Client: John Laing
Source: The Daily Telegraph (Business)
Date: 14 November 2017
Page: 1
Reach: 476466
Size: 274cm2
Value: 8806.36

FINSBURY

Labour plans for PFI could cost taxpayer up to £50bn

Bringing contracts under state control could be complicated and costly, fund's figures suggest

By **Alan Tovey**

TAXPAYERS could be on the hook for as much as £50bn under Labour's pledge to end private finance initiative contracts and bring the schemes back under state control.

John Laing Infrastructure Fund (JLIF), a leading operator of PFI schemes, has calculated that were its £871m of UK contracts returned to state control, it would receive 86pc of their value in compensation. This works out at roughly £750m.

There are currently more than 700 PFI contracts in the UK with a capital value of £59bn. It is impossible to know exactly what level of compensation would be paid out on all these contracts if a Labour government chose to take back control of the outsourced projects. But, using JLIF's calculation as a rough proxy, which is a reasonable assumption according to experts, the bill could be as high as £51bn.

JLIF runs 57 PFI projects in the UK. It operates and maintains assets including schools, hospitals and motorways. The company highlighted the potential payout in a trading update as it spelt out risks to the business following the Labour Party conference in September, when shadow chancellor John McDonnell said a Labour government would axe PFI deals.

David Hardy, investment adviser at FTSE 250-listed JLIF, said: "We have had a lot of questions from investors about what it would mean for us. This was the first opportunity we have had to make clear what the impact of such a change would be." Shares in JLIF slipped 3.4pc on the disclosure. In his conference speech, Mr McDonnell announced that Labour would not sign any more PFI deals. He said existing contracts were a "waste of taxpayer money" and would be brought "back in house".

After his speech the party rowed back on the position, saying it would "review" all PFI deals. However, shadow chief secretary to the Treasury Peter Dowd, later said in a TV interview that the "bulk" of PFI contracts were expected to "come back in".

Analysts warned that transferring so many critical assets operated under PFI in the UK to state control would be an immensely complicated task.

Mr Hardy said: "The legalities alone would be a vast undertaking. The government would need to 'resource up' to manage these contracts. Each of them is very different and a significant resource to take back in house what has been put out to industry over the past 20 years."

Richard Abadie, a partner at PwC specialising in PFI, said it was feasible to untangle PFI deals but it would be a "complicated" process generating "not insignificant costs". He added: "It could cost in excess of £1m per project for an 'easy' termination. The Government would not have the financial resources, nor internal people resources, to be able to do a 'Big Bang' approach to nationalising these contracts. It would take many years."

A spokesman for Labour said ending PFIs would "deliver savings to the taxpayer through savings on dividends, high interest rates and fees".

He added: "Our preferred option for taking PFIs back in-house is via nationalisation of the special purpose vehicles that contain the PFI contracts. The equity value of the SPVs is much less than the £50bn suggested here but, as with our other nationalisation policies, precedent confirms it is for Parliament to decide the level of compensation."