

Funding the Future

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Wes Streeting wants to fund 200 new NHS health centres through PFI. But the Public Finance Initiative was a disaster in the past – locking hospitals and schools into decades of expensive contracts. Profits were privatised while risks and debts were socialised. This video explains why PFI 2.0 is a betrayal of the NHS, why it costs more, and why the government should fund health centres directly using its own currency.

<https://www.youtube.com/watch?v=xgDFaQ8nEEw?si=OyL6C1N8wx3Qkl8o>

This is the audio version:

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This is the transcript:

There's a very worrying development being reported by the Financial Times this week, and that is that Wes Streeting, as the health secretary, wants to bring the Private Finance Initiative or PFI back into government funding for new neighbourhood health centres right across the UK.

He's planning 200 of these, which are supposedly going to revolutionise the NHS, in his opinion - but not in the opinion of most people within the NHS - and he wants to fund them using PFI, or in other words, with private money.

Now, this is a model that was created by John Major's government, back in the 1990s,

for those old enough and with long enough political memories to go back that far.

And the model was then taken on by Gordon Brown as Labour Chancellor and expanded massively.

And it failed; let's be clear about it. The model was a total financial failure. It remains a total financial failure because many of these contracts are still running. And the big question to ask is why are the mistakes made back then still being made now because Wes Streeting wants to use the model all over again to harm the NHS once more.

Let's just look at a little bit of the history here.

In the 1990s, the Tories began to be obsessed about the level of government debt. As a result, they created the Private Finance Initiative. The idea was that the government would not pay for the development of state infrastructure; things like the NHS Health centres that Wes Streeting now wants to fund.

Instead, the private sector would build these assets and then, in effect, rent them to the government. As a consequence, it was claimed that these assets would never need to go on the government's balance sheet for accounting purposes. And as a result, there was no borrowing.

Now, all of this was complete nonsense. For anybody who is a professional accountant, you will know that if a client rents a leased asset over a very long period of time, the asset is actually treated as if it belongs to the person who uses it, and not to the person who creates and leases it, and the liability that they have to pay with regard to the rent into the future is put as a loan on their balance sheet.

In other words, the only reason that this model worked was because government accounting was so bad, and people didn't know enough about accounting to be fooled by this stupid arrangement that trapped public services into contracts that were up to 30 years long and excessive in price.

The bad thing was that the incoming Labour government in 1997 were obsessed with using PFI. And I will tell you this because I had the person who, at one time, was scheduled to be the Chief Secretary to the Treasury, Andrew Smith, an MP for Oxfordshire, if I remember rightly, sitting in my own office, in my own accountancy practice, asking if I would help Labour with this initiative. And in due course, Alistair Darling, when he took on that role, did also become obsessed with promoting PFI and the cost has been enormous.

And all of that because none of these people understood the most basic elements of modern monetary theory, which explains that the government issues its own currency and it can therefore always fund investment, and what is more, it can always fund investment more cheaply than the private sector can because the private sector has to

pay a premium for the risk associated with private sector borrowing, and the government does not.

In that case, the claim that there was, first of all, no money was just political theatre. The government can always create the money it needs to fund any project that it thinks is worthwhile. And the claim that it was cheaper for the private sector to fund these activities than for the state to do so was very obviously completely and utterly wrong.

PFI was then all about ideology, false accounting, political shenanigans, helping the private sector, but not for one moment was it about necessity.

And the truth is that PFI has turned out to be vastly more expensive than the state-funded alternatives.

If I just look at some data from the Scottish government - and I've got it from the record of a debate in the Scottish Parliament in January 2025 - it's recorded there that North Ayrshire Council is paying £16 million a year for four high schools. But the point is, the contract, which was signed until 2038, will involve that council paying £440 million in total for schools that were built for a total estimated cost of £83 million.

In other words, the cost to the state sector of building these schools was almost five times the real cost of their creation and repayments of two to three times the original cost are absolutely normal.

Now I'm aware that those in the PFI sector will say, 'Ah, but we are responsible for maintaining the assets thereafter', but everybody who's ever been involved in a PFI, and I have been, I have seen this from the era when I was involved as a school governor, knows that the cost of undertaking activities through PFI is vastly higher than it would otherwise be.

For example, you want to do something simple like change a light bulb. You are not allowed to do that. That's covered by the PFI contract. So you would just get on a step ladder, go up there, change it, come down again, all done. But to have the contractor come in and do it, let's have £125 please, and onwards: this is how it works.

And the fact is that profits have been privatised by PFI contracts, but all the risks have been socialised.

And let's just pick up that point on risk being socialised because it's really important. One of the best examples here is of the Royal Liverpool University Hospital, which was being constructed under a PFI contract by a company called Carillion PLC at the time when Carillion went bust in 2018. The hospital was put into limbo. Nobody knew who was responsible for what. Work stopped. Everybody was in a quandary for some considerable period of time. The PFI contract had to be cancelled. But as a result, some private sector losses were enforced upon people who had lent to Carillion, but overall,

the hospital, which should have cost around £335 million, eventually came in with a bill of over £1 billion, and it arrived in 2022. This idea that there was somehow a benefit as a consequence of PFI was blown apart by the Royal Liverpool University Hospital.

The profits had been privatised. I know Carillion went bust, but that was because of their own incompetence.

I know that some people who lent money to Carillion had to write off loans as a consequence, but that was because they made poor loan decisions.

But the fact was that the eventual price was very much higher to the state than it should have been because a PFI contractor had been involved.

The delays, the redesign, and simply putting right the faulty work of the PFI contractor massively increased the cost. And everybody got their benefit late. Risks were, in other words, socialised, and the profits would've been privatised.

There is no public benefit to PFI. The risk transfer, which is supposedly taking place from the state sector to the private sector, has always been exaggerated when it comes to PFI. The treasury has fixed its model of PFI to make sure that this is the case, and I have absolutely no doubt at all that this will be the case with regard to the projects that Wes Streeting is now talking about.

There is no possible public gain from having 200 health centres built by the private sector when the state sector could do it more cheaply and contract with each of the individual builders in turn, without having to involve PFI at all.

The government can never get public assets more cheaply than it can create them itself.

And the government is therefore failing hospitals, failing schools, failing doctors, nurses, teachers, patients, students and always the state is left at risk. And all because a dodgy accountancy trick is being used to justify ideology.

And what is more, the penalties carry on for decades. The average PFI contract lasts for 25 to 30 years with remarkably little flexibility inherent within them. There are massive penalties if the government wants to change its mind on anything. If it wishes, for example, to redevelop a building during the course of its life, the price of making the change is enormous. And yet no building in the public sector will continue without alteration over that lifespan. Wards will be redesigned. Schools will want to change the layout and use of classrooms, and on and on. But all of that happens for the gain of financiers and not for the benefit of schools or patients.

The NHS and public authorities are drained of funds as a consequence. Cleaning, catering and maintenance have all been cut back as a result. And very largely, there has been outsourcing of contracts from those who were previously working for the state

sector into the private sector with consequent loss of pay and rights, and very often the imposition of zero-hour contracts.

So it's not only those who benefit from the services, but also those who work within the services who have been prejudiced.

This is therefore a ridiculous policy. And it all comes down once more, as it did in the era of Gordon Brown, to an obsession about debt.

Rachel Reeves does not want to increase the debt on public balance sheets, and she's willing to pay an enormous price not to do so. We will be paying quite literally for her vanity for decades to come.

This undermines democracy, and it undermines accountability. It guarantees private profits to private companies, but there is more debt, whether Rachel Reeves wants to admit it or not.

We cannot see the resources of the NHS diverted from care to finance again.

We cannot see old mistakes being dressed up as new reforms once more.

PFI 2.0 would mean even more NHS money is wasted.

We would be seeing a long-term drain on public finances, and services will be weakened for decades.

That's a betrayal.

The government must therefore fund its own health centres.

It must provide the money for these.

It must be clear about why it's doing so.

It must explain the private benefit.

MMT must be used to explain why PFI is not necessary.

The explanation does in itself justify why those like me who talk about modern monetary theory and how it promotes the understanding that the government is never constrained by a lack of cash is so important.

And, for everybody's sake, we must say no to PFI in the NHS.

Rebuilding Britain requires the courage to use the power of the state. It doesn't require private money.

What do you think?

Do you want the state to build our new health centres? Or would you prefer that they were built by the private sector at considerably greater cost? Do you not know? Do you need more information? Or do you think there's a third way? Let us know. There's a poll down below, and I'll be very interested in your opinion.

Poll

[poll id="200"]

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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