Do we need a road bridge or tunnel across the Channel?

You could argue that as the rail tunnel is not at anything like full capacity it would be wrong to add another cross Channel link. Clearly the owners of the rail tunnel would not welcome a new competitor, and were not expecting one under the terms of their concession.

You could also argue that maybe a road link would be more popular and better used than the rail one. Whilst a new road would doubtless do considerable damage to the business model of the rail tunnel by taking substantial traffic away from it, it might also generate some additional traffic of its own. If more French people came to the UK as tourists that would be a bonus for the UK economy. If more UK people went to the continent to shops and holiday it would be bad for the UK balance of payments, but might be welcomed by those taking advantage of cheaper and easier travel.

It is difficult to see the Channel tunnel keeping much of its shuttle business carrying lorries, if they were able to carry on driving to get to the UK. That is the mainstay of the tunnel's freight business, which would be badly affected. Passenger traffic is more difficult to gauge, but again there could a lot of people who would like to go by their own car instead of taking the train and then hiring a car or using taxis when they get to the cities on the continent served by the trains.

My advice to the government would be not to commit any public money to a road crossing. They should also check the legal position carefully over the concession to the current Channel tunnel operators and owners. There are many other road projects we need in the UK that should take priority for limited sums of public capital. If the private sector wishes to design, build, operate and finance a road link then of course the government should be willing with the French authorities to examine the scheme to see if it deserved approval and support from the government as regulator. It would need to be built with artificial islands to avoid ship collisions with its piers, and would need to leave plenty of rooms for deepwater shipping lanes in what is a very busy piece of water.

The government would need to consider the security and borders consequences of a road link, given the difficulties the rail link helps create in Calais today. It sounds as if from additional briefing there are no current plans for such a scheme.

The Worboys case

There were plenty of representations to the government against the Parole Board decision to let Worboys out of prison soon. The Justice Secretary promised to rewiew the situation to see if he could intervene. He has now concluded he cannot mount a successful legal challenge. The Parole Board is an independent body where Ministers do not involve themselves in decisions on individual cases. I assume the Justice Secretary thinks the Parole Board followed the proper process, even if he along with many other people think they reached the wrong conclusion. Judicial review concentrates on process, not on outcome.

This will be a disappointing conclusion to the constituents who wrote to me about this case, but they can be assured the government did know the strength of public feeling on this issue.

The Channel tunnel has proved to be an expensive and disappointing investment

When the idea of reviving plans for a tunnel under the Channel came to Margaret Thatcher in the early 1980s I provided some of the briefing on the project. I researched the 1964-74 project which had got to the point where tunnelling started on the English side, only to see the Labour government cancel the project in January 1975 on the grounds that it was too expensive and not likely to be a good investment. The nineteenth century had vetoed several plans on security grounds, the later twentieth century became more worried about the money.

My conclusion was simple. A rail tunnel under the Channel was most unlikely to make money for its investors. There were many other more pressing needs for road and rail capacity in the UK that could justify public investment and would produce a better return. Given the strength of feeling for a Channel project in other parts of the government I proposed that the Prime Minister gave her consent, as long as no public money was put at risk in the project. She agreed with the advice, and the government proceeded accordingly. I thought the forecasts for build costs, for operating costs and for revenues were all too optimistic. I was also surprised that the private sector was so keen to press ahead, given the large risk of loss.

The UK and French governments offered a 55 year concession to the Channel Tunnel company to operate a rail tunnel and collect fees and charges to reward their shareholders and pay off their debts, with the tunnel then reverting to the two states. The company thought this a fair offer, raised shareholder money and set out to the governments how it would build and operate the tunnel, agreeing to meet government safety standards.

The Tunnel turned out to be a poor investment for many who put up their savings for the project in the early rounds. It was first beset by a major cost overrun. An overrun of around 80% depending on whose calculation you accept led to a total cost well in excess of the starting estimate, with considerable general inflation also affecting the outturn. This made getting an early and decent return much more difficult.

This was compounded by discovering that the forecasts of potential usage were far too optimistic. As I had expected, use of a rail tunnel on that route was much less than the enthusiasts thought. The 1985 traffic forecast said there would be 37 million passengers using the trains by 2003. Instead there were just 15.2 million. They said there would be 11.4m tonnes of train freight by 2003. There was instead just 1.7m tonnes. Their forecast of lorry use of the shuttle was more accurate but still ahead of outturn. Revenues as a result fell well short of forecast in the early years.

The Channel tunnel company had to go through various financial restructurings to raise the extra money it needed to keep going. Governments helped by extending the concession period, first by ten years, later allowing it to stretch out to 2086, almost one hundred years. The tunnel has never hit the original passenger forecasts or train freight forecasts. It means there is plenty of spare capacity on the existing rail tunnel. The tunnel company reviewed the case for a road tunnel to go alongside it in the late 1990s and concluded there was not nearly enough potential use to justify such an additional investment.

I will talk in Monday about whether we need another such link

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How do you shift risk to the private sector to justify private finance of public services?

There are various risks which the private sector can take on where they might be better at managing them in a way which improves results and lowers costs. When designing a tender and negotiating with a provider the public sector needs to be careful to avoid the position where the private sector privatises the gains but keeps the public sector on risk for the losses.

The clearest way to put the private sector on risk is to make it responsible for both the financing and the revenue. The M6 toll road north of Birmingham not only meant the private sector took all the risks of the construction, but also had to rely on the toll revenue to remunerate the capital. It had to compete with a free road provided by the state. In such a clear cut case there is no doubt the private sector is on risk.

Many PFI projects remunerate the private sector with a flow of money from the government or Council. Whilst the private contractor still has to “earn” the money by providing the school and equipment or carrying out various medical services, the money comes from the state and the state has to make sure the provision continues whatever happens. This weakens the amount of risk which is effectively transferred. In some cases the state provides shadow tolls or revenues based on usage, in other cases public money is paid year by year for use of facilities which the private sector paid for up front.

When the main point of a PFI is to provide a new school or hospital building for the state to use there can still be a proper transfer of risk. The risk mainly transferred is the risk of design, construction and fitting out. The contract to make annual payments for the facilities once provided can be designed around the budget cost of the project rather than the actual outturn, leaving the private sector at risk of budget and time overruns on the building.

Should the private sector be involved in providing public services?

There was a bad reason for the Private Finance Initiative, and several good reasons.

The bad reason was much used under the Blair/Brown Labour government. They wanted to pay for a number of new schools and hospitals without the capital cost appearing on the public accounts. They therefore asked the private sector to borrow the money to keep it off the government balance sheet. The government can usually borrow more cheaply than private sector businesses. Bad PFI contracts sometimes resulted, with the state simply paying more to borrow through the intermediation of a PFI contract. In practice much of the risk of the projects rested still with the taxpayer who could end up with a bad deal.

The good reasons for PFI are that the private sector can do come things better and more cheaply than the public sector by specialising and managing them well, and the private sector can take on risks that would otherwise fall to the taxpayer. When the Thatcher government first got interested in the idea of more private sector help in delivering public sector projects and services it developed a set of rules.

Where the private sector wanted to provide a regular service by employing the staff and managing the tasks, the public sector had to organise fair competitions for the work and had to demonstrate there would be savings over the contract period compared to doing the work in house. When Councils and the central government contracted out items of service like refuse collection, cleaning and catering, there were usually substantial savings and a tough better policed standard of service required. The private contractor was on risk for managing the task and the staff, and faced penalties for failure to deliver the required quality and quantity of service. The public sector still had important roles in deciding how much service it needed, what the standard should be, and in policing the contract.

Where the government wanted the private sector to undertake the financing and delivery of a major capital asset there had to be sufficient transfer of risk to make it worthwhile for the public sector. The UK public sector has in the past had a poor record of controlling the costs of major projects and delivering them on time, though the current government believes it has sorted out many of these difficulties. A design, build, and finance contract for the private sector clearly got over any risk of expensive overruns and delays for the taxpayers. The extra cost of capital that the private sector would incur could be more than offset by better discipline in how long it took to build and how much it cost to build. If the private sector was unable to cut costs as it thought then it was on risk to absorb the overruns. One of the most successful examples of a design, build, finance and operate contract was the Dartford crossing. The private venture was allowed to charge a toll and to collect it for as long as it took to recoup their outlay and an agreed profit. The bridge then passed to the state without debt as a free asset. The private sector still had plenty of incentive to build to budget and to get on with generating the cashflows, as investors wanted an early pay back.

It would be wrong to drop the involvement of the private sector in the provision of public services as well as impractical, just because one large company involved in public provision has gone bankrupt. It is important that shareholders, bondholders and lending banks are not bailed out by taxpayer money, which the government has been clear it will not allow. For the system to work there have to be penalties for the private sector for error and failures. The story when told will probably show us that the private sector became too keen to take on public sector business at very low margins, which turned out to be loss making when they came to manage the risks they had willingly accepted. Private shareholders have ended up subsidising the state as a result by supplying services and facilities below cost.

As a Minister I did turn down a proposal for a PFI project on the grounds that it was primarily a way of paying more for borrowing and substituted a public sector project. I took the rules seriously, and wanted to see there was either or both a significant transfer of risk or clear evidence that good quality provision would be cheaper through PFI. That should continue to be the guidelines for the UK government and Councils. Labour’s attack on all of this is absurd, given the big role the last Labour government played in extending PFI and contracting out, and given the extensive use Labour Councils rightly make of these techniques today. One of the curious features of Labour in office in recent years locally and centrally is the way they have come to rely very heavily on private sector contactors and sub contractors to deliver public services. Much local policy making relies heavily on private sector consultants rather than on officers of Councils, and it was Labour who also introduced the idea of private sector healthcare performing operations for the NHS.