

**July 24<sup>th</sup> 2013**

## **Thames Tideway Tunnel**

### ***Question***

Reference (From column 1312):

<http://www.publications.parliament.uk/pa/ld201314/ldhansrd/lhan42.pdf>

**3.24 pm**

*Asked by **Lord Berkeley***

To ask Her Majesty's Government what steps they are taking to ensure that any support provided by HM Treasury for financing the Thames tideway tunnel project has minimal impact on customers' bills and provides value for taxpayers.

**The Parliamentary Under-Secretary of State, Department for Environment, Food and Rural Affairs (Lord De Mauley):** My Lords, we believe that the private sector should finance the tunnel. However, there are some risks that it may not be able to bear at an acceptable cost. We are willing in principle to provide contingent financial support that encourages private sector investment and offers an incentive to delivery partners to manage project risks and minimise costs. The Government are working to ensure that the tunnel offers value for money for customers and taxpayers, while being financed and delivered efficiently.

**Lord Berkeley:** I am grateful to the Minister for that Answer. But how will the Government explain to 6 million households that they are required to pay £80 a year extra on their water bills for 100 years or so to a company which last year paid no corporation tax but managed to pay £231 million in dividends to its offshore owner and which has reduced its assets to the extent that it cannot fund the project, with the Government not only guaranteeing it but agreeing to pay for it if they have to? How can this really be good for customers or the taxpayer?

**Lord De Mauley:** My Lords, we are faced with the problem of

London's sewers being at or close to capacity and millions of tonnes of sewage overflowing each year. The solution costs a great deal of money—more than £4 billion—so we need a sophisticated way to finance it. Thames Water pays its tax, and the entity which builds the tunnel will pay its tax, but water and sewerage companies have to make huge investments in infrastructure, the tunnel being a classic example. Therefore, while all companies are eligible for capital allowances, water companies perhaps appear to benefit more from them than others. We expect Thames Water's customers' bills to rise by about £70 to £80 a year to pay for the tunnel, which would still leave them paying below the national average. Removing capital allowances would of course mean that those bills would increase further.

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**The Earl of Selborne:** My Lords, surely an infrastructure project of this lifespan, expense and complexity should deliver more than just a cleaner river. Is my noble friend confident that the project will deliver flood-risk management, drought management, nature conservation and reuse of water, all of which future generations would certainly expect from a project of this size?

**Lord De Mauley:** My Lords, my noble friend makes an important point. Of course, the primary purpose of the tunnel is to reduce the impact of sewage pollution on the river, thus, I think, indirectly contributing to recreation by giving us a cleaner river. However, my noble friend's question leads me to the broader point, which is that the tunnel on its own is not enough. We also need sustainable drainage systems. I was visiting some very innovative solutions today in Herne Hill. Those solutions are not able to deal with the whole problem on their own either, but they can directly contribute to flood—particularly surface water—and drought management, conservation, recreation and better public places.

**Baroness Kramer:** My Lords, I fully recognise the need for the tunnel but is the Minister aware that most of the boating and swimming on the tidal Thames is upstream of Hammersmith and that, even with the tunnel and additional improvements, there

will still be discharges of raw sewage in this area? Therefore, can he tell me why the tunnel is stopping at Hammersmith?

**Lord De Mauley:** My Lords, because the major problem is below there.

**Lord Davies of Oldham:** My Lords, when, some three decades ago, the Conservative Government privatised water, did they expect that a company such as Thames Water would pay no corporation tax in the past year, as has been stated, despite considerable profits and a major distribution of dividends, and that it would then come to the taxpayer for necessary investment on this major project? What will be the basis of equity in these terms as far as this private company is concerned?

**Lord De Mauley:** My Lords, I thought I had addressed that question when I answered the noble Lord, Lord Berkeley. Thames Water does not avoid paying tax. HMRC's capital allowance regime allows companies to delay—not to avoid—paying corporation tax, based on how much they invest. Capital allowances are simply the allowed amortisation of an asset for tax purposes and they exist to encourage companies to carry out crucial investment. The mechanism enables tax to be paid over the lifetime of the asset. If capital allowances did not exist, that would mean either less investment or higher bills for customers.

**Lord Deben:** Does my noble friend accept that this is an old-fashioned and unacceptable answer to the problem? It is like the Three Gorges dam: it is not the way to do it. Will he please undertake that before any public money is put into this scheme he makes sure that better schemes, which may not be so convenient

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for the water company concerned—I declare an interest in the water industry—but are more environmentally sensible than this wholly out-of-date proposal, are thought of by the Government?

**Lord De Mauley:** My Lords, while I agree with my noble friend on many things, I do not agree with him on that. After years of

work by Governments of both hues, we do not consider that there is a viable, cheaper solution that would simultaneously address the current sewer overflow problems relatively swiftly for the foreseeable future and deliver value for money.

**Lord Campbell-Savours:** Is not the question asked by the noble Lord, Lord Deben, the question being asked by the whole of the British environmental movement, which says that this was the wrong solution and that sustainable developments were possible as an alternative? Why are we wasting £4 billion on this project when there was another solution?

**Lord De Mauley:** My Lords, over the past decade studies have looked at options which include green infrastructure solutions such as sustainable drainage systems. The purpose of the *Thames Tunnel Evidence Assessment*, published by my department in 2012, was to ensure that due consideration had been given to the full range of evidence available on all the proposed solutions to address sewage in the Thames and to provide an assessment of the nature of that evidence.

**Lord Harris of Haringey:** My Lords, is not the fundamental problem that since privatisation the privatised water utilities have failed to make the investment that is necessary, including in sewers? What are the Government doing to address that in terms of the regulatory environment?

**Lord De Mauley:** My Lords, I am sorry, I simply do not accept the premise of the noble Lord's question.