UK: Labour’s John McDonnell pledges to buy out PFI contracts after Carillion collapse

Jean Shaoul
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John McDonnell, Labour’s shadow chancellor, has promised that a future Labour government under Jeremy Corbyn would sign no new Private Finance Initiative (PFI) contracts.

His *Guardian* article was written in response to the collapse of construction and services company Carillion, a major contractor to the government and public bodies via PFI and outsourcing contracts.

Headlined, “The Carillion scandal must bury the rip-off PFI dogma for good,” McDonnell writes that Labour would make in-house delivery of public services “the default option” and “move to bring existing [PFI] deals in-house by taking ownership of the special purpose vehicles [SPVs] to deliver savings for the taxpayer.”

He continued with a series of polite suggestions to the Conservative government, saying, “The government could move now to bring an end to the scandalous rip-off of outsourcing. It could refuse to allow PFI projects to pay dividends to offshore fund shareholders, for example—with nearly half of all PFI contracts owned by nine offshore funds, that would be a significant start.

“Or it could recoup dividends paid out by construction firms that have admitted participating in blacklisting trade unionists, which includes Carillion.”

Rhetorical flourishes aside, what does McDonnell’s proposal entail from the standpoint of the working class, whose jobs are on the line and who will be hit by the threatened collapse of services on which millions rely and ballooning austerity measures to pay such offshore funds?

Carillion held about 450 contracts with the government in education, defence, transport and the justice system, representing 38 percent of its 2016 reported income.

This has forced the Conservative government of Prime Minister Theresa May to guarantee the salaries of those affected in the public sector to avoid an immediate collapse in key areas while workers in the private sector were summarily thrown to the wolves. However, there is no commitment to maintain their future operations or the jobs and conditions of the workers affected by the compulsory liquidation of the company with more than £2.2 billion debts, of which an estimated £800 million are in pension liabilities. And questions are already being raised about the financial viability of Carillion’s commercial rivals also involved in major government contracts.

Fourteen hospital trusts have had to trigger emergency plans, with six deploying additional staff to maintain essential maintenance, catering, cleaning and portering services previously delivered by Carillion. And this when hospitals are already unable to cope with the extra demand during the winter months and are operating at maximum capacity. Councils are making emergency plans to take over services provided by the company, including school meals, with Oxfordshire saying that the cash-strapped fire service is on standby to deliver them.

The Private Finance Initiative was rolled out by the Conservative government in 1992, as a means of hiving off large swathes of public services to private corporations. But it was under Tony Blair’s Labour government in 1997 that PFI really took off. Successive governments signed more than 800 deals to build hospitals, prisons, etc., creating a mountain of high-cost debt that will have to be paid off for decades to come—under the mantra of “transferring risk” to the private sector.

While the capital value of these projects is believed to be about £90 billion, expected payments to cover the debt and provision of ancillary services are more than

£300 billion over the 30-year life of the contracts.

At least 74 contracts—more than one third by capital value—have collapsed, been bailed out, terminated early or are beset with major problems. According to a report by the European Services Strategy Unit, some of the most significant were in health (14), transport (10), housing (9), information technology (9), and education (8), accounting for 70 percent of the problem contracts. These failed contracts have cost billions of pounds, with no complete record of the full costs.

At least 16 projects have been cancelled or terminated, including the Skye Bridge and the three London Underground PPPs, where the Department of Transport had to provide nearly £2 billion to pay off the private sector's cost overruns. Some were renegotiated on more generous terms, including the Channel Tunnel Rail Link and National Air Traffic Services, within months of their signing. None of this includes the repeated bailouts and renegotiation of the railway franchises.

In the case of the NHS, after admitting that extra cash had been provided "on the quiet," in 2012 the government was forced to provide a £1.5 billion bailout fund to NHS trusts threatened with financial collapse due to the cost of their PFI projects. The trusts are likely to need another £1.5 billion soon. This is in addition to the £2.4 billion cash injection for 57 trusts with PFI projects in 2015-16.

In some cases, public authorities have sought to buy out the contract to avoid the excessive payments to the PFI providers. This has proved to be horrendously expensive. In the case of Hexham hospital, the termination costs included: the repayment of senior debt (£50 million); the market value of the shares based on estimates of future profits (£14.5 million); transactions and sub-contract breakage costs; corporation tax liability (£18 million); the cost of breakage of interest rate and inflation swaps (£27 million) and other costs, less any cash balances held by the SPV, the shell company holding the PFI contract. This amounted to £107 million for a £50 million hospital.

The Hexham buyout was only possible because Northumberland County Council loaned the trust £114 million. Other heavily indebted trusts have neither the cash balances nor access to debt finance.

Researchers at Edinburgh and Manchester Universities have estimated what it would cost some hospitals to buy out their contracts. The results are obscene, with most hospitals having to pay at least £500 million over and above the capital cost of the project.

McDonnell and his advisers are either blissfully unaware of the costs of "taking ownership of the SPVs," or are wilfully deceiving the public.

In any event, the legal restrictions and financial realities of early PFI termination mean that such buyouts will not "deliver savings for the taxpayer," even in the unlikely event of a future government providing the funds.

Working people must not be duped by McDonnell's empty promises. The scale of what is involved makes clear that a Labour government will not and indeed cannot stump up the cash to buy out the PFI contracts. The sums involved are massive and the corporations and banks will seek to extract every last ounce of compensation they can—if they agree to sell at all.

If McDonnell were serious about his pledges, he would be telling workers to prepare for the fight of their lives—against a ruling elite whose insatiable appetite for self-enrichment has brought the UK to the brink of disaster. He would insist that Labour seize their ill-gotten gains to help provide the basis for implementing socialist measures to meet social need, not private greed.

The right to high quality public services and a decent standard of living can only be secured by the working class mobilising in a *political* offensive against the corporate-directed policies of austerity, war and the assault on democratic rights espoused by all the main political parties, including Labour and its pseudo-left supporters grouped around Momentum and under a genuinely socialist leadership. The working class must overthrow the ruling class and expropriate its wealth, not buy them out—transforming the giant corporations and banks into public utilities owned and democratically controlled by the entire population, not a handful of billionaires.