CABINET

THE NATIONAL HEALTH SERVICE

MEMORANDUM BY THE MINISTER OF HEALTH

1. In December last I circulated a short memorandum (C.P. (48) 302) on the progress of the National Health Service in England and Wales. As the Cabinet is now to discuss the Service, I should like to add a postscript to that Paper bringing it up to date.

2. I tried on that occasion to bring out three main points:
   (i) The success of the Service in bringing to light and meeting genuine need.
   (ii) The dangers of abuse and the steps being taken to check them.
   (iii) The way in which the cost of the Service was exceeding expectations.

Experience since December has confirmed the impressions formed on the basis of five months' operation of the Service.

Need for the Service

3. Ever since 5th July last the demand for the various services, and particularly for dental and eye treatment, has been surprisingly high, and current annual rates of 8 million and 7 million dental and eye cases respectively—though showing a slight fall from the peak figures of 8½ million and 8 million—are much higher than was anticipated at this date. The fact is that the genuine need for these services was, and is, much greater than anyone knew, both the accumulated need of the past and the current need from day to day. This is not a "luxury" demand like the rush for sweets; people do not apply for spectacles—still less visit the dentist or the hospital—unless they really think they need help. Deaf aids provide another example. We are now supplying them at the rate of 4,000 a month, and this will soon be nearly doubled; but there are still tens of thousands of people—perhaps hundreds of thousands, for the real need cannot yet be exactly measured—who need deaf aids for their work, and public criticism is vocal on the delay in supplying them. All this means that unless we are to deprive people of services they genuinely require we cannot expect the cost of the Service to be as low as we had hoped.

Abuse and Checks

4. This leads to the next question, how far is expenditure unjustifiable and what can be done to cut out waste and excess? I mentioned various proposals in paragraphs 4-10 of C.P. (48) 302; action is being or has been taken accordingly. First, a ceiling of £4,800 gross (£2,300 net) above which earnings are halved was imposed on the annual earnings of dentists from 1st February last. Second, I have instituted an enquiry into the timing of dental operations on which fees are based, but pending its completion I have opened discussions with the dental organisations on a general reduction of fees to operate from the end of May, the object being an overall cut in gross fees of at least 20 per cent. In advance of a review of timing and overheads, and subject to its results, the fees of ophthalmologists have been reduced from 1st April by 20 per cent., and those of opticians are also, by agreement, being reduced from 1st May. There is not much scope for...
any reduction in the fees of chemists but the arrangements are being reviewed, while, at the same time, in order to check extravagant prescribing, a list of foods which should not be prescribed has been circulated to all doctors, together with a list of medicines which may be queried. All these operations—of which more details are given in the Appendix—will lead to a fall in the cost per case, that is, each patient will receive the treatment he needs for less expenditure. But substantial reductions in total expenditure depend on falls in total demands for treatment; and of that, as I have already said, there is little or no sign.

5. It has been suggested in various quarters that there is extravagance in administrative costs, particularly in the hospital service. It is certainly not true of my Department; the central and regional staff engaged on the Service is remarkably small. There also seems to be no justification for the suggestion in relation to the staffs of executive councils or hospital boards and committees. Administrative costs represent less than 2½ per cent. of the total expenditure of these bodies. I am, however, looking into the staffing position, and shall not hesitate to press for reductions if they can be justified. It is worth emphasising that we are now for the first time able to find out what the administration of hospitals involves in terms of staff and cost—hitherto a large part of it has been concealed in the central staffs of local authorities. Returns I am collecting will enable me to see the true picture and to put my finger on extravagance or weakness. In the same way cost accounting, and the development of central purchase—both of which are in hand—will help to cut down costs. But there cannot be immediate results; the hospital service has still only been in operation for ten months, and we are only just beginning to find out many of the facts which were hidden when it was a congeries of independent voluntary and municipal institutions, such as the low standards of care in many places, the scandalous overcrowding of mental hospitals and institutions, the gross deficiencies in quality and quantity of staffing, equipment and premises.

Cost of the Service

6. That brings me to the question of cost. I mentioned in C.P. (48) 302 anticipated figures of expenditure for 1948-49 (nine months) and for 1949-50; here I should like to make clear what the history of these estimates has been. When those for 1948-49 were prepared in November 1947, seven months before the Service was due to start, hardly anything was known of how many people would use it, how many doctors, dentists, &c., would join, or what they would be paid. I did, however, indicate what I thought the expenditure would be; but for budgetary reasons the Chancellor asked for a reduction of £22 million. This, together with the increases due to factors whose size was unknown in November 1947, made it necessary to go to Parliament for a supplementary estimate of £58 million in February. The same story is being repeated now in connection with the 1949-50 estimates. After examination of the hospital budgets and cutting out some items I indicated what I thought the needs of the community would require, but at the Chancellor's request for budgetary reasons a cut of £28 million was made. I agreed to this in the hope that demand, particularly for dental treatment and spectacles, might fall off, and that hospitals might by strict economy be able to run at slightly less than the level of expenditure in 1948-49. It is clear that these hopes will not be fulfilled. (The fact is that we are experiencing in the health field what has already happened in the field of education, where expenditure has trebled between 1944-45 and 1949-50—a rise from £66 5 million to £132 million.) Demand is not falling as I hoped—the needs of the people are greater than we knew—and unless services are withheld the reduced estimates will be exceeded. Similarly, on the hospital side the reduced estimate is too low to maintain existing services. The estimates had to be prepared only two months after the new bodies took over, on the basis of information about past expenditure, which was inadequate and even inaccurate. There were also factors unknown at the time which must now be taken into account, for example, the rates of payment of specialists, the increased rates for staff nurses just agreed by the Chancellor. All this means that additional money must be forthcoming unless beds are to be closed and staff dismissed—still more if essential improvements are to be made, such as the recruitment of staff to open some of the 50,000 empty beds (which the Chancellor himself regarded as desirable in his Budget speech) or the replacement or increase of outworn or inadequate equipment. I will mention some random examples of the kind of action that will be needed if the present estimates are not to be exceeded.
7. The Manchester Regional Hospital Board were asked to reduce their budget by just over £1 million, equivalent to 7.4 per cent. of their total expenditure. By economies, postponements of improvements, &c., they can save about £4.3 million, but to achieve the full cut asked for would mean postponing urgent maintenance work and the closing of about 1,600 beds. The Liverpool Regional Hospital Board are in much the same position; they would have to close about 1,500 beds. In London the Belgrave Hospital for Children, Clapham Road, and the Royal Eye Hospital, Southwark, will probably have to be closed down, together with their associated convalescent homes. The Canadian Red Cross Hospital at Cliveden will have to close 100 beds.

8. The overall picture is then quite clear. If the present estimates are not to be exceeded, services must be withheld which the community has proved it urgently needs—dental treatment and spectacles must be refused, beds must be closed, staff dismissed, and waiting lists already appallingly long must grow even longer. I do not think my colleagues will wish this to happen; I hope they will share my view that the additional money must be found to prevent its happening. But if they do not, I shall need their assistance in determining which services should be withheld and which developments cancelled.

Ministry of Health,

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APPENDIX

Estimates 1949–50

Savings Effected or Proposed

1. Dental Services

With effect from 1st February, 1949, authorised fees at a rate exceeding £4,800 a year gross were cut by one-half of the excess above that figure.

From a date to be arranged a cut in fees will be made which, although applied at varying rates to the different types of treatment, is expected to result in an overall saving of 20 per cent.

For each million cases of treatment the existing cut is estimated to save £500,000, or 8.5 per cent, of the total cost of £6 million; the proposed cut is estimated to save £1,200,000 or 20 per cent, of the cost. The saving effected by the proposed cut in fees will absorb most of the saving resulting from the existing cut.

The present demand is at the rate of approximately 8 million cases per annum.

2. Supplementary Ophthalmic Services

Reductions in fees have been made by agreement with the professions. The reduction in fees for testing of sight date in part from 1st April, 1949, and in part from 1st May, 1949; in dispensing fees the reductions take effect from 1st May.

(a) Sight-testing

The ophthalmologists’ fee has been reduced by 6s. 6d. to 25s., while that of the ophthalmic optician who also dispenses has been reduced in general by 1s. 6d. to 14s.

For 1 million cases the full saving is about £100,000, or nearly 11½ of the former cost of £875,000.

(b) Dispensing and Supply of Glasses

In addition to an overall reduction of 1s., the dispensing fee for a second pair of glasses has been reduced to 10s.

For 1 million cases, which on present information involves the supply of 1,370,000 pairs of glasses, the anticipated saving is about £290,000, or 9 per cent of the total cost of £3·2 million.
The savings on both (a) and (b) for 1 million cases is therefore estimated at £390,000, or 9½ per cent. of the former cost of £4·07 million.

The present demand is at the rate of about 7½ million sight tests per annum. This would involve the supply of about 10 million pairs of glasses, but the maximum production for the next year is unlikely to exceed 6½ million pairs.

3. Pharmaceutical Services (Chemists)

Agreement has not yet been reached with the profession, but it is expected that the present average allowance of 2½d. per prescription for containers will be reduced by 1½d. per prescription, with effect from a date not earlier than the 1st July, 1949.

For 1 million prescriptions the saving would amount to rather more than £5,000, or 4 per cent. of the total cost of £129,000.

The estimated demand for a year is 180 million prescriptions.

4. On the present scale of central purchase of medical supplies, for which a net provision of £6,120,000 appears in the Estimates, it is estimated that there is a saving of something over £2 million.

The main saving is on hearing aids. We are getting these at about £4 a set, whereas the cheapest commercial set is at least £15 more (they were much dearer before the new scheme operated). The annual cost of batteries is also much reduced. With 100,000 sets a year there is a saving of £1,500,000. Other important items of saving are X-ray apparatus (£250,000) and X-ray film (£250,000).

On current prices of streptomycin of 8s. per gramme central supply produces a saving of £60,000 a year.
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