Funding the new Velindre Cancer Centre: PFI again?

While there has been widespread opposition by the local community to the plans to site the new Velindre Cancer Centre on the Northern Meadows, there has been very little discussion about the proposed funding arrangement. The financing of the new Centre is through the Welsh Government's *Mutual Investment Model (MIM).* This will be the first hospital in Wales that is funded through a public-private finance initiative, and sets a precedent in establishing hospitals as private entities, leasing out facilities to the NHS.

How much will it cost?

This is unknown currently and depends on what private contractors are prepared to bid. Overall costs have been cited at £300m and the Velindre hospital trust website identify £211.7m for capital construction. There is also an estimated £30m to prepare the site for construction.

What is MIM?

MIM is an updated version of the Scottish Government's Non-Profit Distributing model (NPD), which was an 'improved' version of the Private Finance Initiative (PFI). PFI involves the private sector financing, building, owning and managing infrastructure, such as a hospital or a college, which is leased to the public sector in return for an annual payment covering 25-30 years. PFI has been widely criticised for its excessive cost and the burden of high repayments placed on the NHS and local authorities. Private companies have made huge profits on the back of these deals, with estimates that over 5 years, £1b of profits were going to PFI firms in the health service. Mark Drakeford described PFI as a 'discredited' model and even the Conservative government conceded that PFIs have not worked. They were halted in England in 2018 following the collapse of Carillion, for failing to deliver value for money, being complex, inflexible and risky.

The Scottish Government 'improved' version NPD was claimed to be very different to PFI, reflecting similar statements made by the Welsh Government about MIM. According to a report by Audit Scotland (2020), payments for PFI and NPD contracts, between 1998 and 2048 will amount to approximately £40 billion, which is over 4 times the value of the assets being developed. Much like PFI, NPD has failed and been abandoned. It was also twice ruled, in slightly different formats, as counting as government capital spending, despite the main aim of NPD being to keep these investments off the balance sheet and thereby avoid restrictions on borrowing. In that same report, the use of MIM was also discussed, and how Scotland planned to implement a similar system that Wales has now chosen. They concluded that MIM was worse for the public sector than NPD, as it 'exposes the public sector to a greater risk of project losses'.

Is MIM different from PFI?

The National Assembly for Wales finance committee enquiry reported that 'Whilst MIM is an improvement in terms of community benefits and oversight of projects, it is hard to establish a significant difference between the two models, specifically as to how MIM offers greater value for money than previous PFI models' (2019:5). MIM may be a slight improvement on PFI but there is no evidence that it will overcome the major problems inherent in PFI.

What are the implications for the new Velindre Cancer Centre?

- high cost of MIM and the burdening of future generations with excessive repayments until 2050.

- maintenance of the site and building will be managed by a private company using non-NHS workers until 2050.

- contracts are highly complex and inflexible, particularly those relating to the maintenance of the site. It is difficult to specify in the initial contract all possible scenarios that might occur over 25 years. Adjusting contracts is costly.

- additional costs of professional fees in developing MIMs (lawyers, accountants, contract managers), in the bidding process and in monitoring and managing the contract over 25 years.

- the Scottish Audit Commission (2020) questioned whether there would be many bidders for a project of this size (and probably not from the UK) because of the potential risks, which could enable bidders to demand higher annual revenues.

- no restriction on the private owner selling their future contract payments to another company. The government will have no veto over any sale, for example to an owner based in an off-shore tax haven. This makes it difficult to ensure that excess profits are not made and that the new investor is held to account.

- oversight is through a public interest director but their powers will be limited and they will be unable to veto decisions made by the owners, including those around refinancing.

- risk that the contracting company will fail (such as Carillion in 2018) and costs will fall back on the government, and projects will be delayed.

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