The Economist

Health

New blood for the health service

How Labour's reforms are beginning to make the NHS work better

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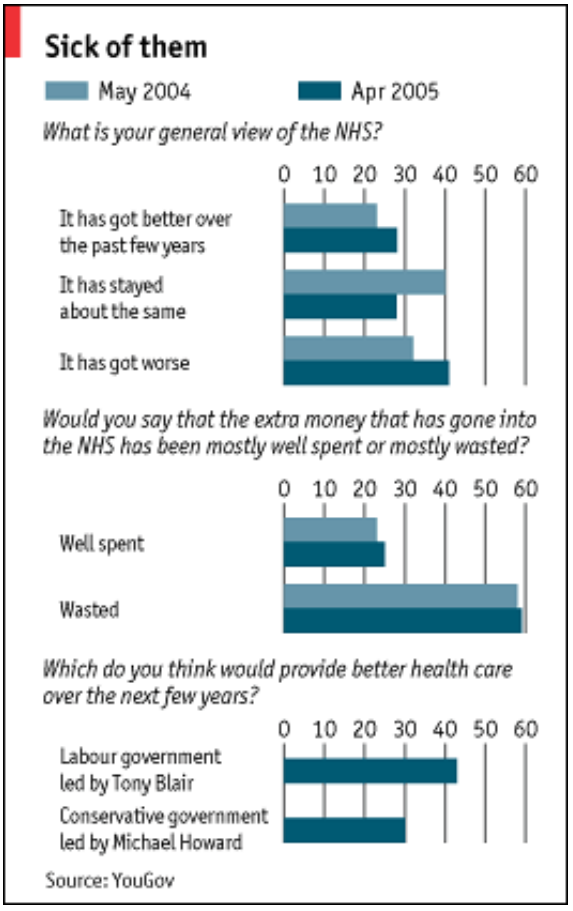
THE health service has featured surprisingly little in the election campaign. At first sight, that seems odd, since health is almost always at the top of the public's list of concerns. What's more, the National Health Service (NHS) has swallowed up the biggest chunk of the extra money the government has spent on public services since 2000, yet most people are still dissatisfied with it (see chart).



Given public disappointment, Labour has reason to avoid the subject. But so, curiously, do the Tories. Although the public is disappointed with the lack of progress, Labour is still more trusted on the NHS than any other party. What's more, although they dwell on small differences, the opposition parties agree with the basic direction that Labour has set for the NHS. And that direction offers real promise.

Labour spent its first term dismantling the internal market the Tories introduced. It also started to pour cash into the NHS. But by its second term, it realised that reform was needed as well as money, so it reinstated and extended reforms.

Homerton University Hospital, based in Hackney, a poor part of East London, shows where the NHS is now heading. For one thing, it is a foundation trust—a reform that led to a bitter row within Labour's ranks in the last parliament. Foundation trusts have greater freedom to run their own affairs than do other NHS hospitals. They are subject to scrutiny by locally elected governing bodies; and a new regulator called Monitor oversees them with a particular focus on their finances.

This April, another six trusts got foundation status, taking the total to 31 out of the 173 acute-care trusts in England. At Homerton, one of the first wave of ten trusts to win foundation status a year ago, the reform has led to a sharper focus on the trust's finances. “There is much more financial awareness, especially of our responsibility to control costs,” says John Coakley, the medical director. “It has led to a greater rigour about our plans and their financial implications.”

As a foundation hospital, Homerton is already feeling the impact of an even more far-reaching reform. The hospital trust used to get its money through a block grant that was only loosely linked to how much work it did. But under a new system of payment by results, about 70% of its budget is tied directly to its activity, with treatments priced according to a national tariff based on average hospital costs.

“Payment-by-results is much more significant than moving to foundation status,” says Mr Coakley. The new payment system is already concentrating minds. “We didn't really understand our cost base before and now we have to,” says Caroline Clarke, the trust's finance director. For example, the reform has highlighted the expense of unnecessarily long hospital stays.

The new payments system forms part of a policy U-turn by Labour. The internal market that the Tories introduced in the 1990s gave general practitioners (GPs) budgets to purchase care for their patients. Now larger organisations called primary care trusts (PCTs) do the purchasing. “The new payments system restores the internal market with whistles,” says John Appleby of the King's Fund, a health-policy think-tank. Labour's internal market covers a bigger chunk of hospital budgets and has sharper financial incentives.

In another crucial reform, Labour is complementing the internal market with an external one. It is encouraging private providers to carry out work for the NHS. This year, around 4% of elective (non-emergency) treatments will be done by private providers and Labour wants this to rise fast, towards 15% of elective work.

Homerton has decided to expand. It is investing in a perinatal centre that will provide facilities for premature babies and their mothers. This will cost £6m ($11.5m), a sizeable amount to borrow on a turnover of £130m and a capital base of £100m. This would probably have happened under the previous regime, says Ms Clarke, but it is happening a lot faster because the hospital is a foundation trust.

Will Labour's reforms work? Already, the planned extension of payment-by-results this April to other acute-care hospitals has been restricted because of worries that it was going to cost too much money. The original intention had been that the payments system would cover most activity, but it will now apply only to elective care. Ms Clarke says that “the tariff is still very unstable”, and suspects that more work needs to be done on getting the prices for treatments right.

A bigger long-term worry is about the balance of power between the purchasers of care (the PCTs) and the sellers (the hospitals). “PCTs are the weak link in the chain,” says Mr Appleby. If they are too weak, they'll end up paying hospitals too much. Responding to this concern, Labour is now seeking to involve GPs more directly. Gabriela Tobias, a GP in Hackney and a member of the local PCT's professional executive committee, welcomes the change. “Together with payment by results it provides a real opportunity to get investment into primary care where patients can often be treated more cheaply and effectively,” she argues.

Labour's reform programme lacks nothing in ambition. While largely untested, the reforms mean that the health service is at long last getting the right medicine. At great expense to the taxpayer, Labour has learnt that markets matter more than cash in improving the NHS.

From the print edition: Britain