Parliamentary Under-Secretary for Natural Environment and Fisheries (Richard Benyon)  On 7 September 2010, I outlined in a written statement (Col 9WS) the Government’s support for Thames Water’s plans for a Tunnel to reduce the amount of untreated waste water being discharged into the River Thames. I presented an estimate of the costs and impact on customers’ bills, which I said we would continue to scrutinise with Ofwat to ensure value for money. I said Defra would update the 2007 Impact Assessment and that I was minded to consider development consent for the tunnel under the regime for nationally significant infrastructure projects established by the Planning Act 2008.

My statement today reaffirms the Government’s support for Thames Water’s plans and reports on progress we have made since my last update. In particular, it provides an updated estimate for the overall cost and the likely completion date for a project of this size and complexity.

The need to upgrade the sewerage system in London which in places is running out of capacity even in dry weather, and for a solution to the resulting environmental challenges in the Thames Tideway remains persuasive. I will today place in the Libraries of the House a paper Creating a River Thames fit for our future summarising the strategic and economic case for the Thames Tunnel. This builds on the impact assessment produced in 2007. It explains why we continue to believe that a tunnel represents the preferred solution for dealing with the untreated sewage that is polluting the River Thames.

Last year I reported the project costs for the Thames Tunnel as £3.6bn at 2008 prices. This was the cost of the project reported at what is known as the P80 level i.e. there is an 80% probability the project costs will be less than this figure based on probability modelling of cost risks. This figure excluded financing costs. Since then development of the construction plans has continued, more allowance has been made for a later completion date and in response to the first phase of public consultation by Thames Water, greater use of brown-field sites and river transport has been allowed for. The cost base has also been updated to 2011 prices and on this basis the estimates for the project costs are now £4.1bn. They include £0.9bn of risk allowance and optimism bias. These estimates have been examined by independent advisers on behalf of Ofwat and confirmed to reflect best practice in the industry. At this stage some uncertainties remain and the estimates will continue to be refined going forward.
Last year I also reported that the estimated average peak impact on annual customer bills was likely to be £60-£65 in 2008 prices. This figure was based on the then estimate of project costs plus modelling of likely financing costs. Since then, in addition to the revised project cost outlined above, Thames Water has with Ofwat and my department, made progress in developing the delivery route, risk management processes, and likely financing costs. They have also developed the modelling of the likely impacts on customer bills. This gives a central range for an average maximum annual customer bill impact of £70-£80 at 2011 prices. The considerably uncertainty in this range reflects the impact that financing costs will have on bills and the difficulty in estimating these for a project of this nature and duration. Relatively small changes in the cost of capital for the project could have a significant impact on bills.

I understand the concern that Thames Water customers may have over this increase in their bills. Defra, with Ofwat, IUK, EA and Treasury, has been working closely with Thames Water to ensure that the engineering costs are minimised through value engineering, and that the project is delivered efficiently with a structure and financing mechanism that delivers value for money for customers. We will continue to do this and to ensure that there are no better value solutions that meet the need.

Financing a tunnel of this size at a cost that is value for money for customers is a challenge. The Government believes that the private sector can and should finance this project but accepts that there are some risks that are not likely to be borne by the private sector at an acceptable cost. It is willing in principle to provide contingent financial support for exceptional project risks where this offers best value for money for customers and taxpayers. However I will want to be assured that when offering this contingent support taxpayers’ interests remain a top priority and that the taxpayer is appropriately protected by measures that minimise the likelihood and impact of these exceptional risks.

On planning, we have completed a 12-week public consultation on proposed secondary legislation (Section 14 Order) which would classify proposed major sewer projects such as the Thames Tunnel as Nationally Significant Infrastructure Projects (NSIPs). We are currently analysing responses. It will then undergo Parliamentary scrutiny and an affirmative approval process. Following such approval, I would anticipate that a Section 14 Order could come into effect in the Spring of 2012.

We have revised the draft Waste Water National Policy Statement in light of responses to the public consultation and recommendations from the EFRA Committee. The NPS is to be used by the Infrastructure Planning Commission, or its successor, to guide its examination of development consent applications for waste water projects of national significance. We anticipate that the NPS will be laid before Parliament for approval later this year.

I am very conscious of the impact construction of the tunnel will have on local communities. Thames Water completed their first phase of consultation on the preferred route earlier this year and have amended some of their proposals in response. Tomorrow they launch the Phase 2 consultation, which will be
further opportunity for people to let their views be known. This consultation is with a view to submitting a planning application to the Infrastructure Planning Commission (or its successor body) in Autumn 2012 and construction starting by 2016.

The initial timeline for completion of the Tunnel was 2020. However as the parties have worked through the issues relating to planning, financing, procurement and regulation of the project it has become clear while construction time remains at six years, the 2020 date is unrealistic. On the basis of what is now known, and depending on the choices made as we go forward, completion of the construction of the tunnel is now expected to be between 2022 and 2023. We continue with Thames Water to explore how we can minimise the overall timescale.

I propose to provide a further update when we have agreed a delivery route with Thames Water and before they apply for development consent in the second half of 2012.