CABINET

NATIONAL HEALTH SERVICE (ENGLAND AND WALES): CONTROL OF EXPENDITURE

Memorandum by the Minister of Health

1. At their meeting on 9th March (C.M. (50) 9th Conclusions, Minute 1(2)), the Cabinet invited me to submit a memorandum explaining the existing financial basis of the National Health Service and the modifications which would have to be made if the central Government were to be able to exercise closer control over the expenditure incurred on this Service. This paper deals only with England and Wales: there has been no time to consult the Secretary of State for Scotland.

2. The National Health Service falls into three fairly distinct parts - the Hospital and Specialist Service, the General Practitioner Services, and the Local Health Authority Services. For convenience, each can be looked at separately and then the picture as a whole can be summarised at the end.

Hospital and Specialist Service

3. In expenditure this is, as it must be, the biggest of the three parts. Current net cost is about £209 millions (out of a total of about £318 millions). Estimates for the coming year indicate some £238 millions (out of a total of £351 millions).

4. The Minister is directly responsible by statute for this service. He administers it through the agency of Regional Hospital Boards, voluntary and unpaid bodies appointed by him and responsible for the wider general aspects of the service over large areas; and those Boards in turn use the agency of local Management Committees, voluntary and unpaid bodies appointed by the Boards, for the ordinary local running of the hospitals. Teaching Hospitals are separately run by special Boards of Governors, voluntary and unpaid bodies appointed by the Minister, but with a proportion of directly nominated members.

5. This delegation of responsibility to voluntary bodies was always featured, in Parliament and generally, as one of the basic principles of the scheme, and as the preventive of an over-bureaucratised service. The alternative would have been to give the whole job to local government, with Exchequer grants, but the present local government structure would have been quite unsuitable; if radical reform of it is ever undertaken, the position should perhaps be considered anew. As it is, control of expenditure rests on the following devices.

6. First, and as the main control, local Management Committees have to formulate annual estimates, or budgets, of their total requirements for each year; and those, with the requirements of the Regional Boards, have so far had to be put up for the Minister's examination and approval. (Boards of
Governors of Teaching Hospitals put theirs up separately, but similarly. It has now become clear, however, that the Ministry cannot possibly scrutinise, in enough detail, the estimates of 377 separate Management Committees; all that has been possible has been to make a broad comparison of one Region with another. This is not good enough. Therefore, it has now been decided that in future the Committees' budgets will be dealt with in detail by the Regional Boards, while the Minister will deal with regional totals. This should secure a much more effective examination.

7. Secondly, the validity of a budget cannot be assessed unless there is some more reliable guide to proper standards than has been available under the infinitely varied forms of records and accounts inherited by the Minister in all the various hospitals taken over. This means better "costing." Too much magic can easily be attributed to detailed hospital costing; in practice, really detailed costing—i.e., with checks and records of every minute transaction—is not practicable in the operation of a hospital, as it may be in a factory. But some broad, simpler and more uniform costing system is certainly wanted. A working party of selected hospital officers has just produced proposals for this; they seem promising and are therefore being adopted for the future. In addition, and for the longer term, experiments in more detail are about to be carried out in selected hospitals, on the recommendation of the Central Health Services Council. All of this will facilitate a better accuracy in judging the validity of budgets.

8. Another control lies in the regulation by the Minister of the scales of remuneration of hospital staff of all kinds. Whitely machinery now exists for negotiation of this in almost all fields, and scales of pay are therefore practically all governed from the centre and not left to local discretion. Up to now, however, this governs scales but not numbers—cr establishments. This is a defect. To prescribe establishments in general, even for particular classes and kinds of hospitals, is impracticable (local needs are affected by the shape of a building, size of wards, number of storeys, etc.). The only way is to settle an establishment ad hoc for each hospital. This could be done by a small visiting body of experts (probably including some from the Organisation and Methods Division of the Treasury) which could go to the hospital and settle a general establishment for it, after which the hospital would have to seek approval for any excess of that fixed establishment. Done as a continuous process, starting with the prima facie worst cases, this could steadily extend over the whole field. New and better forms of staff returns, resulting from the working party of selected hospital officers, referred to in paragraph 7, will now enable the prima facie worst cases to be pin-pointed. It is proposed, therefore, that this process of fixing individual establishments should start as soon as possible.

9. Economies can sometimes be effected through the central negotiation of bulk-buying contracts for some kinds of hospital supplies. This is already applied to some of the most expensive items, such as X-ray apparatus, and the merits of further extensions of central supply are being explored.

10. The Central Health Services Council has a special committee to consider the administrative structure of the hospital service, and that committee's report is expected in the near future. In addition, I have just appointed a financial expert, Sir Cyril Jones, to bring a fresh mind to bear and to undertake a personal and independent examination of the whole financial administration of the health service. I have asked for his considered views within the next few months. With these two enquiries afoot already, I should doubt the value of
initiating any other special investigation by any new committee at the moment, but this ought to be considered again if the results of these present enquiries prove unsatisfactory.

11. On capital expenditure, of which there is relatively little at the moment, all the local bodies engaged in hospital administration already have to get Ministerial approval to any work of building or civil engineering costing more than £10,000. In addition they have to seek Ministerial authorisation for any capital work of over £1,000 which is of a kind which falls - as most capital works do - under Part II of the Sixth Schedule to the Defence (General) Regulations.

12. These are some of the measures in hand, or to be put in hand, to improve the control of hospital expenditure. There are, of course, more drastic possibilities. The transformation of the treasurers or secretaries of local Management Committees into some kind of "protected" officers of the Ministry has sometimes been suggested. But this would be a rather revolutionary change in the main principles and spirit of the original scheme, and if it is ever done it must emerge naturally from the recommendations of some independent body or committee and not be directly initiated by the central Government - for it would provoke a lot of outcry about bureaucracy.

13. Beyond all this, the only substantial and effective reduction in costs would lie in basic changes of the service itself, such as the recovery of partial payments from patients for their "hotel" maintenance in hospital, or even of payments towards the cost of more expensive appliances supplied by the hospitals. I am sure that such changes (which we have previously considered and rejected) would be open to heavy and legitimate criticism, and that we certainly have not reached the time when they must be considered. They would also have the consequence that special provision would have to be made, through National Assistance, to meet all hardship cases, and my colleagues are well aware of the immense amount of irritation and grievance which would accompany any such return to the old principles of the means test.

14. Allowing for all sensible administrative measures to prevent waste, the plain fact is that the cost of the hospital service not only will, but ought to, increase. Most of the hospitals fall far short of any proper standard; accommodation needs to be increased, particularly for tuberculosis and mental health - indeed some of the mental hospitals are very near to a public scandal and we are lucky that they have not so far attracted more limelight and publicity. Throughout the service there are piling up arrears of essential capital work. Also it is in this field, particularly, that constant new developments will always be needed to keep pace with research progress (as, recently, in penicillin, streptomycin, cortisone, etc.) and to expand essential specialist services, such as hearing-aids or the hospital ophthalmic services. The position cannot be avoided that a nationally owned and administered hospital service will always involve a very considerable and expanding Exchequer outlay. If that position cannot, for financial reasons, be faced, then the only alternatives (to my mind thoroughly undesirable) are either to give up - in whole or in part - the idea of a national responsibility for the hospitals or else to import into the scheme some regular source of revenue such as the recovery of charges from those who use it. I am afraid it is clear that we cannot have it both ways.
The General Practitioner Services

15. These, between them, account for a total expenditure of approximately £139 millions in the current year and are estimated at approximately £138 millions for next year. They cover the general medical, pharmaceutical, dental and optical services.

16. Their expenditure lies almost entirely in the payment of the doctors, chemists, dentists and opticians taking part in them and the cost of drugs and materials supplied by them. The Minister is responsible by statute and uses, for local administration, the agency of the 138 Executive Councils. These Councils have little say, however, in the kind of expenditure incurred, which is mainly governed by central regulations about the payment of the various practitioners. With the exception of the doctors, the size of the actual bill in most of these services is very largely determined by the amount of the public demand for, and use of, the facilities provided. The problem of control is, therefore, one of organisation to see that their use is reasonable.

17. The general feature of all these services at the moment is that, after a period of complete uncertainty as to the extent of the demand for them and of bewildering fluctuations in that demand in the opening phases, there seems to be good reason now to hope that the level of demand is steadying and that the future is reasonably predictable. Demand is probably steadying at rather too high a level, and careful administration — with the various measures about to be mentioned — should serve to lower it to some extent. But the period of unexpected "peaks" is, I hope, coming to an end.

General Medical Practitioners

18. General medical services at present cost some £41,745,000 and will probably cost some £42,734,000 next year.

19. This service probably warrants no substantial alteration at the moment. Adequate control of the bulk of the expenditure is secured by the system under which the doctors undertake a collective responsibility in return for a fixed "pool" of remuneration, which is then distributed among them — the share of each broadly depending on the size of his list of patients. Whether the "pool" is adequate is a matter for periodic argument with the doctors; but, as long as it is fixed, it automatically governs most of the annual bill.

20. There is probably some scope for economy — not easy to achieve — in the reduction of unnecessary certification of incapacity, entitling patients to sickness cash benefit. Any saving would be reflected in the Vote of the Ministry of National Insurance, not that of the Health Service. There is no single solution to lax certification, which must be a tendency in any scheme whereby popularity with patients increases lists and therefore incomes. The available checks can be intensified however: they are (a) an increase in the number of doubtful cases referred by the Ministry of National Insurance to the medical officers of the Ministry of Health for checking; (b) an increase in the contacts of these medical officers with doctors in areas where absenteeism seems to justify special enquiry. Steps on both these lines are already being taken.
The Chemists and Prescriptions

21. The cost of this service is now about £31,700,000 and has been estimated at £28,228,000 for next year. It covers something like 202 million prescriptions a year, an average of about 5 per head of the population. Here there ought to be scope for saving, if ways and means can be found. While flagrant abuse may be the exception, it is obvious that there is more prescribing than can be really necessary.

22. The first approach is to try to check expenditure from the prescribing end. Any full scrutiny of all prescriptions, before payment, can be ruled out as utterly impracticable, and up to now, checking has been mainly by snap samples only. This is now being supplemented. First, a special investigating unit is being established, to pick up more of the bad cases; secondly, efforts are being made to increase the number of disciplinary proceedings and the publicity given to them.

23. Within the Central Health Services Council other steps are being taken. A sub-committee, under the chairmanship of Sir Henry Cohen, is trying to classify drugs and medicines into some broad system of "white lists" of those which can always be freely prescribed, and other lists of those for which special justification may have to be shown. In theory there should be great opportunities, in cutting out unnecessary expense in "proprietary preparations", for many of which there may be a cheaper and equally effective alternative. The subject is complicated by the prejudice of doctors against any intervention in their clinical judgment of their patients' needs; but it is clear that no effort ought to be spared to get from this professional committee the utmost possible backing on which to base more restrictive regulations.

24. The second approach is to try to cut costs at the dispensing end. Chemists are paid the cost of the drugs prescribed, plus a dispensing fee for each prescription and plus "on-cost" allowances for their business overheads. This should not increase in exact proportion to the great number of prescriptions now being dispensed. A case is, therefore, to be put to the Whitley Council for a reduction in the allowance.

25. The cost of drugs has to be approached at the supply end. Numerous minor adjustments are already going on to reduce waste, such as the better sizing of the size of manufacturers' packets to the normal needs of the service; the use of reasonable bulk prescribing in cases, such as schools or other institutions, where there is a conveniently grouped need; the possibilities of stocking doctors' surgeries with some of the materials more often required in small amounts (to save prescribing separate packages for each patient).

26. When this service was last considered it was decided - and announced - that a charge not exceeding 1/- would be recovered from the patient for each prescription. Powers were obtained in the amending Bill, but, as soon as methods of giving effect to this were considered in detail, it became manifest that it was far more complicated than was at first thought, because it would at once involve elaborate machinery for the exemption of whole classes of patient (such as pensioners) and because, when all the factors were taken into account, the estimated saving would be reduced from some £10 millions to some £5-6 millions. Moreover, in my own view, it would be indefensible to introduce the principle of charges for benefits into a "free" health service in this one limited branch of the service alone. If the principle of charges were to be accepted, which I am sure would be politically unwise, it should on merits apply to other branches of the service at least
as much as to this, and there would be no possible justification
for upsetting the whole main principle of a comprehensive
"free" service for this relatively paltry saving. Moreover,
in this particular field, I am sure that we should do better to
rely upon the method of controlling prescribing mentioned in
paragraph 23 than to adopt this basic change in the service.
I therefore suggest that we should at least defer action on
this decision for the present.

General dental service

27. The cost of this service is now about £23 million a
year, and is estimated at £21½ millions for next year. The
dentist is paid on the basis of a scale of fees for each kind
of item of service carried out — extractions, dentures, fillings
and the like. He submits his claim, for the work he considers
necessary, to a Dental Estimates Board for approval — after the
event in most cases, before it in those cases where some prior
check is needed before he is allowed to begin. If the Board
doubt the necessity in any case, they refer it to the Depart­
ment’s dental officers, who investigate and advise whether the
work is necessary. When they approve the work, the dentist is
paid.

28. Thus, control of the validity of expenditure here
depends on the efficient work of the Dental Estimates Board.
Here there has been a difficulty. Although most of the general
sorting out of claims is done, and can be done, by a lay
clerical staff, the pin-pointing of doubtful cases must rest
upon professional dental advisers — to whom all prima facie
cases of doubt should be referred. The Board need some 12 or
16 dental advisers for this work, backed by an effective team
of Departmental dental officers. They have at present only 5,
while the Department’s dental staff is also under strength.
The reason is that the authorised scales of pay for these
officers not only will not attract recruits but actually leads
to a progressive loss of existing officers. If reasonable
increases in the authorised scales were adopted now, the saving
to the Exchequer in terms of queried claims and resulting cuts
in claims would, on all the evidence, amply outweigh the slight
extra cost in salaries. This is now before the Treasury for
approval, and the urgency of allowing these increases cannot be
over-emphasised.

29. There is also a good case for increasing the number
of Dental Services Committees, which exist to investigate
complaints for disciplinary action against dentists who abuse
the scheme. The best preventive of abuse is prompt disciplinary
action, and publicity to that action. This is already under
discussion with the profession itself.

30. An investigation is also in progress into the present
wholesale charges for dental materials, under the Ministry’s
Supplies Division, and the question of all dental materials,
apparatus, and equipment is now before the Monopolies and
Restrictive Practices Commission.

31. There has already been one substantial cut in the
dentists’ remuneration. A recent enquiry by a special
Committee, the "Penman Committee", now yields further evidence
for pressing a reduction of anything up to 6% in the present
fees, while another proposed investigation into the average
proportion to be allowed for practice expenses in paying the
dentists may justify some further cut in the present arrange­
ments. Both of these opportunities are already being fully
explored.
Beyond this, there seem to be no other likely fields for savings in this part of the scheme unless more drastic changes - involving the imposition of partial charges for the service to patients - are to be adopted. These are open to the strong objections already mentioned in paragraph 12, and I should deprecate any such basic alteration of the whole principle of the health service on the evidence of these early, and unreliable, experiences of its working.

A longer term measure for relief of the cost of the dental service lies in more intensive research into the prevention of dental caries, by new methods of using fluorides and the fluorination of water supplies. This is being pursued both by experiment in this country and by enquiries abroad.

Opticians and spectacles

This is what is known as the Supplementary Ophthalmic Service, intended ultimately (a long time hence) to give way to a hospital and specialist eye service. Its present cost is a little under £23 millions a year and is estimated at about £25 millions for next year.

There are three elements in the opticians' remuneration - fees for sight-testing, fees for dispensing, and the cost of the materials (spectacle frames and lenses) supplied.

Sight testing fees have already been cut once, and on the whole there is probably not much case for seeking to justify further reduction.

Dispensing fees do offer something like the "overheads" point which arises with the chemists - i.e., there may be a case for establishing that overheads should not increase in automatic proportion to the number of dispensings undertaken. This is under investigation now.

Cost of materials is something to be watched, but little chance of a drop can be foreseen yet, unless the future overtaking of demand by output (estimated to occur about midsummer, 1950) produces a more favourable field for competitive cutting by manufacturers.

Experience has shown that more can probably be done to follow up suspected cases of unnecessary prescribing, with more disciplinary action against the optician, and there could be better machinery for discovering and checking the obtaining of duplicate sight tests, duplicate spectacles and unnecessary free repairs. This will be undertaken to whatever extent proves practicable.

Beyond this, as with the dentists and the chemists, the only substantial cut in the present cost of this service would lie in imposing upon the patient some part-payment towards the cost of the spectacles which he obtains. This is open to the general, and in my view overwhelming, objection to a basic alteration in the main principles of the service at this stage of our rather unreliable experience.

Local Health Authority Services

The chief remaining pieces of the Health Service are those in the hands of the Local Health Authorities - maternity and child welfare, home nursing and midwifery, home domestic helps in sickness, ambulance, vaccination and immunisation, after-care, the provision of buildings for health centres. These are the only pieces which are not a total Exchequer charge, although the Exchequer meets 50% of their cost in.

Opticians are referred to throughout this section of the paper. There are also doctors with a general interest in eye work who take part in this service. They are remunerated, but the phrase optician should be taken as referring to them, which is appropriate (i.e., it is not appropriate in any references to dispensing or provision of spectacles).
grant. Their total is not, relatively, very large—some £30 millions a year—and on the whole the need is more for further development than for retrenchment. There is no obvious field for economy, or for drastic administrative changes.

42. There is probably room for more effort to check unnecessary use of the free ambulance services. This is in hand up to a point, hospital authorities being asked to scrutinise more critically the way calls for ambulances and hospital cars are now often being exploited. There may be opportunity to do something more here. Also, there may be room for increasing charges made for the use of day nurseries (charges at present are confined to food and articles supplied). But this kind of modification is trivial in relation to the major costs of the Health Service generally.

43. Domiciliary nursing services, especially midwifery, are relatively cheaper than their corresponding institutional services. Whether there is room for greater emphasis on, and development of, domiciliary confinements and their related services needs considering with appropriate professional advice.

44. Broadly, however, these services seem to lie in a field in which any drastic reorganisation would certainly not be justified on present merits.

The General Picture

45. This, then, is the general picture. The biggest item of expenditure in the health service lies in the hospital and specialist service. Here, the inevitable and proper consequence of making the service a national responsibility is that we must face a substantial and increasing charge on the Exchequer. It has to be emphasised that at present the increases in cost in running the hospital service are matched in the experience of other comparable countries and are certainly not attributable merely to the fact of the National Health Service in this country. The future burden of administration lies, in this part of the service, in ensuring that development, year by year, does not extravagantly exceed what is proper and inevitable. It is certainly not true that the cost of the hospital service is uncontrolled. It would have been, and is, perfectly easy to cut this service's expenditure at any time, to any level, but only if the resulting situation is also accepted—that people needing treatment must be turned away, beds closed and the service curtailed. Unless that situation is to be accepted, the graph of hospital expenditure must tend to be a rising one; the job of administration is to see that the rate of its climb is reasonable against the background of the national situation as a whole.

46. The next biggest item is in the general medical, pharmaceutical, dental and optical services. Here the problem so far has been different in kind. It has been mainly one of unpredictable demand by the public. It seems, on our present information, to be levelling out now so that we know better where we stand for the future. It looks as though we now can be fairly confident of the rate at which these services will run. There is good hope of reducing that rate.

47. The local health authority services are a relatively minor part of the scheme. Apart from any possible future development of Health Centres, they seem to be already levelled out and to present no major problems of control.
48. On this picture, the sensible course seems to be to concentrate on the kinds of administrative control which have been described. To slash the health service now by curtailing benefit or by importing the principle of charges to patients could scarcely be justified at this very early stage of the evolution of the service - bearing in mind both the evidence that the abuses natural to the public's first enthusiasm for getting all the benefits available are already levelling out, and also the vital psychological effect (not only at home but in almost all countries overseas) of the admission of failure which serious amendment of the scheme at this stage would imply. Nor would this kind of cutting constitute any true economy, but only a transfer of part of the burden back from the public to the private purse. If the course of the service can be held steady at this stage, there seems every chance that there will be much calmer water ahead, and an ambitious social adventure will be found to have been amply justified. It is, in short, too early to panic; nor is there any good cause to do so.

49. There is no doubt that the atmosphere of opinion about the health service has been unfortunately charged by the fact that it had - unavoidably - in its opening stages to show three sharp increases in its estimated costs. As we know, this was due to the almost complete impossibility of measuring in advance the behaviour pattern of the public in using it. We are now getting over that stage, and the process of estimating can become more and more reliable as our experience grows.

50. If the general decisions about the service are to be as I have suggested in this paper, I can instruct my Department accordingly and we can concentrate now on all the detailed measures which I have described - with any others which, from day to day, present themselves in the ordinary course of administration.

51. For convenience, the kinds of detailed administrative measure already being adopted or proposed to be adopted in this paper can be summarised as follows:

(1) **Hospital Service.**

(a) More detailed examination of local Management Committee budgets by Regional Boards, the Boards' total budgets then being examined by the Minister (already arranged).

(b) Better hospital costing, enabling apparent extravagance to be more easily detected in the examination of budgets (already under way).

(c) Regulation of hospital staff establishments by ad hoc enquiry at each individual hospital, subsequent increases requiring special approval.

(d) Extension, as the facts are found to justify it, of central negotiation of bulk-buying contracts for hospital supplies.

(e) Consideration of the report of the Committee on hospital administration of the Central Health Services Council (expected shortly).

(f) Prosecution of a special enquiry into the finance of the health service (including hospitals) by Sir Cyril Jones (recently appointed for that purpose).
(g) Continued control of capital expenditure by hospitals.

(h) A further special enquiry by a new committee on hospital service administration, if the facts are found to warrant it.

(2) General Practitioner Services.

(i) Doctors.

(a) More action, with the Ministry of National Insurance, to avert unnecessary certification for sickness benefit, with special attention to areas of apparently undue absenteeism (already under way).

(ii) Dentists.

(a) Better pay for dental advisers for the Dental Estimates Board and for dental officers of the Department to facilitate recruitment and therefore enable more "queried" cases of dentists' claims to be investigated (before Treasury now).

(iv) Optical Service.

(a) Investigation into present rates paid for "overheads" in the opticians' remuneration (under review now).
(b) Watch on the cost of supply materials, especially when supply begins to overtake demand.

(c) More action to follow up suspected excessive prescribing, and for checking abuse by duplicate eye tests and supply of spectacles.

(3) **Local Health Authority Services.**

(a) Further effort to reduce unnecessary use of the free ambulance service.

(b) Investigation as to the desirability of increasing the development of domiciliary nursing and midwifery services, in relief of the demand on hospitals.

A.B.

Ministry of Health, S.W. 1,

10TH MARCH, 1950.