



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Minister for Health

PRIME MINISTER

27th November, 1987

1 You have asked for a note on financial pressures on health authorities and their effect on services.

2 The pressures are undeniably real. John Moore is taking stock of the options for bringing more resources to bear, both by further increasing flexibility and efficiency within the service and by improving links with the private sector. He intends to provide you with a fuller assessment very early in the New Year. But meanwhile the pressures on budgets in the current year are intense in some districts.

3 A significant minority of health authorities - in the North and Midlands as well as the South - are having to reduce services in order to stay within cash limits. We are seeking to ensure that reductions in service do not happen unless needed, that damage is limited, and that opportunities for improving efficiency are seized.

4 The financial pressures arise because the massive resources we have injected and the considerable improvements health authorities have made in efficiency (£600 million by the end of this year) have not kept pace with demand and with pay costs. Authorities have tried to bridge the gap by short-term measures and thus to maintain service levels, not least in the run-up to the Election. In particular, many authorities have for some time now been running down balances and using other non-recurring means of maintaining services while staying within their cash limits. The scope for using these measures (which are of course consistent with sound financial management if employed with prudence) is now virtually exhausted. This means health authorities are significantly over-committed.

5 The problems will not ease next year and pressures on services will increase. We accepted a very tight PES settlement, in the wider interest, including agreement that health authorities would find at least the first £150 million of pay costs above general inflation. This, together with their existing over-commitment which has to be financed next year, effectively means that (except for some provision for breast cancer screening, reducing waiting lists and AIDS) virtually the whole of health authorities' additional resources next year, including cost improvement savings and the new income generation programme, are already committed. Thus essential service growth, including the inescapable needs of the growing numbers of the elderly, will very largely have to be financed by reductions in existing services. I attach a table giving the main figures for 1988-89.



6 We have discussed the situation with Regional Chairmen who were constructive and helpful. They will play their part, but they are looking to Ministers to play theirs, by not encouraging unrealistic expectations about service improvements and not obstructing necessary economies. To give them that support we shall have to resist pressures, not least from our own backbench.

Vernon Harpell

TONY NEWTON
(Approved by the Minister
and signed in his absence)



ESTIMATED RESOURCES AVAILABLE TO HEALTH AUTHORITIES IN 1988-89
 COMPARED WITH 1987-88

	<u>£ million</u>	<u>% increase</u>
1 Additional Government Funding for Health Service in 1988-89	<u>707</u>	6.3
2 Required to meet general inflation at 4.5%	506	4.5
3 Earmarked for breast cancer screening, waiting list fund extension, and AIDS	<u>64</u>	<u>0.5</u>
4 Leaving nominally available for demography and other service pressures	137	1.2
5 Plus cost improvement programme and income generation	<u>+163</u>	+1.4
6 Total uncommitted additional resources (4 plus 5)	<u>300</u>	<u>2.6</u>
7 Less need to meet existing overcommitment carried forward from earlier years	-115	-1.0
8 Less balance to full year effect of service developments opened in 1987-88	- 30	-0.3
9 Less contributions to 1988 pay awards of at least £150m (assumes access to Reserve above this amount)	<u>-150</u>	<u>-1.3</u>
10 Total prior commitment	<u>-295</u>	<u>-2.6</u>
11 Balance available for essential service growth, (apart from breast cancer screening waiting lists, and AIDS)	<u>5</u>	<u>0</u>