Britain: Private capital and the crisis in the National Health Service

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The sudden departure of Sir Nigel Crisp from his post as Chief Executive at the British National Health Service has highlighted the financial crisis within the state-run system.

Crisp announced his early retirement on March 7, as the NHS was expected to announce a record deficit of almost £800 million.

Central to this crisis is the Private Finance Initiative (PFI), first introduced in 1992 by the Conservative government as a means of privatising essential services by stealth. Under PFI, private sector corporations design, build, own and operate public services in return for an annual fee for the duration of the contract, typically 25 to 35 years. PFI capital investment in the NHS is set to reach £7 billion capital by 2010.

The PFI system has been expanded under Labour. Whilst it has proven a financial boon for big business, however, it has been nothing short of a disaster for public health and is bleeding the NHS dry.

In February the *Observer* newspaper reported that one of the government's flagship PFI-funded hospitals, the Darent Valley hospital in Dartford, Kent, has "been forced to ban non-emergency surgery after doctors cut long waiting lists by carrying out 'too many' operations". These operations include gynaecological, urological and orthopaedic procedures.

The hospital was the first major PFI scheme introduced when Labour assumed office in 1997. It has been told to scale back its patient operations by local health officials on the basis that it was "over performing"—a euphemism for spending too much money on routine patient care, including basic operations.

From the next financial year, hospitals will be paid per patient on a set tariff. This has already had a large-scale impact; hospitals are being instructed to implement savings in preparation for the implementation of financing by results. At the Darent Valley hospital three wards are now closed and about 200 patients are to have their admission or appointment delayed.

Darent Valley's crisis is merely the tip of the iceberg. It follows a report at the end of last year that Health Secretary Patricia Hewitt is ordering "hit squads" into 50 health authorities and trusts in England to prevent further "overspending."

In the counties of Devon and Cornwall, there is an almost total ban on routine surgery. At the Royal Cornwall hospital in Truro surgeons have been instructed to increase their waiting lists. One staff member told the *Observer* newspaper that, "We can't see any outpatients until they've waited at least 11 weeks, and we can't operate until they've waited an additional 24 weeks. This is ludicrous."

Across England more than 900 NHS beds used for maternity, elderly and general hospital care have been closed due to financial pressures. A further 500 beds, mostly in smaller community hospitals, are scheduled for closure by primary care trusts over the next year.

Another hospital facing cuts and possible closure is the Charing Cross hospital in west London. Charing Cross is a renowned teaching hospital that has been forced to cut operations as it is saddled with a £35 million deficit.

According to a survey of all NHS Trusts conducted by the BBC, the health service has a debt totalling £1.07 billion. Some of the trust surveyed revealed that they would need to take immediate action to stem debts including closures, redundancies or cancelled surgery.

West Midlands NHS is expected to announce debts of more than £200 million by April, for example, and the NHS in Shropshire has accumulated debt of £55 million and there are proposals to close three area community hospitals.

Most of the NHS debt is accounted for by London and Home County trusts in the southeast of England. These trusts account for nearly a quarter of NHS debt in England. The largest reported debt for any one health trust was for the Hammersmith Hospitals NHS Trust in London, which has a debt £16.2 million. In an attempt to scale back the debt, the trust has begun to implement a series of cost-cutting measures, including the loss of 300 jobs.

In December, the John Radcliffe Hospital in Oxford announced that up to 100 patients receiving cardiac ablation therapy were being withdrawn from the treatment. Cardiac

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ablation therapy controls an irregular heartbeat and is a vital procedure for those with such a condition. The hospital said that a £15.1 million budget deficit meant only those with life-threatening conditions were to be treated.

It is now estimated that the total market for buying and selling stakes in PFI hospitals and schools could be more than £6 billion. Darent Valley hospital is a prime case in point. Last year it was announced that companies which had originally funded the building of the hospital has earned a return of up to 50 percent a year for its investors. Four companies which invested £13 million in the hospital in 1997 realised £37 million in 2003 under a refinancing deal—an annual rate of return of 25 percent.

In March 2005, The National Audit Office (NAO) report on Darent Valley found that companies were directly profiteering from PFI deals. The report found that when the contracting firm THC Dartford refinanced its original loan at a lower interest rate in 2003 it raised an extra £33 million and was able to realise much higher profits—60 percent higher than expected—for the firm's shareholders. THC Dartford had taken out the loan to finance building work as part of the Darent Valley Hospital PFI scheme.

In December 2003, Carillion, formerly Tarmac, sold its £4 million share of THC Dartford to Barclays Infrastructure Ltd and raised £16 million in the process. The firm duly informed its shareholders that it had that it generated "proceeds of £16 million and a net exceptional profit of £11.2 million."

Such "get-rich-quick schemes" have also become "get rich for a long time to come," as the refinancing of contracts also invariably involves extending them. The NHS Trust running Darent Valley hospital agreed to extend the contract another seven years to 35 years in exchange for a small share of the re-financing gains.

It has been estimated that the Trust may have to pay contractors more than the original cost of the hospital if they want to terminate the contract early.

A 2004 report issued by the Association of Chartered Certified Accountants (ACCA) found that between 2000 and 2003, 26 percent of the increase in NHS income went towards paying PFI charges for new hospitals. Due to the inherently expensive basis of PFI financing the government has paid up to 30 percent more in construction costs for hospitals built under PFI.

The ACCA predicted that PFI "may lead to a loss of benefits in kind and a redistribution of income, from the public to the corporate sector. It has boosted the construction industry, many of whose PFI subsidiaries are now the most profitable parts of their enterprises, and led to a significant expansion of the facilities management sector. But the main beneficiaries are likely to be the financial institutions whose loans are effectively underwritten by the taxpayers, as evidenced by the renegotiation of the Royal Armouries PFI."

This assessment has been more than vindicated.

Another way of squeezing money from the public sector through PFI has been devised by the private firms. At Darent Valley hospital, an investigation by the GMB trade union found that PFI contractors were charging enormous fees to carry out essential routine labour not strictly covered by the wording of its contract. The union claims the company has sent bills for £423 to fit a light socket, £333 to modify a light socket, £25 to cut a door key and £136 to put up a shelf.

Far from condemning these fraudulent activities, the government's Department of Health lauded the hospital as a success story and that it would be the blueprint for plans for 64 similar projects.

The large-scale asset-stripping also finds expression in the widening pay gap between hospital trust directors and executives and general NHS staff. A survey by the Incomes Data Services found that the pay and perks package of NHS chief executives has gone up 78 percent over the past decade. In the same period nurses' pay has risen by only 50 percent.

NHS chief executives' earnings now stand at more than £200,000 per annum at some hospitals. In 2005, the Guardian newspaper reported that the top paid chief executive of a London trust earned between £210,000 and £215,000 last financial year—about 35 percent more than his remuneration the year before. Crisp himself received a salary of £195,000 per annum and expected to receive a large financial pay-off.

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