Business

Business Editor
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Thames Water faces new liquidity crisis in spring without investment

UTILITIES
Jonathan Prynn

THAMES Water bosses today issued a bleak warning that London's biggest water supplier will run out of money by May next year without major injections of cash from investors.

The troubled utility, which serves around 16 million customers, said it had a "liquidity runway" of about 11 months before it burns through existing cash resources and unused bank facilities.

At the end of June, total liquidity was £1.8 billion, down £600 million from the financial year end in March.

The heavily indebted company, which reported underlying profits after tax of £140 million for the year to the end of March, a turnaround of £272 million, is now waiting on a draft determination from regulator Ofwat about the level of bills it can set for the next five years.

It has asked for the go ahead to push up average bills by 59% by 2030, a period known in the industry as PR24, but a rise on this scale is likely to be seen as acceptable by Ofwat.

Thames bosses hope to start talks with shareholders and other potential investors in the autumn. The current funding crisis was triggered in March when shareholders refused to stump up a promised £500 million because the regulator's plans made it "uninvestable".

This led to fears that a company that supplies water to nearly a quarter of Britain's population including its capital could fall into special administration or be renationalised by the Government.

But today, Thames Water's £850,000-a-year chief executive Chris Weston said: "I continue to believe that a market led solution that increases financial resilience is in the best interests of all stakeholders, but it is dependent on securing a final regulatory determination that is deliverable, financeable and investable, as well as affordable for our customers."

Ofwat will not make a final decision on bills until December and Thames has the right to appeal to the Competition and Markets Authority if it disagrees with the determination. However, that process is unlikely to be completed before the liquidity crunch in the spring.

Chief financial officer Alastair Cochran said: "The decision by shareholders not to commit new equity in March 2024, reflecting uncertainty concerning the outcome of the PR24 price review, has resulted in credit rating downgrades, a liquidity runway of c.11 months and forecast trigger events in our 2024/25 financial covenants. These all highlight this near-term funding challenge."

As well as extra investment from shareholders Thames bosses are also looking at negotiating extended credit facilities and improving the efficiency of the company to give itself more financial headroom. Total debt rose from £14 billion to £15.2 billion in the last financial year, while capital expenditure was a record £2.1 billion.

Susannah Streeter, head of money and markets, at Hargreaves Lansdown, said: "Thames Water is keeping afloat, but its emergency life buoy is deflating as efforts to raise funds from shareholders proves elusive.

"It can still tap funding of around £1.8 billion, until spring next year but it's a reservoir that's been shrinking. At the same time, its debt pile is an even bigger millstone and risks pulling the business under."

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Funding crunch: Thames Water wants average bills to rise 59% by 2030 as it pays for projects such as the "super sewer", above

The stakes could hardly be higher for water supply

Jonathan Prynn

COMMENT

THE clock is ticking at Thames Water. Today the leadership team upped the ante by warning that one of the most important infrastructure businesses in the entire UK, the company responsible for the wet stuff coming out of the taps at millions of homes around London and the home counties, will no longer be able to fund itself by next May.

The liquidity burn rate appears to have been running at about £600 million a quarter since March, leaving Thames with around £1.8 billion to play with by the end of June. With some extra efficiencies it reckons that is enough to keep it going through to next spring

This has the potential to become one of the first big "events" — as Harold Macmillan's laconic terminology would have it — to sideswipe the new Labour administration. Not that ministers can claim to be surprised, this has been building for many months, certainly since shareholders said "no" to Thames's request for £500 million in March.

Thames is asking Ofwat for a 59% increase in bills over the next five years, a figure it must know is politically unacceptable. We shall see what the regulator comes up with on Thursday. Its figure will be well south of the Thames Water ask and no doubt there will be ritual howls of protest from the company. The big question is whether there is a middle-ground number for bill rises that makes Thames "investable" again, yet can be sold to an already hacked off customer base?

Let us all hope so, as the stakes could not be much higher. If Thames cannot persuade investor to pump more money in, there is a growing risk of default followed by administration in less than a year's time. Although there is no risk of the taps running dry — surely? — that scenario will, at best, inevitably lead to further delays in the modernisation and investments that London's ageing water and sewage infrastructure desperately needs.

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Planning reforms 'could deliver £100bn boost for UK'

ECONOMY
Jonathan Prynn

FREEING up the planning logjam in central London could deliver a growth spurt that boosts the UK economy by around £100 billion over 20 years, a major report concludes today.

The study, commissioned by the London Property Alliance (LPA), found that a more pro-growth planning environment could generate over 400,000 new jobs and deliver more than 55.7 million sq ft of additional commercial floorspace in central London by 2045 — equivalent to about 39 Shards.

The research, Good Growth for Central London, produced by engineering consultancy Arup, comes amid fears that planning constraints threaten the capital's global city status and undermine growth and productivity.

The LPA's chief executive Charles Begley, said: "It is highly encouraging the new government is putting planning reform at the heart of its agenda for growth. Our analysis lays bare the profound impact of planning decisions on growth, particularly in relation to attracting investment to ensure buildings are sustainable and fit for purpose.

"The essential role development plays in generating jobs and supporting local areas is all too often overlooked."

The report shows that planning reform delivered by the new Labour government and Mayor Sadiq Khan would allow an extra 40.7m sq ft of office space, as well as 6.5m sq ft of hotel space and 8.4m sq ft of retail, restaurant and entertainment space.

Matt Dillon, Global Economics Skills Leader at Arup, said "Economic growth in central London drives economic growth for the whole of the UK. This report shows that planning policies, working patterns, consumer behaviour and the public realm can have a significant impact on growth, housing, and the public finances, especially when compounded over several years."

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