

Capital spending in the NHS and effects on the medical technology industry

Inconsistency in demand generates significant operating challenges and costs for businesses of all sorts. In the medical technology sector these inconsistencies can be substantially greater than in sectors where there are broader markets and suppliers can seek new customers or those whose demand patterns may be complementary. The fundamental reason why demand fluctuations are so damaging is that businesses generally, and especially in a high skill and heavily regulated sector like medical technologies, cannot shed and recruit resources to match large fluctuations in demand. The consequence is that they will often be forced to carry costs well in excess of their needs during periods of low demand. If these periods extend for any length of time then manufacturers are forced to cut back on capacity and the resultant decline in confidence results in reductions in spend in research and development.

The UK market has recently seen two types of behaviour which have had substantial impact on capital spending and point towards the need for a more rational way of managing capital expenditure and ensuring that the equipment in the NHS is continuously and appropriately updated. Anecdotally, the reductions in turnover for UK businesses in this calendar year are in the 20 to 30% range.

The two areas of difficulty are as follows:

- Current emphasis on key performance indicators of waiting list shortening and achieving overall operating budget mean that spending on consumable devices has grown along with the number of procedures being carried out but capital spending has in many cases all but dried up.
- Many recent Private Finance Initiative projects have resulted in beautiful new hospitals but the equipment in those hospitals has often not reflected the fabric of the buildings. Overwhelmingly these large projects are dominated by the building contractors and there appears to be little incentive to ensure that the medical technology installed is appropriate to the overall goals of the project. The result is that we have seen examples of new hospitals installing 20 year-old operating tables from the hospital that is being replaced or those installing beds to specifications more suited to the 1950's rather than the new millennium.

The result of these behaviours is that UK industry is suffering badly, with those manufacturers domiciled here faring particularly badly as these tend to be disproportionately dependent upon local demand.

We would suggest that this is not healthy for the NHS as the effect is likely to be the storing up of capital projects until a crisis forces some action. That crisis might be local, where the cost of maintenance or safety considerations become imperatives that need to be dealt with, or they may be national, where some shortcoming of the equipment infrastructure is identified as a critical issue. This then leads to a national

programme of upgrades which creates unusually high demand for a period and consequent inefficiency as businesses endeavour to ramp up production to satisfy this bubble of demand. Frequently these surges in demand come at very short notice and industry has little or no time to react.

The creation of a more structured and balanced environment for capital equipment upgrade and replacement would seem to be in the mutual interests of both the NHS and supply industry in that it recognises the need to plan and account for capital equipment replacement and minimises the cost to industry and ultimately to the NHS of managing huge fluctuations in demand. The NHS could benefit from better use of alternate models for financing such as leasing and the ability to plan and implement longer-term upgrade programmes which smooth the financial impact on the service. In the long term it would seem desirable to have greater transparency of capital budgeting and planning so as to obviate the temptation for Trusts to raid capital budgets to fund revenue deficits.

The short-term situation is exacerbated by the degree of change that is taking place in all areas but is no better illustrated than in the implementation of Payment-by-Results where the high degree of fiscal uncertainty is leading to a paralysis of decision making with regard to longer term spending.