Funding the Future

PFI - surely the game is over?

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As Tom Clark notes in the Guardian this morning:

The private finance initiative was devised to get schools, hospitals and roads built without swelling the government's overdraft. Critics discerned a conjuring trick. Instead of the state borrowing, private consortiums did, and then the public paid — at a premium rate. It has often been likened to sticking a mortgage on a credit card; but Whitehall always resisted that charge.

But now the Treasury Select Committee has reviewed the system just as George Osborne plans to use it for another £2 billion of schools, and as Tom also reports (and I've edited, a lot):

A committee with a Conservative chair, Andrew Tyrie, and a coalition majority could have played it safe. Instead, it produced a quietly devastating report. Calmly and forensically, the committee weighs costs and claimed benefits to damning effect — and also confronts ministerial motives.

It finds the temptation to fiddle the figures alive and well.

Tyrie set his crunchers to work without fear or favour — with breathtaking results. Post-credit crunch, investors can demand higher returns, and so the financing costs of a typical PFI deal now exceed 8.5%, more than double the rate at which the government can borrow. For PFI to stack up, those claimed benefits around risk thus have to be not merely valid but overwhelming.

No wonder the MPs insist state investing directly ought always to be considered.Rarely has the claimed basis of a policy been so decisively demolished. Only accounting convenience and connivance with the City remain.

It was ever thus with PFI.

It's time to declare the game over.

Green quantitative easing could do the job much better. So could a new infrastructure bank fund by pensions.