

How did Labour find £6 billion?

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Labour found £6 billion in the last week to buy 166,000 houses for the Ministry of Defence. The spending wasn't budgeted, so how did it fund the money all of a sudden?

<https://www.youtube.com/watch?v=vdnMDz3wuqs&si=wLsO6PfVis3HYEOm>

This is the audio version:

https://www.podbean.com/player-v2/?i=9sgf4-177db2b-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

And this is the transcript:

Where did Labour find £6 billion from? It's a question that I think needs an answer because it has done just that. It found £6 billion to buy married quarters houses, which were mainly used by officers and staff in the Army. And it bought them back from a private finance company.

The houses in question were, in fact, sold before Labour came into office in 1997. This was one of the last of John Major's significant PFI, or Private Finance Initiative, arrangements of the Tory government that fell in 1997 and it was deemed to be good value for money because the Private Finance Initiative would supposedly keep these houses in good order and repair for the benefit of the staff in the army and the other services who might have use of them.

But that didn't work out. Like almost everything to do with the PFI, things got out of hand. Costs ran out of control because the opportunity within PFI to overcharge from the contractor to the Ministry of Defence, in this case, was enormous and expensive. And it's estimated as a result that there will be a saving of maybe hundreds of millions of pounds a year now as a result of these properties being bought back under Ministry of Defence control with it arranging the maintenance in the future.

But what I'm really interested in is that £6 billion that was used to buy these properties back because we are told continually by Rachel Reeves that there is no money left, that times are hard, the bank is bust, the Treasury has to balance its books, and I've heard nothing about this deal before the last week. And so, how did Labour come across a spare £6bn to fund it when they couldn't do things like relieve child poverty by ending the two-child cap, or pay for the winter fuel allowance for pensioners?

No, that's not what they're doing with money, but they could find it to buy a lot of houses. And how did they do that?

Look, it's very, very simple and very, very straightforward. Given that Labour will not borrow directly from the Bank of England, although it could, it must have increased the amount of borrowing that it is asked for from the City of London this month.

Simple, straightforward fact: it can go to the City whenever it likes and say, "We'd like money." And in essence, there is an agreement between the Government and the City that whatever the government offers by way of debt issue to the City each month, a bank will subscribe for it. The banks don't guarantee the price they'll pay or the interest rate they will demand, but they will always buy the debt on offer. And that price, which they pay is, broadly speaking, guided by Bank of England base rate.

So, Labour went along to the City and said, "Can we have another £6 billion, please?" And the City said, "Yes, no problem. Here you are, have it. That's fine with us." And now 166,000 houses, which used to be in private sector ownership, are now owned by the Ministry of Defence.

My point is this. John Healey, who is Secretary of State for Defence, stood up in the House of Commons to announce this deal and said it was one of the very worst private financing initiative deals.

He said that private funding doesn't work.

He said it would be cheaper for the government to borrow the money and to undertake the maintenance contracts itself.

He said that lessons should be learned.

And I strongly agree with him. There is absolutely no technical way on earth that a private finance initiative deal can ever be cheaper for the government than actually

borrowing itself and undertaking the work in supplying the maintenance services on whatever property it acquires itself.

And the reason is very straightforward. The government can always borrow money at a lower cost than anyone else in the UK economy, and that is because it is the one and only organisation that can never default on its debt payments because it has the power to create money to always settle sums as they fall due, and therefore there is no risk premium in any money that is lent to it, meaning its costs of borrowing are lower than that for anyone else, and I do mean anyone else.

So, Labour found the money on this occasion, and my point is quite simple; it could find the money on any other occasion as well.

So why has Keir Starmer been off in the last month to Saudi Arabia with the begging bowl out, asking for foreign direct investment in the UK, including in public sector projects?

Why is he talking to BlackRock, the US private equity capitalist, about this same issue?

Why, when John Healey, the Defence Secretary, has said a private finance initiative deal was bad, and should have been reversed a long time ago, with which I agree, is Labour trying to create more such deals in a way that is bound to lumber generations to come with costs which are wholly unnecessary?

I don't know.

What I do know is that Labour can find £6 billion when it wants to.

And I do know it could find a great deal more if it had to, because that opportunity is always available, either by issuing bonds to the City, or by issuing bonds and buying them back, which is called quantitative easing, of course, or simply by borrowing direct from the Bank of England, which is a legal opportunity available to the government.

It does not need to use private finance initiatives to fund public sector projects. And they are always, as John Healey said, bad value for money.

So, my question is, why is Labour planning to carry on doing them when it already knows that it's doing bad deals?