A NEW DEAL FOR INFRASTRUCTURE

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The disaster of Carillion presents the UK with an historic opportunity to reform the financing of essential infrastructure, essential to enhancing the UK's productivity, and forging social cohesion.

The difficulties experienced by Carillion prompt a decision as to how our infrastructure is financed. The government's second largest contractor has debts of £1.5 billion, including a £587 million pension shortfall. Carillion is involved in HS2, and manages several schools and prisons. Carillion maintain 50,000 homes for the MoD, 500 school buildings, the second largest supplier of maintenance services for Network Rail, and holds £200 million in prison contracts.

Carillion employs 43,000 people worldwide, including 20,000 in the UK. It specialises in construction, facilities management, and ongoing maintenance. In 2016, it had sales of £5.2 billion, and its market capitalisation was £1 billion.

Then the problems started. The share price has plummeted, and in January, 2018, was worth only £61 million.

In December, 2017, Carillion convinced its lenders to grant more time to repay them. It has embarked upon risky contracts which have proved unprofitable. In 2017, Carillion issued three profit warnings in 5 months, and wrote down more than £1 billion from the value of contracts.

Despite these challenges, only 1 week after Carillion issued a profits warning, and its chief executive had resigned, Transport Secretary Chris Grayling awarded Carillion part of the contract to build HS2.

Should Carillion collapse, this would have a huge impact upon schools, prisons, railways, and homes provided for the MoD.

A taxpayer funded bail out must be ruled out. This would expend billion of taxpayers' money which could otherwise be invested directly in the infrastructure. It would also mean that the taxpayer would assume liability for shareholders' losses. A bail out would reward commercial irresponsibility, and would set a dangerous precedent. Paying the debts and compensating the shareholders must be the responsibility of Carillion. This clearly is a responsibility for the Carillion company. The government should reclaim the bonuses given to the Carillion bosses.

In the short term, the government should establish a public enterprise company, and recruit all the Carillion employees involved with government contracts. This company would invest in the infrastructure. This would have the advantage of a single company managing the entire infrastructure, would avoid job losses, and ensure that the supply chain of small and medium sized businesses continues unhindered.

Going forwards, much stricter criteria must be adopted for the awarding of government contracts – after all, this is taxpayers' money. There should be more potential suppliers, encouraging competition, also from small and medium sized companies. For the rail networks, it is essential that track and rolling stock is managed by a single company, whether this is a state enterprise, or a private company.

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The historically low interest rates of 0.5% present the UK with an historic opportunity to embark upon the most radical programme of infrastructure, housing, transport, energy, skills training, global trade, and enterprise reforms in the nation's history.

The economic conditions are ripe, provided that a rigorous deficit reduction plan is followed to maintain the low interest rates, for a £65 billion investment programme in infrastructure – to include transport connectivity, energy production, social housing and internet connectivity.

The government should issue tax free bonds for the proposed £65 billion investment programme, and indeed all future schools and hospital buildings, instead of using PFI. This cheaper than PFI, and prevents the disasters such as Carillion.

Governments in the USA and in Europe issue bonds to finance infrastructure. Investors, such as banks, insurers, and pension funds, and individual investors, buy the bond to obtain a return on their investment.

Bond investment can help create a new generation of savers. At a time of record low interest areas, bonds provide higher returns than savings, and are much less volatile than shares. Currently, there will be a strong demand for bonds, as they are seen as safe, their prices rise, and the yields falls, meaning the government pays less in interest rates.

In addition, every £1 spent on construction generates at least £2 of economic output. For every £1 spent on construction, 92p stays within the UK, thus ensuring that the vast majority of labour and raw materials emanates from the UK.