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PRIME MINISTER 13 DECEMBER 1988

PAPER 2

FINANCIAL ARRANGEMENTS FOR SELF-GOVERNING HOSPITALS

Many good points emerge from this paper:

1. The assets of self-governing hospitals would be vested in their boards. They would be free to dispose of their fixed assets, subject to Secretary of State reserve powers.

2. A real capital charging system would be introduced in all hospitals.

3. Operating surpluses will be retained.

But two issues need to be resolved.

Scale of Borrowing (Para 8 onwards)

Kenneth Clarke may be over-reaching himself on this issue. He is proposing that self-governing hospitals' access to private sector capital should not be subject to public expenditure constraints. The Chief Secretary is absolutely right in claiming that the impact on public expenditure would be open-ended.

One possible solution would be to allocate capital funds to the Regions as before, but in addition, allocate a maximum annual borrowing power for Regions for use by self-governing hospitals in borrowing money from the private sector. Self-governing hospitals would then bid for a share of the borrowing power each year.

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Regions would be required to view their investment in self-governing hospitals as an income generator. Borrowing powers would be delegated to those hospitals which have the best track record. This may be the most elegant solution. Any across-the-board allocation of borrowing capacity would be uneconomic and ineffective.

Deficits (para 6)

Any business enterprise incurs an element of risk. Some firms will flourish and some will collapse. If hospitals are given freedom, some will inevitably fail. Kenneth Clarke's statement that self-governing hospitals will be required to break-even is illogical.

More importantly, we will need to decide what action will be taken in the event of a financial collapse. I believe there are three options:

(1) Bankruptcy. — Since ~~none~~ self-governing hospitals are still in the public sector I don't think this is a realistic option.

(2) A new cash injection.

(3) A self-governing hospital is returned to DHA control with a change of management.

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In practice, a large self-governing hospital may have strategic importance to an area. In such a case, option (3) may be the preferred option. But we should not give implicit or explicit guarantees to creditors.

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Question: Why not give Regions powers to delegate borrowing limits to self-governing hospitals? (Track record of the hospitals would be the guiding light).

Why should self-governing hospitals be required to break-even?

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