The Future of the NHS

Chris Ham
University of Birmingham
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The different phases of NHS reform

- Phase 1: central control via NICE, NSFs, national targets and performance management
- Phase 2: shifting the balance of power within the central framework to Primary Care Trusts and NHS Foundation Trusts
- Phase 3: the return of the market, including patient choice and greater plurality of service provision

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Progress with reform

- Waiting lists and waiting times have fallen significantly
- Clinical priorities such as cancer services and cardiac services have improved
- More staff are working in the NHS and buildings have been updated
- The gap between England and the EU best has narrowed

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Where next?

- Progress to date has been driven largely by investment plus central controls
- Next phase will depend more on systems reforms (phase 3)
- Systems reforms include a wide range of risks
- How will these risks be handled and managed?

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Change is being driven hard

- Ministers are worried more about change being too slow and limited, than it being too fast and radical
- The NHS will not experience this level of sustained growth again
- They fear the NHS model may not be sustainable if investment fails to deliver
- 'Creative destruction' is intentional

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The impact

- c. 10% of elective activity in the independent sector
- c. 5% of diagnostic activity in the independent sector (more in the case of MRI)
- c. 33% of outpatient activity could move out of hospital (N. Crisp)
- Emergency bed day use may fall by up to 12%

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Implications

- The NHS could soon have surplus hospital capacity (in some parts of the country, it already has)
- Some hospitals may seek to compete aggressively to fill their beds (especially where funded through PFI)
- Others may seek to diversify into sub acute and primary care
- Yet others may reduce or cease some activities, and cut their cost base

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Implications (2)

- Competition for patients will become more intense
- Hospitals will start marketing their services to patients e.g. in relation to clinical outcomes
- Hospitals will focus on services where their costs enable them to generate a surplus
- Efficiency in hospitals will become even more important e.g. in use of staff

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New relationships

- Mergers and acquisitions will become more common e.g. HoEFT and GH
- Hospitals may take over neighbouring providers, in part to reduce competition
- Public/private partnerships may develop e.g. between PBC and ISTCs
- 'Debenham' style networks may develop e.g. Moorfields

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Collateral damage

- Rapid and complex reforms will create collateral damage
- Stranded capacity in some hospitals
- Deficits for PCTs and PBC (and therefore restrictions on referrals/activity)
- Problems in funding PFI hospitals
- Service reconfigurations, especially where deficits affect health economies, not just institutions

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Collateral damage (2)

- The private sector has also been affected by creative destruction
- Prices to the NHS and consultants' fees have fallen
- BUPA is selling its hospitals, and Nuffield Hospitals has just pulled out of wave 2 ISTC negotiations
- Care UK has acquired Mercury

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The bottom line

- Government is creating a system based on markets
- But decisions are still driven by politics
- Government has succeeded in introducing 'creative destruction'
- But will government be willing to live with the consequences?

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Where are we going?

- Current funding increases come to an end in March 2008
- The NHS budget is then likely to rise by 2-3% a year in real terms
- Performance has improved but does not match that of the best EU countries
- New drugs and technologies will put increasing pressure on the NHS

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Efficiency

- The DH financial sustainability review identified potential savings of over £6bn.
- Biggest areas of potential savings are pay and workforce, productivity and variation, and procurement
- Pay and workforce options include pay restraint and skill mix changes
- Conflict with the unions is almost inevitable

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Levers and incentives

- Choice and competition are being used to drive improvements in performance
- Most NHS providers will be FTs by the end of 2008, and the FT business model will accelerate the search for efficiency gains
- DH may squeeze the tariff further
- Commissioners will also be used to drive improvements

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The sequencing of reforms

- Systems reforms have strengthened the supply side
- Commissioning remains the Achilles heel, and in no health care system is done well
- PCT restructuring, PBC and a bigger role for the independent sector in commissioning are being used
- Will they be sufficient?

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Political change

- Gordon Brown is unlikely to push a very different agenda, but nor should we expect business as usual
- NHS independence is one idea that has already been trailed
- He is on the record as being sceptical about the role of markets in health care
- The Wanless agenda suggests a likely interest in prevention and inequalities

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Political change (2)

- David Cameron is beginning to put the flesh on the bones of Tory health policy
- NHS independence is part of his agenda too
- The Conservatives are likely to want to move further and faster on competition
- In other respects, there is much common ground with Labour

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The international context

- Health care systems in all countries are under pressure to reform
- Most reform efforts in developed countries have focused on improving delivery
- A major challenge going forward will be health care funding
- Expect the debate about alternative funding sources to reignite

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Tony Blair 2006

'The French are debating about whether their system, based on social insurance, is financially sustainable…Spain has an accumulated deficit of 10% of their total health budget. There are sizeable deficits in the various insurance systems that comprise Japanese health care as they struggle to cope with a rapidly ageing population. And the US is no model to emulate'

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UK funding

- In OECD countries, around 70% of funding comes from public sources and 30% from private sources
- In the UK the proportions are closer to 85% public and 15% private – because of massive NHS investment
- With public spending increasing much more slowly in future, and medical possibilities increasing, a squeeze is likely

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Private funding

- Australia offers a possible alternative
- The Howard government has created incentives and penalties to expand private medical insurance cover
- Private funding comprises around 67% of total health funding
- 45% of the population has insurance, compared with 11% in the UK

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Australia's experience

- Public subsidies on a significant scale (30% rebate and higher tax for those without insurance) explain increase
- Insurers are heavily regulated, with community rating and mandatory acceptance
- Insurance covers a limited range of health care benefits

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The UK market

- PMI levels in the UK have stagnated in recent years
- Private treatment costs and insurance premiums have been relatively high
- WPA's gap cover for cancer drugs is a straw in the wind
- BUPA's decision to sell its hospitals could reinvigorate its role as an insurer

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Options for insurers

- Provide support to NHS commissioners – but is government serious and are the benefits sufficient?
- Continue to put pressure on providers' costs, and offer more affordable products
- Develop niche roles where the NHS is under pressure
- Lobby for tax breaks and the development of an Australian style system

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In summary

- In an increasingly affluent and demanding society, the NHS will come under increasing pressure
- Limits on access to new drugs and services are difficult to sustain – Herceptin as an example
- Surveys show that the public are more pessimistic about the future of the NHS, despite spending increases and improved services

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In summary (2)

- Improving the performance of the NHS is likely to be a vote winner
- But public expectations seem to be rising more quickly than the NHS is able to improve
- At what point will politicians decide they can never win?
- And what are the exit strategies?

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The politicians' dilemma

- Health care systems throughout the world are facing similar challenges
- Radical change may be even more unpopular than efforts to reform the NHS
- The NHS remains a valued public institution
- Expect the future of the NHS to be a major issue of public concern and debate

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The political importance of health care

Which issue is the most important in your decision on how to vote?

NHS	27%
Education	18%
Law and order	14%
Tax and public services	11%
Economy	10%

ICM Guardian 22 March 2005

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The challenge for Cameron?

- The impending 'crisis' will take time to emerge
- If the Conservatives win the next election, they will inherit this dilemma
- Where is the fresh thinking taking place on future funding of health care?
- How can the industry contribute?

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Thank you

c.j.ham@bham.ac.uk

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