FINANCE WATCH

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So Chancellor Philip Hammond has finally rung the death knell for the UK Private Finance Initiative and PF2, which was of course the new branded replacement for PFI introduced by George Osborne back in 2012, although it didn't really catch on.

However, interestingly Hammond was keen to point out in his speech that he did not rule out the use of PPPs in the future to fund the UK's infrastructure pipeline. Well that is reassuring as it implies that the government will at least support the delivery of infrastructure in the future, which is a good idea given the ensuing Brexit position, irrespective of the outcome. However, I would hate to be accused of being cynical, but this does seem to suggest that a new PFI/PPP funding model may be rolled out that will go by yet another name but will essentially still have the same fundamental ingredients.

We are all aware of the bad press that PFI has suffered over the years, usually focusing on the high cost of projects and poor value for money. In many legacy PFI projects, I suggest that this may indeed have been the case. Back in the heyday of PFI, two or three projects a month were closing, more often representing small projects of less than £25m each. These were typically schemes such as Lift, Building Schools for the Future, or emergency services projects.

There was so much PFI going on that consortia and contractors were struggling to cope with demand and may have quoted for smaller projects, which on the face of it were not that lucrative, on the basis that if they won them at a higher price they were so highly profitable it was worth undertaking the work/subcontracting regardless of the consequences.

This was certainly not the case across the board but coupled with the then higher underlying cost of funding, many smaller projects certainly now look poor value for money. This has had a knock-on effect to refinancing, where legacy projects have been prohibitively expensive to refinance due to the significant break costs associated with the then high fixed rate cost of the hedging.

In fairness, these negative arguments have been around since well before the financial crisis and the cause has not been helped by the recent high profile collapse of Carillion, which painted the industry as a huge Ponzi scheme! There is an argument that suggests the Carillion debacle was indeed the final straw.

So if PFI is no more, where does this leave the handful of projects that have recently entered procurement? I am specifically referring to the significant Silvertown Tunnel, A303 and Lower Thames Crossing projects. We understand that projects that are well advanced will still be honoured by the government, which would suggest that Silvertown is safe.

But what will become of the A303 and Lower Thames Crossing? There is a very real danger that these will not proceed in their current form and will likely be resurrected in a new format in the future, albeit materially delayed. Whatever the outcome, the funding market will be disappointed as these projects would have been the most lucrative the UK has seen for some years.

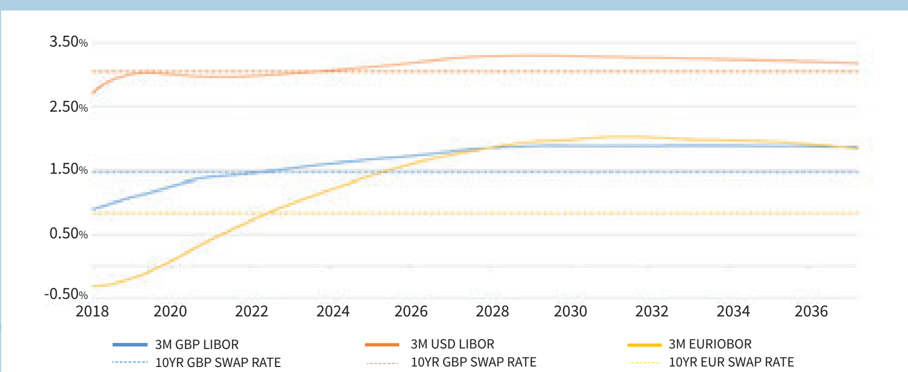
By the time you read this column we may (pardon the pun) have some news on Brexit and what sort of deal the UK will end up with, if any! As I write, the prime minister is touring the country and courting MPs to sell her "only deal" that has now been ratified by Brussels.

However, Theresa May is up against significant parliamentary opposition and may not get the vote she needs.

But what is the alternative? If the deal is thrown out by Parliament, what is plan B? Does the UK just leave the EU with no deal? We have had months of argument by frankly a sometimes astonishing list of varied pundits, some of whom have no idea what the current deal is and no credible alternative. One can't help feeling that there is a lot of sabre-rattling going on and at the finishing line, something will be agreed.

Amusingly, as soon as the deal was agreed by the EU, and it stated that there were to be no changes, France pops up wanting rights to fish in UK waters and Spain brought back into question joint sovereignty of Gibraltar. Whatever the outcome, I suggest we will know soon as the UK will need at least three months to decide on the contingency plan. PB

Projected 3MTH GBP/EUR/USD IBOR CURVES and corresponding 10 Yr Swap Rates



28 Nov 2018			
	GBP	**EUR**	**USD**
3 Month IBOR	0.89356%	-0.316%	2.70700%
MID Swap Rates			
3 YR	1.1491%	-0.0591%	2.9678%
5 YR	1.2646%	0.2365%	2.9719%
7 YR	1.3553%	0.5012%	2.9962%
10 YR	1.4677%	0.8309%	3.0544%
20 YR	1.6561%	1.3466%	3.1409%
30 YR	1.6910%	1.4142%	3.1237%