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From the Minister for Health

Prime Minister

THE FINANCIAL POSITION OF HEALTH AUTHORITIES

The current pressures on the health service are apparent. Many health authorities, managing within their cash limits, are having to reduce services or will need to do so in the next few months. These pressures are being loudly reflected at national level. In the last month alone over fifty Conservative MPs have met with Health Ministers over the position in their own constituencies; many others have approached us informally in the House. Both the BMA and the Social Services Select Committee are planning inquiries.

2. It is quite clear that we need to improve substantially our monitoring of health authorities' services and spending. I am therefore instituting a new and tighter system for agreeing with Regions, before the start of 1988/89, how they propose to manage within available resources. This will be backed up by a new arrangement for formal monitoring of health authorities' income and expenditure accounts and working balances on a quarterly basis, to start at 1 January 1988. Moreover a new information system will enable the Department to monitor Regions' activity levels more closely.

3. Meanwhile, I have, through the NHS Management Board, had the true position of health authorities carefully assessed. The very large additional resources we have put in to the health service have been coupled with a sustained and very successful programme of efficiency savings (worth nearly £600 million to date). But efficiency often means closures of beds and other facilities to make more effective use of the rest.

4. The new element is closures made simply to save money in the short term. Since it is necessary for hospitals to protect emergency work, these reductions are particularly felt in elective surgery, and waiting lists rise. Some 95 health districts (about half the total, spread widely throughout the



country) will control their spending this year by such measures. In about half of those cases the impact on real levels of service should be small (although all closures tend to be presented by the media as "cuts"), but in the rest the impact will be real and serious.

5. These pressures will get worse. Authorities will have to deal with the underlying problem that they have been using one-off savings to finance continuing expenditure. These measures have included running down stocks and delaying payment of bills. This cannot continue, so further closures will be needed if authorities are to live within their cash income in future.

6. The background to these pressures is the strongly rising demand for acute hospital treatment, particularly from the elderly. This in turn is a reflection partly of growing numbers, but more importantly of improving medical techniques which mean that much more can now be done for patients. Procedures like hip replacements and cataract removals are now routinely carried out on patients in their 80s.

7. The conjunction of this rising demand and limited resources stimulates the drive for improved efficiency. Over many years hospitals have successfully reduced lengths of stay, and used other measures to reduce unit costs. It is right that this should continue. But the danger is that the pace of change this year has turned out to be too great, imperilling quality of care and requiring real reductions in service levels. We have provided over £700 million for next year, but we need to bridge the gap this year.

8. I am therefore convinced that we must act, not to eliminate the pressure but to reduce it to tolerable levels, so that it can be kept up in future. We need to inject some additional funds into the NHS very quickly. I have discussed the current problems with the Chief Secretary over the last few days and he is prepared to agree that:

(i) £75 million should be made available immediately in the current year - this amount would be for the UK as a whole. It is my impression that my territorial colleagues are not experiencing the same pressures but I would be ready to discuss the matter with them and if absolutely necessary, seek to agree a suitable allocation to their blocks from within the £75 million.



(ii) in addition, up to £44 million should also be made available in the current year for England only if necessary without being announced at this stage in order to enable health authorities to spend the full amount of the underspend which they have carried over from 1986/87;

(iii) for next year, 1988/89, the understanding which John Moore and he had earlier and whose implications in very broad terms I have already conveyed privately to the Regional Health Authority Chairmen, that £150 million of next year's provision should be reserved for future pay above the general rate of inflation, should now be moderated so that only half that amount is so reserved.

9. The Chief Secretary's agreement is on the firm understanding that steps will be taken as described above to ensure that the Regional Health Authorities manage their recurrent expenditure and income in future so as to keep the one in line with the other and that the DHSS monitor the situation closely so as to detect quickly and forestall any problems which might arise.

10. If this package is agreed, we should have to consider the presentation carefully. We should emphasise, as we have already done, the £700 million increase next year agreed in the recent Survey. But we should go on to say that improved monitoring procedures had shown up the existence of a shortfall this year, which we proposed to deal with by a £75 million injection as a specific measure to tackle a specific problem. I would propose to ensure some bias in the distribution of the funding towards the three London-based Regions which are most heavily pressed, by reference to the additional unfunded pressures attributable to AIDS.

11. John Moore will, I am sure, want to discuss with you early in the New Year the longer term approach to the financing of the health service and to improving its efficiency.

12. I am sending a copy of this to the Chief Secretary.

TJ

14 DEC 1987