

TAKING ON THE LEGAL LOAN SHARKS OF THE PUBLIC SECTOR: THE FIGHT FOR A PFI WINDFALL TAX

Labour Member's
Campaign Briefing
Pack from the
Office of Stella
Creasy MP

WHAT IS PFI?

Since 1992 and to the present day the Private Finance Initiative ("PFI") has been used to finance and operate public sector projects. Under PFI, the Government takes out a loan through a private company (a "PFI Company") who then build and manage a project. The PFI Company then charges the public sector a repayment fee each year for the loan and any services they provide. There are now 700 PFI projects around the UK including for schools, hospitals, prisons and motorways.

There is now a compelling body of evidence that the costs of these deals outweigh the benefits- with £200bn due back to these companies over the coming years for £60bn worth of buildings, PFI is the equivalent of taking out a payday loan to pay for building and running our public services. **The annual charges for these deals amounted to £10.3bn in 2016-17** – with around half of this cost being for interest repayments and charges rather than services for local residents.

WHAT IS THE PROBLEM?

Recent research by the National Audit Office (NAO) shows that using PFI contracts can make the costs of public building projects **40% more than relying solely upon government money**. It also shows how additional charges such as insurance and cash requirements have pushed up these costs further.

The NAO also highlight that the 2012 Conservative Government review of PFI failed to address any of the concerns about the costs of borrowing or overcharging by these companies. A recent Independent think tank report by the Centre for Health and the Public Interest found that **over the past 6 years PFI companies made pre-tax profits of £831m in the NHS alone** and are estimated to make profits of almost £1bn over the next 5 years.

WHAT ABOUT CARILLION?

The collapse of Carillion also shows that those who argued working with the public sector would transfer the risks of building projects to the private sector were mistaken. It is likely the bill to the public sector for addressing the consequences of Carillion's poor financial management will run into hundreds of millions. The Government cannot guarantee what will happen to the PFI run schools and hospitals Carillion manages, as the contracts ensure that the lenders are given priority when it comes to repayments. To pay them these projects could be sold onto other companies who may seek to cut services or raise charges in order to continue managing them.

At present no central record exists of repayments on these deals, with different Government departments each individually managing these contracts. Despite the Department of Health being aware of Carillion's financial difficulties in June 2017 and the issuing of profit warnings, the Department for Transport awarded them lucrative HS2 contracts in July 2017.

CAN'T WE JUST CANCEL THE LOT?!

The NAO report also shows how expensive it would be to cancel these contracts and bring the existing deals in house. **This is due to the clauses in the contracts which require the lenders and the shareholders to be 'fully compensated' if they are cancelled.** The contracts also require the Government to cover the interest rate swaps used to ensure that these deals were profitable. The NAO estimate this would add a further 23% to the costs of buying out these contracts. **In total it could cost up to £220bn - money which would not go into our public services but back to these multi billion pound companies and their shareholders.**

SO WHAT CAN WE DO? A WINDFALL TAX

Whilst PFI companies may not be worried about calls to cancel their contracts, they do see a windfall tax as a credible threat to their profits. They have made excessive profits on these deals due to the Conservative Government's corporation tax cuts. When many of these deals were signed, the level of tax companies would pay formed a key part of the value for money assessment. Many agreed to pay corporation tax rates of 30% - thanks to Tory cuts to corporation tax, this will fall to 17% by 2020. **Experts calculate the companies running 125 PFIs in the NHS have already made a windfall profit of £190m from these changes- and that these companies will make millions more from this tax cut in the coming years as a result.**

The NHS is facing an unprecedented funding gap of up to £34bn over the 5-year period to 2020/21. We can use the state's power to bring these companies round the table to renegotiate all PFI deals. If these companies won't negotiate substantial reductions in their repayment costs, then parliament can use the threat of bringing in a tax on the windfall profits they have made to retrieve this cash for our public sector.

WHAT CAN LABOUR MEMBERS DO? THREE CAMPAIGN ACTIONS YOU CAN TAKE

Governments of all political parties- including Labour, Conservative and SNP- have used these contracts, but it's only Labour activists who have a clear plan to address the problems they cause. Labour can lead the call to get cashback from these companies through a windfall tax. We must fight to ensure not a penny more goes to them and their lawyers and to protect our public services from the damage these contracts have done.

TASK ONE: MODEL CLP MOTION

Please help support the campaign for a windfall tax on PFI companies by asking your Constituency Party to pass the following motion:

That XXX CLP notes the following:

- *the recent collapse of Carillion and the potential for job losses and further costs to the public purse,*
- *the profit warnings issued to other outsourcing companies and the recent National Audit Office report into PFI contracts setting out the lack of evidence of the benefit of the use of these contracts to the public sector, and*
- *the consequences to public service budgets of the use of these forms of finance including the £200bn committed to paying the remainder of these contracts and the evidence that approximately half of these repayments is for interest and charges not services provided.*

It further notes:

- *the costs of cancelling PFI contracts as a result of the restrictive clauses they contain requiring compensation be paid to the lenders and shareholders involved in such circumstances,*
- *the evidence that Government departments continued to give Carillion contracts despite profit warnings being issued to the company,*
- *the research by the CHPI identifying that these companies will make £1bn in profit from PFI deals in the NHS alone,*
- *that the original value for money assessments of these contracts included the assumption that PFI companies would pay a much higher tax rate than they do now due to Conservative cuts to corporation tax and*
- *the small number of companies involved in this industry and the large profits they have been able to pay shareholders*

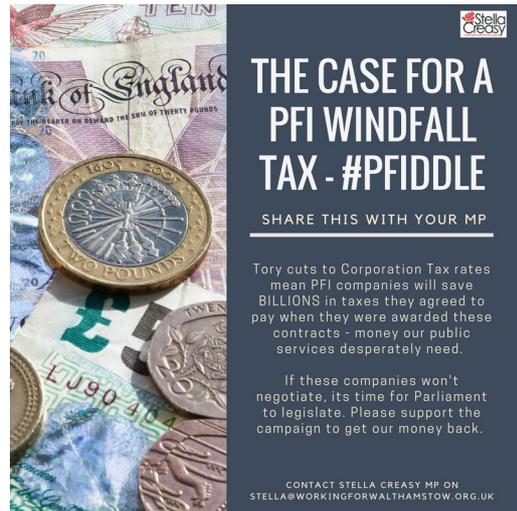
It therefore resolves the following:

- *To call for Labour to support calls for an urgent review of all private sector contracts to finance and run public services*
- *To support calls for the next Labour Government to produce a 'doomsday' book of all private sector contracts including details of the costs and interest charged on these projects*
- *To join the campaign for a windfall tax on PFI companies to recoup the excessive profits they have made at the taxpayers expense and call for Labour to support this campaign.*

TASK TWO: SHARING #PFIDDLE SOCIAL MEDIA CAMPAIGN MATERIALS

Please share the #pfiddle materials online - you can find quotes, articles and pictures to help raise awareness of this campaign on this hashtag on social media.

Please also use this hashtag when writing about this campaign online.



TASK THREE: ASK YOUR MP TO BACK THE PFI WINDFALL TAX

Parliament will have the opportunity to show support for a windfall tax on PFI companies profits by voting for amendments to financial legislation. Please ask your MP to co-sign these amendments and vote for them to show that if the Government doesn't step into sort out the PFI contracts, Parliament will legislate.

WHERE CAN I GET MORE INFORMATION?

Thank you for your interest in this campaign!

For more information on this campaign and for details of the impact of PFI deals on your community please contact the Office of Stella Creasy MP on stella@workingforwalthamstow.org.uk.