Britain: National Health Service faces mounting cash crisis

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A document prepared by accountants Grant Thornton for Manchester Strategic Health Authority, which holds the budget for healthcare services in Greater Manchester, paints a devastating picture of the state of the city's healthcare finances. It predicts a deficit of £12 million for Manchester's 14 Primary Care Trusts (PCTs), soon to be responsible for spending 75 percent of the budget on purchasing healthcare on behalf of their patients, by the end of this financial year. Even more importantly, without drastic action, the deficit is set to rise exponentially to £430 million in 2007/8.

The report warns, "actions and decisions are required now". Despite revenue growth, the city's capital investment plans are unaffordable. Choices would have to be made. But Neil Goodwin, chief executive of Greater Manchester Strategic Health Authority, denied there was a financial crisis. As far as he was concerned, the report was "our starting point for prioritising these developments so that we get the balance right between the different parts of the conurbation and between primary care and hospitals."

It means shelving or pruning several new schemes, including the new specialist children's hospital in central Manchester that was promised as a replacement for facilities that have already closed. New facilities and refurbishment at Salford Royal and Tameside General Hospitals, together with numerous smaller projects for primary care, mental health, cardiac treatment, cancer care and intermediate care, face the axe.

The consequences of such cuts will be devastating. Manchester has some of the worst healthcare indices in the country. Its heavy burden of disease and health inequalities is rooted in its history as the first industrial city in the world, the catastrophic decline of its once famous textile and engineering industries, and the appalling levels of deprivation and urban squalor.

Average life expectancy is now one of the lowest in the country. A boy born to a mother in Manchester between 1999 and 2001 has a life expectancy 10 years shorter than that of a boy born in Dorset. The city has higher mortality rates than the national average on all the major diseases, particularly heart disease and cancer. Even this figure underestimates the size of the problem since these average mortality rates mask the huge social inequalities within the city.

There is no reason to believe that the financial crisis in Manchester's healthcare is materially different in any other city in Britain. This cash crisis exposes the government's much vaunted increase in funding for the National Health Service (NHS) as a fraud. It testifies to the government's determination to create a private healthcare sector at the expense of and in opposition to the public.

It had claimed that the funding would increase by six percent above the rate of inflation for five years until 2008 and five percent thereafter, allowing the NHS to meet its costs and deliver on the government's performance targets. But such increases are a drop in the ocean, coming after years of underfunding estimated in the Wanless report to be £267 billion between 1972 and 1998 when compared to the European average which includes the poorer Mediterranean countries. Even the increased funding made available came with a sting in its tail: truly heroic performance targets, particularly a reduction in waiting lists.

Many of the Health Authorities produced budgets that showed that they could either meet their 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. But there was simply not enough money to do both, let alone finance the additional costs of creeping privatisation.

Most of the NHS budget goes on hospitals, which have struggled with deficits for years and had an accumulated deficit of £39 billion for the year ending March 2002. Starved of cash to maintain their infrastructure, they now face a £3.2 billion backlog of repairs and refurbishment.

Staff costs have risen, in part because of the European Union Working Time Directive limiting the hours that junior hospital doctors can work and in part because of a miserly 3.6 percent increase in nurses' pay. But the chief reason is because nursing staff, fed up with their ever-increasing workload and low wages, have left the NHS in droves. As a result, the NHS has been forced to recruit staff from private nursing agencies at a cost of nearly £1 billion, thereby lining the pockets of the healthcare corporations.

Another major cost has been the exorbitant cost of drugs, now rising at 15 percent a year as the pharmaceutical companies profiteer at public expense.

The latest and least publicised cost pressure is the government's backdoor privatisation of the NHS: the Private Finance Initiative (PFI) whereby the NHS leases new hospitals and commissions the non-clinical services from the private sector. These hugely expensive hospitals, which are typically 30 percent smaller than the ones they replace, have driven a coach and horses through the NHS budget. The new specialist children's hospital to be built for Central Manchester has more than doubled in cost and threatens to financially destabilise not only Central Manchester Healthcare Trust but also the local healthcare economy.

Research has shown that the NHS trusts are paying up to 30 percent more than they had budgeted for these new hospitals as the corporations have taken advantage of every loophole in the contracts to extract more money while failing to deliver the required levels of cleanliness and service. Standard and Poors, the credit rating agency, noted gleefully in a report to investors that despite penalty clauses in the contracts for poor service, of three major service failures at Carlisle hospital only one had incurred a penalty and this was less than £100. In other words, there was little risk in investing in the bonds used to finance these PFI hospitals.

In addition to the PFI, Secretary of State for Health John Reid has just launched a £2 billion scheme to expand the private hospital sector, with his announcement that the government was awarding the first contracts for the new diagnostic and treatment centres (DTCs) to overseas healthcare operators. The corporations will run specialist centres carrying out routine surgery such as cataracts, hip replacements and hernia operations for which there are long waiting lists.

These corporations are to be paid at a much higher rate than the standard tariff at which the NHS hospitals are reimbursed for such treatments because, as the Health Secretary admits, they cannot make a profit unless they are paid a "market forces" supplement. Utterly impervious to the obvious contradiction between the government's claim that the NHS is inefficient and his admission that the private sector was more costly than the NHS, Reid went on to repeat the mantra that the private sector was more efficient than the NHS.

While the government had originally claimed that the corporations would bring in their own staff from overseas, now they will be allowed to recruit up to 70 percent of their staff from the NHS. Not only will the DTCs line the corporations' pockets at the taxpayers' expense and eat into the healthcare budget, they will also rob the NHS of its key staff, reduce its already inadequate capacity and further destabilise its financial position.

Despite the political sensitivity of such changes to the NHS, the issue was evidently not discussed in Cabinet as even ministers did not know that the government had gone back on its promise not to let the DTCs poach NHS staff.

The government is determined to press ahead with a free market in healthcare irrespective of the cost, its effectiveness or public opinion. Julian Le Grand, professor of social policy at the London School of Economics, is to spend three days a week on secondment to Downing Street. Le Grand is a keen advocate of market mechanisms in health, rationalised with the government's new mantra of "patient choice". Eight task groups are to examine how "choice"—for which read private contractors—can be extended beyond waiting list surgery to mental health, maternity and other areas.

The Grant Thornton report is predicting a deficit for this financial year, even before many of the government's costly privatisation schemes have been fully implemented and truly astronomic deficits in the next few years. This comes with a warning that other factors could further exacerbate the financial crisis. Excluded from its analysis are the implications of the new market mechanisms for reimbursing the hospitals, the inevitable rise in the estimates of capital expenditure as the private sector holds the NHS to ransom and the revenue consequences of such increases.

The Labour government is deliberately destroying a comprehensive and universal system of publicly provided healthcare, one of the most important social institutions of post-war Britain. It poses the very real threat that millions will be left with little or no access to affordable quality healthcare, with disastrous results.