riddell-Carpenter; Henry Tufnell.

Environmental Audit Committee member present: Barry Gardiner.

Questions 898 - 1146

Witnesses

[I](#): Chris Weston, CEO, Thames Water; Sir Adrian Montague CBE, Chair, Thames Water; Ian Pearson, Chair, Remuneration Committee, Thames Water.

Examination of witnesses

Witnesses: Chris Weston, Sir Adrian Montague, Ian Pearson.

Q898 **Chair:** Good morning everyone, and welcome to this session of the Environment, Food and Rural Affairs Committee. We return today to our ongoing thematic inquiry into the reforming of the water sector. We are joined again today by representatives from Thames Water. Welcome, gentlemen. For the benefit of those following our proceedings and for our own official record, please can I invite you to identify yourselves and your roles?

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

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

Ian Pearson: I am an independent non-executive director and chairman of the remuneration committee.

Q899 **Chair:** Welcome to the Committee. It is not that long, of course, since we had Chris and Sir Adrian with us. I thought that just before we come to the detailed questioning, it might be helpful for everyone to understand the purpose of what is quite an extraordinary session. We have taken evidence from no fewer than 10 water companies. Thames is the only company that we have felt it necessary to recall in this way. Initially, this



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was as a consequence of Sir Adrian writing to us indicating that last time around he had misspoken putting inaccurate, and in fact probably misleading, information in front of the Committee, which came to light, we understand, as a result of an inquiry from *The Guardian* newspaper.

Since then though, you have provided significant amounts of information, which, candidly, I am inclined to think we could have had earlier if there had been a proper commitment to transparency from the company. We have requested board minutes regarding the KKR bid, which we have still not received. There now appears to be a bit of dubiety around the actual figure spent on legal fees. It took us until 5.20 pm yesterday to receive from you a list of, as you term them, senior creditors. We note, and we may turn to this this morning in so far as we are able to, that you filed your report today with Ofwat. This is the last possible day for that to be done.

Candidly, it feels to me, and I know that some colleagues share this view, that there has been quite a bit of game-playing going on here. I have to say, looking at the whole evidence that we now have available to us, it is certainly not clear to me just in whose interests you are all working. The purpose, I hope, is that by the end of today's session we shall expect to have clarity on all the outstanding matters. If we do not have that clarity, then we reserve the right to return to it. As I have explained to you previously, as a Committee of the House of Commons we have formal powers which we have not yet invoked, but we may do so if that is necessary. Chris, as the chief executive, the culture of the company comes right from the top.

Chris Weston: It does.

Q900 **Chair:** Why is transparency so difficult for Thames Water?

Sir Adrian Montague: Could I just interject, Chair?

Chair: Please do.

Sir Adrian Montague: I would like to make an apology. As you said yourself, it is rare for a water company, or any company, to be recalled to the Committee. We regret that we have made that necessary. We have tried to be as forthcoming as we can with our disclosures. We will no doubt go into some of the reasons behind the actions we have taken, but I just wanted to say before we start that you are all busy people, and I am sorry that we are taking up your time again.

Q901 **Chair:** We accept the apology, but I do not think we are yet in a position where we are prepared to take things on trust from Thames. Hopefully by the time we get to lunch today, we will be in that place, but let us just see how it goes. Chris, transparency?

Chris Weston: Transparency is absolutely something that comes from the top. I recognise I am the leader of the organisation, and I set the tone from the top. I am very clear in both my actions and the direction that I give to the company that transparency is absolutely essential and



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that in many instances, Thames is at the forefront of transparency. We were the first water company to publish all our overflows online so everyone could see them. I am very keen that we continue to make sure everything we do is transparent.

Q902 Chair: It is not a particularly happy story this morning on overflows, is it? Your report indicates that you had too much rain leading to overflows a week before you put us all into a hosepipe ban.

Chris Weston: I know and I am sorry about that, but I am afraid that the weather is a reason, not an excuse. Last winter, before we came into this spring, we had the second wettest winter on record. There were some months, such as last September, when the rainfall was more than double the normal monthly rainfall. Our system, I am afraid, was never intended to deal with that. We are taking huge steps to improve our position around pollutions. We are cleaning the network more than we ever have and we are investing more than we ever have in our sewage treatment works, but it is going to take a while. The work that KKR has done backs up the view that to turn around and transform this company is going to take between five and 10 years, maybe a bit more.

Q903 Chair: To go back to the position in May, we discussed your decision to proceed with KKR as a sole bidder. KKR has since left the playing field at the beginning of June, and you now have an even shorter time frame. How do you feel now about the decision that you made to proceed with KKR as a sole bidder?

Sir Adrian Montague: Perhaps I should take that. First, if I may, I will explain how we have managed the process of looking at bids.

Chair: If you can keep it a tight explanation, please.

Sir Adrian Montague: As is common in takeover situations, we created a special committee of the board. It has the unlovely acronym of ERSCO: the equity raise sub-committee. It was this committee that reviewed all the bids. At an earlier stage, long before KKR's withdrawal, we looked at all the propositions that were on the table. We felt that KKR's was by far the strongest. There were significant difficulties with all the others, so we decided to go with KKR. It is fair to say that we did that in the face of some unhappiness on the part of Ofwat. Ofwat was not happy that we were going to a single bidder as quickly as possible.

Q904 Chair: Not just Ofwat; CKI, one of the bodies that you kicked out, felt that it was badly misrepresented and treated.

Sir Adrian Montague: I do not think CKI has been misrepresented, and I do not think it was badly treated.

Chair: It was not happy either.

Sir Adrian Montague: That may be true, but we went to KKR because it had by far the strongest bid and because it said that it wished to proceed



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on the basis that it was the sole preferred bidder. I know you have written to KKR. I do not know whether you had a reply, but it will account for that in its own words. We felt that, in view of the fact that KKR was the strongest bidder, it was right to proceed in that way.

Q905 **Chair:** Now KKR has gone, how do you view the position?

Sir Adrian Montague: We are actually in a reasonably strong position.

Q906 **Chair:** Let us just get this right. You had two bids. You took the more expensive one at the expense of the cheaper one. The more expensive one has gone and now you are left with a more expensive option still, and that puts you in a stronger position?

Sir Adrian Montague: We had a number of bids from industry players, including KKR and CKI, which totalled five or six bids, and then we always had the creditors providing competition to those bidders. The creditors are still advancing; they are in good shape. The proposition has been strengthened because KKR has shared its information with us and the creditors. We believe that the bid coming from creditors is technically very strong and they are exploring that with Ofwat. We hope that they will reach a conclusion with Ofwat very soon. It will then be necessary to put that into a financial construct of how we reconstruct the capital of the company, but we are in reasonable shape.

Ian Pearson: As a member of the equity raise sub-committee, I would just like to make the point that it really was a very clear distance between KKR and the second and third, and it was made very clear to us that KKR would not proceed any further unless it proceeded on an exclusive basis. Frankly, we decided as a committee that although we wanted to maintain competitive tension, actually taking through the second and third bidders when they were so distant would not have been in the best interests of the company. We knew that we had a creditor-led proposal as well to keep the competitive tension that was required in the process.

Q907 **Chair:** Just to be clear, CKI did then want to come back in, but you deemed that to be unprogressable. Is that right?

Ian Pearson: The situation was basically that KKR said it would only—

Q908 **Chair:** CKI is not a fly-by-night organisation; it is one of the world's biggest infrastructure companies and you are saying that it came up with something that was unprogressable.

Ian Pearson: CKI came up with a bid that was not as good as the KKR bid by quite a long way. Then KKR demanded exclusivity if it was going to go further with the bid. Ofwat would have liked us to carry on with KKR and CKI; we would have liked that as well, but the simple fact was it was not possible because KKR would not proceed on that basis.

Q909 **Chair:** So KKR said jump, and you just said, how high?



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Ian Pearson: No, we had to make a choice: do we rule out KKR and proceed with bids that are demonstrably inferior and therefore not likely to be in the best interest of the company, or do we agree to the exclusivity and proceed with KKR?

Q910 **Chair:** We have asked you for the board minutes in relation to this, and so far they have not been provided. So effectively, you are asking us to take this on trust from you. You will understand the reasons why we are reluctant to do so. Ian, do you want to tell us what it was that was so strong about the KKR bid, which surely makes it all the more inexplicable that it would have walked away?

Ian Pearson: KKR produced a very strong, detailed proposal. The economics of it were more compelling to the board and certainly to the ERSCO. In the fullness of time, when we are not in the middle of a live transaction, I am sure that we would be very happy to provide further information. When we looked at the detail of the proposals that were produced by the bidders, there was very clearly only one winner.

Q911 **Chair:** You have lost your competitive tension now. KKR has gone. The preferred creditors—the class A bondholders—are the only show in town now. They know everything and everybody else knows everything so where is the problem with releasing the information? Who loses?

Sir Adrian Montague: Can I try to explain? There are essentially—

Q912 **Chair:** Sir Adrian, perhaps you might also come back to the question I put to Mr Pearson which was what was so strong about the KKR bid? So far, we have only heard that it looked good and was detailed.

Sir Adrian Montague: No, it was better than that. As is usual in these circumstances, when you appoint a preferred bidder, there follows a period of due diligence which allows the bidder to make its propositions more concrete and produce a final offer. There was 10 weeks of due diligence. KKR deployed an extraordinary number of resources; there were times when we had more than 100 people in our data room. KKR learned everything there was to learn about the business and produced a plan which, in the words of one of our commentators, was “world-class.” It understood the problems of the company and what needed to be done to resolve them. That is why its bid was exceptional. When it withdrew, although we were not given many reasons, it was confirmed to us that KKR saw no financial or operational reason why it should not have been able to continue. You have asked KKR yourselves, according to the letter that you published, to give its own account of the reasons for withdrawing. I would not want to take words out of its mouth, but there was something in there about the level of expectation and its worries as to whether it would be able to meet those expectations in time. All we were told on that fateful evening of 2 June was that it was not in a position to proceed, which is where it stands.

Q913 **Chair:** There have been other offers and notifications of entries. Who makes the decisions in relation to the various bidders? Is it the board?



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Sir Adrian Montague: Ultimately it is the board; but as I said, we have established this equity raise sub-committee of the board. We did that to erect a ring of secrecy around these propositions because they have commercial information of great value to all the competitors.

Q914 **Chair:** Who are the people on that board? We have heard you are a member and Mr Pearson is a member.

Sir Adrian Montague: Mr Land, who is the senior independent director, is a member; Ms Lynn is a member; there are three observers, two of whom—Mr de Brunner and Mr Robson—are experts on restructuring; and Chris Weston is invited from time to time. The proposition here is that this is a matter for the non-executive contingent of the board, but management is affected by these propositions so Chris attends when we invite him.

Ian Pearson: Of course, we have our professional advisers who attend these meetings as well; they advise us on the bids and their views on the economics of them.

Q915 **Chair:** Which organisations do the various participants represent then?

Sir Adrian Montague: I am sorry, could you repeat that?

Q916 **Chair:** Who is behind this?

Sir Adrian Montague: Behind the committee?

Chair: Yes.

Sir Adrian Montague: It is the board that takes all the ultimate decisions.

Q917 **Chair:** We have made the formal request for the board minutes in relation to this. Later, as a Committee we will discuss what view and further steps we wish to take. To be clear, in the event that we invoke the formal powers that Parliament has given us, not providing these minutes will be a contempt of Parliament. Is that understood?

Sir Adrian Montague: We understand and respect the Committee's powers. However perhaps I will take an instant though to reiterate why we think it is inappropriate at this juncture to give these minutes. First, they contain confidential information concerning all the bidders and their bids and we are subject to confidentiality undertakings with regard to that information. Secondly, we are also subject to market abuse regulations, which control the dissemination of material non-public information. Those are formal constraints. The most important point is the one that Ofwat has referred to in its letter: these are discussions at a very sensitive stage. There will come a time when all these things are subject to review. Once we have a complete deal, we have to secure the court's approval of it of course, but at the moment there is lots of ebb and flow, and it will be really counterproductive to release these



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documents. We hope that the Committee will understand and respect our position.

Q918 **Chair:** If that is the case, what was the purpose in you offering me, as Chair of the Committee, a private briefing? What were you going to tell me? Let me just be quite clear: there are no circumstances in which I, as Chair of this Committee, will take a briefing in private or that does not include the other members of this Committee. I am the Chair, but we are all equal. You will be familiar with the expression *primus inter pares*. That is my role here. So what were you going to tell me in private?

Sir Adrian Montague: I was going to tell you information that I thought you would share with the Committee. I am not seeking to marginalise the Committee in any respect, but I thought that it would be easier for us to have a more detailed discussion away from cameras and the public forum.

Q919 **Chair:** I am afraid that sounds like a bit more game-playing to my mind.

Sir Adrian Montague: I am sorry.

Chair: However, we have a lot to get through. I am going to invite Charlie to lead us in the questioning of the collapse of the KKR bid.

Q920 **Charlie Dewhirst:** Sir Adrian, you just implied to the Chair that you were given no explanation as to why KKR withdrew the deal. There was obviously plenty of speculation at the time, spooked by Government rhetoric and concerned about Thames assets being worse than they first thought them to be. Are we seriously expected to believe that you were given no explanation other than that it was withdrawing the bid?

Sir Adrian Montague: Yes, I am afraid that is exactly what happened.

Q921 **Charlie Dewhirst:** Did KKR submit a bid to Ofwat on 30 May?

Sir Adrian Montague: We had the best part of 1,000 pages from KKR and we had the best part of 1,000 pages from the creditor. It is a very substantial piece of work. It submitted a turnaround plan which looked at the commercial and operating characteristics of what it was trying to achieve. What was not submitted was the financial elements of the bid. It said it could not do that because it had not achieved the full endorsement of its investment committee.

Q922 **Charlie Dewhirst:** So in those 48 hours, it decided to pull the bid having submitted most of it?

Sir Adrian Montague: Having submitted all but the financial details.

Q923 **Charlie Dewhirst:** There was nothing else that happened in that period of time that would have triggered it?

Sir Adrian Montague: You must ask KKR that. I do not believe there was.



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Q924 **Charlie Dewhirst:** On the day that it pulled out, the class A creditors had a rival bid ready to go; an oven-ready deal if you like. Somewhat fortuitous, would you not say?

Sir Adrian Montague: No, the creditors had always been there. Perhaps we need to go back and think about the creditors' position. They are secured lenders to the company. The company is in default, and we are kept alive by the creditors drip-feeding liquidity into the company. They have a great deal of contractual control over what happens at the company. They do not take the decisions; the board takes the decisions, but they do have a great deal of control. They saw it as helpful and relevant to their position to create an alternative proposition. That is what happened. At that stage, I do not think it was, if you like, oven-ready in the way that KKR's bid was oven-ready, but it was very advanced.

Q925 **Charlie Dewhirst:** Is there not some sort of conflict here where you have a KKR bid on the table, and yet the people who are ultimately making this decision are also waiting in the wings to pounce?

Sir Adrian Montague: As I said, the people who make the decision are the board. The creditors, as we discussed with the High Court in the first restructuring plan, are essentially the economic owners of the business. They are not the shareholders or the directors. It is the board that takes these decisions.

Q926 **Charlie Dewhirst:** You can understand that from the outside looking in it seems to be a conflict.

Sir Adrian Montague: I do not think it is a conflict. There are multiple interests and that is what happens when you get into one of these restructurings because the creditors are sort of in transit. They know that when it comes to the restructuring plan there are going to be huge write-offs. I think they have quoted a figure of £10 billion or so, which is an enormous loss for institutions that represent savers. We must not forget that all this money is actually savers' money; it is a desperate situation for the savers. They are also going to be the people who emerge as the future owners of the company. So there is a transition, if you like, which is a better word than a conflict.

Q927 **Charlie Dewhirst:** Mr Weston, as the chief executive, do you have a view on the creditors?

Chris Weston: They started work quite a long time ago and have supported the company for the last year or so. They have been providing financing to the company, which has allowed us to carry on investing to meet our legal, environmental, and regulatory obligations. As Sir Adrian said, they have pulled together a comprehensive plan, demonstrated their support and understanding for the company, and put forward a detailed proposal to both the company and Ofwat. So I am entirely comfortable with the operational plan that I am seeing from them: it



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makes an awful lot of sense, and it addresses what needs to be addressed in Thames to turn the company around.

Q928 **Henry Tufnell:** Can I just come back to the point about the minutes in terms of releasing them to the Committee? Is it the case that what is going on here is that you are refusing to release the minutes because they demonstrate that there is a plan that the class A creditors have a preferential first dibs on Thames Water?

Sir Adrian Montague: I do not think that is the case at all—

Q929 **Henry Tufnell:** And the way that you have set up this bidding process means that they effectively get preferential treatment?

Sir Adrian Montague: Can I tell you the history of the bidding process because this is quite important in terms of context? It started last summer. On our behalf, Rothschild talked to more than 50 institutions around the world because it thought this was an unusual opportunity for brave bidders. You have to be a brave bidder to come to Thames, but it is an unusual opportunity. In December, we had five responses, and in February, we had a sixth. That was the limit of the responses we had from the market, but all those responses were taken forward and adjudicated. We concluded that KKR was the best. KKR was also acceptable to the creditors so had KKR taken this all the way, we would have found ourselves with KKR as a major shareholder and the creditors as a result of a debt-for-equity swap—

Q930 **Henry Tufnell:** Why are you not being transparent about that process? That is the key thing here, is it not? Ultimately, we are sitting here responsible for taxpayers' money, and we are responsible for customers in respect of Thames Water. We sit here to represent our constituents. The onus is effectively that your buck stops with the creditors. Effectively, the argument is that you have created this situation whereby the creditors win at any price, and you are not willing to share any documentation as to the nature of the process that you have gone into in respect of the KKR bid that has collapsed.

Sir Adrian Montague: We would say that our responsibilities are first and foremost to the customers and the environment. Creditors are obviously in that rank of people for whom we have responsibility, but we are also trying to save this company. We may come back to special administration in due course. I joined this company two years ago in the wake of the resignation of the chairman and chief executive. We had a crisis then and have been living in crisis mode ever since, but we are trying to refinance this company and preserve it from a special administration, which would be very bad for everybody. Perhaps we will come back to that.

Chris Weston: Can I just add to that? Part of what we have to do to turn the company around and transform it is to restructure the balance sheet and reduce the gearing and the level of debt that is carried by the company. There is a formal process that we are following. We have had



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one restructuring plan, which was overseen by the courts, and we will need to have another restructuring plan overseen by the courts to restructure the balance sheet. However, to do that, 75% of the creditors must agree to the restructuring. They have to have a role in what we are doing to turn around the whole company and get it back on to a firmer financial foundation so we can then go on and turn around the operations.

Q931 **Helena Dollimore:** I just want to come back to the collapse of the KKR bid. Adrian, what day did you become aware that it was pulling out?

Sir Adrian Montague: In the late afternoon on 29 June.¹

Q932 **Helena Dollimore:** Friday?

Sir Adrian Montague: Thursday evening.

Q933 **Helena Dollimore:** Thursday evening. Was that a phone call?

Sir Adrian Montague: I had a phone call from Rothschild, our financial advisers.

Q934 **Helena Dollimore:** It was a bid that you had moved heaven and earth to pave the way for, so how did you feel in that moment? You had let it proceed on an exclusive basis, and you have found yourself in an extremely uncomfortable position in front of this Committee. How did you feel when KKR pulled out?

Sir Adrian Montague: It was clearly a great disappointment, but these things happen in life. No bid is sure until you have signed on the dotted line. This is a situation which has enormous challenges.

Q935 **Helena Dollimore:** You feel no angst towards the company?

Sir Adrian Montague: Of course not.

Q936 **Helena Dollimore:** What do you judge of its assessment? KKR's official reasoning that it gave us is that it was worried about the political landscape in which it was entering in terms of Thames Water, but nothing has really changed in the political landscape between the general election last July and KKR pulling out. The Water (Special Measures) Bill is already on the statute books and the Government made clear commitments in their manifesto. It does not really stack up, does it?

Sir Adrian Montague: You will have to ask KKR these questions, not me. I can tell you that all we were told on that evening of 29 May was that KKR had not been able to achieve the approval of its investment committee and therefore was unable to proceed. No more colour was provided to us. You may have been provided with more colour than we had, but I do not know that for certain.

Q937 **Chair:** Can I just check I heard you correctly there? Did you say, "Our

¹ Sir Adrian clarifies at Q936 below that the date was 29 May.



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responsibilities to the environment”? I ask because one of the companies listed in the letter that you sent us yesterday at 5.20 pm is Elliott Management, which bought over BP and made it move out of renewables. Are you optimistic that it is going to treat Thames differently?

Sir Adrian Montague: There is a huge difference between what Elliott did in relation to BP, where I am unaware of the circumstances.

Q938 **Chair:** Have you explored this with Elliott?

Sir Adrian Montague: No; we are unaware of the circumstances. Thames has defined environmental obligations, but we are struggling to fulfil them. One of the purposes of the turnaround plan is to put us in a better shape to fulfil them.

Q939 **Chair:** It is widely reported that the class A creditors—senior creditors—will expect to be released from fines and environmental obligations if they are successful.

Sir Adrian Montague: That is what has been reported. I believe that the discussions they are having with Ofwat, which we are party to but not an integral part of, are aimed at trying to identify how we can reprofile expenditure in order to move back to compliance as quickly as possible.

Q940 **Chair:** I have one final question before I bring in colleagues again. Ultimate controller is a term of art used by Ofwat. Who is the ultimate controller of Thames Water today?

Sir Adrian Montague: The ultimate controller, bizarrely, is still the original shareholders.

Q941 **Chair:** Who are no longer part of the picture?

Sir Adrian Montague: They are not taking any active part, but they still own the shares in Kemble Water Finance Limited. Those shares are now under the management of Kemble’s lenders.

Q942 **Chair:** You have no ultimate controller?

Sir Adrian Montague: We have an ultimate controller, but it is not very active. There is an ultimate controller.

Q943 **Chair:** It is not that they are not very active; they do not exist anymore. I can do the whole Monty Python dead parrots sketch for you if you want, but that is a controller that has ceased to be.

Sir Adrian Montague: I accept that. We have no day-to-day contact with them. We have intermittent contact with them, but no day-to-day contact.

Q944 **Andrew Pakes:** I want to follow up on Helena’s point about this now infamous telephone call. So you received this call, and you put it down. Your answer seems to be that you felt no emotion or rancour; you simply put the phone down as though someone was telling you they are coming to clean your windows at 10 am as opposed to 9 am. It was a simple



oops moment in life. Are you seriously expecting us to believe that as a board, you have had no conversation about what KKR's reasons were? You can keep telling us we should ask KKR, and we can, but you are the senior leadership of a major organisation which in your own words is in crisis. Are you seriously telling us you have not had a conversation or done any impact assessment or assessment from your own viewpoint? My question is, in your words, what do you think went wrong?

Sir Adrian Montague: KKR failed to get its investment committee approval because it was concerned that public expectations of what it would achieve would not be matched by what was possible in a reasonable timeframe, so it withdrew. There has been press speculation that attributes different reasons to that. I know nothing about that. I have not had that direct conversation with KKR. I had that telephone call on the Thursday evening, and it was a disappointment. I have had a long professional career with lots of disappointments, and you do not get emotional about it. You try to take it as a fact; I took it as a fact.

Chris Weston: It did not make any difference to the day-to-day running of the company. People were still focused on their day-to-day jobs, which is absolutely what I wanted. We have since then been through the due diligence reports that were produced and provided by KKR, and we have distilled those down to areas that we think we can further improve the performance of the company. We are now building that into the plans and operations of the company.

Q945 **Andrew Pakes:** Do you think the public might find the responses here quite strange? Whenever we discuss bonuses or discuss decisions that the public may find strange or customers may find strange, you all turn into Sir Humphrey and talk as though you are passengers in this whole decision-making process. I find it extraordinary that you do not have any sense of urgency about solving this crisis.

Sir Adrian Montague: Urgency? Let me take you through what has been happening. Ever since I arrived, this company has been in crisis. We have had an abortive engagement with the original shareholders providing equity. We have had the draft determination and the final determination. We have had interaction with the debt markets and the creditor markets. We are thinking about a reference to the CMA. The pressure that the team is under is huge. Actually, there is no room for emotion. You put your head down and you get on with the job; that is what happens when you have a disappointment like KKR. You cannot wring your hands because you just have to move on.

Q946 **Sarah Bool:** I just wanted to clarify some timings because when Charlie asked earlier on, you said that KKR submitted its bid to Ofwat on 30 May, but you also said that you were aware of KKR potentially drawing out on 29 May, and then not getting the financing. Can you clarify that?

Sir Adrian Montague: I know that I had a call on the late afternoon of the 29th. I am not sure I can say from my personal knowledge when that



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bid was submitted. It was due to be submitted on the 30th. It may have been submitted on the 29th. I am not precisely aware of that timing.

Q947 **Sarah Bool:** But either way, you were aware of KKR pulling out, but simultaneously, it put a bid in, we think.

Sir Adrian Montague: I was aware that it had not been able to get its final investment committee sign-off. There was a lot of interaction over the weekend to try to persuade it to continue, and it finally withdrew later on Monday evening.

Q948 **Sarah Bool:** Okay. Just very quickly on that point: obviously as part of the due diligence, KKR would have been asking Thames Water a lot of questions to seek that comfort. Clearly, you could not give KKR the comfort to be able to get that financial investment sign-off. Obviously I understand about the banks. Chris, I know you said that you are working on this now, but what more can you give to investors?

Sir Adrian Montague: I wonder if Chris can describe the interactions we had with KKR leading up to its final decisions because they were intense and long-lasting.

Chris Weston: We had a 10-week due diligence with KKR which was extremely extensive and intrusive and took a huge amount of time. There were hundreds of questions going into a lot of detail about the data that the company operates on. It was very intense. From that, KKR got all the information it needed to understand the assets and operations of the company and when it pulled out said there was nothing that was found that it did not think was fixable or untoward. As a company, we came through the due diligence showing that our operations are in relatively good shape.

Sarah Bool: I will leave it there because I will come back to that a bit later.

Chair: Barry, you are going to ask about the financial timeline.

Q949 **Barry Gardiner:** Picking up on the business with KKR, does the fact that you were surprised on 29 May indicate that you did not sufficiently question the level of approval that KKR had received from its investment committee? Was it not a fault on your part that it was able to pull out at supposedly the last minute?

Sir Adrian Montague: No, I do not believe so. The usual process that investors such as KKR follow is that they have a preliminary investment approval that allows them to engage, conduct this due diligence process, and produce the very detailed pack they would need to secure their final approval. This final approval was shared between Europe and the United States, making it a complicated process; however, we had provided all the information needed. As Chris said, we had been told that there was no operational or financial reason why it could not pursue this.



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Q950 **Barry Gardiner:** But it did not, which means that its investment committee refused to sign it off for another reason. We are told that this was because of the politics surrounding this, and presumably the fact that the week before the fines had been announced and there was a glare of publicity. That suggests that you had not dug sufficiently into the approvals that were received from the investment committee, but let me go on.

You released your financial results to March 2025 today. You have a pre-tax loss of £1.776 billion. The liquidity is precarious, with £0.2 billion of cash and the £1.5 billion senior loan facility undrawn in March, but that requires credit waivers because of the court sanction and the appeal. So your liquidity is really pretty precarious. How is that compromising your ability to operate at an environmentally sensitive and acceptable level? What percentage of the investment required by Ofwat under PR24 have you actually managed to deliver, Mr Weston?

Chris Weston: It is not compromising our ability to invest in our assets on a day-to-day basis or our ability to plan and start projects that we have to deliver over the next five years.

Q951 **Barry Gardiner:** What percentage of investment required by Ofwat have you so far managed to deliver?

Chris Weston: It will be a very small percentage. I do not know the exact number. We have invested probably £300 million or £400 million so far this year, maybe a bit more, out of what needs to be invested over the next five years, which is about £22 billion. We are ramping up to do that, and it is quite normal at this stage in this regulatory period that the investment number and percentage will be very low.

Q952 **Barry Gardiner:** So at the moment you are not keeping pace with PR24 and Ofwat's requirements?

Chris Weston: I would not agree with that.

Q953 **Barry Gardiner:** You would not agree with that? Okay. Originally, you said you were targeting the new equity investment injection to be delivered immediately after the announcement of the final determination of PR24, then it was after the court hearing on the restructuring plan, and then it was at the end of June. Here we are in July now and there is still no sign of a viable investment plan. It is the customers who are suffering from a failing service. Why have you got it so wrong for so long?

Chris Weston: I do not know that we have it wrong. The company continues—

Q954 **Barry Gardiner:** You made statements to this Committee and publicly that these would be the points at which the investment plan would come into effect. All your statements so far seem to have been wrong because it has not come into effect. You are now extending it to the end of the year by saying that it might be in place by that period. What you have said so far has been wrong, so I suppose I am asking why this Committee



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should have any faith that by the end of the year, it will be possible to do what has so far been impossible to do?

Chris Weston: First, the operations of the company continue as normal providing the service that we provide, and we continue to invest, which is a very important starting point. Beyond that, when you look at the recapitalisation of the balance sheet, we absolutely had to have an FD, which landed on 19 December last year, because it created certainty for potential investors around their investment in Thames Water. At the same time as we were running that equity process, we also had to run a restructuring process overseen by the courts that extended our liquidity and allowed us to bring in a super-senior facility that created a firmer financial foundation to give us liquidity if we draw on the first £1.5 billion to the end of this year, which is December.

I can talk about how we are drawing on that facility, but that foundation then allows a potential equity partner—we have already discussed KKR—or the creditors to come up with a creditor-led plan. They have been through due diligence to pull together that operational plan and are discussing with Ofwat the regulatory support required to make Thames investable and turn it around.

Q955 **Barry Gardiner:** You know full well that the initial negotiation of that £3 billion was that it would come in two tranches. You were expecting to draw down the second £1.5 billion in June which was last month, but you have now said that the first tranche can actually last you until December. Why were those calculations so far out? Did the creditors create an artificial deadline for the second tranche in order to create a sense of urgency for a takeover proposal?

Chris Weston: They have certainly pushed all parties to create a sense of urgency to try to reach an agreement, which was what the June release was all about.

Q956 **Barry Gardiner:** My question is, was it an artificial deadline?

Chris Weston: No, it is not an artificially generated deadline: it is driven by the financing that they have put in place.

Q957 **Barry Gardiner:** So were you telling the truth to this Committee when you said that you expected to draw down the second tranche of that loan facility in June?

Chris Weston: That was the best information we had at the time, yes.

Q958 **Barry Gardiner:** It was wrong.

Chris Weston: It is not always easy to precisely forecast cash flows.

Q959 **Barry Gardiner:** It might be if, as you say, the business has not suffered any interruption of its normal process business. You have been able, according to you, to meet the Ofwat requirements of PR24 and continue that investment programme in the normal way. So actually, given that



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you said everything is tickety-boo, you have had no unseen events that would have made those projections of drawing down the £1.5 billion out of sync, but it is out of sync, so why?

Chris Weston: I do not want to give the impression everything is tickety-boo. The company is extremely stressed and is within very difficult circumstances. I have said in the past to the Committee that our finance function was not the most efficient or proficient, which left us wanting in some areas. I admit that our understanding of cash flows was not what it needed to be. I am relieved that the financing we put in place is lasting longer than we expected because we are spending it as we need to spend it and are probably a bit more efficient than we thought. Unfortunately, our headcount is a little lower than we want it to be, but that all leads to the uncertainty of the reality of running a company and predicting what cash flows look like.

Q960 **Barry Gardiner:** Adrian, the fact is that you are no longer in control of the process. You have ceded that control to your super-senior creditors. The equity injection is now in the hands of the bondholders. Let us examine those bondholders: what experience do they have of turning around the performance of a utility company? You are a year behind on AMP7 and are presumably incurring penalties on AMP8. Your lead investor appears to be Silver Point Capital which is a short-term debt investor trying to salvage its decision to buy Thames bonds but has no operational management expertise and no commitment to stay for however long it takes to turn the company around.

Chair: We are going to come to some of this later, so could you maybe be concise?

Barry Gardiner: Should we actually be talking to Tim Lavelle at Silver Point rather than you?

Sir Adrian Montague: I am sure he would be delighted to come and account for himself. The senior creditors are over 100 in number. Many of them are household names. They are insurance companies, pension funds, and banks, and there are special situation investors such as the ones that you have just referred to. There is a mass of creditors that have an interest in seeing Thames Water recover and survive. The majority of those investors are unrestricted. They can trade their bonds because they are not party to any inside information. There is a group of them that we identified in the note I sent to the Chairman last night.

Incidentally, it is worth saying that the only reason that note was late was that each of the investors had to go through a clearance procedure before it was willing to have its name advertised to the Committee. We had hoped to do it on Friday. They have brought together this representative group of institutions, which are the people with whom we interface in financial discussions regarding the future of the company. They are represented by advisers, and day-to-day we work with the advisers rather than with this group of 15 institutions.



Q961 **Barry Gardiner:** That is fascinating, but it is not really an answer to my question. You said that KKR felt that it could not deliver what the public's expectations were in a reasonable turnaround time. Yet you have told this Committee that KKR's bid was a world-class bid with the expertise to do just that. You now seem to be favouring a bid which is with companies such as the Chair has outlined, and Silver Point, that have no operational experience whatsoever, but are known to operate in the credit markets in such a way that they buy up, take a haircut, and walk away with the killing.

Chair: Barry, can we keep this tight because we are straying into stuff that we are going to come to later, given the chance?

Barry Gardiner: Are they going to do it if KKR could not?

Sir Adrian Montague: KKR could and would have done, but for its inability to achieve the approval of the investment committee. We have talked a little about what I understand the reasons were but—

Q962 **Barry Gardiner:** It said it could not be delivered in a reasonable timeframe and what they believe the public expectation was. So my question to you is, how is it that you believe that this group with no operational expertise can?

Sir Adrian Montague: I must take issue with you on the fact that they have no operational expertise. These are perhaps not the secondary debt traders, but you have many very respected investors in infrastructure among these creditors. You can shake your head at me, Mr Gardiner, but it is none the less true.

Chris Weston: The creditors' estimate for the time it will take to turn the company around is 10 to 15 years, which is similar to KKR's timeframe.

Chair: I am going to move on. Sarah?

Q963 **Sarah Bool:** Just to be clear, in the vein of transparency, I want to look again at these other bidders' offers. Obviously, you say that the proposals from KKR and Castle Water were not progressable, but I want to understand what it was that was not progressable.

Sir Adrian Montague: The way to answer that is just to take you through the sort of decision matrix that we have. We are essentially looking for four things. First, a detailed operational plan based on a thorough due diligence process, which involves really getting to know the company, understanding the difficulties the company is going through, and identifying a way through it.

Secondly, this company needs equity desperately badly, so a bidder must provide the right sort of equity. We have a long period before all this takes root, so we need an interim financing plan. At the moment, we are living off the super-senior funding that the senior creditors put in place.



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Thirdly, we need an overall plan to get the company back to investment grade. At the moment, we are living on emergency facilities provided by the creditors. A long time ago, before Thames went into these difficulties, it was a highly regarded and sought-after issue of debt in capital markets. That was reflected in strong investment-grade ratings. We have lost those investment-grade ratings because of all the difficulties. We need to regain them and get back into the long-term debt markets.

Finally, we have to have the support of the regulators and all our stakeholders. Those are the criteria that we have used to assess these bids.

Q964 **Sarah Bool:** Where did those mainly fail? Which of those issues were the problem because I am sure the regulators might have been on side. I understand the future investment. Where was the weakness on the others? If KKR could, why could others not?

Ian Pearson: I am sure we could have progressed CKI as a bidder. As Mr Carmichael rightly said, CKI is a very well-recognised and reputable operator.

Q965 **Chair:** There are other reasons why we might not want to, but what was it on the faces of the bid?

Ian Pearson: On the basis of the bid, the fact was that KKR's bid was superior and it wanted exclusivity. So it was not possible to progress CKR's bid any further whilst still—

Q966 **Sarah Bool:** I appreciate that because I completely understand that need for exclusivity and that that is what KKR would want. They want that 10-week period; it is quite common in legal transactions. I have seen that before. What I do not quite understand is once that period ended, why did you not just reopen it and give the other companies the opportunity to at least improve their bid?

Sir Adrian Montague: We had contact with three bidders, two existing bidders and one new bidder. The existing bidders that were part of the adjudication we carried out in March were Castle Water and CKI. The difficulty is capturing these assessments in a couple of sentences. In CKI's case, it had not done a great amount of detailed due diligence. It is quite true that it is a recognised infrastructure investor in the UK. Indeed, it has an investment in another water company; it knows the sector, but it had not been through a detailed due diligence phase.

Q967 **Sarah Bool:** Is that because they were not allowed to due to the exclusivity?

Sir Adrian Montague: No. It was treated in exactly the same way as KKR leading up to the adjudication in March. It had all the opportunity it could possibly have wanted to do the work. Its financial projections were less favourable than KKR's, which was much the same in the case of Castle Water. At that stage, Castle Water was not fully funded, but would



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tell you now that it is, but it has very little operational capability in water. It is not just the financial proposition you need to look at. It is the overall appreciation of who is going to provide the best bid. In our case, it was clearly KKR.

Q968 **Sarah Bool:** Just to understand, you say it does not have operational capacity in water, but CKI owns 75% of Northumbrian Water. What do you mean by that compared to the creditors?

Sir Adrian Montague: I said that in relation to Castle Water.

Q969 **Sarah Bool:** Sorry, fine. If there really was a true exclusivity period, then obviously, as Charlie mentioned, the creditors were primed and ready. So was it actually a true exclusivity period if they were primed and ready?

Sir Adrian Montague: The way that we have described it and the way that KKR describes it is that it was the preferred bidder.

Q970 **Sarah Bool:** It would have been an exclusivity agreement signed thing.

Sir Adrian Montague: At around the time of the adjudication, there was lots of talk about exclusivity but then the point became apparent that we also had the creditors sitting in the wings, and they thought they were the preferred bidder rather than exclusivity.

Chris Weston: Their exclusivity agreement had a carve-out for the creditors. They expected them to sit alongside them and do their detailed due diligence at the same time KKR did. So when I was putting my management team and I was sitting down in front of KKR, very often they would either be in the room or there would be a separate meeting on particular aspects that they wanted to look at.

Q971 **Sarah Bool:** How comparable is the bid now between what the creditors are now offering and what KKR were?

Chris Weston: I can only talk from an operational perspective, but the absolute amount they would invest is very similar to what KKR would have put in place. A lot of work has been done by management and the creditors in distilling from KKR the best elements and building them into the new plan that the creditors are putting in place, which means that there is a fair amount of similarity between the two now.

Q972 **Sarah Bool:** You said that KKR shared information, so what information was shared? Was it ultimately its DD reports?

Chris Weston: Yes.

Q973 **Sarah Bool:** So it was quite happy with that being shared?

Chris Weston: It was agreed beforehand that the creditors and the company would have access to all that material. This allowed us to look at how we target cleaning of our sewage network in a different way, and the value in cleaning more and cleaning differently. I do not think we



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need to go into the technicality, but that kind of insight will help us improve the performance of the company.

Q974 **Sarah Bool:** It almost does not feel like there is an open competition. I appreciate that the creditors have always been waiting in the wings; they have been working basically in parallel with KKR. On the other hand, Sir Adrian, you said that the creditors have contractual control over the company at the moment. I still do not think they are a preferred bidder nor is there a true competition now because my concern is that, as directors, you have a duty to act in the best interest of the company. It sounds as though you are hamstrung by the financing terms and the fact that the creditors have contractual control. Is this really the best bid?

Chris Weston: The proposal that the creditors put forward at the same time as KKR pulled out was completely independent of KKR and was different from KKR's bid. Since then, we have spent time going through the KKR bid and how it was put together, and we have taken the best bits from it to build into the creditor plan. Therefore, it was developed independently and provided competitive tension. It provided an alternative for the board to look at.

Q975 **Chair:** We are into this same pattern; there is a course of conduct emerging here. You have decisions to make between various bids each time. Each time, it seems that you make a decision that—on the face of it—is not logical and you just tell us and expect us to accept that that was the best possible option. You will not produce the minutes for these decisions. You can see why I say it is difficult for us to be sure about whose interests you are pursuing and protecting here.

Sir Adrian Montague: I very much regret that that should be the case.

Q976 **Chair:** I am trying to be clear.

Sir Adrian Montague: We are enormously conscious of the gravity of the situation and the difficulty of finding your way through it. This has been an extraordinary period and we are constantly considering what is in the best interests of the company. When you say the company here, it is a collection of interests: the customer interest, environmental interest, there is a bit of political interest in there but not a great deal, and the interests of the future owners and creditors. It is a very complicated set of issues to untangle and decide what the way forward is.

Q977 **Chair:** We are aware of CKI, Castle, and there has been a third reported. I do not think it became a formal bid but an expression of interest or an offer from a company headed by Lord Redesdale, which I think is now in the public domain. Can I be quite clear about the dismissal of these three options? Were the decisions to dismiss them all taken by the board? That is a yes. Can we get the minutes for these meetings?

Sir Adrian Montague: I will need to take advice because we just need to protect confidentiality the best we can. We have talked quite a lot about Castle Water and CKI. In the case of Lord Redesdale's proposition,



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it is essentially one sheet of paper, not the 1,000 pages we received from the other two bidders. I think he regards it as a sort of outline concept.

Q978 **Chair:** Were these board decisions?

Sir Adrian Montague: These were decisions of my ERSCO, my equity raise subcommittee, AKA the board.

Q979 **Barry Gardiner:** The KKR bid would have needed creditors to agree to it in a court vote on a restructuring plan. So creditors were effectively negotiating terms here; that is part 26A of the Companies Act 2006. There is clearly a conflict between creditors where they are bidding against other parties, especially where we have a public interest in ensuring proper operational outcomes in terms of the environment and accountability of Ofwat. Do you not accept that?

Sir Adrian Montague: It is no different from many other cases where secured creditors are taking control of a company. This happens on many occasions in commercial life.

Q980 **Barry Gardiner:** So you accept there was a conflict of interest and the creditors were effectively negotiating terms with KKR?

Sir Adrian Montague: As I said earlier, there are many different interests at play here.

Q981 **Barry Gardiner:** And they secured their own.

Sir Adrian Montague: I do not think that is correct because all these propositions require the support of Ofwat in particular. Ofwat represents a public interest as much as anybody.

Q982 **Barry Gardiner:** Yes, indeed. Ofwat has a role to play in pulling the plug on this right now.

Sir Adrian Montague: It is in detailed discussion with us, the creditors and the board.

Q983 **Sarah Bool:** I am just trying to understand this. In terms of when KKR shared that information, on what basis or grounds did it share it? Because obviously it has incurred a huge financial cost.

Sir Adrian Montague: Which information?

Sarah Bool: You said about the due diligence reports and so on.

Sir Adrian Montague: To be honest, in the wake of its decision to withdraw, KKR has behaved honourably.

Sarah Bool: It was not paid for—

Sir Adrian Montague: We paid for most of the due diligence costs; I do not think we paid it all. Therefore, it has made that information available to the company and the creditors, and we are benefiting from it because it did a cracking job.



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Q984 **Sarah Bool:** But the creditors were also operating and preparing their own bid alongside KKR. Equally, to have the information that KKR needed, it would have had to speak to the creditors to get the confirmation. So it is like marking its own homework for a bid that then comes out.

Sir Adrian Montague: It has had that information after the withdrawal of KKR.

Q985 **Sarah Bool:** But the creditors are actually given that information because of the loan structure and funding. There could be questions raised about the comfort that KKR could not get because the creditors ultimately wanted the bid.

Sir Adrian Montague: I have heard no word of protest or reservation from KKR. It was quite clear in saying to us it saw no financial or operational reason why its investment should not proceed.

Q986 **Sarah Bool:** I find this very difficult because it is incredibly serious to get to this stage after 10 weeks—

Sir Adrian Montague: I agree.

Sarah Bool: —and then not be able to get your finances over the board. That is very unusual in this day and age.

Sir Adrian Montague: It is their investment committee.

Q987 **Sarah Bool:** Well, investment committee, but that is serious, and I do not think that is just politics alone, if I am being honest.

Chair: No.

Sir Adrian Montague: I agree. It was a great shock and disappointment.

Q988 **Chair:** Sir Adrian, you have been in the City for a long time. Have you ever seen corporate governance like this?

Sir Adrian Montague: I do not think there has ever been another situation like Thames.

Ian Pearson: There were a lot of people at KKR who were heavily involved with the bid over a number of weeks. They were deeply committed to it and very disappointed when their investment committee decided that it did not want to support making—

Chair: So they were not angry, just a bit disappointed.

Q989 **Sarah Dyke:** If I could just take you back to the £3 billion loan, obviously being split into two tranches. If you complete the equity raise process without requiring the full £3 billion loan, what obligations do you have on the remaining undertaken balance of that loan?



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Chris Weston: The first £1.5 billion is committed; the second £1.5 billion is not. So the terms of the first £1.5 billion have been agreed, but as you go through the equity process, and there is likely to be a debt-for-equity swap where the creditors will take the equity, they will also look at refinancing the debt stack, including the super-senior facility.

Q990 **Sarah Dyke:** Are you obliged to draw down the balance?

Chris Weston: No.

Q991 **Sarah Dyke:** Did you borrow too much?

Chris Weston: That is quite a difficult question to answer. No, we did not. We negotiated an amount in two tranches. In fact, the second £1.5 billion also splits into two tranches of £750 million each. We negotiated an amount that we thought gave us a stable foundation from which to complete the equity raise and to reach agreement with Ofwat over the regulatory conditions that would apply to us. The second tranche of £1.5 billion was there in case we went to the CMA and needed it. The terms around it have yet to be agreed.

Q992 **Sarah Dyke:** So it is accruing interest for its creditors?

Chris Weston: The first £1.5 billion is; the second is not.

Q993 **Sarah Dyke:** Who is paying for that?

Chris Weston: That is paid for by that facility.

Q994 **Sarah Dyke:** So customers will not be paying for that?

Chris Weston: Customers will not be paying.

Q995 **Chair:** Sorry, what do you mean that is paid for by that facility?

Chris Weston: The structure of the facility includes funding that allows you to pay for the interest, consent fees and everything that goes with it; it is not paid for by customers.

Q996 **Sarah Dyke:** Can I just drill down into that a little more? Can you just explain that to the Committee please?

Chair: Can I get a mortgage on these terms?

Chris Weston: Say that again.

Q997 **Chair:** Can I get a mortgage on these terms that pays itself?

Chris Weston: It is a very complicated financial transaction. We have advisers who have more detail than I will have. But regarding the consent fees, fees are paid to the participants who are lending and might underwrite that amount for the interest that is paid. All that amount will be built into the facility and debt itself and is paid out of the facility to pay those consent fees.

Q998 **Sarah Dyke:** At no stage would this be filtered down to your customers?



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Sir Adrian Montague: Can I try it another way? That might be a good idea. We get our money from customers and 100% of that—without any condition or reservation—is applied to the operations of the company. But the money that we get from customers is not enough to meet all our investment requirements. We draw the balance from debt facilities; in good times from capital markets, in bad times from the super-senior facility. The super-senior facility has an interest cost to it, which we have to pay, and the only way we can pay it is by drawing more amounts under the facility.

Q999 **Sarah Dyke:** But you have drawn down a full £3 billion loan.

Chris Weston: No.

Ian Pearson: No.

Q1000 **Sarah Dyke:** You have drawn down half of that.

Chris Weston: We have drawn down half of the first £1.5 billion. In fact, it is not quite half yet because we have just had a third consent that will allow us to draw a bit more down, which will see us through until about September.

Q1001 **Sarah Dyke:** I just want to go back into the creditors. Barry has already gone into a little detail on that. You have your creditors now; we have the list, which was given to us at 5 pm yesterday. Just for absolute clarity, why was that only given to us at 5 pm yesterday?

Sir Adrian Montague: Because each member of that committee—each of the 15 names that you have there—needed to go through their own internal compliance processes in order to have consent to release their name to the Committee. You may think it was quite long-winded; I would not want to comment on that. We had hoped to do it on Friday; it did not come through until yesterday.

Q1002 **Sarah Dyke:** Can you explain why that process was necessary?

Sir Adrian Montague: Each institution has its own rules regarding the extent to which it appears on public record. They just wanted to be sure so they had to go through their processes internally.

Q1003 **Sarah Dyke:** You have also stated that the creditors have a strong track record of helping complex businesses grow through committed capital and long-term stewardship. Can you just explain a little more about what that record actually is and share some examples of companies that they have helped grow?

Sir Adrian Montague: I cannot off the top of my head. I am very happy to write to you on that. It is really a question for the creditors rather than me, but I will do my best to answer it.

Q1004 **Sarah Dyke:** Can you just explain the due diligence that you have done in regard to these creditors?



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Sir Adrian Montague: The creditors are our lenders of record and many have been there for many years. There will probably have been due diligence done at the start when the loans were taken on.

Q1005 **Sarah Dyke:** Probably?

Sir Adrian Montague: Honestly, it is not customary in the market to do due diligence on your lenders. They are the people who provide the liquidity to keep the company's operations running, and in good times that is regarded as the right approach. You have checks on bona fides, but you do not necessarily look at their record in terms of how they would behave if the loan went bad.

Q1006 **Sarah Dyke:** The Chair has already picked up on Elliott being one of those creditors, which worryingly acquired BP and then obviously has pushed for the offloading of renewable businesses. Surely there should have been some proper due diligence done on that basis.

Sir Adrian Montague: Some creditors will have bought the debt in the market. That is not a transaction that involves the company at all. I do not know what the position is as regards Elliott.

Q1007 **Chair:** It is now wanting to move into a different role. But as you have told us already, you can do due diligence, but frankly, it is going to make no difference; they control you anyway.

Sir Adrian Montague: When you take on the debt in the first place, you assume that you take on debt in the ordinary course. You approach a syndicate of lenders and do checks on money laundering and all that routine governance, but their bona fides is represented by their willingness to lend you money. When you take on debt in an ordinary, well-operating company, you do not say, "What's going to happen if this company runs into difficulty?" because that is not the plan, intention or outcome you seek. You are just asking, "Are these checks good for the money?"

Q1008 **Sarah Dyke:** There is such a huge number of businesses involved here. We have a consortium of over 100 anonymous—well, not anonymous now because we have the 15 here but there obviously are others—companies ranging from pension funds to activist investors. There is the Royal Bank of Canada in that list as well. Do you think that they can effectively exert long-term, collective stewardship?

Sir Adrian Montague: They will appoint a board of directors. We do not know what their intentions are regarding the appointment of directors. I understand there is a discussion under way with Ofwat to work out what sort of governance structure it would like to see these very special situation lenders have in place. But their control will be exercised through the board. This is something you probably need to discuss with Ofwat because it is their discussion at the moment.



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Ian Pearson: When we are looking at these 100 institutions, these are the institutions that you will find in the share cap table of pretty much all the publicly quoted utilities. They do not seem to have a problem—whether it is Centrica or Severn Trent—in terms of having acceptable governance arrangements.

Q1009 **Chair:** You do not think other water companies have problems?

Ian Pearson: I am saying these same investors—

Q1010 **Chair:** Have invested in other companies—

Ian Pearson: —have invested in other water companies.

Chair: —that are in exactly the same position or on the way to being in the same position.

Ian Pearson: To that extent, it is not that different to the situation with Thames.

Q1011 **Sarah Dyke:** I am interested in transparency here. We hear that we do not think it is going to be much different or there should not be a problem. We have had the promise of enhanced transparency, and you have used the word among you a number of times today. What does this look like compared to the current situation and is this an admission that Thames has not been appropriately transparent up until now?

Sir Adrian Montague: I do not think so. As the Chairman said, it is instructive to compare the position of the listed water companies. Three of the water companies are listed on the stock exchange; they probably have hundreds of thousands of individual investors. You do not know much about any one or more of those individual investors. I cannot now remember if it is 3% or 5%, but the large holders need to declare their holdings. The others are not publicly recognised or available. That is the way the system works for the big listed companies.

After we have gone through this process and restructured the balance sheet and some lenders have exchanged their debt for equity, it will be the same position as it would be for a big listed water company. There will be a mass of shareholders, many of whom will not be known to the public because their shareholdings have not reached the level where compulsory disclosure is required. Even in the listed markets—beneath the threshold for mandatory disclosure—you do not publicly know who the shareholders are. The company will because it looks at the register, but out there in the wide blue yonder, there is no real knowledge of who the shareholders are.

Q1012 **Sarah Dyke:** Just as a final point there, will you pledge to ensure that we receive this enhanced transparency? Getting this list of creditors after being pushed on that for some time is absolutely important.

Sir Adrian Montague: To be fair, the Chairman wrote to me last Tuesday or Wednesday, I believe. We jumped to it and asked the



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members of the committee for their agreement to disclose their names. This is not something you do every day.

Q1013 **Sarah Dyke:** We got there eventually.

Sir Adrian Montague: We pushed them gently.

Q1014 **Sarah Dyke:** Will you pledge to better transparency going forward?

Sir Adrian Montague: Yes.

Chair: We are making heavy weather here, but I am going to stick with this until we are through it.

Q1015 **Henry Tufnell:** In terms of the creditors' plans, I do not think there has been a commitment in respect of dividend payments and there has been a hint at public listing. What is the plan to get a return on investment for the creditors?

Chris Weston: The creditors have said that they are not expecting any dividend payments while they own the company. As I understand it, their intention is to IPO the company at some point in the future, and that is where they will make their return.

Q1016 **Henry Tufnell:** Sorry, say that last bit again?

Chris Weston: The dividends that they could have taken will be reinvested back in the company to improve its performance, and then the return will be generated on their exit—some time off in the future—when they list the company. That is the intention at the moment, as I understand it.

Q1017 **Henry Tufnell:** Is there an intention to inject fresh equity?

Chris Weston: Yes.

Q1018 **Henry Tufnell:** What about exchange for debt?

Chris Weston: There will be a debt-for-equity swap. The precise details and shape of that have yet to land because they are going through their discussions with Ofwat and need to understand what the regulatory conditions will be because that will inform what the financial structure looks like. When they get that, then we will know exactly how much equity is going in and how much debt will be written off.

Sir Adrian Montague: The creditors put out a press release a few weeks ago in which they said they expected to inject £3 billion of equity to secure £2 billion more of fresh lending to the company and that the total value of the package is likely to be £17 billion. I am not quite sure how they got to that figure, but it is certainly a large amount.

The balance between new funds injected as equity or debt is in the write-off of some existing lending because the ambition that everybody has is that after the transaction has been completed, we will reduce the gearing comfort level to 60% or under. That can only be done when you have



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new equity by reducing the amount of the debt so the debt will be written off. That is all part of the court process that we are hoping to come to later in the year or perhaps the beginning of next year.

Q1019 Henry Tufnell: Your documents describe it as a material write-down in respect to the debt. I wonder whether it is a better or worse deal for Thames than write-downs offered by KKR or other bidders.

Sir Adrian Montague: We have not got to that stage with any bidder. We did not get to that stage with KKR and have not got to that stage with the creditors.

Q1020 Henry Tufnell: We do not really know what stage you got to with KKR because you will not release the board minutes and you will not release the minutes on the other. So there is a lack of transparency, is there not?

Chris Weston: I do not think there is a lack of transparency; it just reflects the situation that we are in at the moment. KKR did not put forward a formal offer in the end, but that offer would have been caveated and would have had to agree the financing with the creditors and a regulatory regime that was applicable to Thames with the regulator. Once all that was in place, then you would have certainty over what the balance sheet would look like. It would involve a haircut, but we did not get to that point in the process, so the process is now continuing with the creditors.

Q1021 Henry Tufnell: Is it a better or worse proposal than the one offered by KKR?

Chris Weston: As I said, we cannot judge the final structure of the company because KKR did not get that far.

Q1022 Henry Tufnell: The class A creditors are going to raise £2 billion more of debt. Do you think that more debt is the solution?

Sir Adrian Montague: Bear in mind that is new debt. The issue is what happens to the old debt. Under this court process that we are envisaging contemplating for the end of the year, much of the old debt will be written off.

If you think about the capital structure of Thames in the debt side, right at the top, you have the super-senior advances that we are now receiving from the creditors. Then you have something called the swaps; there is a tranche of money that the banks have provided for swaps. Then you have the £15 billion or so of A lending and £1 billion of B loans; B creditors have been in contact with the Committee in the past. Underneath that, you have some debt due to the parent company.

We do not yet know how much of that debt will be written off. If the creditors are right in saying that they are going to provide £5 billion of new money but their package is worth £17 billion, you think that they are expecting a write-off of a huge amount of the existing debt. We have not



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got to that stage yet, but that is why we say there is going to be a material impairment of the existing loans.

Q1023 **Henry Tufnell:** So you cannot give a figure as to how much debt there will be on day one?

Chris Weston: Not yet.

Sir Adrian Montague: Not yet.

Ian Pearson: Not yet, no.

Sir Adrian Montague: But the aspiration is to reduce our overall gearing level to beneath 60%, which is where Ofwat wants to see it. This is a huge, bitter pill for the lenders to swallow.

Q1024 **Chair:** You raised earlier about being subject to special administration and that you are not particularly keen on it as an option. But from the point of view of the taxpayer, how much do you think it would cost?

Sir Adrian Montague: There is a feeling in some quarters that special administration is a silver bullet that wipes everything clean.

Q1025 **Chair:** How much do you think it would cost the taxpayer?

Sir Adrian Montague: The estimate that Teneo—the expert retained in the first set of court proceedings—had was £3.5 billion, I believe. I think I gave a slightly larger figure in the first hearing.

Q1026 **Chair:** Can you reconcile that with the report presented by Teneo to the High Court?

Sir Adrian Montague: That figure comes from—

Q1027 **Chair:** It concludes that Government would recoup 100% of the funding.

Sir Adrian Montague: Government might well recoup 100% of the funding because they would come in right on top of that stack of debts. The point is if they aspire to sell Thames Water to another bidder—a bidder they find—then we have to go through the same process of due diligence, environmental risk assessment and sorting out the creditors. So the Government may be in a reasonable shape, but all the problems that we are dealing with now will have to be dealt with again in the context of a special administration.

Q1028 **Chair:** Just on the question of loans being written off, your report this morning includes a written-off loan to your own parent company of £1.271 billion. Talk us through that.

Chris Weston: That was a loan that was provided by the operating company, TWUL, to our parents, TWUHL. That loan was then provided onwards to Macquarie in 2007—a long time ago—to help refinance the acquisition of Thames, and that was endorsed by Ofwat at the time. Having looked at it, we have taken the view that it is not going to be repaid.



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Q1029 **Chair:** It is unrecoverable.

Chris Weston: It is unrecoverable so we have written it off. It does not affect the operations of the cash flow of the company at the moment.

Q1030 **Chair:** But it increases your level of debt.

Chris Weston: It does not increase the level of debt.

Q1031 **Chair:** What is the impact of it then?

Chris Weston: There is no impact; we are just never going to recover that loan.

Q1032 **Chair:** Just to come back to the question of SAR for a second, do you think that Teneo's assessment that there would be a cash-neutral effect to the taxpayer is actually correct?

Chris Weston: That is unclear. I know that is what was said in the report.

Q1033 **Chair:** What do you think it would be then?

Chris Weston: There are many uncertainties around special administration. In that report, Teneo made clear assumptions about things like how long the special administration would last and the Government's ability to recover all the costs that were incurred during that period. Those are not absolute certainties.

Q1034 **Chair:** The Secretary of State thinks it would be recovered. He wrote to us on 25 June saying, "We accept that any government funding required during a SAR would be recouped after the conclusion of the administration."

Chris Weston: I accept there is a good chance it could be recovered, but the SAR could go on for a lot longer. We do not know how long it is going to go on for. To get out of SAR—if you put it back into the public markets—we would have to go through an equity-raise process and there would have to be an agreement with the creditors and an RP process. I would expect the new equity provider to go through the process that we are going through now and try to reach an agreement with the regulator as well.

Q1035 **Chair:** It comes back to my concern about whose interests you are serving here. The SAR gets presented in the worst possible light, as does CKI, KKR and everybody else, but the Class A bondholders do not seem to get the equivalent treatment.

Sir Adrian Montague: Since the day I joined this company, our objective has been to recapitalise the company and bring it back to financial health. KKR's withdrawal was a disappointment. We have described why the other bids were unsatisfactory. The creditors are making reasonable progress with their proposition. When that comes to



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fruition, we will have succeeded in recapitalising this company. It will be on the verge of a turnaround. That is a real achievement.

Chair: Well, now. A real achievement.

Q1036 **Helena Dollimore:** Chris, you have spoken extensively about how Thames has this requirement for a regulatory reset, by which you mean you are asking the regulator to write off fines and not apply them to Thames Water. You say you have had discussions with Ofwat about this. Have you—or anyone acting on behalf of Thames Water—lobbied anyone else about writing off fines?

Chris Weston: To turn around this company and get it performing properly, there needs to be a recognition of the reality of the situation at Thames.

Q1037 **Helena Dollimore:** I am not asking you the reasoning; I am asking you if you—or anyone acting on behalf of Thames—have lobbied anyone else besides Ofwat. We can come on to the reasoning in a minute.

Chris Weston: We have talked to Ofwat, the EA and DEFRA about it.

Q1038 **Helena Dollimore:** Just DEFRA, no other parts of Government?

Chris Weston: If there are others then I apologise for the oversight.

Sir Adrian Montague: We have periodic meetings with an oversight group, which also includes the Treasury and UK Government Investments.

Q1039 **Helena Dollimore:** Have you written to any Ministers outside DEFRA to ask to be let off the hook from fines?

Chris Weston: No, not that I am aware of.

Q1040 **Helena Dollimore:** Many taxpayers will find it extraordinary that Thames Water wants a special exception; it wants to be let off the hook from £1.4 billion of fines. Why should you get a special exception?

Chris Weston: I do not recognise £1.4 billion of fines. Where is that from?

Q1041 **Helena Dollimore:** That is the estimation of figures over the next few years that you have provided in your evidence to us for both the EA and Ofwat fines.

Chris Weston: As we go into AMP8, our estimation of the cost of providing the infrastructure that we need in AMP8 is about £24 billion. The FD that we were given was just over £20 billion, so there is a £4 billion shortfall. That money needs to come from somewhere.

At the same time, over the next five years we will improve the operational performance of the company. But the operational performance of the company will not meet the targets that were set by Ofwat, which will lead to penalties of about—we estimate at the



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moment—£1 billion. That £4 billion overspend and the £1 billion of penalties have to be borne somehow, and if we do not reset the performance, the equations do not add up; you could not do it.

Q1042 Helena Dollimore: Why do you think you deserve a special exception to fines that every other water company has to comply with? How would you justify that to billpayers and our constituents?

Chris Weston: I do not think we are pleading special circumstances—

Helena Dollimore: You are asking for fines to be written off.

Chris Weston: —just for Thames. There are shortcomings in the regulatory regime, which is being looked at by Sir Jon Cunliffe, as you know. Part of what the regulatory regime needs is a turnaround regime that allows companies like Thames—there may be other companies that struggle—to go into this particular area of the regulatory market and turn themselves around for the benefit of our customers and the environment. If we do it, it will be available for anyone else who finds themselves in a similar circumstance.

Q1043 Helena Dollimore: You are asking for all water companies to be let off fines, effectively.

Chris Weston: No, I am not.

Ian Pearson: It might be helpful if we distinguish between fines and what are called output delivery incentives, and the regime that Ofwat has. They are very different. Basically, the way the economic regulatory model works with Ofwat at the moment is that it sets us a number of targets.

Q1044 Helena Dollimore: Are you only allowed to raise bills on the basis of meeting those targets?

Ian Pearson: Let me explain how the target system works, and then hopefully that will answer your question. Ofwat sets us a whole range of targets right across the board from leakage to interruptions. It sets these targets in a way that if you overachieve your target, you will get a reward, and if you underachieve your target, you will get a penalty. It is not really a fine; it is a penalty, but it is money that, in effect, is lost to the business.

The problem—why some people have called it a doom loop—is that if you continually underperform, you are given less and less money to achieve higher and higher targets. We do not think that is really very sensible, particularly for a company in Thames' circumstances where it has been struggling for a number of years.

When you look at the interim report of Sir John Cunliffe, he was also quite critical of the performance incentive regime. One of his interim recommendations was that he wanted to see something that was more related to the actual water company rather than a notional econometric



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model of a water company. That will be an important reform that you will hopefully look at as a Committee and we will see in legislation in the future.

Q1045 Helena Dollimore: Whether we are talking about fines or penalties is slightly beside the point here. Thames is asking for a carve-out, to be let off the hook for penalties or fines that are due, and people will find it very hard to understand why you should be given that exception. It appears you are also calling for that for the entire industry. But are you not holding a gun to the Government—

Ian Pearson: I do not think that is what we are doing as Thames, actually.

Q1046 Helena Dollimore: Can you let me finish? Is Thames not effectively holding a gun to the Government and the taxpayer's head? It is basically saying, "You've got to let us off these fines or you'll have a special administration regime."

Chris Weston: We are reflecting the reality of the situation and trying to fix it.

Q1047 Helena Dollimore: Is that a yes or a no, Chris?

Chris Weston: We are trying to get the right financial foundation in place. We also have to turn around the operations, and the two are symbiotic; you cannot separate them.

Q1048 Helena Dollimore: Is it not fair to ask your creditors to take a bigger haircut and not ask the taxpayer—the country—to let you off the hook on £1 billion for fines?

Chris Weston: I do not think that is sustainable. I do not think you would get to a sustainable solution for the companies.

Q1049 Helena Dollimore: You do not think it is sustainable? We are talking about a £17 billion deal and between £1 billion and £1.4 billion in fines.

Chris Weston: If the right conditions around that deal allow for a reset to happen, then you will get to a sustainable solution for Thames, which would be a good outcome for our customers and the environment. It is reflecting the reality of the situation. We are suggesting a reset because there is not really an alternative.

Q1050 Helena Dollimore: Thames is lobbying Government for a smaller haircut for its creditors and being let off these fines. That is quite clear.

Ian Pearson: No, we are not, actually.

Q1051 Helena Dollimore: It makes no difference to the creditors?

Ian Pearson: Some creditors may be requesting regulatory easements, as they call them.

Q1052 Helena Dollimore: Can you define regulatory easements? We are



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talking about fines being cancelled.

Ian Pearson: Some creditors have been asking for a regulatory easement, and they take the view that previous fines should be one of those easements. I am not aware that that is a decision that we have taken as a board to ask to be let off fines. What we think as a board, however, is that the performance regime that Ofwat has in place does not work for a company transformation.

Q1053 **Helena Dollimore:** You have spoken about that, and that will be in your submissions to the Independent Water Commission.

Chris Weston: That is the penalty.

Ian Pearson: It is penalties, not fines, if you get what we are saying.

Q1054 **Helena Dollimore:** If you have not taken that decision as a board, why are you lobbying the Government for that as Thames Water?

Ian Pearson: We are not lobbying the Government to be let off fines.

Q1055 **Helena Dollimore:** So is it the creditors who are lobbying the Government?

Sir Adrian Montague: Perhaps it would be helpful to go back to the basics here because we got a final determination that broadly suggested £20 billion of funding to Thames for the next five years. Our proposition had been, "Please can we have £24 billion? Because that's what we think we need to help restore the company to compliance and avoid future fines."

The discussion is whether the creditors and us can respect the £20 billion final determination, recognising that we are going to need to profile the work differently and will not achieve compliance as quickly. That will involve penalties; therefore we have to have an understanding with the regulator as to how these penalties are dealt with.

Q1056 **Helena Dollimore:** You have said in your accounts that were published this morning that you expect it will take 10 years to fix sewage dumping in the Thames. Are you asking to be let off the hook for 10 years as part of this regulatory reset?

Sir Adrian Montague: Just to make one very important point, not the Thames because the Thames Tideway Tunnel has transformed the level of sewage; we are now saving 95% of the sewage emissions in the Thames. That is the product of a super piece of investment. The problem is in the 350-odd small works outside London in the Thames Valley.

Q1057 **Helena Dollimore:** The people who live outside London will probably feel they are quite important and essential to fix too.

Sir Adrian Montague: I am sure they do.

Q1058 **Helena Dollimore:** But can you answer the question, Adrian? You have



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said in your accounts today you think this will take 10 years to fix. Is it therefore correct to say that Thames is lobbying Ofwat and the Government to be let off fines for 10 years?

Chris Weston: We are trying to find a pragmatic solution. If we do not find a solution to it then there is a good chance that we will go into SAR. If an investor came into Thames under the current regulatory regime, they would have to be prepared to accept those penalties and fines. I would imagine that they would find that a disincentive for investing in and supporting Thames and so would not do it.

Q1059 **Helena Dollimore:** Just to be really clear, on behalf of your creditors, you are asking to be let off the penalties for not doing the investments you have promised you will do as part of price reviews. How is that going to fix the problem?

Sir Adrian Montague: I do not think that is correct.

Q1060 **Helena Dollimore:** If you are asking for carve-outs to the rules that say you need to fix certain pipes by certain deadlines, how is that going to fix those pipes any quicker?

Chris Weston: We think it would cost us around £24 billion to fix the pipes and invest in our sewage treatment works. That is what is needed. In doing so, you would incur penalties of about £1 billion. Those penalties have to be paid for somehow.

Q1061 **Helena Dollimore:** Why do you not just get the extra from the creditors? Why do they not just take a bigger haircut?

Chris Weston: It is a capital market and they have to see a way to a return. Otherwise, they will not invest.

Q1062 **Helena Dollimore:** They would still be making a return; it would just be less.

Sir Adrian Montague: Do not forget that forgiving debt does not create cash; it reduces liabilities. What we need is cash to run the business.

Q1063 **Helena Dollimore:** We do not actually know that they would not invest because you have been very limited in the bids that you have proceeded with. It has not been an open process with others who wanted to take part in the process. I just do not think this stacks up.

Sir Adrian Montague: It has been an open process. We went to 50 organisations around the world. Anyone could have put in a bid. The B shareholders that—

Barry Gardiner: You went to exclusivity.

Helena Dollimore: You have just spent an hour outlining that process, and we are not going to go back into it now, but it was very unclear how you decided to proceed.



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Q1064 **Chair:** Ian, it is not that long since you would have been qualified to sit on this side of the table. If you were still going home on a Thursday to Dudley West, how would you explain to your former constituents what you are trying to persuade us of today?

Ian Pearson: To be honest, I would not have any problem at all in explaining what is going on to my constituents because we are doing the right thing here in very difficult circumstances. We are looking at probably the biggest recapitalisation in UK corporate history, if not European corporate history. These are complicated matters.

Q1065 **Chair:** So to people who are seeing outages not being fixed or want to go swimming in rivers that are not clean, you would just say—forgive the term—“Suck it up?”

Ian Pearson: No, I would not say that.

Q1066 **Chair:** Have you always taken this view?

Ian Pearson: In all honesty, what I would say to you is that this is a company that has been struggling and performance has not been what it should have been. There are a number of reasons for that. One might be that too much money was taken out of the company in the past, but that certainly has not been true for the last eight or more years.

Another reason might be that in PR19, and actually in PR14, the regulator did not give the company the money it said it needed to be able to keep its assets in good order. So we started the PR19 process basically saying we were going to spend £1.5 billion more than the final determination. We have actually done that, and our previous owners put their hands in their pockets and funded the business.

Yes, performance needs to be better, but that is what Chris and the team are working on and we are seeing some promising signs that performance is getting to a better place. As the annual report published today shows, we have achieved our best in AMP performance in a number of areas. But must we do better? Yes, of course.

Q1067 **Chair:** The advantage that Barry and I have is that of longevity. We remember you as a Minister; you had a fine turn of phrase. Can you remind me what you said about Ryanair when you were a Minister?

Ian Pearson: Yes, I can. In the context of climate change, I accused it of being the unacceptable face of capitalism.

Q1068 **Chair:** It was the irresponsible face of capitalism, was it not?

Ian Pearson: It was the unacceptable face of capitalism.

Q1069 **Chair:** Applying the same standards and analysis to Thames today, how would you characterise it?

Ian Pearson: Completely differently, actually.



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Q1070 **Chair:** So there is nothing irresponsible in companies wanting to be let off fines and easements, even though their performance is poor and their focus is on debt, not on customer service? That is different? That is responsible?

Ian Pearson: We have a very responsible board that takes its directors' duties seriously. We are in a very difficult financial situation; there is no doubt about that. Our creditors are having discussions with Government about a funding model. We are trying to do the best we can here in very difficult circumstances and achieve recapitalisation of the business, which as Adrian says, we are quite well advanced in discussions about being able to secure.

Q1071 **Sarah Bool:** I have a very quick question. I understand your explanation about the penalties and the doom loop, but did the KKR bid include paying those penalties and have the creditors built in paying these penalties as part of their bid?

Chris Weston: Both the KKR and creditor bids see the need for a regulatory reset.

Q1072 **Sarah Bool:** They want the reset, so it was possibly always going to fail. Either way, they are going to unless you can get that.

Chris Weston: KKR would have and so do the creditors. Although I do not have the same visibility as Adrian, my understanding is that some other entities would have also required the same.

Q1073 **Sarah Dyke:** But I thought there was no financial reason why it said that it could not proceed with this. Its bid was always contingent on that fine, so it was always that it had to be waived otherwise this was never going to happen.

Chris Weston: It had to be reset, not waived.

Q1074 **Chair:** Let us see how many angels we can get in the head of the pin then. What is the difference?

Chris Weston: Can I take an example? Our performance for leakage at the end of last year was 569 megalitres per day. The performance target for the end of AMP8—as set by Ofwat—was 408 megalitres. The reality of the situation is we are not going to get anywhere near that, and the more we fall short, the larger the penalty is that we incur. You need to put in place a stretching target that reflects the reality and performance of the company and continues to see improvement. So we are not saying we should not improve and it should not be a stretching target, but it needs to be in the bounds of reality.

Q1075 **Chair:** How is taking a reconstruction from the most expensive option going to help that?

Chris Weston: The operational plan that they and KKR put forward would have seen leakage improve over that five-year period because of



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the investment that they were making in it, and the same with the management plan that is in place now.

Chair: We come to everybody's favourite subject: management retention plan. Jayne, you lead our questioning.

Q1076 Jayne Kirkham: Management retention plans or bonuses. Just to set the scene— because obviously there will be people watching this on television, and for myself to get it straight in my head—in October '24, Thames arranged a loan with Class A creditors for £3 billion. You said half of half of that has currently been drawn down from the super-senior creditors, arranged at a 9.75% interest rate that customers are never going to pay, from what you have said.

In October '24, it was reported that as part of that loan agreement, there was an £18.5 million management retention plan that was agreed for the top 21 executives or staff, including the new CFO and initially the CEO— although I understand that may have changed by April—so that those top 21 staff essentially got three times their salary in one year. As Sir Adrian said at our last meeting, that was, "To try to maintain our most precious resource."

There will be people watching who think that maybe the water or some water engineers that we discussed last time are more precious resources. You said there were 700 vacancies for frontline engineers who only get 3% to 6% bonuses if they are lucky, certainly not 300% in one year. So you will understand why there has been a lot of interest in this particular bonus scheme and the value of it at £18.5 million.

My question is going to be who wanted this management retention plan? Because when we last met, you said it was the creditors and that the lenders insisted. Then you wrote to us saying you may have misspoken, and then, in the later letter, you said it was a result of a shared understanding between the board and the creditors. However, the remuneration committee minutes on 4 November last year say that the bondholders are therefore insisting on this. So who wanted that MRP?

Sir Adrian Montague: Let me deal with a narrow point. I said that the creditors were insisting on the MRP, the management retention plan. As you say, there was an echo of that in the minutes from early November.

Chair: Sorry, Sir Adrian, can you keep your voice up?

Sir Adrian Montague: There was an echo of what I had said in the minutes from early November.

Q1077 Jayne Kirkham: Of a corroboration.

Sir Adrian Montague: That is a very nice word, thank you so much. But actually, following the committee session we had in May, the creditor has said—we did not insist on it—it was in the interest of both sides, and that is correct.

Q1078 **Jayne Kirkham:** So the contemporary minutes were not right?

Sir Adrian Montague: I am sure the contemporary minutes reflected the conversation we had. But in reality, both sides wanted a retention plan and it was an unhappy choice of words to say the creditors insisted on it. It may have been reflected in the minutes, but it was in reality an unhappy choice of words. I am sorry for the confusion.

The company wanted that plan because we need to retain the services of the people who are vital to the restructuring. We had lost 20% of the finance function over the previous year. We need to keep these people happy and working on the business. But the creditors also wanted that because they needed to know that the company was properly provided with the right capability to meet their side of these transactions and negotiations. So it was really in mutual interest, and I over-emphasised the point when I said they insisted on it.

Ian Pearson: Can I make a few comments? There are a number of things in your introduction that are inaccurate. Quite a lot of it is true, but some is actually inaccurate, so let me try to piece together what this is. When you look at the chronology of this, the need for a retention plan was put as a requirement in the documents as part of the restructuring plan.

We met in November to discuss the overall terms of a restructuring plan and did not reach any conclusions as a remuneration committee. We met again in March and April. In April, we made a recommendation to the board to have a retention plan and set out the detail. Between the November and March meetings, we commissioned additional research to look at the details of the plan. We saw published evidence from Willis Towers Watson on benchmarking of the payments in the plan. We commissioned advice from Mercers about the terms of the plan and all these are in the—

Q1079 **Chair:** We actually have all this in the correspondence from you.

Ian Pearson: Yes, but it is important for those who are listening to this to understand the detail.

Q1080 **Chair:** Yes, but time is money so if we can maybe get to the answer.

Ian Pearson: I will get to the answer as quickly as I can.

Q1081 **Jayne Kirkham:** The existence of the plan—that there was going to be one—was set out in October and November, but not the fine detail of it.

Ian Pearson: Yes, and it was quite important that that was the case because as Adrian mentioned, in the previous financial year, we lost 20% of our finance team. And actually having key staff, knowing that a retention plan was likely to be put in place and that the remuneration committee was discussing it was a helpful thing to do. But we did not actually agree the plan until the board agreed it in April.



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My point here is that we did a lot of diligence as a committee to look at the fine detail of the plan. We changed the dates of RP2 and the second tranche of the plan. We also introduced clawback provisions within the plan and some other details to protect the company's position in the case that there might be change.

What I am trying to say to you is we have a real issue here in terms of retaining key people in the business as we go through this really complex transaction that you are all very familiar with now so we need to do something. As you know from the way the plan is structured, the first payment was made in April, and as explained in the letter to the Chair of this Committee, a payment of 50% is due in December and then the third payment.

Q1082 **Jayne Kirkham:** You said that was paused. What does that mean?

Ian Pearson: It is paused. We have reflected on the feedback that we have had and decided that it was best to actually pause the plan while we reflected and looked at guidance that was coming from Ofwat, and that is what we have done.

Q1083 **Chair:** So you paused the plan at a point when you were not going to be paying from it anyway, but you still reserve the right to open it up again at the end of the year. Is that right?

Ian Pearson: No decision has been made on restarting.

Q1084 **Chair:** I did not ask you if you had made a decision; you reserve the right to it.

Ian Pearson: We should always reserve the right to do things.

Q1085 **Jayne Kirkham:** What we were trying to get at with the initial scope of the plan is that there was a lot of confusion that was first over its existence and then who decided it would happen. A plan like that needs to be transparent because if there were people on the board of the company deciding—who may have been impacted by it—then that is maybe something that the billpayers would need to know. Sir Adrian, it was because of that confusion that we felt it was really necessary to ask whose idea this was and how, and get a proper, transparent explanation of how this thing came into being.

Sir Adrian Montague: Shall I have another go at that just to finally confirm it? This came into being in the earliest discussions around this famous term sheet. The requirement for a management retention plan was dropped into the term sheet in early October. At this stage, that represented an informal understanding reached with the creditors.

The creditors wanted this plan because they wanted to see a stable management team. We wanted the plan because, individually, we wanted to keep these people. If we lose one of these key people, we are going to have to find a replacement. That is six months' work because any person who is worth having will be in employment. We have to winkle them out



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of employment at six months' notice and then we have to get them up and running. It is hugely disruptive. That is the reason why the plan is there. It serves both the creditors' interest and the company's interest.

Q1086 Jayne Kirkham: You can see how difficult that is for people watching to understand if we are talking about engineers getting 3% to 6% bonuses and these people coming in and taking 300% in one year.

Ian Pearson: It is not 300% in one year.

Sir Adrian Montague: I agree this is clearly a difficult set of propositions, but it is not paid for by the customers; it is paid for by the lenders. The lenders bear these costs, and the plan was put in place to serve the interests of both the company and the lenders. They have been very generous to me in relation to insisting on the plan; it came from both sides and was seen as in the interests of both creditors and the company.

Certainly no non-executive director—including me—benefited from the plan, and when we took the decisions the executives were not in the room. We had to rely on the executives to tell us who in the management team they thought was worthy of these bonuses. So it was right that Chris and the people director participated in the discussions because we needed their input, but they did not participate in the decisions.

Q1087 Jayne Kirkham: Why did you decide to keep the whole plan a secret?

Sir Adrian Montague: We did not.

Q1088 Jayne Kirkham: The board minutes say that the potential impact of the Water (Special Measures) Act 2025 and negative publicity was considered and that the recipients themselves were asked not to say anything about it.

Sir Adrian Montague: We believed and continue to believe that the Water (Special Measures) Act 2025 has not touched these payments. If you read the Ofwat letter that they have sent to you, you will see why we believe that. But we do not want to rest on that position. The Secretary of State made his views quite clear when he appeared before the Committee. I hope the Secretary of State and the Government will recognise that we have an interest in maintaining continuity of our staff. Indeed, Ms Dollimore referred to that last time.

Q1089 Jayne Kirkham: So why not say anything about it then?

Sir Adrian Montague: Because we published it as soon as we got through the decision at the beginning of April.

Chair: Helena, did you want to come in?

Q1090 Helena Dollimore: To refer back to our last evidence session, Sir Adrian, our exchange was about why there was such an emphasis on maintaining the senior leadership and not the junior roles, the frontline



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roles, the 700 vacancies that Jayne has referred to. Just to be clear, that is the point I was making.

Many people will look at the management retention plan—particularly when we have been given pages of redacted remuneration committee minutes—and consider this to be a deliberate attempt to design a policy to circumvent the new Government's regime about banning bonuses for water bosses.

Ian Pearson: That is certainly not true. As Mr Carmichael knows, and Mr Gardiner as well, throughout all my time in Parliament and as a Government Minister I have always sought to uphold the highest known principles of public life. I would not be associated with doing something like that.

Q1091 **Chair:** Is it just a coincidence of timing that you have the Water Special Measures Act and you designed your retention plan in these terms?

Jayne Kirkham: The board minutes say that they were considered.

Ian Pearson: You would expect that as a committee we would want to take advice on the legality of what we were doing. That is part of a sensible due diligence process that we wanted to take.

Q1092 **Helena Dollimore:** At the remuneration committee on 4 November, Sir Adrian, you committed to speak to Ofwat about the legality of the management retention plan and whether it was in keeping with the Water Special Measures Bill. But when you appeared before our Committee and this came into the public domain, Ofwat wrote to us subsequently to say that up to 13 May it had had no discussions with you or with Thames about the existence of this plan.

Why, from 4 November to 13 May, did you have no discussions with Ofwat, as you had undertaken to your own board colleagues?

Sir Adrian Montague: That was because the plan was not finalised until the end of April.

Q1093 **Barry Gardiner:** It could not be finalised until you knew whether it was legal?

Ian Pearson: That was early in April.

Q1094 **Helena Dollimore:** It was very clearly taking form in the 4 November meeting. Ian has just said that he would never wish to do anything that circumvented a law, and you gave an undertaking to your board colleagues that you would go and check that with Ofwat. But the reality is that you did not do that for seven months.

Sir Adrian Montague: Ofwat has very recently said in its letter to you that it does not regard the plan as impacting people underneath board level, and that the evil that the Act was directed at was bonuses directed to performance. These are not bonuses related to performance. They are bonuses intended to encourage people not to leave Thames.



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Q1095 Helena Dollimore: The scheme as it was designed on 4 November at that point applied to both the CEO and the CFO, so it did cover the individuals targeted by the Water Special Measures Act. Therefore, it would seem very obvious to those looking at this from the outside, that this was designed to circumvent that policy. But you actually had no discussions, no due diligence with Ofwat to check what you were developing. If it had not come out in this Committee, would we even be having this conversation? Would these payments be going ahead?

You did not just proceed with the design of the plan; you made the first payment on 30 April before having any conversations with Ofwat as to the legality of the plan. Is that correct?

Sir Adrian Montague: We did not. Our judgment was that the plan was lawful for the reasons that I have just described to you, and which Ofwat has implicitly confirmed in its letter to you.

Q1096 Helena Dollimore: Well, it has confirmed that it would be the case if the CEO and the CFO were excluded; but at the point on 4 November, they were included.

Sir Adrian Montague: Even if you include those two officials, those two officers of the company, this is not a payment that is targeted by the Special Measures Act.

Q1097 Helena Dollimore: I think most people out there would say that what we were trying to crack down on with the Water Special Measures Bill was money in addition to base salary for poor performance. Whether that is performance-related pay, or whether it is a bonus, most people would see it as extra.

Sir Adrian Montague: If you will let me answer you, we have paused the plan because the Secretary of State came here in May and said he expected those payments to be withheld. We have not yet had a discussion with the Department or the Secretary of State as to how we are going to resolve our dilemma; we need to retain people whose services are very valuable and who are targeted by head-hunters, in order to see this restructuring through. That is the dilemma.

Q1098 Helena Dollimore: You are reacting to that now, but had you conducted your own undertaking on 4 November to have discussions with Ofwat about the legality of the proposed scheme, it is quite clear that it would have expressed the view that the Secretary of State expressed to us here, and the 30 April payment probably would not have gone ahead on that basis.

Ian Pearson: I do not think that is a fair characterisation of things. As Adrian says, what we are trying to do is to retain senior staff, and to reconcile that within the framework that has been set by DEFRA and by Ofwat in its PRP prohibition protocol.

Q1099 Chair: If you had known about the Secretary of State's unhappiness, would you have paid the April payments anyway?



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Ian Pearson: What I am saying to you is that the payments that were made in April were to senior people in the organisation, below executive board level. They are not in any way related to Ofwat's PRP prohibition rule or to the Water Special Measures Act. These are payments to keep people who are in a "business-as-unusual" situation, at a critical time for the company as we seek to go through a recapitalisation and probably the biggest debt write-off in UK corporate history.

Chair: This moves us on nicely to the questions that Josh has in relation to senior executives.

Q1100 **Josh Newbury:** Thank you, Chair. I would like to address my question to you, Mr Weston. You previously told the Committee that you were not part of the management retention plan, but the board minutes reveal that you were. Could you tell us when and why you decided not to take part in the plan?

Chris Weston: When I answered your question at the Committee it was absolutely the truth at the time. At some point before 17 April, I decided I would not participate. I was pleased that the board had expressed confidence in me by offering it, but I felt it would be too much of a distraction. My number one priority was to make sure I addressed the stability in my team, where we had seen a number of people leaving over the previous year. That was not sustainable for the business.

Q1101 **Josh Newbury:** The minutes also revealed that while you were potentially in line for a payment before you withdrew, you were involved in shaping the plan. You were present at all meetings of the remuneration committee where the plan was discussed. You did not just pop in for 20 minutes to give your view and then allow the committee to make its own judgment; you did not provide your thoughts in writing and then allow the committee to consider that. You were present at all those meetings.

On that basis, do you share the chair's confidence that you could act, "In the best interests of the company without regard to your personal perspective" when discussing the size of a bonus that you were potentially in line for?

Chris Weston: I do. I left the committee, and the committee had ample time at the end of their meetings to consider how it would apply or whether it would apply, what the shape of it would look like, and who was participating in the scheme.

Q1102 **Josh Newbury:** Is it not the case that you basically left at the end while the vote was taken, and that you were present for the vast majority of these meetings?

Chris Weston: I was certainly present in the meetings, yes, but there was ample time for the committee to consider the proposition.

Ian Pearson: We certainly discussed the scheme in some detail while Chris was out of the room and, as a committee, we made a number of



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adjustments to the retention plan as it evolved over a period of time between November and March.

Q1103 **Josh Newbury:** You will be acutely aware, as we are, that we are in a time where customer satisfaction and confidence is probably at an all-time low. So do you think it is appropriate for you to play any part in these discussions, given how that might look?

Chris Weston: I have a responsibility to the people in the company. It was my judgment that stability in leadership was absolutely essential, and my number one priority was to provide that stability. I saw the management retention plan as a key part of enabling that.

Q1104 **Josh Newbury:** Could you not have, for example, set out your thoughts in a letter so you could explain from your perspective why the plan was necessary and what you thought it should include, but then say, "Given that I may be in line for this, I am going to recuse myself from the process?" Why did you feel that it was necessary for you to actually sit in on those meetings and be part of discussions around how the plan was shaped?

Chris Weston: Quite understandably, the committee had questions about who was in it; it appreciated my support for the people in it and my explanation as to why they were in it.

Ian Pearson: I wanted the chief executive to be there to probe on the individuals who were part of the plan, to see whether they were key people in the business and whether they had been identified as such. It was perfectly right that Chris should have been there for part of the discussion, not necessarily all, and he was not there for all.

Q1105 **Josh Newbury:** It is clear that he was there for the vast majority of it. If the plan really is around retaining key people and you eventually came to the judgment that you thought it was inappropriate for you to be part of the plan, why did you not remove yourself from that right at the beginning so that you could say, "I have no vested interest in this at all, let's talk about what this means for the rest of my team." Why did you wait until after that process had concluded before you decided to withdraw personally?

Chris Weston: Everyone recognises that the situation developed over time and views change over time; I was acutely aware as it got closer to a decision point that I could give my advice as to who should be in that scheme, but I did not feel it was appropriate that I should accept it.

Q1106 **Chair:** As the non-exec chairing this committee, the non-execs are there to ensure the probity of the process. You were not only happy to have them there; you required them to be there.

Ian Pearson: I asked them to be there because part of the plan involved identifying who the key individuals were that should be part of the retention plan. If I can just also make a couple of additional points about



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the MRP; first, to be clear, this is being paid for by the creditors rather than by customers.

Q1107 Chair: What other income streams do you have apart from customer bills?

Ian Pearson: We have the Thames Water super-senior liquidity extension funding.

Q1108 Chair: The people who you borrow from is not really an income stream, is it?

Ian Pearson: Well, it is a stream of capital that goes into a bank account out of which the retention payment was made, and there is a clear auditable trail of that.

Q1109 Chair: As they say, water always finds a way through. You will be familiar with the expression; at the end of the day, it always comes back to the customer bills from the water company.

Ian Pearson: In this case it will not, as is the case with the fees and other advisers, and so on.

Q1110 Chair: These are loans that pay themselves back.

Ian Pearson: The situation is that this will all be part of RP2, the restructuring plan. If I could remind you, Mr Carmichael, it was the courts at RP1 and the judge who made the decision; he said he considered that the customers rather than the creditor would bear the cost of the plan, because he accepted that it was highly likely they would take a substantial debt write-off during RP2.²

Q1111 Chair: That is highly likely.

Ian Pearson: As we have said today, that is becoming increasingly certain, although we do not know the quantum of it as we speak.

Q1112 Josh Newbury: We all know though that you can shift money around within the business. To say, for example, that customers are not directly on the line for paying for this plan is not really genuine.

Ian Pearson: A judge said in court that the cost of the plan will be borne by the creditors. That should be good enough as evidence.

Q1113 Chair: If the creditor's bid is successful, then this tortuous route that you are outlining just disappears and it does come back on the customers, does it not?

Ian Pearson: No, it does not.

Sir Adrian Montague: Can I try to help on this? I can understand why you say that, Mr Newbury, but you have to apply some logic and some

² Ian Pearson clarifies in Q1106 and Q1112 that he considers the creditors rather than the customer would bear the costs of the plan.



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analysis. You have to be analytic about how these cash flows move. I hope we have satisfied you that the initial source of money for the MRP is the drawings on the credit facility, because we have separated the accounts and we pay the money out of that account.

But when we come to our capital reconstruction, we have all these different categories of debt. I referred earlier on to the need to have a big write-off of the debt; we are going to have many billions of pounds of debt written off, and in that process, we will produce a company that is credit-worthy, leaner and meaner. The amount that the creditors pay for the retention payments will get swept up in that process. There is no cut-through to the customer here.

Q1114 Josh Newbury: I hope that none of your PR people are going to be in this MRP. I will be honest with you, I do not think they have done a particularly good job. When I was a local councillor, if I ran a business that was bidding for a contract with the council, I would not be able to sit in the meeting, make my case at length and then just recuse myself at the end when the vote came. I would not be allowed to sit in that meeting; I would not be allowed to be involved in the process at all. We might only be talking about a five-figure sum, but clearly we are talking about much more substantial sums of money here.

As I said, when confidence is so low, the appearance of propriety is really important. I would just stress that to you that—although we cannot change the past—maybe in the future, when you are coming to situations like this, it would be appropriate to give your views in a different way, and not to sit in a room when discussions are being had. That raises all sorts of questions—uncomfortable I am sure—for you to come here and have to answer today. That is one point I would make to you.

We understand that your new CFO is due to receive a retention payment soon. Clearly when you have a new hire it is not unusual to have a signing-on bonus, for example, but it seems very quaint that you have a retention payment being given so soon after they have joined. Is that really necessary? Is it considered stability for you to need to give senior members of the organisation significant payouts, just to keep them on for a year, for example? Presumably, they may be back for more after that year.

Ian Pearson: My understanding is that this was part of the discussions in recruiting the new CFO. It is certainly the case that he will be a key figure for the next 12, 15, or 18 months that we go through this process, and we do not know how long that is going to last. Certainly, he was not eligible for the first payment, he would not be eligible for the second payment, and it was only the third payment that he would be eligible for. But as we say, we have not made any decision on restarting the plan at the moment.

We face a real difficulty in retaining key people; that is the elephant in the room. If you look at the advice from Mercers and from Willis Towers



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Watson, it is pretty standard that during a restructuring or an M&A situation you have some form of restructuring plan and some form of management retention plan. Ours is actually quite small in retrospect, compared with others. The Willis Towers Watson figures say 2% of purchase price; Mercers have a figure of 0.4%. Our figure, as we replied to the Committee chairman, is 0.1%, so it is very much in line with a lot of the benchmarks that are out there.

I am not tone deaf to this. It is big money, but it is for a purpose, and the purpose is a good one: to retain key people in the business during very difficult times. I just happen to think that this is the right thing to do. If there are other ways of retaining key people then we will explore them, but at the moment it is a very real problem. Obviously, we have to operate within the framework set by Government, and we will definitely do that; if there are any other solutions, then those would be of interest to us as a business.

Q1115 Josh Newbury: Mr Pearson, you said that it is not unusual that you benchmarked it. What we would question is that we are not seeing this level of remuneration in other parts of the water industry. You may be benchmarking yourself against financial institutions, but I would like to remind you of the context: Thames Water is delivering a public service. It is not a financial institution. During most of the discussion we have had today, that point has been forgotten. We are looking at the performance and behaviour of other financial institutions when we are talking about this. The people who come to work for Thames Water are coming to deliver a service to millions of customers, and that should be the basis.

In terms of retaining people, I would say that being part of rescuing an enormous, flailing institution would look pretty good on a CV, and that should be a motivation for people. I do not think they should need huge sums of money within a year of joining an organisation just to be able to commit to lasting out the year.

Ian Pearson: I agree, that is a motivation. I would make the point back that we all have husbands and wives at home who ask questions and say, "Why do you not go and work for somebody else who will pay you more?" As I say, retention plans are a common feature in restructurings. We are not benchmarking against financial services companies here. We have benchmarked against other restructurings, other M&A transactions of a similar nature where plans are put in place.

Q1116 Josh Newbury: Not in the water industry.

Ian Pearson: With the exception of Southern Water recently, there have not been many restructurings taking place. In the normal course of events, as a remuneration policy for Thames Water, we benchmark from CEO level right down throughout the organisation. We benchmark at the senior level against other water companies and against non-financial members of the FTSE 51 to 100. That is all in our remuneration policy, which is part of the very lengthy directors' remuneration report that we



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published today. So, we are not comparing ourselves with financial services companies.

Q1117 Josh Newbury: There are many people who have extremely difficult jobs under really tough circumstances. But only the water industry seems to need to give people extraordinary payments to be able to commit to a minimal amount of service.

I will just finish with this; is it not the case that the worse the state of Thames Water gets, the more excessive the executive pay becomes? Where does that end? If the company gets into a worse state in the next couple of years, are you going to be approving even bigger remuneration packages just to try to keep people on board?

Ian Pearson: Thames Water is going through extraordinary times. All we are seeking to do is to make sure that we have a key leadership team and critical people for the transaction that we need to execute to ensure our survival, to keep us out of SAR and to stay in the business. That is what we are trying to do. It is no more complicated than that; but having said that, it is very complicated.

Chair: We will move on to the objectives. Andrew?

Q1118 Andrew Pakes: Mine will be quite short because Josh has asked most of that section just now. I am keen to get into the Afghan statement at 12.30 pm, so I am trying to think what questions I would like to ask.

Chair: There is not much that is unimportant here.

Andrew Pakes: Josh has covered most of it, but just to recap; there is a plan around an £18.5 million pot, which is covering up to three times the base salary of the staff included in it.

Ian Pearson: Essentially, that is over a two-year period.

Q1119 Andrew Pakes: In Adrian's words, part of the justification is that these are staff who are critical to the company. That is his description. Who do your customers think are critical to the work of Thames Water? Would it be the top 21 executives, or would it be the person knocking on the door saying they have turned up to fix a leak?

Ian Pearson: That is a very valid point. What we are trying to do is to keep key people who are important for the recapitalisation process and to keep the business running; we are not trying to do anything more than that. I hope that the Committee will recognise the extraordinary circumstances that we are in. When you are in danger of losing your key people, that puts the recapitalisation of the business in jeopardy. The sensible, logical thing to do is to put in place measures to mitigate that risk, and that is what we are doing. We have a duty as directors to mitigate the risk that we do not have sufficient management resources. Condition P of our licence from Ofwat compels us to have sufficient management resources, and the MRP does its best to put in place a scheme that will allow that to happen.



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Q1120 Andrew Pakes: Do you not understand how frustrated your customers and taxpayers feel with the language you use, given that you are one of the most talked about companies in the country for all the wrong reasons? In the documents it says that one of the justifications for the MRP is that there is genuine concern for the welfare of employees in line for the MRP, with little annual leave taken and individuals working while supposedly on leave. Are financial payments for staff in that situation the best way to deal with the welfare concerns you have described?

Ian Pearson: They are certainly not the only way. As a company—Chris can explain this in more detail—we are a good employer, and we take our welfare responsibilities incredibly seriously. This is a business with employees going through a lot of stress at this point in time. Chris, I do not know whether you want to say something more about welfare.

Chris Weston: The first point I would make is how grateful I am for what people in that scheme are doing. They are dealing with draft determinations, final determinations, the CMA, an equity process, the due diligence that goes with it, a creditor process; it is a huge demand on their time, and that is on top of transforming and doing their day job. The demands are unbelievable. We try our best to ensure people take the leave that they are due, and that is absolutely the right solution if we can make it work. But we are in such an intense period that it is not always the case. I feel that the engagement of people in the company is absolutely paramount, and the leadership style that we adopt within the company tries to ensure that people feel included and are engaged and inspired.

We recently concluded an engagement survey across the whole company. Out of 8,000 people, 6,500 replied to the survey; I was really pleased to see that our employee engagement had gone up since the last survey two years ago, and belief in the leadership of the company had gone up. I thought that in these circumstances that was quite an achievement.

We take engagement extremely seriously, and we are doing our best to manage it in a very difficult situation.

Q1121 Andrew Pakes: Is there a plan to give up to three times salary for staff at other levels if they have welfare or stress concerns?

Chris Weston: We now have bonus arrangements in place throughout the company, which go all the way down to the frontline. They previously did not. That was an absolutely deliberate move to try to align everyone to deliver the types of performance that we have to deliver around things like pollutions or leakage. The retention plan was put in place to deal with a very specific situation.

Q1122 Helena Dollimore: On this point about the importance of retaining the senior management team versus the importance of retaining the junior frontline staff doing the work of fixing the pipes, the remuneration committee minutes contain a reference to concern about the welfare of



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senior staff. Have there been any discussions at the remuneration committee about the welfare and retention of junior frontline staff? I could not see any.

Chris Weston: Retention of frontline staff is something that is considered right up to board level, and certainly executive level. We look at the percentage of people who leave the company: what you would call churn or attrition. That is about 5% to 7% at the frontline, which is good; particularly for a company in the circumstances that Thames is in.

Q1123 **Helena Dollimore:** What about the welfare of those staff?

Chris Weston: The welfare of staff is taken very seriously. I have leaders throughout the company, and we have been investing in and developing those leaders. We are very mindful of all the obligations we have around health and safety, hours worked and all the rest of it, to ensure that staff are looked after appropriately.

Q1124 **Helena Dollimore:** Just on that point—may I refer the House to my register of interests—the biggest union that represents Thames Water staff is the GMB. It has written to us to say that there was widespread disbelief when the chairman described senior managers as the company's greatest asset. It has also said that industrial relations are poor. There have been no discussions with the unions regarding the price review 2024, operational or workforce plans, or skills and training. We have talked about those 700 vacancies. If this is so important, why have you not talked to the biggest union representing Thames Water staff?

Chris Weston: We meet regularly with all the unions, and my executive meet regularly. I met with the unions six weeks or so ago to update them on the situation. We are investing a huge amount in staff skills, including bringing in apprentices and graduates.

Q1125 **Helena Dollimore:** They do not feel that way. Actually, the impact of the evidence session last time was dismay and disbelief. It did not motivate the people they represent.

Chris Weston: We are also increasing our training budget, and we have built that into the budget for the next five years. We have dramatically increased it and reinstated it from when it was cut two years or so ago because it is so important to our frontline in helping them do the job that we are asking them to do.

Q1126 **Jayne Kirkham:** We know that Thames Water has been in difficulty for a long time. It is not only the staff at the top who feel it and get grief; it is the staff who are going out meeting people day after day. When Helena talks about training needs and so on, it is also an acceptance of what is happening on the ground and how difficult it is for staff who are going out facing people every day and having a hard time of it.

Ian Pearson: Until last September I also led for the board on workforce engagement, and that involved me getting out and about and talking to people on the frontline right across London and the Thames Valley. The



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overwhelming impression I got from that experience was that people were concerned about the public comments on Thames and they were concerned about their jobs, but they were just getting on with it and they had some confidence that management would see it through.

Q1127 Jayne Kirkham: Yes, they were getting on with it, but without a 300% bonus. That is different.

Ian Pearson: The other overwhelming thing that came across to me was the actual pride they felt in working for Thames Water, and the fact that they really were annoyed that the public did not understand the importance of the job they were doing. These are the people who are day to day mending leaks, day to day doing major capital works across the business. There was a sense of sheer frustration which I also often feel as a non-executive director. I can show you all the 99 good things that Thames does; but then one thing hits the news and it is terrible. In politics, you probably get that also.

Q1128 Jayne Kirkham: I have one last question. You said that you led on workforce engagement until last year. Who is currently leading on workforce engagement?

Ian Pearson: Catherine Lynn. I took over the RemCo and Catherine took over my role doing workforce engagement.

Q1129 Josh Newbury: Ian, you mentioned that pride in the organisation and a feeling that perhaps the good work of Thames is not recognised is an important part of motivation and morale at work for frontline members of staff; it is one of the things keeping them in their job. Why is that not the case for the likes of the CFO? Why do people at the very top of the organisation not share that pride and that motivation to highlight the good work of Thames Water as part of their role? Why do they need 300% bonuses when frontline staff are denied them?

Ian Pearson: There is immense pride at all levels of the organisation. I am very proud to work for Thames, and I know my team are also. A lot of people join us because what we do really matters and they find that inspirational.

The retention plan was put there for a different reason. It was put there because we are operating in a competitive market. These people are demonstrating every single day how capable they are, and they are being asked to go considerably above and beyond their day job for a prolonged period of time. I want to take away that risk— *[Interruption.]*

Chair: Order. I am sorry, can the member of the public who is standing either take his seat or leave the room, please? *[Interruption.]* Carry on, please.

Ian Pearson: I wanted to add that, if we had decided to do nothing and lost half or two thirds of our senior leadership team, I am pretty sure you



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would have invited us back to say, "Why did you do this? Why did you not take any action?"

Q1130 **Chair:** You have not had a great record on retaining them.

Ian Pearson: That is true. But the people currently in senior leadership are not the people who created the problems that Thames is facing, they are the people who are there to fix those problems and we want to make sure that they stay there.

Q1131 **Josh Newbury:** You have obviously not done a great job of retaining your frontline staff either; for example, you have told us you have 700 vacancies for engineers. Why is it 100 times as important to retain somebody at the top of the organisation? You have said they have a lot of demands on their time and they have to go above and beyond. Are they really going 100 times more above and beyond than somebody on the frontline who is keeping things running on a day-to-day basis?

That is the point we are trying to get at here. You seem to value people at the top of the organisation far more. It does not matter that other organisations you are benchmarked against are doing this too. We constantly hear on this Committee that, "Well, everybody else is doing it so we have to." I am sorry, but there are other organisations that also respect their frontline staff, and it feels like you are really not focusing on that. As Helena has said, it has not been a feature of the discussion at the remuneration committee at all, and yet you have all these vacancies.

Ian Pearson: We focus on our frontline staff. That is what Chris and the business is all about, because if it were not for our frontline staff then things would not get done. But the simple fact of the matter is that you would be criticising us if we had a flight of top executives. We have a responsibility as directors to mitigate the risk of senior people leaving the business during a big recapitalisation process. It keeps coming back to that in the end. If you do not do anything, would you be prepared to say, "Well, I did not think there was a risk", or, "I actually think there is a risk that some critical people will leave and we have to do something about it." That is why we wanted to put in place a management retention plan.

Chris Weston: There are 700 vacancies within the organisation and they are not all at the frontline. About two and a half years ago, decisions were made by the leadership that they should cut costs and reduce headcount. I think this Committee talked about that with them at the time.

When I came in it became very evident that we were short of people, and we started recruiting. We turned the corner from a low number of about 7,700 last March and we now have over 8,300; so we have brought in 500 or 600 people. There are particular skills that I am very worried about and we are redoubling efforts to bring in more skilled people, but we still have to recruit more than those 700 vacancies over the next few years.



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Q1132 **Josh Newbury:** Are any of those people going to get a retention bonus within their first year to stay in the role?

Ian Pearson: It is not a bonus; it is a retention payment.

Q1133 **Josh Newbury:** Are any of the new staff going to get a retention payment to keep them in their roles?

Chris Weston: No, because it is addressing a different problem.

Q1134 **Josh Newbury:** It is because they are not executives; that is the only difference I can tell.

Chris Weston: It is not that they are not executives. In determining who went into the retention plan, I was very aware of how critical the individual was to the operations—one individual can have a big impact on the operations if we lose them—and the additional workload that was being placed on them because of the circumstances that we find ourselves in at the moment. These are talented people who are very marketable, and we are operating in a competitive market.

Q1135 **Josh Newbury:** To be honest, if I were a frontline worker at Thames Water I would be very depressed about some things you have said about how people at the top are valued versus people on the frontline.

Chris Weston: But that is what I think. You are mischaracterising it; the people who work in Thames across the whole company are extremely valuable to the company. I respect the job that they do and I am very proud of the job that they do.

Chair: Sadly, I think we have probably taken this as far as we can. Jenny, you are going to ask some questions about the impact on investment.

Q1136 **Jenny Riddell-Carpenter:** Thank you, Chair. I need to put on record that in 2021 Thames Water was a client of mine; I supported it through the chaos of the London flooding. At that time, trust in the company was appalling. It has since been considerably worse. How do you think today has gone? Do you think you have gone any way to restoring that trust?

Ian Pearson: I am probably a bit of an old hand at this, so let me start. Trust is a very scarce commodity everywhere. I do not think politicians are trusted. I do not think business leaders are trusted. It is very difficult to find anyone—outside maybe one or two football players—who is trusted in terms of what they say. So I would not have high expectations that after one Select Committee meeting, everyone is going to suddenly turn around and trust Thames Water because it just does not work like that.

What I would like to think is that you as a Committee would believe that we have tried to answer your questions in an open and transparent way, in the best way that we can. You might not like the answers and we



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might not like the things we have had to do as a business, but the reality is that we are where we are, and we are trying to sort it out.

Q1137 Jenny Riddell-Carpenter: I would put it to you that you fundamentally misunderstand the public concerns about Thames Water. During the discussion we have just heard about remuneration, about investment, about which pots your retention bonuses are paid from, and about how you make decisions in committees involving the chief executive; it has been clear that you fundamentally fail to understand the level of frustration that the public have towards Thames Water.

I would say that if you are on any journey towards restoring trust, you have to fundamentally tackle the root causes of why trust in Thames Water is so low. I do not mean to point this at you, Ian, but when you said, off-the-cuff, "There are husbands and wives who expect these salaries to be maintained" or words to that effect, you fundamentally failed to understand the concerns that people have about a business that is letting down the environment, letting down its customers, and not operating in a manner that the public would expect a public good to be delivered. Until you sort out these points about remuneration, you will never be able to challenge or rebuild any element of trust in your organisation.

Chris Weston: I hear what you say but at the end of the day, what ultimately will restore that trust is improving the operations of the company. That is going to take time and it is going to take investment. I would argue that we have comprehensive plans in place to do that and those plans need time to come to fruition. Over time, they will improve the performance of the company and meet the expectations of our customers, and they will improve the impact on the environment. That is the fundamental thing that needs to be fixed.

Q1138 Jenny Riddell-Carpenter: We can talk about that. This morning you have released your annual report, and in that annual report you put out a press release saying that Thames Water has a 10-year plan for recovery.

Chris Weston: It will be at least 10 years.

Q1139 Jenny Riddell-Carpenter: I appreciate that we need to be concise because time is running away with us, but I assume that this "at least" 10-year plan is a consequence of record-breaking financial results going in the wrong direction and therefore you are going to have to elongate your investment plan over at least 10 years. Where is the hit on your investment plan as a consequence of record debt, record poor financial performance, and record poor infrastructure? You have an infrastructure crisis, you have a pollution crisis, your pollution incident reports are going up, and your debt is higher than it has ever been before. I assume therefore that the 10-year turnaround programme for investment is a consequence of that failure.

Chris Weston: It is not the consequence of last year, it is the consequence of the last two decades of underinvestment in Thames



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Water's infrastructure. We have an extensive and aged infrastructure. There are about 120,000 kilometres of network that we have to clean, look after, and replace on the waste side alone. The 10-year turnaround reflects the current state of the infrastructure and our asset base, and that performance over the last 10 years has led to a balance sheet that is not sustainable. That is why we are having to go through this recapitalisation, but going hand in glove with that has to be the turnaround and transformation of company operations.

Q1140 Jenny Riddell-Carpenter: What within the five-year view is being kicked into the long grass to a 10-year investment programme as a consequence of today's annual report announcements?

Chris Weston: The announcement around our results has no impact on whether we move investments from the first five years to the second five years.

Ian Pearson: The fact is that some things just take time. When I was a Member of this House and Climate Change and Environment Minister in 2006, I green-lighted the Thames Tideway Tunnel. It is operational now, 19 years later. Big infrastructure takes a long timeframe. We believe, and we have consistently said for a number of years, that we need more water resources. We can do as much as we can on leakage, but we still need more water resources. We are hoping to get approval to build a reservoir around 2036 if we get a crack on; it could well be later than that. There are big decisions that the water sector, not just Thames, needs to take; that is why I personally very much welcome Cunliffe, what the Cunliffe Commission has been saying, and look forward to its final report. If some things are not changed and the current situation persists, it is not just going to be Thames that gets in trouble, other water companies will get in trouble as well. That is a wider point, but maybe it is something that the Committee will want to consider.

Q1141 Jenny Riddell-Carpenter: I do not mean to go back to the remuneration but just briefly, you said that the pocket of money does not come out of customer bills, it comes out of a separate revenue stream that effectively could be written off under certain circumstances. If you are re-nationalised, are you saying that your bonuses are being paid out of future taxpayers' money? So you are front-loading a loan from Government if you were to be re-nationalised, but Government would be paying your bonuses?

Ian Pearson: We are talking about a retention plan, not bonuses.

Q1142 Jenny Riddell-Carpenter: Let us call it the retention plan.

Ian Pearson: As part of the retention plan, it will go into a restructuring plan and that will affect the size of the debt write-off, but it is pretty small in comparison with the other debts that are going to be written off. This is not even an accounting error compared with what would happen under a SAR.



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Q1143 **Chair:** To cut a long story short, it sounds like the answer is “Yes”.

Ian Pearson: If I understood the question, it was, “Would the costs of this in SAR be borne by the taxpayer?” Mr Carmichael has already said that the cost to the taxpayer of SAR is zero.

Q1144 **Chair:** I did not say that, I offered you the example of others who have said that by the time it came out, it would be zero.

Ian Pearson: The thing to understand about SAR is that it is not an end point, it is just a staging point. Thames’s creditors will still have rights under a SAR regime. There will still need to be a recapitalisation programme under a SAR regime and there will still need to be a debt write off; my view would be that it just gets written off and that is pension fund money as well as Elliott money.

Q1145 **Jenny Riddell-Carpenter:** Understood. Finally, the big news today was first your annual report, secondly the Committee, but thirdly that you have announced a hosepipe ban. You have also had too much rain. In the annual report you talk about an increase in pollution incidents because there has been too much rain, but equally there is a hosepipe ban because there is not enough rain. How do you respond to that? Which of those is true and where does the truth lie?

Chris Weston: They are both true, actually. We had a very wet year last year. Ground water levels were very high; that creates all sorts of problems for our network and leads to pollutions. Unfortunately, we have also had almost the driest spring in history since records began. One of the reasons why we have limited the hosepipe ban to the Swindon/Oxford area is because London at the moment is still relatively well served by the aquifers that were overfull during the winter. That does not mean we should not be prudent, but they are still serving London and there is no hosepipe ban in London.

The aquifers further west have not fared so well, and those aquifers not only provide water to the population around Swindon and Oxford, but they are also one of the sources of the Thames. Levels in the Thames are now very low and have to be managed quite carefully. That makes it more difficult for us to abstract water from the Thames and keep our reservoirs topped up. The predominant effect is in the west of our area.

We are not alone in this; there are other problems around the country where hosepipe bans have had to be put in place, and indeed across Europe: Spain, France and Ireland are all suffering similar issues because of the very dry spring we have had.

Leakage is a problem that we wrestle with every single day, but I have to say that at the moment it is lower than it has ever been. The last time we had a drought in 2022, the backlog of leaks to be repaired was over 7,000. It is now about 600, which is about a week’s work for the workforce. We do about 650 repairs every single week.



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We have taken other measures also. We have installed over 1 million smart meters, and we will install another 1.2 million. That helps us to detect leaks at customers' premises so that we can fix them and save water. We are also improving the technology that we are putting into the network to try to find leaks: we have deployed 40,000 acoustic sensors and will deploy up to 100,000 by the end of 2027.

So there is a lot of work going on around managing water supply. We have been planning for a water shortage since we started to see the issues with a dry spring, and we have agreed a drought management plan with the EA that we are executing.

Q1146 **Chair:** Gentlemen, that concludes our questions for you this afternoon. Just before I conclude proceedings formally, I must give you an opportunity to reflect on the evidence you have given. If there has been any misspeaking, this would be a good time to tell me, so that we can rely on what we have heard from you today.

Ian Pearson: I am not aware that I have said anything incorrect.

Chair: We shall take you at your word on that. As I indicated at the top, the Committee will now consider what further actions we may wish to take, but we are grateful to you for your attendance and your somewhat prolonged appearance this morning and this afternoon. I conclude proceedings for the Committee today.