

Treasury bank looks beyond PFI



Lloyd: limits lifted

London's £16bn Crossrail project could be one of several non-PFI schemes to benefit

from government funding as the Treasury's infrastructure finance unit (Tifu) starts casting its net wider.

Tifu's narrow original remit to bail out struggling PFI projects has widened to include a range of infrastructure deals, officials confirmed at a conference in London last month.

James Stewart, head of delivery agency Partnerships UK, said that the Heathrow to Essex Crossrail project could fit into Tifu's plans to start lending "public to public".

The unit was now looking at "some of the larger Department for Transport non-

PFI transactions", said Charles Lloyd, the Treasury's head of partnerships.

"I'm very keen that we do more [in PPP] rather than continue to refine to the nth degree every aspect of how PFI finance is arranged," he said. "That's not to say we are moving away from PFI, not at all. But I think we can afford to devote more energy to other areas."

The news comes as the European Investment Bank committed £1bn towards Crossrail, which already has funding from public and private organisations including Network Rail and the Canary Wharf Group.

DEAL WATCH

Carillion has beaten off competition from Galliford Try to win Rochdale's £192m Building Schools scheme. It will now deliver 13 new or refurbished schools in three phases over a four-year period. The construction giant will invest equity in the four PFI schools and will provide facilities management generating approximately £12m of revenue. Rochdale's scheme takes the total value of projects Carillion has won on the BSF programme to £1.4bn.

Work can finally start on Croydon Council's £450m regeneration PPP following planing approval for the first stage. Construction of 390,000 sq ft of council offices is expected to start in early 2010. It is the first scheme to emerge from the urban regeneration vehicle PPP involving a 50/50 partnership through which **John Laing** invests equity and the council invests land. This is the UK's first local council asset-backed scheme to offer councils a share of their development projects.

Oldham Council has selected a preferred bidder for its £130m housing PFI but is remaining tight-lipped about who it has chosen. The two consortiums battling for the deal – Inspiral (Regenter/Manchester Methodist Housing Association/Rok Construction/Taylor Young) and Solutions for Oldham (Contour Housing/Crudon Construction/Powerminster/Nationwide) – have been informed prior to gaining central government approval. The outcome for the project to deliver 450 new homes and refurbish 320 existing properties on five sites across the borough will be announced in October.

Norfolk County Council's waste PFI scheme will go ahead as planned – without taking on any extra work from a second scrapped waste project. Over the summer, the council abandoned 'Contract A', a waste PPP project worth around £500m, because it was "too expensive". At the time, the council considered expanding its PFI waste scheme, a separate deal with £91m in credits. However, the PFI will now just manage 170,000 tonnes of waste per year as originally planned, according to the council.

FINANCE WATCH - With JC Rathbone Associates – Financial Risk Consultants

Recent months were, as everyone expected, quiet when it came to closing PFI projects. However, the holiday period saw Blackburn Lift and schools deals in Durham, Birmingham and Bradford all close, as well as the major Slovakian road deal, and looking forward, the pipeline for the fourth quarter of the year seems strong.

Although the markets have largely been quiet, Sterling interest rates have seen a rally. This stems principally from the minutes of the August meeting of the Bank of England's Monetary Policy Committee. They show that even though the Bank extended the Quantitative Easing (QE) programme to £175bn, governor Mervyn King and two of his esteemed colleagues had wanted an extension to £200bn instead!

They argued that too little stimulation would mean inflation remaining below its target of 2% for "a sustained period of time ... and might harm public confidence in the recovery, causing it to falter." Overall, the committee agreed that 'the balance of risks remained weighted to the downside.' This sobering reminder, amongst a raft of positive data, drove a sharp rally as 20-year swap rates fell

circa 0.30% to around 4.20% from the highs at the beginning of August. This will greatly help any projects closing soon,

as lending margins have shown no signs of reversing, although they may be stabilising. With the latest phase of QE likely to take until November to complete, the committee is expected to sit on its hands until then. So the focus will shift to whether the UK can emerge from recession in the third or fourth quarter. However, policymakers have every incentive to keep financial conditions loose because credit constraints could still halt the recovery.

After all, economic data

continues to be very mixed, and re-stocking within the economy can often bring temporary relief before reverting back

to weak growth – hence talk of a 'double dip'. The general uncertainty should be good for long-term interest rates as the markets will await further clarity before any significant moves up. On the other hand, the Government's long-term debt position is not easing and whilst this burden remains it is hard to see interest rates going anywhere but up in the medium term. So, amid all this uncertainty, PFI projects closing in the fourth quarter may have timed it just right!

INTEREST	GBP / SWAPS	
Period	17.09.2009	17.06.2009
3 Month LIBOR	0.60000%	1.25063%
3 Years	2.4850%	2.8800%
5 Years	3.2400%	3.5750%
10 Years	3.8900%	4.1425%
20 Years	4.1600%	4.3900%
30 Years	4.0300%	4.2375%
GBP / Base Rate		
Lending Rates	0.5000%	0.5000%
FX - EUR/G FX - EUR/GBP BP		
Currencies	0.8910	0.8483