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Rt. Hon. Eric Pickles, MP
Secretary of State for Communities & Local Government
House of Commons,
Westminster,
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Minister,

Thames Tideway Tunnel

You may recall that we met last in January 2002 at a meeting in Conservative Party HQ, arranged by Lord Howard Flight to discuss PFI / PPP. You were Shadow Minister for Transport and Minister for London at the time, and I had been a critic of the London Underground PPP!

Professionally, I now undertake training courses to governments and banks around the World as to how to, - and how not to!, - finance infrastructure and public service projects!

I write on this occasion concerning the Thames Tideway Tunnel proposal. I am also a customer of Thames Water.

I am sure that you are aware that The Planning Inspectorate, following their Inquiry, are to make a recommendation to you on this proposal, anticipated as for June 2014.

Unfortunately, The Planning Inspectorate under its remit has not been able in its deliberations to formally question the justification for the decision to proceed with the Tunnel. Such are the peculiarities of our Planning system!

A key component of any such decision for an NSIP, however, is the result of the cost-benefit analysis. Not only is this important for Government, but it is, too, for investors, lenders and ratings agencies.

In this case, for the Tunnel decision, the cost-benefit analysis was originally undertaken in 2005/6. If one undertook the same analysis today, a very different answer would evolve (see below).

The Facts:

(a) the recommendation to build the Tunnel was made in 2005/6 by a Committee, comprising Thames Water, OFWAT, The Environment Agency, DEFRA and the Mayor's Office, and chaired by Prof. Binnie;

(b) in 2009 the decision to designate the Tunnel as an NSIP was taken by Government;

(c) in 2011, DEFRA published the updated cost-benefit analysis, which, arguably, contained flaws;

(d) in 2012/13, given the high costs and financial risks of undertaking the Tunnel project, Thames Water, who have legal responsibility for sewage management on the Thames – but whose finances are weak, although that is a separate issue, - requested support from HM Government for the Tunnel project. Subsequently, Government passed the Water Industry (Financial Assistance Act) 2012;

(d) in the interim Thames Water had invested approx.. £1.5bn in upgrades at five treatment plants, including Beckton and Mogden, and are close to completing the Lee Tunnel, such that the CSO's (Combined Sewage Overflows) will be less than half the levels to date;

(e) by end-2013, the costs for building the Tunnel had risen from £1.5-1.8bn (est. 2008) to around £4bn (unfunded), or £5–6bn (funded), with a 6-7 year construction period; and

[NB. no other private sector, public service project in the World of this magnitude and with such an extended construction period has been built to date. Commercially and financially, therefore, the proposed Tunnel is breaking into new territory, i.e. the economic and financial risks are, indeed, very high];

(f) since Sept 2013, the Planning Inspectorate has been undertaking an Examination of the Thames Tideway Tunnel proposal, including public meetings, etc. Representations and evidence have been presented to the Inspector by a wide range of parties, including independent experts of national repute such as Prof. Binnie (Chairman of the original Committee, who recommended the Tunnel option in 2005/6).

Against this background, I, along with Prof. Binnie, Sir Ian Byatt (OFWAT Chairman, 1989-2000), together with Lord Berkeley and Rt Hon. Simon Hughes, MP for Bermondsey as leading for Parliamentarians, plus a number of other experts, have been (rightly) questioning whether, in today's circumstances, such a high cost, high risk venture is justified. Over the last 12-18 months, our "group" has meet with senior officials and Ministers in Whitehall (HM Treasury, InfrastructureUK, etc.) to appraise them of our concerns.

To this end, Prof. Binnie has updated the cost-benefit study upon which the original decision was made. However, the hard evidence to justify such concerns has only recently become available.

In summary, he concludes, supported by other experts, that what was seen as a project to have an economic benefit of £3-5bn in 2005/6 is judged as delivering a benefit of only £180mn today. Against this, the capital costs have risen from £1.8bn to £4-5bn. Such a swing from net benefit to significant cost ought not to be ignored!!

The original cost-benefit analysis was not necessarily wrong! It is just that circumstances under which it was made have changed over the intervening 8 years! The CSO problems have been largely resolved, technologies have changed, and there are other, cheaper ways of managing London's sewerage system.

Adding weight to this outcome is the fact that the underlying public service to be provided by the Tunnel is a monopolistic public service, for which customers will be legally bound to pay. Currently, Thames Water has estimated this to be £70-80 per household per year! **Whatever solution to the CSO issue, however, has to be Value for Money to gain public acceptance.**

Given the high level of cost and the potential savings that might accrue by a re-think as to the justification for this infrastructure venture, our "group" believe this matter should be brought to your attention at the earliest opportunity.

I, and my colleagues, would, therefore, be very happy to meet you and your Officials to fill in the gaps of detail and to explain our conclusions, should you feel that this would be helpful and appropriate.

The proposed Tunnel is a major initiative and much time and resource has been spent to date by Government departments, Thames Water and, not least, local Thames Valley residents, whose lives might be affected by the implementation of this scheme.

However, no matter the time and effort spent to date, whichever option is chosen to finally overcome any possible CSO problem has to be seen to represent Value for Money. The evidence today suggests the Tunnel proposal is not!

I look forward to hearing from you.

Yours sincerely,

Martin Blaiklock

cc
Lord Berkeley
Rt Hon. S. Hughes
Sir I. Byatt
Prof. Binnie

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