

Britain: Enron-style accounting conceals financial collapse of health service

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Britain's Labour government boasts of its increased spending since April 1999 on the National Health Service (NHS), but a recent report by the National Audit Office (NAO) reveals a very different picture. Far from increasing resources in ways that increase and improve front line services, the government's actions have only postponed the NHS' financial collapse while at the same time reducing access to healthcare.

The NAO's annual report into NHS' finances shows that only one of the 99 Health Authorities in England had failed to balance its budget for the financial year 2000-2001, compared with 59 in 1999-2000 and 48 in 1998-99. The number of NHS Trusts (which provide acute, specialist and community health care) that were in "significant financial difficulties" had also fallen. But even after increased funding, 10 percent of all NHS secondary healthcare providers had accumulated deficits greater than one percent of their annual expenditure and in some cases deficits were nearly ten percent of total income.

The Health Authorities have in effect balanced their budgets by shifting the burden of adjustment onto the healthcare providers, the Trusts. Even this was only achieved after a record level of Trust mergers, rationalisations, hospital and ward closures. Twenty-six Trusts and parts of 3 others merged and 2 were dissolved after 1999-2000. As of April 2001, a further 48 Trusts, parts of 13 others and 2 special hospitals merged. In 2002, 17 Trusts were dissolved and the rationalisations have continued apace. It is these closures that lay behind the ever-increasing time it takes for patients to receive treatment.

A recent report by health economists at the London School of Hygiene and Tropical Medicine examined the merger of nine NHS Trusts in London between 1998 and 1999 and showed some of the disastrous consequences. Far from improving finances, quality of services, and the ability to recruit and retain staff in the most expensive city in Europe, the researchers found that Trusts had saved barely £320,000 in two years, damaged staff morale, made team working more difficult and delayed improvements in patient services.

These deficits have been fuelled in part by profiteering by pharmaceutical corporations, clinical negligence claims due to staff shortages, an increase in workload, demoralisation and errors, and a rise in staff wages to bring the NHS in line with the European Union's directive on a maximum working time for junior hospital doctors. More recently, there has been a miserly 3.6 percent pay increase for nurses. For decades, the NHS has run on the back of the most poorly paid healthcare workforce in Europe. Fed up with their pay and conditions, nurses have left the NHS in droves. The NHS has been forced to recruit staff from private nursing agencies at a cost of nearly £1 billion and bring in nurses from developing countries.

These deficits are also the result of the financial regime imposed by the former Conservative government in 1990, and not repudiated by the incoming Labour government in 1997. The Trusts are required by statute to operate as financial businesses and make a 6 percent return to the Treasury on the value of their assets. As these assets have risen in value alongside the frenzied property boom, so too have the required returns that the hospitals must pay.

By 1999, these factors had combined to lead to a massive accumulated deficit of £1 billion that meant that more than half the Trusts were technically insolvent. The Treasury was forced to step in, employing a creative accounting trick that makes Enron look like child's play. As the National Audit Office reports show, the Treasury sanctioned non-cash increases in revenue that were used to offset a write down of their assets, thereby reducing their future payments to the Treasury, and recycled back as "dividend" payments to the government.

The scale of the government's massaging the books can be gauged by the following example. The fifth largest Trust in the country, the South Manchester University Hospital Trust with two huge teaching hospitals both larger than the average hospital, had such a massive deficit that the government had to provide a fictitious £40 million, a 35 percent increase on its normal funding. This took place at the same time as the Trust closed one of the two sites,

concentrating all its facilities at the less accessible site, with a huge reduction in capacity.

That the government was forced to resort to such widespread chicanery illustrates the scale of the crisis facing the NHS.

In recognition of the mounting public anger over the NHS, the Chancellor of the Exchequer announced last April an extra £42 billion in funds over six years. He proudly claimed that it would take Britain's spending on health as a percentage of GDP up to that of the European average by 2008. Even then, Britain will still be well below Germany and France. Moreover, the rise comes after years of under funding, estimated in the recently published Wanless report to be £267 billion between 1972 and 1998 compared to the European average that includes the poorer Mediterranean countries. The consequences are stark. Hospitals have a £3.2 billion backlog of maintenance and repairs, and many are nothing short of disgusting, with more than half the beds in accommodation built before 1914.

Many of the Health Authorities have produced budgets that show that they can either meet the increased costs and sort out their deficits, or satisfy the government's new health initiatives to cut the time patients wait for hospital treatment and operations. The government has stipulated that waiting times for operations must fall from a maximum of 15 months at present (in reality these can be very much longer since it can take that long just to get an out-patient appointment) to 6 months by 2005 and 3 months by 2008. The government has told Health Authorities that at least £40 million of the £50 million earmarked for waiting list initiatives has to be spent in the private sector. But the Health Authorities say that there is simply not enough money to do it all.

The government admits that most of the new money will not go on base line services. It will be used firstly to train new health professionals—although the government does not say where the capacity to train more doctors will come from. By 2008, there will have to be more than 15,000 GPs and consultants, 30,000 therapists and scientists, and 35,000 more nurses, midwives and health visitors. Yet the rising wage bill has not been factored into the government's allocation for the NHS.

Secondly the new money will go on new hospitals, the government says. Since new hospitals are to be financed under the Private Finance Initiative, essentially a leasing arrangement with private sector corporations who provide the hospitals, and will be paid for out of the Trusts' existing budget, this is fundamentally dishonest. It is tantamount to saying that the Trusts' income is equal to both their revenue and the cost of the new hospital. Thus, even this £42 billion increase has only been achieved by cooking the books.

The looming bankruptcy of the NHS means that millions will be left without access to affordable quality healthcare, with disastrous implications for public health and an incalculable cost in human suffering. With its one million employees the NHS is the largest single employer in Europe. Workers could find that like clinical staff in "Third World" countries, their pay comes late, if at all.

The NHS was one of the most important of a series of measures taken by the post-war Labour government, meant to placate the demands of millions of workers for social improvements at a time of political unrest on a world scale. The then Labour government's various measures of social reform were crucial in restabilising British capitalism and none more so than the NHS, which replaced a fragmented workplace-based insurance system that provided inadequate coverage for those that were insured and left the overwhelming majority of the population: women, children, the elderly, poor and unemployed, without access to healthcare unless they paid for it up front.

In as much as the NHS was a universal and comprehensive healthcare system, free at the point of use, and provided as a right to all who resided in Britain, independently of any financial contribution, it marked an important landmark. It set a benchmark for the right to healthcare provision all over the world. In the 55 years of its existence, no government was able to privatise or dismantle the NHS for fear of the political uproar that would follow. While New Labour has long renounced its reformist programme, its fading appeal to the British public now rests largely upon its perceived role in establishing the NHS. If a Labour government, so long associated with its birth and its defence, allows the NHS to collapse, then it will suffer the political consequences.



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