

Thames Tideway Tunnel receives backing from UK investors

14/07/2015 

Summary

Bazalgette Tunnel Limited has today received the licence from the Water Services Regulation Authority ('Ofwat') to own and finance London's £4.2 billion 'super sewer'.

The investor group includes a significant proportion of UK pension funds through which over 1.7 million UK pensioners will have an indirect investment in Tideway. The Consortium's backing for Tideway fulfills a key component of the HM Treasury's National Infrastructure Plan designed to finance the development of UK infrastructure with the support of highly experienced private investors.

Tideway will be the largest single asset in the water sector. An innovative procurement method, combined with the current low interest rate environment, has contributed to significant cost savings for the project, substantially reducing the contributions expected from the end consumer.

The project will help prevent the 39 million tonnes of untreated sewage currently discharged into the tidal River Thames in a typical year. It will connect 34 existing overflows along the 25km stretch of the Thames, and take effluent – discharged from Acton in the west to Straford in the east – to Becton for treatment. Tideway will rejuvenate the iconic river and ensure the capital's sewerage system is fit for the 21st century, as well as creating thousands of jobs and helping to boost the economy.

The consortium's investment vehicle takes its name from Sir Joseph Bazalgette, the pioneering Victorian engineer, who more than 150 years ago transformed the capital, constructing the interceptor sewers to keep sewage out of the River Thames. Still in excellent condition, these remain the backbone of the capital's sewerage network, but now lack the capacity to cope with the city's rapidly growing population.

In addition to the risk capital invested the consortium partners, six banks have provided senior debt to the Project, including Royal Bank of Canada, Lloyds Bank, Credit Agricole, SMBC, BTMU and Santander. The debt on the Project has received a rating of Baa1 by Moody's.

Tideway will operate under the established water regulatory framework, with bespoke features to reflect the nature of the construction obligations. There will also be a mechanism applied after construction to incentivise cost and time savings and from 2030, Tideway will be subject to Ofwat's 5-yearly regulatory reviews.

Christian Fingerle, Chief Investment Officer responsible for infrastructure investments at Allianz Capital Partners said: *"We are convinced that this major project will modernize a pivotal aspect of London's essential infrastructure and are delighted that Allianz can help to upgrade London's sewerage system. This investment will be a very important partnership between all stakeholders and Allianz. Together, we want to achieve a major improvement to London's iconic river."*

Giles Frost, chief executive of Amber Infrastructure said: *"Infrastructure projects like this are great advertisements for the UK. They provide long-term benefits to society and long-term investment returns for UK pensioners and professional investors. With over 1.7 million UK citizens benefitting from an indirect investment interest in the Thames Tideway Tunnel, this double benefit is at the heart of the case for new infrastructure being an engine of economic growth."*

Michael Ryan, chief executive of Dalmore Capital said: *"To date it has been difficult for UK pension funds to invest into major UK infrastructure projects such as the Thames Tideway Tunnel, where overseas funds have dominated. We hope that following this structure we can bring further UK investors into other high profile transactions with similar low risk inflation linked returns. Dalmore believes this is good news for both the consumer and UK PLC."*

Paul Nash, Partner, Global Head of Infrastructure at DIF said: *"This project has firmly demonstrated the benefits of involving the private sector in major infrastructure projects. By competitively procuring finance for this project from the private sector, the cost to the end user has been reduced by around 70% compared to initial estimates. This is not only a great benefit to Thames Water's customers, but also to the many UK pension investors whose funds will be invested in this project, 340,000 of them alone via DIF managed funds. Hopefully this project will act as a catalyst to reignite investment in UK infrastructure with the many economic benefits this brings to the country."*

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*AUM data as at 31 December 2019.

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