Thames Water faces backlash for allegedly using environmental funds for bonuses and dividends

Thames Water has been accused of diverting millions of pounds, originally earmarked for environmental clean-ups, to fund bonuses and investor payouts. The Guardian reports that secret discussions were held to assess the risk of public and regulatory backlash against such a move, which could be perceived as a breach of the company's license commitments and potentially illegal.

The beleaguered utility, serving over 16 million customers in the UK, paid out hundreds of thousands in staff bonuses and over £100m to investors while cutting back on efforts to reduce river pollution. Insiders told the Guardian that internal debates about reducing environmental works took place as early as the end of 2021 and throughout 2022, as reported by City AM.

Ofwat, the water services regulation authority, was only officially informed of some of the firm's plans not to deliver major upgrades in August 2023. A letter, viewed by the newspaper, was sent to David Black, the head of Ofwat, by Thames' former interim-co chief and the former head of the regulator, Cathryn Ross.

It stated that the company would not be able to complete 98 of 826 schemes under the water industry national environment programme, known as Winep, over a five-year period. The completion of these projects, including schemes to reduce harmful phosphorous pollution in rivers, was a key justification for how much Thames could charge customers, according to the Guardian.

Thames Water

The decision to delay nearly 100 projects, including some of Thames Water’s largest commitments made during Ofwat’s 2019 price review, was taken without prior notice to the regulator. A spokesperson for Thames Water responded to the situation, stating: “The allegation of ‘secretly diverted money’ is entirely false and without merit.”

They continued: “The Board and leadership team of Thames Water remain focused on turning round the business, and have submitted to Ofwat a robust business plan for the next five years that proposes record investment in our assets.”

Addressing the Water Industry National Environment Programme (WINEP) concerns, the spokesperson added: “We’ve been very open about the challenges of delivering all the elements of our WINEP 7 programme, which has been impacted by cost increases that are higher than the inflation index applied to our allowances. In this WINEP 7 period, we are forecast to spend £601m against an allowance of £369m. This is well documented in our business plan for 2025-2030 and on our website."

The statement affirmed the company's commitment to its obligations: "We remain fully committed to delivering all our WINEP commitments, and indeed all the outstanding projects are currently underway and in the process of being delivered."

The issue of shareholder dividends was also addressed: "Shareholders have not received an external dividend since 2017, and our business plan assumes dividends will not be paid before 2030."

Ofwat fine

This comes in the wake of a report by The Guardian following Ofwat's decision to impose a fine of £18 million on Thames in December for breaching new rules regarding dividends, which allow the regulator to take action against companies that don't link payouts to performance.

The regulator has provisionally identified two dividend payments in October 2023 and March 2024 that led Thames Water to breach its new obligations, which came into effect in May 2023. The regulator stated: "In October 2023, Thames Water made interim dividend payments totalling £37.5m to its holding company, Thames Water Utilities Holdings Limited. In March 2024, the company made further dividend payments amounting to £158.3m from which they received non-cash benefits."

Ofwat also plans to ensure customers are not disadvantaged due to the company surrendering £131.3m of its tax losses as part of the March dividend payment, through an adjustment to the price control.

Ofwat’s Chief Executive David Black commented: “Ofwat’s £18m penalty and clawing back the value of £131m in unjustified dividend payments is a clear warning to the whole sector: We will take action against companies who take money out of these businesses, where performance does not merit it.”