

Chapter 2

Financial Governance and the NHS

ABSTRACT

Faced with significant difficulties to meet financial costs owing to increased demand for healthcare, National Health Service (NHS) organisations are looking to maintain tight financial control and reduce expenditure where possible. Significant price hikes in essential medicines can also raise challenges to the supply of necessary drugs for the population. The NHS continues to supply healthcare free at the point of use and any attempts to introduce charges remain unpopular. There have been a number of ways in which providers endeavour to reduce costs: rationalisation (reduction of services or certain costly drugs) or through increasing the role of private providers in healthcare provision. This chapter thus reviews the funding challenges the NHS is currently facing and how financial governance is evolving to meet those challenges.

INTRODUCTION

The previous chapter described the move since the 1980s towards a market-oriented approach in the NHS. The major driving force behind such fundamental changes was the need to make savings, faced with ever-increasing health demands. Indeed, health services in the UK have been under significant pressure to keep costs down. Longevity, the retirement of the baby generations of the 1940s and the expected impact of the retirement of the 1960s baby boomers

DOI: 10.4018/978-1-7998-3928-6.ch002

has meant that there are greater health demands. In addition, medical and technological progress has resulted in rising drug and medical device costs. The financial crisis of 2008, the ensuing recession and low growth have also put extra pressure on government budgets. The Covid-19 pandemic, which has put significant pressure on health systems around the world in 2020, will most probably result in further financial difficulties for healthcare providers despite support from the British government. This chapter will thus describe those financial pressures in detail. It will then look at a number of solutions which have been envisaged to sustain healthcare provision, including the privatisation of some areas of healthcare provision.

FINANCIAL PRESSURES IN THE NHS

Financial pressures on the health service have continued to rise in recent years and are expected to continue in the future. In 50 years, the Organisation for National Statistics (ONS) projects that there will be an additional 8.6 million people over the age of 65 and by 2030 one in five people will be 65 or over (ONS, 2018). The average cost of health and social care for the elderly is six times that for 16-44 year olds, which obviously puts significant pressure on national healthcare systems (Barker, 2014). The same applies to the cost of surgery and technological progress which will cause costs to rise. However, more efficient use of technology and the development of drugs such as statins to control cholesterol should lower the need for heart surgery. Better chronic disease management should also reduce the cost of emergency hospital admissions. But overall costs have risen substantially and will continue to increase because of rising health demands. Staff costs also continue to rise and more specialised skills are needed and technology cannot replace the need for qualified clinicians.

Public healthcare in the UK is financed by taxation. The total amount of taxation allocated to the NHS is voted annually according to clearly defined government priorities, projections and economic growth and the government's revenue position. Healthcare takes up a sizeable portion of the UK's public expenditure which has risen rapidly since the creation of the NHS in 1948 from 11.4 billion in the first year of its operation to 152.9 billion in 2018/9 (Harker, 2019). Growth in health expenditure has thus outpaced GDP growth over the last few decades. Funding is allocated across the four nations of the

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