

Thames Water has been asset stripped

THE scandal of Thames Water is that it has been asset stripped, under the supposedly watchful eye of a regulator.

The process is disarmingly straightforward: shareholders buy a company with cheap debt, and then mortgage the company's assets to pay off that debt and enrich themselves with large dividends, leaving behind an indebted, empty husk.

However, Thames Water's shareholders have only mortgaged off 80 percent of the company's assets, and for a real masterclass in such prodigal financial engineering one should consider Heathrow.

Its regulator has watched while, having only paid £13.1 million to purchase the company, Heathrow's shareholders have racked up debt of £20.82 billion – more than 100 percent the value of its assets – and pocketed over £8bn of dividends.

Every Heathrow asset is now mortgaged to the hilt, leaving it wholly reliant on its unsecured overdrawn current account for liquidity, which means that Heathrow is technically bankrupt too.

The bulk of its debt matures in 2030. If remortgaging a house is difficult now, imagine what refinancing £12bn of debt will do to Heathrow's woeful finances then.

Yet, at the heart of this scandal, it is not just that the regulators have overseen asset stripping.

It is the nature of the regulation, itself. B

ecause, for both Thames Water and Heathrow, and other regulated "utilities", the regulator sets the level of income shareholders can draw on the basis of its "Regulated Asset Base".

In other words, the more assets a regulated company like Heathrow can claim to control, the greater the income it is permitted to draw.

This is a perversion of the market, which effectively incentivises the building of white elephants – like Heathrow's Third Runway – regardless of any real or strategic benefit.

It is of course scandalously immoral that shareholders should behave like those of Heathrow or Thames Water; but, with regulation like this, is it really any wonder that their business model has become all about the assets, and then stripping them for their value?

Paul McGuinness

Chair, No 3rd Runway Coalition