
Holding Thames Water to account – Utility Week column by Jonson Cox, Chair of Ofwat

Holding companies to account is a much-used expression these days. At Ofwat, it is not a casual phrase or one we use lightly. It drives what we do every day to ensure that water companies deliver more for less for their customers and society.

Recent commentators have pointed to service failings in London and the scale of rewards available to companies generally. I understand these concerns. Getting the best for customers means, at the very least, requiring companies to meet all their obligations.

Our approach uses incentives - rewards and penalties. We're bold in stimulating all companies to go above and beyond, creating new frontiers for service or efficiency. We then require less effective companies to match the standards of the best. Our actions are currently bringing down bills for customers and delivering a high level of investment in water infrastructure.

During my five years here, we have also shown that we do not shy away from taking tough further action with companies, and Thames Water specifically, when necessary. We refused an unjustified request for a price increase of £30 per customer in the depths of the recession. We took action against Thames Water in 2014 for misreporting, and secured a package worth £86 million for its customers. Following our intervention this year after a spate of serious bursts, Thames will invest almost £100 million more to improve its trunk mains assets.

To cap all this, Thames has just announced that it failed its leakage target for 2016-17 by a huge margin. We have already launched an investigation using our regulatory powers, on top of the significant automatic penalty that Thames Water has incurred by failing to deliver the performance that customers have paid for.

Given all this, we see an urgent need for Thames Water to make a step change in the way it operates and behaves. The company has new members of the management team and new investors.

The previous ultimate controller, Macquarie, has sold out to Canadian Borealis and Middle-Eastern Wren House, whom we welcome to the sector. Responsible investors can benefit from helping us drive performance up and prices down.

We are asking the company, with new investors' support, to adopt the following steps:

- Far-reaching improvement in its communication with all the company's customers: using the right channels at the right time. Thames Water serves a diverse and vibrant community, which operates around the clock. It should be leading the way in customer communications.
- An annual audited statement from the Board, to sit in front of financial statements, focusing on how the company has set its aspirations and performed for all those it serves. This will illuminate how well Thames Water is delivering for everybody who depends on its services.
- Transparency and clarity about the financial returns to the company's investors each year. This requires a clear comparison in the annual report between the financial flows under the complex highly-leveraged structure the company has chosen and what those returns would be under the more conservative structure we use for assessing all companies.
- A prompt review of the Board composition to ensure a standard of independence, that the Board can hold the company to delivery of its promises to customers and that the Board can win and maintain public trust.
- Demonstrate that management rewards give appropriate weight to performance for customers as well financial performance, and explaining transparently how the performance standards have been set and assessed each year.

I call on the company to adopt these five commitments quickly, and discuss with us how it will meet them. We may ask the same of others in the industry too, as we evolve our ground-breaking approach to reforming Board leadership in public service providers.

The leakage results show that Thames' performance continues to need serious scrutiny. Our investigation will be thorough, its outcome transparent, and if appropriate, it could bring sanctions beyond the penalties which flow automatically from our performance regime. Meanwhile, Thames' adoption of the steps above would help demonstrate the company's intent to turn a corner. We would encourage critics of the company to move forward with us.

It's a privilege for a company to hold a monopoly franchise, in perpetuity. Ofwat will always take action where necessary to protect customers and step in when necessary. We challenge companies to do the very best for the communities they serve and to provide clarity and transparency so that customers have the information they need and the service they expect.

Jonson Cox
Chair, Water Services Regulation Authority (Ofwat)