THAMES SUPERSEWER (PT 2)

Money down the drain

THE last *Eye* focused on cheaper and greener alternatives to the Thames Tideway Tunnel, aka "the Supersewer", a 15-mile bore to flush 18m cubic metres of overflowing rainwater, seasoned with thousands of tonnes of untreated turds, away from the capitaleach year. But there are tricky questions too about the way rapacious Thames Water plans to finance the £4.Sbn project.

These arise following a report by independent consultants Bloomberg New Energy Finance. By increasing its borrowing and being so generous to shareholders it paid dividends of £1.08bn between 2008 and 2012 -Thames Water's debt-to-equity ratio increased from 44.4 percent in 2006 to 77.4 percent last year. The company can thus not afford to finance the tunnel itself, and proposes a "special purpose vehicle" to raise debt and equity on public markets, with the government underwriting the biggest building risks.

Bloomberg's boffins suggest the charges TW proposes for water consumers – up to £80 a year per household -would result in a post-tax return to equity investors of between 14.7 and 24.1 percent. A more appropriate figure reflecting a more normal utility return, the consultants say, would be around £35 a year.

To finance its *grand proj et,* seen increasingly by experts as unnecessary and environmentally damaging, Thames Water appears to be planning to borrow on the Cayman Islands debt markets – presumably from its shareholders and other insiders – via an entity called Thames Water Utilities Cayman Finance Ltd. This shell will then pass the high-interest debt on to Thames Water Utilities Ltd, which ends up paying so much interest on its "intercompany loans" that it makes little or no profit and so pays no taxes, particularly after claiming generous allowances related to its investment.

Thames Water is good at this sort of thing. Despite making profits of more than half a billion pounds last year, it paid no UK corporation tax and even received a £5m credit from the Treasury. Chief exec Martin Baggs scraped by on just £450,000 in 2013, plus a bonus of £274,000 for "significant improvement in the group's financial and corporate performance" and an extra share incentive worth £366,000. Finance director Stuart Siddall meanwhile saw his total pay and bonus increase from a measly £369,000 to £588,000.

The use of "high-coupon " shareholder loans by water companies to improve returns to shareholders is legal and in the tradition of tax avoiders everywhere. But given such canny financial structuring, why is the government still happy to hand Thames Water an open-ended guarantee?

It is not only the government and taxpayers who should worry. According to Sir Ian Byatt, former director-general of Ofwat, Thames Water shareholders should also be concerned. He suggests there should either be a new share issue to raise the capital required or, given the parlous state of TW's finances (nearly 80 percent debt), the company should be taken into special administration .

But Thames Water doesn't answer to the government or to water consumers; it answers to its owner Macquarie, the Australian investment bank, and to its other shareholders. Why would it promote a cheaper, greener alternative to the tunnel when it can make huge sums of tax-free, risk-free money by building a dramatic piece of infrastructure – and claim to be ridding London of a river of shit at the same time?

The Planning Inspectorate isploughing through the 50,000 pages of Thames Water's application and is due to respond next month. Meanwhile the company is cracking on, having just invited tenders for the work, and has appointed a chap from Crossrail to oversee the big dig.

The company may have too many vested financial interests in the project and be too far committed to explore less grandiose solutions, but it is negligent of ministers not to research the alternatives, which include a combination of green infrastructure, sustainable drainage systems and other measures (see last *Eye* for details).

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