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Thames Water racking up huge debts using EU-blacklisted tax haven to pay out massive dividends and executive fees, expects household consumers to pay for costs of useless Thames Tideway Tunnel

Thames Water, the company responsible for the Thames Tideway Tunnel (Note 3), is owned and controlled by investors in a tax haven (Luxembourg). Thames Water has also borrowed over £5 billion via another tax haven, the EU black-listed Cayman Islands. The company has paid over £1.1 billion in dividends to shareholders, but has paid NO corporation tax to the UK Treasury for over 5 years.

Moreover, Thames Water pays huge salaries to its directors running the many corporate layers and complex tax avoidance structures under-pinning the company. But Thames Water expects its domestic customers (Note 4) to pay for the £4 billion cost of the Tunnel, and the Government to underwrite its construction.

- Thames Water is owned and controlled by shareholders in a tax-haven (Luxembourg), including a Macquarie European Infrastructure Fund (majority), BT Pension Fund, and the Abu Dhabi and Chinese Sovereign Wealth Funds, Thames Water has 10 corporate layers between the UK licensed company and its shareholders. Each of these unnecessary corporate layers requires their own individual Directors, Accountants and Lawyers, each drawing down expensive fees and salaries.

- £5 billion of the company's 2015 £10 billion debt has been raised via a Cayman Islands company, TWU Cayman Finance Limited. Given the extraordinary secrecy surrounding such tax havens, there is no way of knowing whether this money has come from drug-money laundering, terrorist or other criminal sources.

- Over the last 5 years, Thames Water has paid no UK corporation tax. Since 2004, Thames Water has paid over *£3 billion* in dividends to shareholders.

- In 2014/15, Thames Water's CEO and Financial Director received remuneration increases of 60 and 80% respectively, to £2.1 million and £1.4 million (Note 5).

- Since 2004 the debt level in the company has risen from 54% to 87% (Note 6). In 2005, the total TW long-term debt was £1,661million and total equity was £1,649 million. In 2015, the total Thames Water long-term debt had risen to £10,020 million and total equity had shrunk to £1,438 million. In addition, Thames Water potentially owes HMRC some £880 million in deferred tax liabilities. Thus, the company has roughly £558 million to prop up debts of some £10.0 billion. This is not commercially sustainable.

- the problems of the Tunnel are so serious that bidding for the special-purpose TTT "IP", the company being set up to actually build and operate the Tunnel for Thames Water, is seemingly "uncompetitive" with only two bidders, breaching normal competitive tendering standards for public service contracts. HM Government is having to provide guarantees to investors and lenders in an attempt to get the funding committed and the Tunnel built.

"Placed against convincing technical arguments that today the Tunnel is not needed, - i.e. the water in the Tideway meets the standards required - this project defies logic! It is a serious miss-use of public resources to satisfy the vanity of a few officials and executives. At a time of austerity, we can do without such extravagance," said T.M.Blaiklock, Consultant, Infrastructure & Energy Project Finance and TBGE Advisor

Lord Tony Berkeley (TBGE Political Advisor) said: '*Here we have a government asking 12 million ordinary householders to pay up to £80 per year extra to line the pockets of bankers and executives for a useless project that so many water industry experts have demonstrated is not necessary.'*

Charles Secrett (TBGE Campaign Advisor) said: *"Thames Water are a disaster for London and Britain. They use Luxemburg as a tax haven to avoid paying hundreds of millions of pounds in UK corporation tax. They borrow billions from the notorious and now EU black-listed Cayman Islands tax haven, long suspected of laundering global drug gang, terrorist and other criminal funds, to build up unsustainable company debt levels and pay their shareholders and executives billions of pounds in fees and dividends. This outrageous scandal must be stopped, and Londoners and UK taxpayers protected from Thames Water rip-offs".*

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NOTES TO EDITORS - NOTE 1 – The European Union published its first list of international tax havens on Wednesday, June 17th, 2015, as part of a crackdown on multinational companies trying to avoid paying tax in the 28-nation bloc. The list of 30 territories includes Hong Kong and Brunei in Asia, Monaco, Andorra and Guernsey in Europe and a series of Caribbean havens including the Cayman Islands and British Virgin Islands. The European Commission proposals also include reforms to end sweetheart tax deals following a series of investigations into arrangements between EU countries and firms including Amazon, Apple and Starbucks. "We are today publishing the top 30 non-cooperative jurisdictions consisting of those countries or territories that feature on at least 10 member states' blacklists," EU Economic Affairs Commissioner Pierre Moscovici told a news conference (http://www.eubusiness.com/news-eu/economy-politics.120n).

NOTE 2 - *"The Tideway Tunnel is a very good example of where both the regulator, I am afraid, and the company (TW) are going ahead with a gold-plated solution that will lumber London water taxpayers with an extra £80-a-year extra bill. … You (TW) could have done it (i.e. build TTT) a long time ago and failed to do it. You could now look at alternative ways to tackle the issue that would not cost over £ 4billion. and* *would achieve the same objective more quickly. I haven't a clue, - apart from it being a great big infrastructure project, - why on earth we are going ahead with it" [re. Hansard f Q106] … "Yes. It [TTT] is a big vanity infrastructure project. It can be dealt with in other ways", [ref. Q109]. Margaret Hodge, M.P., Chair, The Public Accounts Committee, Jan 22, 2014*

<u>NOTE 3</u> - Thames Water Utilities Ltd ("TWUL"), a UK company, is the water company licensed by OFWAT to deliver water and sewerage services to London and the Thames Valley area. In 2000, TWUL was bought from public shareholders by RWE, the German energy utility, thereby removed from the London Stock Exchange. In 2006, RWE sold TWUL for £4.8bn to the Macquarie Infrastructure Fund (MEIF II"], domiciled in Luxembourg, a tax-haven, MEIF II comprising a group of international institutional investors and pension funds, known as the "Kemble Consortium".

<u>NOTE 4</u> – Household bill impacts are in 2011 prices from Defra's 'Thames Tunnel Strategic Economic Case, Nov. 2011, pg.13. All Thames Water customers will have to pay via an annual increment (the utility tax) to normal water bills, starting in 2015/16 at around £10-15 per household at the outset of construction and increasing to an estimated average increase of £70-80 per year by 2020-25. In other words, TW customers will be paying for the project for 7 years before completion in 2023 and for decades thereafter. Ofwat estimates that 200,000 additional households will be paying more than 5% of their income on water bills, or more if there are significant increases in costs from other sources. As metered bills are some 50% higher than average for larger households, this will fall hardest on households in child poverty across the region. There are 500,000 children in low-income households in London (including 45% of all children in Inner London). These households also face rising housing costs and reducing support.

<u>NOTE 5</u> - In 2004, the total remuneration of TWUL Chief Executive was approximately £400,000. In 2014 it was £1,294,000, an increase of 224%. Overall, directors' salaries have increased from a total of £1.35mn to £2.94mn over the same period, an increase of 118%. RPI rose by 30% in this period [*ref. TW Annual Reports].* As TWUL is not a quoted company, there is no UK public forum to challenge these salaries, as would be the case if TWUL was LSE-quoted. Furthermore, neither the Regulator, OFWAT, nor the consumer watchdog, CCWater, is by law able to challenge and constrain levels of executive remuneration.

<u>NOTE 6</u> - Under Condition F of TWUL Licence, there is a requirement for TWUL to maintain an Investment Grade status with the ratings' agencies. When privatized in 1991, this was easily achieved. Today such status is marginal, due to TWUL's vastly increased debt load, which in turn places OFWAT under pressure to accede to any TWUL demands to increase customer tariffs - even if such request from TWUL is unjustified - so as to bolster cash-flow and thereby assure TWUL's status and does not breach its licence.

<u>NOTE 7</u> - TBGE is a broad coalition of environmental experts, including water industry experts, engineers, academics, politicians and environmental campaign groups who support an Integrated Water Management (IWM) approach over a needless tunnel. The TTT is designed as a detention tank to hold up to 1.24 million cubic metres of water. At £4.2 billion it will cost £3,400 for each cubic metre of 'empty space'. IWM is defined as "a process which promotes the coordinated development and management of water, land and related resources, in order to maximize economic and social welfare without compromising the sustainability of vital ecosystems". IWM has significant cost benefits including improved air quality, enhanced public health and the creation of thousands of local jobs.

Thames Blue Green Economy website:
http://www.bluegreenuk.com/freewater/tbge.html