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C. (60) 153

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CABINET

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NATIONAL HEALTH SERVICE CONTRIBUTION

Memorandum by the Chancellor of the Exchequer

In the light of our recent discussions (C. C. (60) 54th Conclusions, Minute 6), I put before my colleagues three different ways of approach to the proposal to increase the Health Service contribution.

Course I

2. First, there is my proposal substantially as it is, in C. (60) 148. Legislation would be enacted before Christmas, or at least by the end of January, to increase the contribution by 1s. from the beginning of April. I am ready to accept that this increase should not be enacted in the same legislation as the national insurance benefit increase; it should be introduced as late as possible after the National Insurance Bill - perhaps at the end of November or early in December. To this extent it would be possible to present the two operations as being separate. I think, however, that the two proposals would have to be announced at the same time; either in the Debate on the Address or in the Second Reading of the National Insurance Bill; to refer to the increase in contribution required for the benefit increase, without at the same time referring to the proposal to increase the health contribution, would lay us open to severe criticism.

Course II

3. Or we might postpone the increase in the health contribution for three months. Thus, we might announce the shilling increase in the context of the general level of Government expenditure, at the same time that we publish the Vote on Account (the first occasion on which total Government expenditure for 1961-62 is made public). This would be a similar timetable to that which was adopted for the 1958 Health Contribution Bill - Ways and Means Resolution in the second half of February and enacted in time for administrative arrangements to be made for the increase to be effective at the beginning of July.

4. The advantage of this course would be that we should relate the increase to total Government expenditure at the time when this was having the greatest public impact; we should be divorcing it from the insurance benefit changes and so reducing the chance of an accusation of bad faith; and we should not be prejudicing the Minister of Health in his policies to reduce Health Service expenditure.

5. The disadvantages of this course are that I should lose three months' revenue - £12 millions - in the first year. Administratively, there might be an inconvenience for employers, and some small cost to the Exchequer, arising from a change in the value of the stamp three months after the previous change. In 1958, however, the stamp was changed twice in fairly quick succession, the end of January for a rise in insurance benefits, and the beginning of July for a rise in Health Service contribution.

### Course III

6. A third suggestion was tentatively put forward by the Minister of Aviation that there should be a sort of package to be announced in February:-

- (a) Concede Health Service drugs to private patients subject to arrangements being worked out so as to prevent abuse; a figure of £2½ millions has been estimated for this; I believe it is on the low side, and I would prefer to assume not less than £4 millions.
- (b) Abolish the prescription charge. This now yields £12¼ millions, offset by refunds to people on national assistance and war pensioners (£2 millions).

The immediate loss of revenue would therefore be of the order of £10½ millions. That is the minimum figure of loss; the abolition of the charge may weaken the sense of discipline which the charge has imposed, directly in the case of the patient, and indirectly for the doctor by seeming to imply that the Government are less interested in economy. Once the charge was abolished it would be extremely difficult to reimpose it; so we might be forgoing, by this act, a useful source of revenue. As it is, if the cost of drugs goes up, it is possible to raise the prescription charge to 1s. 6d. or 2s.

- (c) These two proposals show an immediate financial loss to the Exchequer of some £12-£15 millions a year. To offset this, and to maintain the extra yield which I need from the Health Service contribution, I would have to require that the contribution be increased by 1s. 4d. altogether, split 1s. 1d. from the employee and 3d. from the employer. The total extra yield would be about £65 millions, and the proposal would add 3d. to the maximum employee contribution set out in the paper by the Minister of Pensions (C.(60) 151).

7. The case for this "package" proposal is that, while maintaining the net yield increase of £50 millions to help my long-term budgetary problem, we should be abolishing the unpopular prescription charge; and we should be fulfilling our pledge to private patients in a way which, by coupling it with the abolition of the prescription charge, would gain us the least political criticism.

8. The case against Course III is that a move to make drugs free for all, and especially to do so at this stage for the benefit of private patients, is incompatible with the Government's drive for better prescribing and for economy in this sector of public expenditure. As recently as July, 1959, the Government, announcing that it regarded with favour the Hinchcliffe Committee recommendation of a voluntary scheme for limiting - for a trial period of two years - the amount of drugs supplied on one prescription, stated that the prescription charge would be reviewed in the context of the results of the scheme, the finances of the National Health Service, etc. (Hansard, 15th July, 1959, Column 440). To announce the abolition of the prescription charge so early as next February, when the voluntary scheme has been on trial for only half of the two-year period and before the cost of prescribing had shown any reduction, would merit criticism of the Government's lack of grip on the situation.

9. There are also the other objections put forward in our previous discussion.

10. I understand that the Minister of Health is opposed to this proposal.

11. As for the effective date of this "package", assuming we were to adopt it for announcement in February, it should not take any longer to enact than Course II, and I would hope that the increased contribution would be payable from the beginning of July.

S. L.

Treasury Chambers, S. W. 1.

20th October, 1960.