



**Environment, Food
and Rural Affairs
Committee**

09 June 2025

Sir Adrian Montague
Chair, Thames Water
[by email]

Subject: Thames Water Management Retention Plan and ownership developments

Dear Sir Adrian

Thank you for your letter of 30 May, relating to the Committee's hearing with Thames Water on 13 May and my letter of 23 May. I have discussed your correspondence with the Committee alongside that received from the Chief Executive of Thames Water, Chris Weston, on 30 May. The Committee has also had the opportunity to discuss recent developments at Thames Water and the collapse of the planned takeover bid from KKR. I will address both letters and recent developments below.

Development of the Management Retention Plan

We note your apology and your clarification on the wording used to excuse the provision of incorrect information to the Committee in oral evidence. We reserve the right, of course, to explore the veracity of your statements in future oral evidence sessions that will, in all likelihood, arise from the matters discussed below.

Our investigation of your comments relating to bonus payments included in Thames Water's Management Retention Plan (MRP) is not simply a matter of respect for the Committee or academic interest. It highlights many concerns that the Committee has about the priorities of the senior management team and its approach to public scrutiny.

We agree that stability in the management team is important in times of such turbulence. We are concerned, however, about the nature of the retention payments contained within the MRP, and further about their development, implementation and status. As such, could you please provide:

- a copy of your "extensive benchmarking exercise";

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- the name or names of the "talent and reward advisers" used to develop the plan and the payments made to those advisers;
- details of the advice provided by the A creditors' financial advisors and the names of those advisors;
- the positions and salaries of the 21 individuals receiving retention payments;
- details of the arrangements you have put in place "to demonstrate that customers are not bearing the cost of this process";
- the current membership and terms of reference of Thames Water's remuneration committee;
- the dates on which the remuneration committee met to discuss the MRP and the minutes of those meetings; and
- and a full copy of the MRP with areas relating to retention payments highlighted.

Could you also please confirm whether Chris Weston or Steve Buck intend to receive later payments of the MRP.

Management Retention Plan payments

Turning to the payments already made, your letter notes that the first payments of 50% base salary were made on 30 April and that "the Board does not intend to recover this money". You state that further payments of 50% base salary and 200% base salary are to be paid by December 2025 and June 2026 respectively.

You will be aware that the Secretary of State for Environment, Food and Rural Affairs, Rt Hon Steve Reed MP, has stated that all payments made since April 2024 could be blocked by Ofwat.

A Thames Water spokesperson stated to the press that these are not bonuses but "retention payments" that do not fall under the regulator's new powers. In evidence to our Committee, the Defra Secretary said Thames "appeared to be attempting to circumvent that ban, calling their bonuses something different so they can continue to pay them". He also told us in that Thames had now "dropped these proposals". This seems to run contrary, however, to your subsequent statement to us that the scheme is merely paused and that the first instalment will not be clawed back.

You will also note that under the new powers contained within the Water (Special Measures) Act, Ofwat can ban "undeserved bonuses when high standards on the environment and financial management of water companies are not met". This ban could block future bonuses and would be retrospective, meaning other bonuses paid in the last financial year could be recouped.

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As such, could you please provide the following:

- the value of the payments paid on 30 April, in total and by recipient position;
- the value of the proposed payments in December 2025 and June 2026, in total and by recipient position;
- your rationale for viewing these payments as "retention payments" rather than performance-related pay and how you distinguish between these terms;
- your assessment of the applicability of the bonus controls within the Water (Special Measures) Act to these payments; and
- the dates of board meetings in which the MRP has been discussed in the last six months, and the full minutes of those meetings.

Status of the Management Retention Plan

In evidence to our Committee the Secretary of State said that Thames Water had withdrawn its proposal to make those payments. In your correspondence, however, you state that these payments have been "paused". Could you please confirm:

- if Defra is aware of the payments made on 30 April, and what discussions you have had relating to their recovery with the Department and Ofwat;
- whether your proposals for future MRP 'retention' payments have been withdrawn entirely; and
- if only paused, what assessment you have made of the impact of Ofwat's new rule on performance-related pay.

KKR bid and alternative options

On 3 June, you announced that your preferred takeover bidder, KKR, had withdrawn its offer. You will note the concerns raised by this Committee and by Ofwat about the risks posed by your early choice of a single preferred bidder and failure to develop alternative options in case of the eventuality that has transpired. You also announced that you are working on an alternative plan, and that a consortium of Thames Water's super senior lenders has prepared a plan to raise equity.

Could you please provide:

- your full assessment of the reasons for KKR's withdrawal, including the impact of recent and proposed legislative and regulatory changes;
- the date on which you were first informed of KKR's concerns over the proposed takeover;
- the dates and full minutes of Board meetings in which KKR's proposed takeover was discussed;



- the names of the creditors who are part of the alternative equity raising plan, and full details of that proposal;
- the names of any potential investors who have approached Thames with an alternative takeover proposal to that of the senior creditors, and whether you have engaged with those potential investors;
- your proposed timeline for confirming an alternative plan and the measures you will use to assess the quality of any alternative plan;
- details of any discussions you have had with the regulator on the alternative plan, and the dates of those discussions; and
- details of any internal preparations you are making ahead of a potential SAR should the above measures fail to succeed.

Immediate financial consequences of KKR's withdrawal

We are aware that the terms of the £3 billion emergency loan from your Senior Class A creditors splits that loan into two £1.5 billion tranches. The second tranche cannot be drawn down unless certain conditions are met; Chris Weston told us on 13 May that the second of these tranches cannot be accessed unless Thames Water has a "lock-up agreement in respect of a recapitalisation transaction" by 30 June.

Given these urgent and stark circumstances, could you please provide the following information to this Committee:

- your assessment of the potential impact on Thames Water of not receiving the first instalment of the £1.5 billion tranche due on 30 June;
- what discussions you have had with your creditors on extending the 30 June deadline and how far that deadline could be extended;
- how much liquidity Thames has at present and how long it can continue to operate as a going concern without the additional funding;
- the impact of KKR's withdrawal on the MRP discussed above and its proposed retention payments.

In your Chief Executive's letter of 30 May, he noted that several other clarifications were required to your evidence. I wish to impress on you again the importance of providing accurate testimony to our Committee, and trust you are aware of our formal powers to send for persons, papers and records. I hope you will bear this in mind when responding to our requests in this letter.

Given the immediacy of the issues in this letter, I would be grateful for your response by Monday 23 June.

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I look forward to hearing from you.

Yours ever,


Alistair Carmichael MP
Chair, Environment, Food and Rural Affairs Committee