Britain’s National Health Service saddled with massive debts

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Last week, the BBC published figures from the Department of Health that show the extent to which the previous Labour government mortgaged the future of the National Health Service, saddling it with a legacy of debt that will have to be paid off for decades to come.

Hospital trusts have been burdened with a massive £65 billion total repayment for 103 new building projects whose construction cost was £11.3 billion, once the associated contracts for estate maintenance, cleaning, portering, catering, and laundry are taken into account. In some cases, annual payments could be made for another 50 years.

This off-balance sheet debt for hospitals built under the Private Finance Initiative (PFI) is a colossal transfer of government funds to the banks. Millions of people will suffer ill health and be denied access to health care as services are slashed to meet the repayment obligations.

Introduced in 1992 under the Conservative government, PFI was a means of transferring parts of the public sector to private corporations. But it was under the Labour government in 1997 that PFI really took off—helped by its army of financial advisers recruited from the same private sector corporations that have a commercial interest in the policy.

It became Labour’s flagship policy for privatising public services under the guise of “modernisation”. Labour refused to make public money available, forcing hospital trusts to turn to the private sector to build much needed new hospitals. The main beneficiaries of PFI, as with most of Labour’s policies, are the financial institutions, which now have a guaranteed annual income, courtesy of the taxpayer.

Under PFI, which is essentially a leasing mechanism, an NHS hospital trust pays an annual fee in return for a new hospital that is designed, built, financed and operated by the private sector. All “non-core” services are carried out by private corporations, with only clinical services remaining with the NHS. In other words, the NHS has been privatised by stealth.

The BBC’s figures show that PFI is taking at least 10 percent of a trust’s income. But this is misleading. Many hospitals have been paying at least 12 percent and that is under conditions when their income has risen. The last few years had seen spending on public services averaging about 4 percent in real terms. But far from going to “frontline services” as Labour claimed, its real purpose was to disguise the stupendous cost of creeping privatisation. This is one of the main reasons why, despite the extra resources, the health care for the vast majority of working families has failed to improve.

Research from Manchester University shows that at least 20 percent of the annual payments represent the additional cost of private over public finance: the higher cost of debt—nearly double—plus the profit margins and the huge consultancy fees to lawyers, accountants and financial advisors. This means that the additional cost of private finance is £2 billion more than the total cost of the entire £11 billion building programme.

Even this is a conservative figure. With the PFI consortium subcontracting all the work to sister companies, it was impossible to trace all the “leakages”, and so the real cost must be very much higher, probably nearer 40 percent, the additional cost of private finance involved in road building for example.

Furthermore, the £65 billion total payment is likely to be a gross underestimate. Within a few years from the start, many trusts are paying 20 percent more—and some very much more—than they expected when they signed on the dotted line.

South Manchester University Hospital Trust, which had expected to pay £15 million a year for a new hospital that was built with £66 million private funding and £40 million public funding, is now paying £25 million. Like many of the first wave of PFI hospitals, the new hospital has 30 percent fewer beds than the one it replaced and struggles to get the private sector to clean the hospital to the standard required—one of several factors that has led to the spread of antibiotic resistant infection in hospitals.

Labour, and now the Conservative-Liberal Democrat coalition, claim that PFI constitutes “value for money”. This is entirely fraudulent and based upon a rigged methodology, designed by private sector financial advisors to give the “right” results based upon anticipated savings.

Even the National Audit Office (NAO), the tame parliamentary watchdog, has been critical of the methodology and individual projects. More importantly, the NAO, under pressure from the government, did not publish its highly critical investigation “The operational record of the first wave of PFI hospitals”. The only other NAO report known to have been suppressed was the one into the Al Yamamah arms deal brokered by the Ministry of Defence between BAe and Saudi Arabia.

Under the Labour government, many parts of the NHS were struggling with deficits. Earlier this year, a joint study by Civitas and the *Guardian* reported that one in three hospital trusts were making cuts in the number of surgical treatments, and that casualty departments faced closure. This was because the Primary Care Trust (PCTs) that commission and pay for hospital treatments on behalf of patients were running a £130 million deficit.

This situation is set to get much worse. With the coalition government implementing austerity measures, health policy analysts at Civitas have said that with “zero real growth”, the NHS will face a shortfall of £20 billion by 2013, a gap that will grow to £38 billion by 2016. According to the Institute of Fiscal Studies, four years of almost no real growth would be the tightest four-year period for spending that the NHS has experienced in its 60-year history.

While before the general election Labour had claimed that the NHS budget would be protected in its spending cuts, Liam Byrne, then chief secretary to the treasury, said that the health budget would have to find £11 billion savings and some hospitals would need to close. This figure has since increased to £20 billion by 2014 under the Conservative-Liberal Democrat coalition.

John Appleby, chief economist at the King’s Fund, a health care think tank, gives some indication of the scale of the cuts, which he believed would be borne largely by the big cities. He said, “In London there is a plan to close one third of hospital beds that is being floated by the NHS. It’s not out in the open yet and already it has attracted huge opposition”. He added, “In [Greater] Manchester you have 25 acute hospitals. That is probably too many, and it underlines what big questions the real funding cuts entail”.

The only part of the NHS budget that is ring fenced is the part that goes to the private sector. In a now partially privatised service, this means that £20 billion in cuts will fall on up to one third of the NHS workforce. Hundreds of thousands of clinical and support workers will lose their jobs, and would-be patients will go without treatment in what is already an overstretched service.

Earlier this month, the *Times* gave a foretaste of what is to come, listing trusts across the country that had already announced job losses totalling 11,000. The largest were at the Royal Berkshire NHS Foundation Trust, where 600 of its 4,500 staff, 13 percent of the workforce, will go over the next three years to “save” £60 million. The *Times* pointed out that the Royal Berkshire was one of the NHS’s flagship hospitals and had been praised for its “excellent” financial control by the Care Quality commission. That bodes ill for trusts in a more parlous state. The newspaper reported that a further 40,000 jobs were expected to go across England.