Institute for Public Policy Research

THE 'MAKE DO AND MEND' HEALTH SERVICE

SOLVING THE NHS' CAPITAL CRISIS

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SUMMARY

The NHS has had historically low levels of capital investment. Compared to similarly advanced economies in the Organisation for Economic Cooperation and Development (OECD), this country's capital investment has been very low. On average, a person living in the UK has missed out on almost £2,000 since 1975 – the equivalent of approximately £100 billion overall.

Since austerity began, capital investment has fallen off a cliff. Capital budgets have been regularly cut, leaving spend at record low levels compared to comparator countries. This has been driven by the health service's struggles to make ends meet day-to-day, forcing the NHS to use its capital to patch up running costs. Over the last four years, £4 billion has been transferred from the capital allocation.

Though they were bad deals, private finance initiatives (PFI) were the only mechanism that brought enough capital into the health system. During the years it was used extensively, our capital spending peaked; in 2007, it was a record £2.5 billion more than the OECD average. Having a mechanism to filter capital into the system was incredibly useful for the NHS. However, PFI specifically has turned out to be a bad deal – and will eventually cost almost £80 billion for just £13 billion of assets. This report reveals that £55 billion of this debt is still outstanding – representing a huge burden on tight NHS resources if the government does not take action.

The legacy of PFI, coupled with low investment, is harming quality of care for patients. PFI payments are particularly damaging for some trusts, which are paying up to 17 per cent of their annual income on PFI repayments. Given the hard fiscal reality the NHS is operating in, and tight control of deficits, this can only translate into lower-quality patient services – a PFI postcode lottery. Beyond this, trusts are struggling to keep up with maintenance costs. There are now £3 billion worth of critical maintenance issues – including collapsing ceilings and sewage leaks – that the NHS cannot afford to fix and putting staff and service-users at risk.

Future transformation will further be impossible under the current capital regime. Key government ambitions from the NHS long-term plan – around cancer outcomes, care in the community, improving productivity and a digital NHS – all require substantial upfront investment. For instance, despite laudable commitments to create a digital NHS fit for the 21st century, the NHS has the lowest number of CT and MRI scanners in Europe and one of the highest numbers of fax machines. This gulf between ambition and reality is symptomatic of the difficulties it faces in funding large-scale capital upgrades. However, government has neither established how much capital their policy priorities require, nor put in place funding to support transformation in the system.

WE NEED A NEW SETTLEMENT TO FUND CAPITAL AND SUPPORT TRANSFORMATION TOTALLING £5.6 BILLION PER YEAR – AN 80 PER CENT UPLIFT

This would align our spending per capita with the average OECD average. Given the preferential rates available to government, this should be financed by public – not private – borrowing. Of this, £4 billion should be made available every year in a transformation fund, to support a much-needed upgrade to our health service infrastructure. Anything less will leave us lagging behind international competitors - with the £2 billion one-off cash injection (a less than 25 per cent uplift) announced earlier this year a wholly insufficient sum to either ensure safety or improve outcomes. It will neither rectify the current backlog, nor support much-needed transformation projects at scale in the health system.

The NHS capital budget should receive a £5.6 billion annual uplift, sustained over five years (and rising with inflation) between 2020/21 and 2024/25. This should be split into maintenance and transformational funding and come from increased public borrowing.

To help avoid underinvestment in the future, a duty should be placed on the Department of Health and Social Care (DHSC) and NHS England to publish capital impact assessments for major policy initiatives.

THE PFI LEGACY MUST ALSO BE URGENTLY ADDRESSED, THROUGH A 'RIGHT TO ENFRANCHISEMENT' FOR THE NHS

The NHS will pay over £2 billion this year on PFI – and annual payments have not nearly peaked. This is only good for PFI equity holders, who have made consistently high profits. Government policy to ban new PFI contracts is welcome, but alone it does nothing to ease the burden of PFI's legacy. We recommend a right of enfranchisement for local NHS trusts, where PFI tenures can be transferred into a freehold tenure through a one-off, standardised payment. This would bring the most toxic deals back into public ownership, and improve financial stability across the NHS.

Primary legislation should be laid to give NHS trusts the ability to bring bad contracts back into public ownership through enfranchisement.

While this is implemented, trusts paying the largest percentage of their income (above the average 5 per cent of income) on PFI should receive direct financial support.

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