

# KEEP THE TREES/ ABANDON AMEY – Dossier #1

## PFI profits being funnelled to an offshore tax haven

### NO STUMP CITY media release – 15 August

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*“PFIs are quite simply the worst mortgages in the world. PFIs are a massive rip off. At a time when frontline services are buckling under the strain of government cuts, PFIs are siphoning off precious resources.” - Frances O’Grady, General Secretary of the Trades Union Congress.*

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A significant percentage of the funds being paid by Sheffield residents and Sheffield City Council (SCC) for the controversial Streets Ahead PFI project are ending up in the coffers of a company registered in a notorious tax haven, it has just been discovered.

In this offshore tax haven, companies pay no taxes whatsoever on the stream of revenues coming, in this case, from Sheffield. And --- equally worrying --- these almost risk-free revenues have been guaranteed by Westminster until at least 2037 when Sheffield’s PFI deal expires.

While the best-known PFI contractor with SCC is the Spanish-owned **Amey plc**, Amey has two key, but little known, financial partners who are equal beneficiaries of the project. Each of the three partners receive 33.3% of the profits from this very large Private Finance Initiative contract because each of the three partners own one-third of the complicated financial vehicle behind the scheme.

This financial vehicle --- known in accounting circles as a Special Purpose Vehicle (SPV) ----- is a company which funnels all of the income generated by this 25-year £2.2 billion deal with SCC into the accounts of the three partners. Most SPV’s are comprised of not much more than a few handsomely-paid directors and an innocuous small office and sometime located in a faraway tax haven. (The Sheffield SPV is based in Oxford.)

**Amey Ventures Ltd.’s** two other SPV partners, which only became known to tree campaigners over this past weekend, are called **Tetragon** and **PIP Infrastructure Investments (No. 5) Ltd.**

**Amey Ventures Ltd.** is a wholly-owned subsidiary of the giant Spanish multinational **Ferrovial**.

**Tetragon** is an investment company registered in the Channel Islands tax haven of Guernsey. Guernsey has long been categorised as tax haven because it operates in a climate of over-zealous financial secrecy and allows the non-payment of tax, a non-payment not permitted in many other jurisdictions. (The Cayman Islands, American Samoa, and Luxembourg are other well-known tax havens.)

Until recently, the third owner of the Sheffield contract was a company called **Aberdeen Infrastructure Investment (No. 5) Ltd.** But in November 2017, it was sold to the parent company PIP Infrastructure Investments Limited part of a £400 million deal and renamed **PIP Infrastructure Investments (No. 5) Ltd.**

As a result of the current financial arrangements, 2/3 of the profits of this PFI deal, which has caused such widespread environment vandalism in Sheffield, are going offshore and 1/3 are going to an offshore tax haven. Sheffield is a Labour-controlled council.

"Companies such as Tetragon are based in Guernsey because that means they don't have to pay any taxes on their profits," explained Dexter Whitfield, a British academic now based in Ireland who works for the European Services Strategy Unit. (Some years ago Whitfield actually lived in the Meersbrook Park area of Sheffield and the ESSU was once based in Sheffield during the Blunkett years. And he was shocked to learn yesterday that the healthy trees on Meersbrook Park Road where he used to walk are scheduled for felling by Amey.)

Moreover, as explained below in the FINANCIAL BACKGROUND section, ownership interests in PFI contracts themselves have become tradeable commodities that are sold, in turn, to other investors to earn super profits. And this is a Labour-controlled council.

The unsavoury financial connection between SCC and tax-avoiding Tetragon was only recently discovered by NO STUMP CITY when it was trying to find out the financial background to the PFI deal. The 2012-2037 deal has resulted, so far, in the unnecessary felling of 5,500 mostly healthy street trees in Sheffield.

The financial details of the Sheffield PFI deal were confirmed in three interviews this week with Whitfield lasting more than 90 minutes and through additional documents NSC had already uncovered and which Whitfield supplied.

"This sleaziness and these tax rip-offs are one more reason why Sheffield should abandon Amey, its investment partners and their wretched PFI deal," said Alan Story of NO STUMP CITY, a small group that does independent political campaigning to save for Sheffield trees. "It is all a tax dodge that highlights one more example of how Labour-controlled SCC is working for the few and not the many."

Corbyn's national Labour Party has come out strongly against PFI contracts. But the local council says discussion or scrapping this PFI contract with its three partners is not allowed to be on the agenda of upcoming negotiations with tree campaigners.

The total cost to Sheffield of this PFI deal remains unknown. The city is already shelling out the equivalent of £1.7 million per week for 25 years.

One financial report has revealed that Sheffielders will not actually retire their total debt --- to Amey, its various partners, banks and other lenders --- until the year 2055. The reason? SCC has taken out a further loan to pay off the 2012-2037 PFI deal.

"While Sheffield councillors keep saying today how much we'll lose if we break the contract, think how much more we stand to lose by NOT breaking --- or at least significantly renegotiating --- this PFI contract."

"In the year 2028 or 2038 or 2048 when SCC is scratching around for funds to pay for social care, someone is very likely to say, 'why, oh why, did anyone ever sign that contract back in 2012?' "the NO STUMP CITY statement continued.

Across the UK, every adult who lives here will face a debt of £4,119 to pay for schools, hospitals, and other infrastructure projects paid for by ALL of the controversial PFI financing deals, according to a 2016 analysis conducted by HM Treasury on estimated future repayments.

PFI deals were started by the Major government in the 1990s but really took off during the Blair and Brown governments. Commentators suggest 2012 was “the high water mark” for PFIs. That was the year the Sheffield deal was signed.

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## FINANCIAL BACKGROUND

Here is the trajectory of the relationship between Sheffield, Amey, and various UK and Guernsey-registered companies and the key players since 2012.

This trajectory exposes shows how the “real money” from PFI deals is made not only by locating in tax havens but also through the selling and re-selling of the equity in such contracts, says Whitfield. [In return for investment funds, the buyer of such an equity or ownership interest in a PFI contract is given the right to the revenue arising from that contract for 25 years without any labour costs or further costs for supplies or materials.]

This selling is done in what are called “the secondary markets” and it is here “where companies can make even higher levels of profit,” says Whitfield. “Registering in a tax haven is the proverbial icing.” he concluded.

\* on 27 June 2012, a private limited company called **Amey Hallam Highways Holdings Limited** was incorporated at the Registrar of Companies for England and Wales. This company is the Special Purposes Vehicle (SPV) which funnels all of the profits generated from this £2.2 billion PFI deal. There were three equal partners: 1) **Amey Ventures Assets Holdings Ltd.**; 2) **Equitix Highways 2 Ltd.**; 3) **Uberior Infrastructure Investments (No. 5) Ltd.** The articles of association reveals that each owned 6,000 shares in the SPV and thus each would receive equal profits. Two of the partners have subsequently changed.

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### PARTNER #1 – AMEY

\* The first partner, Amey plc/ Amey Ventures Ltd. has maintained its interest in the SPV from the beginning in 2012 until today. Following negotiations with the Lib Dems when held power at SCC, Amey plc was one of the three partners which signed the Streets Ahead PFI deal with SCC later in 2012 once the Labour Party returned to power. Amey is the partner that actually executes (or doesn’t execute) the operational work under the PFI deal, though a significant percentage of the work, such as street paving and tree felling, is contracted out to other companies such as Acorn.

\* Amey is a well-known PFI veteran in the UK. It featured prominently in the 19 March 2004 Private Eye expose by leading (and much missed) investigative journalist Paul Foot titled “ P.F. Eye: An idiot’s guide to the Private Finance Initiative.” In one full-page section subtitled “AMEY AMISS”, Foot documented how Amey lost an “enormous sum of money” in the early part of the 2000s “not just by fiddling the PFI books but also as a result of the deranged optimism that plagued a lot of construction companies at the time.”

\* Despite posting a loss of £130 million in 2003 and being considered “a clapped-out loss-maker” in financial circles, Amey did hold one valuable asset: it was part of the consortium that had won the PFI contract to run the London tube. Spanish-owned Ferrovial duly bought Amey. “The cream from the tube would easily drown the losses of the past,” noted Foot.

\* Foot’s wider conclusion written 14 years ago is worth repeating here: “What is already clear is the awful legacy PFI has left behind. Is it cheaper for the taxpayer? No it is not. In every area it has been adopted, it has cost more, and will go on costing more.... ‘Borrow more and charge more’ will forever be the PFI slogan of government, even if that means wholesale abdication from responsible accounting and eventually from all democratic government.”

\* Sheffield has certainly borrowed more. And Amey PFI deals across England and Scotland are still plagued by disputes.

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## **PARTNER #2 – TETRAGON**

\* The second initial partner was **Equitix Highways 2 Ltd**. In 2015, Equitix was taken over by **Tetragon**. How much profit was made from this takeover (and the selling of its interest in the Sheffield contract) is unknown.

\* Tetragon describes itself as “a closed-ended investment company that invests in a broad range of assets, including bank loans, real estate, equities, credit, convertible bonds, private equity, infrastructure and TFG Asset Management,”

\* Tetragon is registered in Guernsey and this means that profits gained from the Sheffield deal are not taxable in Guernsey. Nor are standard business records and accounts available for scrutiny.

\* Three of Tetragon’s director live in Guernsey. Rupert Dorey, a key Tetragon director, was president of the Guernsey Chamber of Commerce from 2012 to 2014.

\* Founding director of Equitix and the group's chief operating officer is Nick Parker. On the Tetragon website it states that Parker headed “up all primary bidding activities” and “successfully led the teams from the initial stages through to financial close in a number of sectors and notably the teams that achieved financial close on the .... Sheffield and Birmingham highways project.” (The same three partners were also charge of 2010 Birmingham Highway Maintenance contract, also a PFI deal. But Birmingham council has acted very differently than the Sheffield council, as Whitfield explained in the same interview.)

\* The Tetragon website notes that Parker, who is expected to retire at the end of 2018, was formerly employed by Amey Ventures Ltd., his future corporate business partner in Sheffield and elsewhere.

\* Records show that the Tetragon Financial Group Limited operates 67 other PFI (or similar) projects, in addition to the Sheffield PFI deal, all across England and Scotland. It is partnered with Amey in a number of locations.

\* In its half-yearly annual report dated 31 July 2018, Tetragon stated that its net assets were worth US\$ 2.1 billion and that it was delivering an annualised rate of return of 10.5 %.

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### **PARTNER #3 - PIP INFRASTRUCTURE INVESTMENTS (No. 5)**

\* what began in 2012 as the **Uberior** equity or ownership interest in 2012 has today become the **PIP Infrastructure Investments (No. 5)** interest.

\* here is how it happened: Uberior Infrastructure Investments (No. 5) Ltd. is UK registered company. In 2012, its two equity holders were listed as Lloyds Bank UK Infrastructure GP Limited and Uberior Infrastructure Investments Limited. Then Aberdeen Infrastructure Investment (No. 5) took over. Its parent company was Standard Aberdeen. However in November 2017, Standard Aberdeen sold the company --- and thus the equity in the Sheffield deal --- as it was also selling (at the same time) its interests in a total of five other PFI projects. That deal was worth £400 million and the buyer was the now re-named PIP Infrastructure Investments (No. 5) which, at least at the moment, remains the owner.

\* such ownership interests in a PFI contract are particularly valuable (and saleable) because any financial risks, especially in the later years of a PFI contract, are all-but-eliminated. The reason: PFI deals are guaranteed by Westminster over the entire term of the deal, usually 25 years. [It is worth remembering that when the Sheffield PFI deal was initialled in 2012, former Sheffield Hallam MP Nick Clegg, then Liberal Democrat leader, was Deputy Prime Minister in the Cameron coalition government.]

\* it is impossible to calculate the level of profits made from the selling of the ownership interests in the Sheffield contract on secondary financial markets. Nor may we ever know the revenues that will be generated from future sales if this PFI contract carries on until the year 2037.

\* What we can find out is how much profit has been made on similar transactions involving other PFI and PPP (Public Private Partnerships) scheme over recent years. A just-released ESSU study titled "PPP Profiteering and Offshoring: New Evidence" shows that such sales between the years 1998 and 2016 brought in, on average, an astonishing rate of return of 28.7% on investments. This is more than the double the 12% to 15% annual rate of return that is typically set down in the initial business case made for PFIs to local councils, NHS trusts and other public bodies. (Put another way, councils and NHS trusts operate on the expectation when a PFI deal is signed that its PFI contractor will make a return of 12% -15%). In business circles, a rate of return of 28.7% on a capital investment is usually labelled "a good earner" ... or more colloquially, "a super profit."

\* Significantly, the ESSU reports also notes that 100% of such equity transactions in 2016 were to offshore infrastructure funds located in Jersey, Guernsey and Luxembourg, all of which are well-known tax havens.

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Concludes NO STUDY CITY: "Now that we know our payments are going to a tax haven and contract interests being marketed globally like so many cans of baked beans, the need to stop losing 11,000 further healthy trees from our streets to Amey becomes all the more pressing."

Further articles are being prepared by NO STUMP CITY for release over coming weeks. They will give further details of how SCC PFI funds are being siphoned off and compare the PFI highways repairs deals in Birmingham and Sheffield.

Copies of the reports and studies cited in this media release are available on request.

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END OF RELEASE

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