

UK hedge funds and ex-bankers take over first privatised NHS hospital

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The first privatised hospital since the creation of the National Health Service (NHS) in 1948, Hinchingbrooke Cambridgeshire, began operating under Circle Healthcare Limited on February 1.

The Conservative-Liberal Democrat government has already identified 20 “failing” hospitals it wants to be privately run, based on the Circle Health model. Circle Health Ltd is part of Circle Holdings Plc, funded by global hedge funds and run by ex-bankers from Goldman Sachs, Citigroup and Morgan Stanley.

Last November, NHS managers chose Circle Health as the preferred bidder, out of 19, to run Hinchingbrooke. The deal has been championed by Dr. Stephen Dunn, director of policy and strategy at NHS Midlands and East.

Midlands and East NHS web site described the deal as “historic” and made clear it is pioneering the model for the full privatisation of the NHS. For his services in brushing aside opposition and pushing ahead with opening up the NHS to private interests, Dunn received an award last year from magazine *HealthInvestor*. Judges said Dunn’s work with Circle “was widely seen as ground-breaking, and the success or failure of the franchise has huge implications for both the public and private sectors.”

The tendering process begun under the last Labour government was described as the only route out of Hinchingbrooke’s £40 million debts. Both Labour and the Tories systematically closed down all alternatives to privatisation, rejecting the popular demand for the government to clear the debt using public money. Dunn described an NHS “bailout” as “not an option.”

Details of the contract, worth £1 billion over 10 years, are at present being retained by the government, which is invoking “commercial” privacy rules.

In a March 17 article, Pollock, professor of public

health policy and research at Queen Mary, University of London, reported that academic researchers had requested to examine the Circle contract under a Freedom of Information Act. So far, the government has refused the request.

The media have reported that Circle Health’s profits will begin once the £40 million debt has been eliminated. In other words, they have a permanent incentive to slash jobs and services. Although staff and the building will remain for the present under NHS control, it is a prelude to the full privatisation of the hospital.

According to the *Financial Times*, Circle Health Ltd. “already operates a day surgery treatment centre for the NHS in Nottingham as well as private hand and eye surgery clinics in Stratford and Windsor. The company built and opened the privately funded Bath hospital last year, which it sees as a model for healthcare provision. Another is due to open in Reading next year.”

Circle Health Ltd. will offer workers free shares in the company on the basis of productivity and seniority. But what will become quickly apparent is that Circle’s share values can only increase by reducing staff costs. Despite staff controlling 49.9 percent of Circle Partnership Ltd., it is firmly under the control of offshore Circle Holdings PLC, which has received around £140 million investment from hedge funds.

Circle Holdings CEO Ali Parsa is a former member of the National Union of Students executive. He is “a former Executive Director of Goldman Sachs’ European Technology Investment banking team”. He also worked at Merrill Lynch and Credit Suisse First Boston.

Chief Financial Officer Lorraine Baldry was also a senior adviser at the Investment Banking Division of Morgan Stanley. Executive Director Tim Bunting was

at Goldman Sachs, before moving onto Balderton Capital, one of Circle Holdings' main investors. Chairman Michael Kirkwood is a former head of Citigroup's British operations and one of the City's most senior investment bankers.

According to the *Daily Mirror*, "Circle is backed by two City hedge funds run by Crispin Odey and Paul Ruddock, who have donated £790,000 to the Tories. And the company employs former Conservative Party health spokesman Mark Simmonds as well as Health Secretary Andrew Lansley's ex-aide Christina Lineen."

The *Observer* examined Circle's complex business structure and concluded that Circle Health "is a subsidiary ultimately controlled by Circle Holdings," and almost "95% of those shares have remained in the hands of six investors.... In terms of who pulls the strings, it is Parsa and his hedge fund pals: end of story."

The *Observer* article concluded, "But what, then, about the much-mentioned 30m shares Parsa has handed out to more than 2,500 staff, including doctors, nurses, hospital managers, porters and cleaners? These are, in fact, shares in an entity registered in the Virgin Islands called Circle Partnership. This offshore firm has a minority investment of 49.9% in Circle Health, making it a joint venture minority partner to Circle Holdings. Both Partnership (ie the staff) and Holdings (ie the hedge funds) have an equal number of seats on the board of Circle Health, but the small print makes it clear, on almost all issues, that it is Holdings that makes the decisions."

Circle Holdings is not the only private health company moving in to take over services. The Health and Social Care Bill passed in both the House of Commons and the Lords is directed at dismantling and privatising the NHS. Parsa's interview in the *Independent* indicates the disaster they are preparing. He wrote that "during the Eighties we re-engineered our financial services industry.... There is no reason why in this decade we can't do the same with healthcare.... When the NHS was set up, we spent no more than 3 per cent of GDP on health; under the last Conservative government it had risen to 6 per cent; it now stands at around 9 per cent of GDP. If McKinsey is to be believed it will be in the region of 20 per cent by 2050. This is unsustainable."

McKinsey & Company management consultants were

involved in drawing up the Health and Social Care Bill. Many of its existing clients, 15 out of the 22 largest private health care and drug companies, are set to be significant beneficiaries of the £106 billion NHS budget. It had already established extensive ties with the last Labour government. In 2009, it published a report urging the government to sack 10 percent of the NHS workforce.

According to the *Financial Times*, Parsa believes that through his business model "he can get 50 per cent more out of the workforce."

Circle management's fears of "trade union disputes" and "union leaders" frustrating or limiting "the participation of independent providers in the provision of services to NHS" were quickly laid to rest. GMB national officer Rehana Azam described the Circle Health takeover as "no different to hedge funds coming into the sector to asset strip and it is the patients and staff that will suffer," but concluded by saying the union was "watching this closely."

On the day that Circle took over, Karen Jennings, Unison assistant general secretary, reassured the financial backers of the company, "We want, above all, to make sure Hinchingsbrooke remains a good hospital—delivering for patients and investing in staff. We will work with Circle to achieve that."



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