

PO-CH / NL / 0223

PART E

Chex  
Lawson

PART E


**SECRET**  
(Circulate under cover and  
notify REGISTRY of movement)

  
PO -CH /NL/0223  
  
PART E

CHANCELLOR'S PAPERS ON  
HEALTH AND SOCIAL  
SECURITY SERVICES

PO -CH /NL/0223  
PART E

Begin: 10/11/88  
Ends: 18/11/88 (CONTINUED)

DD: 25 years  
  
15/9/95

MP

FROM: R B SAUNDERS  
DATE: 10 November 1988

CHIEF SECRETARY

cc Chancellor  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Griffiths  
Mr Call

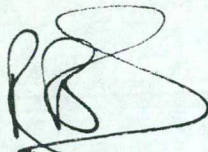
## HEALTH CHARGES

You will have seen the reports in today's press of remarks by Mr Clarke to the Social Services Committee yesterday in which he appears to have given a pledge that no new charges would be introduced into the General Medical Service (ie the GP sector).

2. This goes further than any previous public statement on this matter. The main existing pledge on NHS charges is the Prime Minister's statement that hospital hotel charges will not be introduced for the life of this Parliament. We are also saying that we have no plans to remove the pensioner exemption from prescription charges. Otherwise, the only other pledge we found is an oral answer by the Prime Minister in January 1980 (not repeated subsequently) ruling out charges for visits to GPs. There has never before, so far as we are aware, been a statement ruling out all GMS charges.

3. In terms of practical politics, charges for visits to GPs or breast and cervical cancer screening are almost certainly impossible anyway. But they are not inconceivable elsewhere - for example, if GPs were to offer general check ups for those over a certain age. It is in any case a general principle that Ministers should seek the agreement of colleagues before making new policy commitments in public.

4. It is doubly unfortunate that Mr Clarke should have commented in this area at a time when we are having to deal with questions about health charges from Mr Gordon Brown MP.



R B SAUNDERS

DRAFT LETTER FROM THE CHIEF SECRETARY TO

Rt Hon Kenneth Clarke QC MP  
Secretary of State for Health

#### HEALTH CHARGES

Reports in [today's] papers of your appearance yesterday before the Social Services Committee suggest that you gave a pledge not to introduce any new charges into the General Medical Service.

2. So far as I am aware, this is the first time that such a wide assurance has been given on this matter. Had I been consulted before you gave it, I should have advised you to be more cautious. While I can accept that charges for visits to GPs are not a practical possibility for the moment, I think it by no means inconceivable that we might have wanted to introduce some limited charging elsewhere in the GMS at some point, particularly as we are contemplating in the NHS Review the introduction of charging for "optional extras" in hospitals.

3. It is a great pity, therefore, that you did not follow the usual rules about clearing new policy commitments with colleagues before announcing them publicly. I hope I may have your assurance that it will not happen again.

4. I am sending a copy of this letter to the Prime Minister.

# Extra cash given to NHS 'should avoid bed closures'

THE ADDITIONAL £2.2bn for the NHS should avoid any bed closures due to lack of funds next year, Kenneth Clarke, the Secretary of State for Health, assured the Commons Select Committee on Social Services.

Mr Clarke said he could not control the actions of all the district health authorities, but he assured the committee that the additional money should be enough to avoid bed closures.

But Mr Clarke warned that hospital managers would have to resist the demands for more money by nurses over the restructuring of their pay. He said this would be the first test for the managers.

The Department of Health also will be providing a special one-off payment to wipe out the debts of some authorities who have gone into deficit. However, close monitoring will be carried out by the Department to ensure the authorities do not get back into "bad practices", Mr Clarke added.

Individual health authorities will be told shortly how much extra they will receive from the additional money for the NHS next year.

Mr Clarke was unable to give details yesterday, but he assured the cross-party committee that no sums were being held back for the

By Colin Brown

completion of the Government's fundamental review of the NHS.

He confirmed the additional money would include doubling the budget for Aids prevention and care.

Mr Clarke was closely cross-examined on whether he had demanded additional sums from the Treasury to cover inflation in the NHS at a higher level than the retail price index. But Mr Clarke made it clear he did not believe in special inflation figure for the NHS. He also cast doubt on the validity of assumptions that the NHS automatically needed an additional 2 per cent each year to ensure real terms growth.

He said he had taken the Chancellor's assumption on inflation as the yardstick and the likely cost of pay increases for his bids for extra funding from the Treasury. However, he disclosed that John Major, the Chief Secretary to the Treasury, with whom he had negotiated the extra money, had been "predisposed as were his colleagues to giving higher priority to health" in his annual review of public expenditure.

Mr Clarke refused to be drawn by Frank Field, the Labour chairman of the committee, on which



Clarke: 'Nothing held back'

group of ministers had decided to give higher priority to health spending from other departments. He said that it had been done with the agreement of the full Cabinet.

The Secretary of State was also challenged by Nicholas Winter-ton (Con Macclesfield) and Jerry Hayes (Con Harlow), two Conservative MPs who voted against the Government on the introduction of charges for eye tests and dental check-ups. Mr Clarke defended the decision, arguing that the check-ups and tests could not be compared to screening for fa-

tal diseases. When it was pointed out that some fatal diseases were identified by dental check-ups, Mr Clarke insisted that the check-ups were not primarily for screening. He caused laughter when he said dental decay did not cause fatalities.

But Mr Clarke was pressed into an unequivocal assurance that there would be no new charges on medical care. He said: "I have no intention of extending charges into medical areas."

Since 1951, it had been accepted that dental and optical areas of care were legitimate areas for charges, but, he added, "to go into general medical services to consider introducing new forms of charge, for example, visiting the doctor" would be wrong.

David Mellor, the Secretary of State for Health, told the committee that he was still considering a range of proposals for improving the delivery of care in the community for the mentally handicapped. These included the report by Sir Roy Griffiths, deputy chairman of the NHS management board, who recommended giving the lead to local authorities, which Margaret Thatcher is believed to have rejected. Another option being considered would give the lead to a primary care authority.

## Clarke gives pledge on free visits to doctor

By Richard Donkin | SOCIAL SERVICES COMMITTEE

Mr Kenneth Clarke, the Health Secretary, assured a Commons select committee yesterday that there was no prospect of the Government introducing charges for general medical services such as visits to the doctor and screenings for cervical and breast cancers.

At the same time he did not envisage bed closures for financial reasons among well-run health authorities in England and Wales within the next year.

He said he could not speak for 190 health authorities and qualified his remarks by saying that one of the first tests of authorities would be whether they succumbed to pressure from nurses contemplating industrial action over regrading.

He made it clear, however, that government would be monitoring the income and expenditure accounting of health authorities in future to prevent what he described as short-term accounting problems which had led some authorities to introduce tempo-

rary ward closures, delayed openings and delayed provision of beds to overcome their spending shortfalls.

Mr Clarke had been challenged by Mr Nicholas Winter-ton, the Tory MP for Macclesfield, to define the difference between the imposition of charges for eye and dental tests and the provision of free breast screening and checks for cervical cancer.

Medical screening, said Mr Clarke, was designed to detect disease where eye tests had originally been for the fitting of spectacles and dental tests had been designed to find chips and cavities in teeth. The possibility of glaucoma or oral cancer was an indirect result of the tests, he said.

Pressed by Mr Winter-ton for an assurance on free medical tests, Mr Clarke said: "I have no intention of extending charges into the medical area."

He said there was no prospect of the Government making additional charges for general medical services such as visits to the doctor.

FINANCIAL TIMES

3/26



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

MP

From the Secretary of State for ~~Social Services~~ Health

The Rt Hon Nicholas Ridley AMICE Esq  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

CH/EXCHEQUER	
REC.	10 NOV 1988
ACTION	MR PHELLIS ✓ 10/11
COPIES TO	CST, A16 SIR P MIDDLETON SERT BURN, MR ANJAS, MR TURNBULL, MISS PETERSON, MR J SHORE, MR SANDERS, MR CALL, RS/IR, MR LEWIS -IR, MR TUCKER -IR

10 November 1988

*Dear Nick,*

AUDIT OF THE HEALTH SERVICE

Thank you for copying to me your letter of 31 October to Nigel Lawson about legislation to extend the role of the Audit Commission to cover the NHS.

I am most grateful to you for agreeing to look at the possibilities for taking powers in the Local Government and Housing Bill which you are preparing for the next session.

My officials are, of course, represented on the Steering Group that has been formed, and I fully support your suggestion that the Group should be asked to look urgently at the legislative options, and report back to Ministers.

I am copying this letter to Nigel Lawson, Peter Walker and John Wakeham.

KENNETH CLARKE



*MP*

FROM: P T WANLESS  
DATE: 10 November 1988

MISS PEIRSON

cc: Chancellor <sup>2</sup>  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Beastall  
Mr Moore  
Mrs M E Brown  
Mr Potter  
Mr Revolta  
Mr Saunders  
Mr S N Wood  
Mr Tyrie  
Mr Call

NHS AUDIT: PS/LORD PRESIDENT'S LETTER OF 7 NOVEMBER

The Chief Secretary was grateful for your minute of 9 November.

2 He agrees that we should be represented at the meeting on NHS Audit if there is any doubt about including provisions to extend the role of the Audit Commission.

*P. Wanless*

PETER WANLESS  
Assistant Private Secretary

CONFIDENTIAL 

FROM: MISS M E PEIRSON

DATE: 11 NOVEMBER 1988

CHIEF SECRETARY

cc

**Chancellor**  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Beastall  
Mr Potter  
Mr Saunders  
Mr Tyrie  
Mr Call

BF

16/11

**NHS AUDIT: LORD PRESIDENT'S MEETING**

The DOE note on legislative options is about to be circulated at Ministerial level, in preparation for the meeting proposed by the Lord President in his letter of 7 November. The note identifies three options: I recommend that you support the second option, a specific enabling provision in the Housing and Local Government Bill, allowing the Audit Commission to undertake some work in the health field, in preparation for full health legislation later.

**The Three Options**

2. The options identified in the paper are all concerned with what might go into the Housing and Local Government Bill, which is likely to be published in early January:-

- i) legislation for the full takeover by the Audit Commission of the NHS audit;
- ii) a paving provision enabling the Audit Commission to undertake some work in the health field, before full implementation in later health legislation;
- iii) a more general enabling power for the Audit Commission to undertake work anywhere in the public sector.



CONFIDENTIAL

3. Officials of DOE, DH and Treasury are agreed that option (ii) is the best. Option (i) would be very difficult to achieve in the time available, and would add significantly to the length of the Bill, which is already under pressure. And as regards option (iii), Treasury officials in particular have reservations, since we do not think that the Audit Commission (rather than the private sector) should be given the audit of some other parts of the public sector, and since the Audit Commission will have enough to do in expanding its work to cover the NHS.

4. Option (ii) would enable the Audit Commission to get going on the health service work, and to build up experience. It would also enable DH to manage an orderly handover of work from its own staff, so DH officials are keen on the option. And this option does not rule out introducing the full legislation later in the Bill's passage, on amendment, if that seemed feasible.

5. Option (ii) does mean that Ministers would have to say something about the reasons for introducing even this limited enabling power, probably before there had been any statement on the health review. It might indeed be simplest for Ministers to state their longer term intentions, namely to introduce legislation to allow the Audit Commission to take over the whole of the health service audit. Since that decision has little connection with other aspects of the health review, that might not present too much difficulty.

6. Also, under any of the options, PAC members may question the idea of giving the Audit Commission any work in the health field, because of the possibility of conflict with the work of the NAO.

7. Mr Ridley may therefore be a little nervous about including any legislation in his Bill. However, under option (ii) (or option (i)) a health Minister could steer that part of the Bill through.

CONFIDENTIAL

Recommendation

8. I recommend that you support option (ii). It would mean a relatively small addition to the Bill, and not such a controversial addition as option (i), so the Lord President ought to find it easier to accept.

9. I recommend that you resist option (iii), because we do not want <sup>the</sup> Audit Commission to take on work which might better be done by the private sector.



MISS M E PEIRSON

*Tony for folder  
I will deal  
with  
x*

FROM: MARK CALL  
DATE: 11 NOVEMBER 1988

CHANCELLOR

*for whom?*

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Mr McIntyre  
Mrs Chaplin  
Mr Tyrie

PENSIONS

David Willetts sent me the attached list (Annex A) of options for measures targetted at poorer pensioners. The choice lies essentially between doing something new or adding a refinement to existing benefits. My own view is that any measures must be presentationally simple. That points to a new, easily identifiable benefit available to a group of pensioners who are clearly defined. Perhaps a simple addition to the basic pension.

*eh? what about "real poor"*

If we go the route of IS/HB then it will be difficult to get the presentational credit. It would be complex and we would be accused of sleight of hand. It would be more difficult for old people to understand. It would immediately shift the focus to take-up. Finally, the social security reforms and the resulting new benefits are widely mistrusted.

Obviously the qualifying criteria would need to be defined in such a way that the measures attached to the declining minority of pensioners without SERPS or private provision. We should aim to do this in a way that avoids the cry that people had fallen in the gap between our proposals and SERPS/occupational pension provision. We must avoid a repetition of the Social Security reform afterthoughts.

David also sent me the attached article from the Employment Gazette. Table 9 is particularly interesting. Although unclearly titled, DSS have confirmed that it is a cohort study - that is a

cst.pas/docs/8.11.11

group of couples followed through from 1970. This shows real net income per week declining from £94.20 in 1975 to £83.90 in 1980, then rising to £107.10 in 1985.

*Mc*

**MARK CALL**



Annex A

CENTRE FOR POLICY STUDIES

8 Wilfred Street, London SW1E 6 PL. Tel: 01-828 1176

OPTIONS FOR POORER PENSIONERS

*basic pension*

1. A higher rate of retirement benefit paid to all those currently aged over 75. No new entitlement for pensioners subsequently reaching that age.
2. A new benefit for widows/all single women over 70. (possibly phased out as above).
3. A SERPS boost for those already retired with low SERPS entitlements and a boost to those with pre-SERPS graduated pension entitlements.
4. The Pensioner Credit.
5. Larger community charge rebate for retired married couples on HB, but not income support.
6. Increase the pensioner premium in income support.
7. Reduce the age for the old pensioner premium income support from 80 to say 75.
8. Taper out income support for pensioners instead of 100% withdrawal.
9. Larger earnings disregard in pensioner incomes support.

David Willetts  
8th November 1988

BOARD OF DIRECTORS Lord Thomas of Swynnerton (Chairman) Sir Ronald Halstead (Honorary Treasurer) Jonathan Gestetner  
Professor Julius Gould Dr Richard Haas Oliver Knox (Director of Publications) Shirley Letwin Professor Kenneth Minogue  
Ferdinand Mount Cyril Taylor Charles Tidbury Dr George Urban Simon Webley David Willetts (Director of Studies)  
Jennifer Nicholson (Secretary)

FOUNDERS Rt Hon Margaret Thatcher Rt Hon Lord Joseph (President)

Centre for Policy Studies Ltd is a company limited by guarantee, registered in England and Wales, No. 1174651, registered office at above address.

BE

*Handwritten notes in red ink:*  
I had lunch  
with Mr. Phillips  
on this  
subject.  
Call/see also  
note from  
Call/Willets behind

FROM:  
DATE:

J P MCINTYRE  
11 November 1988

CHIEF SECRETARY

cc Chancellor  
Mr Phillips  
Mr Ramsden

POORER PENSIONERS

I had a further talk with Mr Chislett today; he had seen Mr Moore this morning.

2. The main message is that Mr Moore has gone off the idea of a new scheme, on the lines described in my 9 November minute. He now sees Income Support (IS) as the front runner. He is likely to write to you or the Chancellor next week with his proposals.

3. The reason for Mr Moore's change of mind is the emphasis in what has been said by the Chancellor and PM on the needs of a minority of pensioners eg the PM said at Questions yesterday that the 18 per cent of pensioners on IS were the minority finding it difficult to make ends meet. Against this background and the government's generally declared policy on targetting, Mr Moore believes it would be difficult to present a scheme which did not involve a means test element. A means tested benefit, with special premia for the very old, is already up and running - IS - so why not use it?

4. Another development is that the "Pensioner Plus" scheme would not, after all, be able to operate without a minimum amount of form-filling. DSS know from their records how much people get in SERPS or Guaranteed Minimum Pension. But they do not know the full amount of occupational pension entitlements. In order to avoid those with significant occupational pensions (over and above the GMP) getting the payment, they would need to send people a form asking them to declare whether or not they had an occupational pension above the threshold for the new payments, and also perhaps if they had significant capital or other income.

Although DSS think the form could probably be kept fairly simple, this means that "Pensioner Plus" would not be as administratively simple, as first thought. And it might well be criticised as creating a new means test.

## THE OPTIONS

5. There now seem to be 3 broad options.

### (i) A Universal top-up

6. You asked for a costing of a universal top-up payment to all those over 75, with no means test. The cost of a £2 per head payment would be roughly £400 million (there are nearly 4 million people over 75 getting a state retirement pension). This cost would of course fall over time as increasing numbers of pensioners reached 75 with a SERP or occupational pension above the threshold. And it would fall more steeply if instead of an over 75 criterion, we gave the payment only to those born before, say, 1914.

7. Very broadly, out of the 4 million or so gainers, the top-up would go to over 1 million pensioners currently on IS and Housing Benefit, and a further 1 million on HB only. Roughly half the payments would therefore go to pensioners not claiming IS or HB.

8. The advantages would be:

(a) Universality - everyone meeting the age criterion and in receipt of a state retirement pension would get the top-up. (The scheme could also take in the 40,000 or so over-80s who don't qualify for a contributory pension and get a non-contributory one instead).

(b) Administrative simplicity and no form-filling, particularly important for old people. We would avoid the familiar criticisms of means-tested benefits: stigma and low take-up.

meeting the age criterion

(c) No carping from people who don't get it, particularly those who have saved for their old age. Would not be seen as "penalising thrift".

9. The disadvantages would be:

(a) Cost. £400 million buys us only £2 per head (perhaps the minimum we could do). This would fall over time, and more steeply if we adopted the date of birth rather than the age criterion. But that might well produce more criticism from some pensioners born just after the crucial date, who may have little or no SERP etc and would therefore qualify in due course if the payment went to over-75s.

(b) Many pensioners above benefit levels would gain. Inconsistent therefore with targetting strategy, unless we try to re-define this in the pensioner context as targetting the very old, irrespective of means. We might get away with this if relatively few of the 4 million over-75s were not on benefit but it looks like nearer half. A universal payment would therefore be seen as retreat from the targetting policy.

(c) Would almost certainly need primary legislation, delaying implementation until perhaps 1990.

10. If, despite the disadvantages, you are interested in this option, there are two further bits of work we could get DSS to do. First, we could try to squeeze down the cost by giving £2 to singles and £3 to couples, instead of £2 per head. (Mr Scott's proposals for the over-80s in the Summer were based on this £2/£3 split, but I don't know how many couples there are in the over-75 group.) Second, we could focus more on the date of birth criterion and get DSS to work out how quickly the £400 million first year cost would be eroded.



(ii) "Pensioner Plus"

11. DSS tell me that a "simple" income and capital test would reduce the cost of a £2 per head top-up to roughly £300 million. This assumes that the test was not as rigorous as for IS and HB.

12. The advantages would be:

(a) Some degree of means testing and so more defensible in terms of the targetting policy.

(b) Lower cost than the universal top-up. (And as with the universal scheme, we could lower the cost further and/or increase the basic payment if we gave <sup>Couples</sup> 1½ times the basic payment instead of twice).

(c) Would go to some pensioners above IS/HB levels, helping to meet concern about the Nearly Poor.

13. The disadvantages would be:

(a) A new means test, however "simple", with the risk that some old people would not claim.

(b) Would go to well over half the pensioners over 75 (or born before 1914), which could be seen as at odds with claims that only a minority were finding it hard to make ends meet. Would also throw into question the adequacy of IS and HB, not just for older pensioners but more generally.

(c) Needs primary legislation. On the present timetable for the new DSS Bill (Royal Assent by July) and assuming the extra payment were to be added through basic pension order books, this would probably mean implementation in April 1990.

(iii) Income Support

14. DSS are doing a variety of costings. We won't get them till Monday. From April 1989, IS entitlements for pensioners will be:

	<u>£ per week</u>			
	<u>UNDER 80</u>		<u>OVER 80</u>	
	single	couple	single	couple
Personal Allowance	34.90	54.80	34.90	54.80
Premium	11.20	17.05	13.70	19.50
Total	<u>46.10</u>	<u>71.85</u>	<u>48.60</u>	<u>74.30</u>

15. As you know, what this means is that, for example, a couple over 80 with only the basic pension of £69.80 and the age addition of 50p (25p X 2) will be eligible for top-up from IS of £4 a week bringing them up to the minimum IS level for the over-80s of £74.30. In addition, all those on IS are eligible for 100 per cent assistance with rents and 80 per cent rent rebates under HB.

16. Two changes might be made. First, we could lower the age threshold for the higher premium for 80 to 75 (if we decide to focus on over-75s). Provisional DSS figures suggest this would enable a further ½ million or so pensioners between 75 and 80 to claim the higher premium. This would be an extra £2.50 a week for singles and £2.45 for couples for those between 75 and 80. The extra cost of giving them the higher premium already planned would be very roughly £65 million.

17. The second change would be to increase the higher premium for older pensioners. An extra £2 per single and £3 for couples might cost of the order of £140 million, (ie roughly twice Mr Scott's proposals, because we would be doubling the number of recipients).

18. Taken together, therefore, IS changes on these lines would probably cost around £200 million, with over 2 million gainers (half on IS). I should emphasise that this is our own back of the envelope calculation. It is subject to a large margin of error (eg we may not have allowed the right amount for the knock-on to HB). DSS will produce better costings next week.

19. One side-issue we would need to resolve is whether disabled pensioners on IS and HB should share in these gains. The higher pensioner premium for the over-80s is at present the same as the premium paid to all disabled pensioners on IS. If this were increased at the same time, we might add some tens of millions to the bill.

20. The advantages of using the IS/HB route would be:

(a) Uses existing mechanism. No new means tests.

(b) Consistent with targetting policy.

(c) Avoids windfall gains for those above benefit levels and therefore enables a larger increase per head for any given expenditure.

(d) Would not need primary legislation. (But DSS doubtful if implementation possible before Autumn 1989. DSS local offices could probably handle the IS element by April, but DSS doubt if LAs could deal with HB change in that timescale.)

21. The disadvantages are:

(a) Depends on existing means test mechanisms which are under attack for failing to meet their target because of low take-up (cf this week's NACAB report). I attach a copy of the IS claim form for pensioners.

- 2
- (b) Presentationally, may carry less weight than a new scheme. (ie cd have been introduced in April 89 and announced in uprating)
- (c) Will add to the numbers on means-tested benefits.

Conclusions

22. Now we know that "Pensioner Plus" would involve some (albeit simplified) form of means test - which would be additional to the existing means test for those already on IS or HB - I think the balance of advantage is more with the IS route, which could also be achieved earlier and would enable more money to go to the poorest. However, I am sure we should await DSS' detailed assessment before reaching firm conclusions.

JM

J P MCINTYRE



MP  
FROM: MISS M P WALLACE  
DATE: 11 November 1988

MR SPACKMAN

cc Sir P Middleton  
Mr Anson

**SOCIAL TRENDS**

You mentioned to me yesterday that in your negotiations with the authors of the Social Trends article, they had proposed the following redraft of the sentence above deleted table A8:

"On the other hand almost nobody felt that they were currently under taxed. People divided broadly into 24 per cent who feel that tax levels are acceptable and the majority (61 per cent) who feel that they are too high or much too high.

I have put this to the Chancellor. He would be grateful if you could try and negotiate a return to his original wording, with one amendment, so that the second sentence would read as follows:

"Of those who expressed a view, people divided into 30 per cent who feel that tax levels are acceptable and 70 per cent who feel that they are too high or much too high."

Only if it is absolutely impossible to persuade the authors to accept this, would the Chancellor accept their rewording.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE

FROM: M A BOLTON  
DATE: 11 NOVEMBER 1988

1. MR MCINTYRE ✓
2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Paymaster General  
MCU

Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Gieve  
Mr Saunders  
Mr Ramsden  
Mrs Chaplin  
Mr Tyrie  
Mr Call

120/2

Ch/1 would incline towards answers from HMT officials, at least for the next few weeks. But they will need to keep DSS in touch.

On the draft itself, my chapter in PENSIONERS' CORRESPONDENCE

pencil phissone from John Arca. mfw

To date, well over one hundred letters on the subject of benefits for pensioners have arrived in the Treasury, and they continue to arrive in large numbers.

2. With only a few exceptions, the tone of these letters is hostile; the correspondents are worried about the possible means-testing of basic retirement pension and Christmas bonus, and the introduction of prescription charges for better-off pensioners.

3. You may feel that it is appropriate to transfer responsibility for answering these letters to DSS officials. If, on the other hand, you wish the response to come from the Treasury, I attach a draft reply. It is suitable for those correspondents (the vast majority) whose representations are on the well-being of pensioners in general, rather than addressing specific points. The line taken has been cleared with DSS.

4. Would you prefer Treasury officials to reply to these letters rather than DSS? If so, are you content with the attached draft model letter?

PS / Chancellor

For a letter by officials, this should perhaps be a touch less aggressively political in style, eg as in the amended version below.

Michael Bolton  
M A BOLTON

11/11

DRAFT REPLY TO PENSIONERS' CORRESPONDENCE

pl type up  
as draft

Thank you for your letter of X November to the Chancellor on the subject of pensioners' welfare. He has asked me to reply on his behalf *and to clarify the Government's position on this subject.*

Firstly, The Government is fully committed to maintaining the value of the state retirement pension on its present contributory basis. The basic retirement pension has been, and will be, uprated each year in line with the increase in prices. ~~There is no doubt about that.~~

~~Secondly, far from being cut, Total spending on benefits for the elderly has increased by 27% in real terms since 1978-79. Roughly half of this is due to the large increase in the number of pensioners, and half due to higher payments. Already, over £3 billion is included in public spending plans to help poorer pensioners through Housing Benefit and Income Support. Income Support helps about 1 3/4 million pensioners. Housing Benefit helps about 3 1/2 million pensioners with their rent or rates, or both.~~

*is [also] now is*  
~~Now the Government is considering how extra money can best be allocated to help those who have little or no income apart from their basic pension. Ministers will bring forward new proposals in due course. I should stress that this money will be over and above existing benefits.~~ *there is no foundation in the accusations that the Government is planning to*

I can also confirm that ~~there are no plans to change the existing rule exempting pensioners from prescription charges. Nor are there plans to means-test the payment of the Christmas bonus. Indeed, the Government has ensured payment of the bonus automatically each year, by making it a legal requirement.~~ *success of the*

Finally, pensioners have greatly benefitted from the Government's economic policies. In particular, their savings have been protected by the control of inflation. As a result, pensioners' average net incomes rose by 23% in real terms between 1979 and 1986, a far greater increase than in the preceding period of very high inflation.

~~I hope this clarifies the Government's position, and demonstrates its interest in the well-being of the elderly.~~

M A BOLTON

What is  
Plenty  
of  
think  
2 para  
any

ARTICLE BY RT HONE JOHN MOORE, SECRETARY OF STATE FOR SOCIAL SECURITY

SUNDAY EXPRESS 13 NOVEMBER

Draft 3 12 30 13/11

*PM*

Watching the Opposition struggling to turn the Government's plans to provide more money for poorer pensioners into a sinister plot to dismantle the Welfare State may be a great spectator sport for those who are not involved.

But once again it shows that the Labour Party is more than ready to create fear and uncertainty in the minds of this country's elderly population, in pursuit of a political vendetta. They are trying to say that we could threaten pensions. What rubbish.

This isn't the first time. But look at what the Labour Government actually did for Britain's pensioners.

- . They let <sup>scammy</sup> inflation savage pensioners' savings - leaving them worse off.
- . ~~They let pensions lag behind earnings.~~ [The £1,000m deal]
- . ~~For two years they couldn't even afford the Christmas Bonus.~~ <sup>In one of five down per</sup>
- . They gave no extra help in cold weather.

Let's look at that a bit more closely. Take inflation. Remember Mr Rising Price? Month in month out in the 1970s prices went up and up. But savings just couldn't keep pace. Then savings, and the interest they brought in, bought less and less each month.

*Wentley was  
Mk...  
was low  
over look  
against*



Once retirement was something to be feared, just like inflation. No longer. Nowadays most people get at least the basic retirement pension. Most people have far more than that. About half of all new pensioners get a pension from their job. Nearly a half get an extra pension, based on their actual earnings, from the Government. Once pensioners were the poor. Now <sup>Lawson</sup> ~~very few~~ figure among the poorest. That's what the Tories' successful policies and strong economy have meant for pensioners.

What has this Government done for the pensioners?

- . Pensioners as a whole are better off than ever
- . Their total incomes have gone up faster than people in work
- . Roaring inflation has gone
- . The Christmas Bonus is now law
- . Poorer pensioners get extra cash help during very cold weather

Since 1979 pensioners' incomes have grown twice as fast as ~~for~~ <sup>income a</sup> ~~the rest of the country.~~ <sup>for good</sup> Even the very poorest have seen their ~~incomes go up almost as fast as this.~~ There are more pensioners too. A million more people are on pension than when we came into office in 1979.

<sup>Q. Lawson</sup> ~~We know that some~~ pensioners haven't fully shared in all this. If you are only getting the basic state retirement pension you will be a bit better off each year. We honoured our pledge to protect the basic pension against price rises. ~~We have done a bit better than that.~~

<sup>MS?</sup> We want to do more. We want these pensioners to get a share of the nation's growing prosperity. It is what Nigel Lawson said last week and it has been shamelessly distorted by Labour. Don't listen to them.

We are not going to means test the basic pension. We are not going to abolish the Christmas Bonus. It is mischief to say we are. Labour has set out, quite unfeelingly, to frighten people. Don't let them get away with it.

We want to put extra money the way of poorer pensioners.



~~There are still questions to be answered. Is it best to add something extra to the basic pension so that everyone, even the very wealthiest pensioner gets a bit more? Or is it best to put all the available cash the way of poorer pensioners?~~ It is no secret that I think money is best spent where it is most needed. If you listen to Labour you will learn that they think taxpayers' money should be spread thinly to everyone, What use is that to poorer pensioners?

My job is to find the best way of getting the money to the right people.

What I mean and what Nigel Lawson means, is extra money. Money on top of what is available now. Don't listen to the scaremongers. There's no threat to your pension from us. There's only <sup>one</sup> threat to pensions. It comes from Labour.

*Pensions*

*Even  
The Wealthy.*



Pr

~~AA~~

There are 10  
 2 letters to which  
 a sum is - by -  
 comparison up to  
 24, & one who was  
 not to be referred to  
 essential to us  
 drawn @ your 2's  
 not in special n  
 the Q's special instr.

R 14



HOUSE OF COMMONS  
LONDON SW1A 0AA

14 NOV 1988

Mr McIntyre | Mr Grieve  
CST, Sir P Middleton,  
Mr Anson, Mr Phillips,  
Mr Turnbull, Miss Pearson  
Mr Saunders, Mrs Chapman  
Mr Tyrice, Mr Call

Rt Hon Margaret Thatcher  
10 Downing Street  
London

November 13th

Dear Prime Minister

I am writing about the fresh and disturbing accounts of the content and meaning of the Chancellor's briefing of last Friday (November 4th) on the future of the welfare state and to bring to your attention the further and important evidence which, I suggest, makes it imperative that you reconsider your earlier position, and that of the Cabinet, that there be no new statement by the Chancellor

What is new this morning is not only the unanimity of the accounts of the journalists present, and across the spectrum of newspapers, but also the independent corroboration of the Chancellor's means-testing objectives in a separate Saturday Treasury briefing to the highly respected political editor of I.T.N.

What is new also are reports that senior Department of Social Security officials were called over the weekend of November 4th to November 7th to provide some relief for the difficulties the Chancellor had created for himself. The result was to unwrap a proposal which had, I understand, been abandoned at least for implementation in 1988. This gives rise to the serious question about whether what emerged was a cynical attempt to misrepresent the record of what the Chancellor truly said to the lobby and about which the journalists present are unanimous.

Since Monday afternoon the Chancellor has refused to give full answers to written Parliamentary questions or respond in detail to the specific questions put by me to him (and all of which I now enclose). By refusing to answer these detailed questions the Chancellor is making a mockery of the Government's responsibilities to Parliament. What are required are straight answers to straight questions, not a partisan defence of the Chancellor's general record, masquerading as an answer to the specific questions. In view of the fact that the journalists present reject the Chancellor's explanations as a travesty of the facts and in view of the great public disquiet, felt especially by the elderly, I hope you will now agree that the Chancellor should offer a full and frank explanation by making a statement about those matters to the House on Monday and answering the many outstanding questions

Yours faithfully

Gordon Brown  
Gordon Brown  
Labour Treasury spokesman

*PPS PL*



FROM: MISS C EVANS  
DATE: 14 November 1988

MISS PEIRSON

*[See minute CST  
to say Nat, while I wd have  
to report Audit Commission -  
address @ Bill, I wd miss no Bill  
New to miss no Bill  
altg. - Mr  
do /  
think  
to  
extension of to Audit  
Commission's power to  
the NHS @ all  
intervening.]*

- cc: Chancellor
- Financial Secretary
- Sir Peter Middleton
- Mr Anson
- Mr H Phillips
- Mr Beastall
- Mr Potter
- Mr Saunders
- Mr Tyrie
- Mr Call

**NHS AUDIT: LORD PRESIDENT'S MEETING**

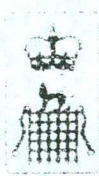
The Chief Secretary was grateful for your minute of 11 November. He thinks we should pause to consider whether it is advisable to include this provision when the Housing and Local Government Bill is published in January, which would be ahead of the publication of the NHS Review White Paper. Since the Audit Commission's new role will be a central part of the review strategy, its announcement is bound to trigger a debate on the health service. An alternative approach might be to draft the title of the Housing and Local Government Bill in such a way as to enable the measure to be introduced in Committee or at report stage. Parliamentary Counsel should be asked for a view on this urgently. If it is not feasible it will be necessary to discuss with the business managers whether another measure might be used as a vehicle instead.

2 Given that this legislation, whenever introduced, is likely to stimulate a wide ranging debate on the NHS Review, the Chief Secretary feels that we should consider whether it would be better to hold this measure until we introduce the Review legislation. This delay would be frustrating but might be a better option than a premature debate on the Review. He would welcome further advice on this point in the light of Parliamentary Counsel's views as suggested above.

*Carys Evans*

MISS C EVANS  
Private Secretary

CONFIDENTIAL



**NAO**  
NATIONAL AUDIT OFFICE

National Audit Office  
Buckingham Palace Road  
Victoria  
London SW1W 9SP

Telephone 01-798 7777  
Facsimile 01-828 3774

John Bourn CB  
Comptroller and Auditor General

J Anson Esq CB  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Our Reference  
Your Reference JBB 1031  
Date 14 November 1988

MISS PEIPSON  
SIR P MIDDLETON  
MR PHILLIPS  
MR BEASTALL  
MR LUCE  
MR TURNBULL  
JA MR POTTER

*For early advice, please*  
✓  
15/11

*Dear John,*

**THE AUDIT OF THE NATIONAL HEALTH SERVICE**

Thank you for your letter of 19 October setting out the Government's proposals for changing the arrangements for the audit of health authorities in England and Wales.

I should like to say that I agree with the Government's objectives as set out in paragraph 3 of your letter (not, of course, that it is for me to have a view on them anyway!). But it seems to me entirely right that the second tier audit of the National Health Service should be made more effective (we have been arguing so ourselves for some time); that there should be more commitment applied at this level to value for money studies that would cover a wider range of National Health Service activity; and that the external audit should be undertaken by a body that is demonstrably independent of the health authorities and of the Department of Health. And, as you say, major benefits are likely to flow from stimulating greater public interest and discussion and from promoting fuller public accountability on the part of the health authorities.

In my view, though, a more effective way of achieving these objectives would be for the C&AG to be given responsibility for the external audit role, since central Government expenditure normally falls to be audited by the National Audit Office and we already have well-established relationships with the Department of Health and an excellent record on value for money auditing of the National Health Service. As you will remember, too, the intention of Clause 5 of the original Bill leading up to the National Audit Act was that the C&AG should take over the whole of the audit of individual health authorities from the Statutory Auditors. That clause was not proceeded with because the Government wanted to preserve the existing Statutory Audit arrangements.

CONFIDENTIAL

22/15/11 7/11

CONFIDENTIAL

I recognise, of course, the valuable work undertaken by the Audit Commission as reflected in their reports on local authorities; and I quite understand why Ministers would like to see similar work associated with the audit of the National Health Service. It could, though, lead to considerable difficulties if the Commission's statutory powers were extended to cover the audit of the health authorities.

First, it seems unlikely that, as independent auditors, the Audit Commission would be able to examine satisfactorily the value for money activities of the health authorities without establishing the impact on such activities of the decisions and operations of the health departments and thus, given the direct control relationship, without access to relevant papers within the departments. This would obviously lead to a material change in the present audit arrangements. It would also impose an extra burden on the departments.

Second, given departments' actual experience of the Audit Commission's Section 27 reports in the local authority field, the Commission could be expected to go beyond their statutory remit and question departmental policies as well as local health authorities' decisions and operations. In this connection the Commission have not developed working relationships with departments on the clearance of reports before publication.

Finally and in my view very importantly, there are likely to be Parliamentary implications and objections. Within the framework of public accountability, the health authorities are Crown bodies who carry out central Government functions on behalf of Ministers. As such, they are quite different in their relationships with responsible departments and with Parliament from anybody so far audited by the Audit Commission. Given the earlier consideration of the issue in 1983, and the enormous expenditure of the health authorities already covered by my audit, Parliament would probably wish the external audit of individual authorities to be done by this Office with whom they have a well established, direct and statutory working relationship.

Clearly, none of these difficulties would occur if statutory responsibility for the external audit of the National Health Service were given to the C&AG. It is a fact that the National Audit Office are already extremely familiar with this field at all levels, have knowledge and experience which would be valuable for the financial audit of the health authorities and have produced a stream of penetrating value for money audit reports on the National Health Service. The C&AG would naturally be free to subcontract the extra work in whatever ways might seem most efficient and effective, and these could well include arrangements with the Audit Commission.

Whatever arrangements are finally agreed for the audit of the health authorities, we shall clearly need to tell the PAC Chairman of these developments at some stage.

CONFIDENTIAL

CONFIDENTIAL

But obviously it is important to consider this together first, because I recognise the many issues involved and the degree of consideration that has already been given to this issue.

I am therefore grateful for your suggestion of a meeting, and our offices have made arrangements for us to meet on 18 November, with the recipients of your letter, to whom I am copying my reply.

*Yours ever,*

*John*

JOHN BOURN

CONFIDENTIAL



CHIEF SECRETARY

FROM: R B SAUNDERS

DATE: 14 November 1988

Chancellor  
 Paymaster General  
 Sir P Middleton  
 Mr Anson  
 Sir T Burns  
 Mr Phillips  
 Miss Peirson  
 Mr Turnbull  
 Mr Gieve  
 Mr Parsonage  
 Mr Griffiths  
 Mr Sussex  
 Mr Tyrie  
 Mr Call

*I have suggested a number of changes. On RAWP, under para 8, a number which needs it, a think a lot better to be transformed RAWP (a) by using up to date pop. (b) as per (project) targets. (c) by making hospitals to attach an important change.*

**NHS REVIEW: FUNDING**

At the Prime Minister's meeting last week, you were invited to prepare a fresh paper on this subject, in consultation with Mr Clarke. Following our meeting this morning, I now attach a first full draft.

2. If we are to meet the objective of getting it round by the end of this week, we need to show the paper to Department of Health officials tomorrow night. I should be grateful therefore for comments from you and from copy recipients by early afternoon. It would be helpful if new readers could look at the paper with a critical eye, so as to help ensure that the end product will stand up to scrutiny in the Prime Minister's meeting next week.

R B SAUNDERS

*Ch/ One problem officials have faced here is that the discussion at last No 10 meeting drew a rather false distinction between RAWP and "funding on a weighted capitation basis" ~ since the latter is what RAWP is based on and aims to achieve, and what is so awful about RAWP is merely the process of getting there and the state of not*

*being there. The decision seems to have been to gloss over the misunderstanding, but it produces slightly odd effects eg at X in para 8. Is there any case for confronting the point head on?*

*Otherwise one or two thoughts scribbled in margins*

*mpw.*

DRAFT

**FUNDING THE HOSPITAL SERVICE**

**Note by the Chief Secretary to the Treasury and the Secretary of State for Health**

This paper considers the mechanisms by which:

- a. the Department of Health allocates funds to regional health authorities
- b. regions allocate funds to district health authorities, and
- c. districts fund hospitals, including both self-governing hospitals and those managed by the districts.

**Introduction**

2. As a Group we are agreed that RAWP, the present system for allocating funds to regions, should be ended and replaced by a simpler system along the lines of the model set out in paper HC35. Regions would be funded by the Department on the basis of "weighted capitation" (total population adjusted for age structure and morbidity). Regions would fund districts broadly on the same basis, and districts would introduce performance-related incentives into the funding of hospitals.

SECRET  
(district?)

3. We are also agreed that health authorities should continue to be responsible for providing those "core" services which have to be available locally: casualty, urgent medical treatment, paediatric services, maternity and ante-natal care, some types of long stay care, and so on. They would have to be funded to enable them to do this. They would also have to enter into contracts to secure other types of service, mainly elective surgery, on behalf of their local populations.

4. This new system will introduce new incentives to improve efficiency. Health authorities will secure health care from the hospitals they consider best able to provide it, while hospitals will be able to compete for business from health authorities other than their local one. Under the present system, by contrast, money is allocated according to where the hospitals are. The RAWP process has been seeking over several years to equalise the spread of hospitals across the country, with considerable upheaval and protest in consequence.

5. When fully operational, <sup>the new</sup> ~~this~~ system will make redundant the present role of regions in allocating funds to districts and the adjustments on account of cross-boundary flows. But both will have to be retained during the transitional period. So it is important to keep in mind the distinction between regions and districts in moving to the new system. The problems are quite different at the two levels. We look first at the regions.

*Are we sure this won't lead to (the) argument? Will it be for say to slide to mortality? Is that what we want? X? p. 2?*

The regional transition

6. Until such time as we can do away with the role of regions in allocating resources, the aim should be to fund regions year-by-year, replacing RAWP with a simpler system. Allocations would be based on regional populations, weighted according to age structure and demographic mix, with some adjustment for, eg, London weighting pay costs. The overall health of the region's population would also figure, although the precise method would have to be considered further. Mortality rates are used as a proxy in RAWP, but this is not wholly satisfactory, since today's mortality tends to represent yesterday's, rather than today's, ill-health.

*very tricky*

7. It will be essential to remove the present arrangements ~~for dealing with~~ <sup>where</sup> cross-boundary flows <sup>are only reflected in</sup> by complicated, ~~and~~ obscure modifications to population weightings. Instead there would be explicit cash adjustments based on the most recent data for numbers and up-to-date costings of different types of treatment. Moreover, these adjustments would, unlike the present system, be made to allocations, ie the money paid to the regions, and not to the artificial targets. In this way, cross-boundary adjustments would become much fairer and much more transparent.

*related*

8. Getting to the new distribution of resources will be a problem. The existing pattern of allocations is unlikely to match it very well. Just how great will be the mismatch can best be judged from the existing RAWP targets, which are the best indication we have of the shift in resources that would be implied by an immediate switch to a weighted capitation system. This is

X

discussed further in Annex A, which shows that while most regions are now fairly close to target, quite sizeable transitions are still implied for three - NE Thames, NW Thames and East Anglia.

9. There are three broad options for managing the transition:

a. move to a weighted capitation system as soon as possible, with some transitional buying out if need be

b. an immediate move to weighted capitation for the 11 regions within 3% of RAWP targets, phasing in the system for the other three

c. bring all regions to a weighted capitation distribution, perhaps over a period of, say, three years, with those above target losing resources to those now below target.

10. The "levelling up" implied by the first of these options would be very expensive indeed: full levelling-up would cost over £750m a year, while anything less would mean that significant disparities would remain. Nor do we think it would be acceptable to treat a minority of regions differently from the rest, as the second option would imply: this will create confusion, and would if anything prolong rather than remove the problems created by RAWP targets.

11. So in our view the best course would be a phased adjustment. This could be achieved over 3 years from 1989, although some residual transitional protection might be needed for NE Thames.

[ie let RAWP  
run its  
course  
- but not call  
it RAWP]

(- without imposing  
cuts or freezes elsewhere.)

X | Those regions who lost money would not however be obliged to respond with unplanned hospital closures: their hospitals will, under the new system of "contractual" funding, be able to compete to attract patients from outside the region. ↑ [good pt]

~~published~~  
 12. To sum up, therefore, we recommend moving to the new weighted capitation system, with ~~the (firm) objective of ironing out differences between~~ [no] "targets" & different from the ~~cash~~ cash allocations. This would be over a period of 3 years with cash adjustments for cross-boundary flows. After the transitional period, allocations would be set year-by-year based on the new, simplified formula.

*what is meant by this?*

### The transition for districts

*expand/clarify*  
 13. At present districts are funded by regions, but on varying bases. Some use formulae akin to RAWP, but most fund their districts according to the pattern of hospitals. Under the new system, we would propose, as with regions, to move to weighted capitation allocations and to make cross-boundary flow adjustments explicit and transparent.

14. But there are significant complications to the district-level transition:

- the change will have to run alongside the move to a contractual basis of funding. It will take time to develop a system for districts to enter into contracts with hospitals which make sense in terms of financial management without unacceptably limiting the ability of GPs to refer their patients to where they can be treated quickest or most cost-effectively;

*I don't quite see how this wd affect new RAWP*

Omit?

[I'm not quite **SECRET**

Sure what the point of this is - it will make PM think that we are planning to bang up the lines of accountability etc - when I am not sure we actually plan to

- variations in provision between districts are much larger than between regions, and it would be placing an unrealistic weight on cross-boundary adjustments to expect them to ~~pick up~~ <sup>compensate for</sup> all differences between population and provision;
- any shift in resources away from inner city areas with historically high hospital use to suburban and rural areas would have to take account of differences in primary care standards, and be managed carefully over time; and
- the capital charging system proposed in HC56 will have differing impact on districts, according to the state of the capital stock they inherit, and will have to be phased in carefully.

15. For these reasons, the transition to weighted capitation at district level is likely to take longer than that at regional level.

16. A start cannot be made without improved information at district level about population, movement of patients and costs of different types of treatment. Once that is available, and it should come naturally from the improved information systems we are proposing more generally, cross-boundary flows could be dealt with by a rather similar process ~~as~~ <sup>to that</sup> for regions.

- Explicit cash adjustments would be made to allocations in anticipation of cross-boundary flows based on the previous year's experience. Until we have legislation allowing inter-district charging, allocations to districts would be net of such adjustments.
- Districts would then physically pay the adjustments to each other, once the necessary legislation was in place, the amounts determined by a formula set at regional level.
- Finally, regions would stand back entirely from the process of cross-boundary adjustment between districts. The adjustments would simply follow as a result of contracts agreed between districts.

17. To sum up, the transition at district level will take longer than at regional level. But the general principles - the objective of weighted capitation funding and transparent cross-boundary charging - are the same. Once "contracted<sup>ed</sup>" funding is in place, cross boundary adjustments and - ultimately - the regional role in funding can be phased out.

#### Performance funding of hospitals

18. The final stage in the resource allocation process is the passage of money from districts to hospitals. Once the new system is fully operational, there will be automatic performance incentives, since districts will be seeking the most cost-



effective deals from hospitals. But during the transitional period, a system of top-sliced performance funding, along the lines set out in HC27, is necessary. This will help to deal with the common complaint that hospitals which increase their efficiency cannot make commensurate improvements in the numbers of patients they treat without some additional funding to cover the variable cost element of treating those extra patients. The scheme would also include incentives for some hospitals to concentrate on waiting list cases and to draw in patients from elsewhere so as to have the maximum impact on waiting lists. The amount of money to be set aside for the scheme within the agreed total provision for health expenditure should be the subject of annual discussion between us in the public expenditure survey.

#### Self-governing hospitals

19. There is no reason why the process of transition to the new funding arrangements should delay the programme of self-government in hospitals. It is of the essence of self-governing hospitals that they will be funded by contracts with districts. We need to ensure that districts are ready to negotiate these contracts, possibly before they are set to move into "contract funding" more generally. To that extent, the introduction of self-governing hospitals will help to accelerate the pace of change at district level. The hospitals will need contracts to supply both "core" and "contract" services on behalf of local districts. Further work is needed on the form that these contracts will take, and on the costings that will underpin them.

20. One effect of hospitals switching to self-governing status may be to denude some districts of most of their functions. They will need to amalgamate with other neighbouring districts. If districts had already merged with the - in terms of area, larger - FPCs, this subsequent disruption might be avoidable.

### GP practice budgets

21. While <sup>there is agreement that</sup> the principle of GP practice budgets <sup>has attractions,</sup> ~~is attractive,~~ <sup>of a fully-blown scheme.</sup> the Treasury have reservations about their practicability. This is to be addressed separately. ~~Whatever the outcome of that consideration~~ <sup>Assuming for the moment, however, that</sup> ~~these problems are resolved,~~ <sup>there could clearly be scope for giving</sup> GP practice budgets <sup>would be an</sup> ~~would be an~~ alternative mechanism for funding part <sup>of</sup> ~~of~~ the acute hospital sector. The money for them <sup>would</sup> ~~will~~ therefore need to come out of the hospital and community health services budget, not the FPS.

22. Whether the allocation should be made by districts or by regions depends on whether a decision is taken to merge districts and FPCs. If we go ahead with merger, it would be logical and sensible to give the merged bodies responsibilities for setting budgets for those practices who opt to hold them. If however <sup>would be problems of accountability</sup> ~~might be difficulty~~ districts and FPCs remain separate, there ~~might be difficulty~~ if districts are allocating money to GPs who are then not responsible to FPCs for their stewardship of it. It would be better in these circumstances to give the responsibility to regions, to whom both districts and FPCs would be reporting.

Capital

23. The capital programme is at present allocated to regions on the basis of weighted capitation, projected 5 years ahead. We see no need to change this principle, although the formula will in future need to be the same as that for current expenditure.

24. Self-governing hospitals would have to bid against regional budgets if they wished to undertake new capital investment. They would be required to produce business plans and investment appraisals which would demonstrate the soundness of the proposed investment against the normal criteria applied to NHS capital projects.

Timetable and summary

25. The proposals in this paper may be summarised in the form of the following schematic timetable.

April 1989 - Transitional allocations, based on existing RAWP formula, but with more transparent cross-boundary adjustments.

- Begin work on improved information about population etc at district level.

April 1990 - First year of <sup>transition to</sup> new weighted capitation formula as basis for allocations to regions.

- Experimental schemes for contractual funding of hospitals
  - New top-sliced performance funding scheme.
- April 1991 - Introduction of explicit cash payments for cross-boundary flows between districts.
- April 1992 - Extend contract funding to all districts
- Cross-boundary adjustments negotiated between districts; adjustments between regions unnecessary.
  - transition to weighted capitation at regional level complete
- April 1994 - Introduction of contract funding completed; cross-boundary adjustments at district level and performance funding phased out.
- April 1995 - Substantial progress towards weighted capitation at district level.

## REGIONAL ALLOCATIONS AS COMPARED WITH WEIGHTED CAPITATION

The best proxy for weighted capitation that is available at present is RAWP targets. These give distributions between regions, according to population, adjusted for age mix, morbidity and cross-boundary flows. The following table shows the actual allocations in 1989-90 (with estimates in brackets of what the figures would be without adjustment for cross-boundary flows), and the distances of the allocations from target in 1988-89 and 1979-80. Most regions are within two or three percentage points of target now, except for East Anglia (4% below) and NW and NE Thames (4½% and 7% respectively above target). While the changes in individual regions vary quite considerably over the period - compare, for example the progress of NE and SE Thames respectively towards target - largely as a result of the targets themselves shifting with population changes, the general picture is of very considerable movement towards target, and hence a more equal spread of resources across the country.

	Allocation 1988-89 (and estimated allocation without cross-boundary flow adjustment) £m	Percentage distance of allocation from target 1988-89	Percentage distance of allocation from target 1979-80
Northern	735 (731)	- 1.56%	- 7.47%
Yorkshire	830 (834)	- 1.39%	- 3.68%
Trent	1010 (1034)	- 2.70%	- 7.25%
East Anglia	438 (426)	- 3.99%	- 5.10%
NW Thames	808 (837)	+ 4.46%	+12.98%
NE Thames	1007 (987)	+ 7.29%	+11.46%
SE Thames	898 (905)	+ 1.69%	+10.03%
SW Thames	746 (754)	+ 0.97%	+ 5.90%
Wessex	615 (625)	- 1.79%	- 3.70%
Oxford	482 (494)	- 2.58%	+ 0.58%
South Western	732 (721)	- 1.39%	- 4.01%
West Midlands	1186 (1174)	- 1.32%	- 5.81%
Mersey	586 (583)	+ 1.48%	- 1.00%
North Western	1005 (972)	- 1.35%	- 8.76%
Average distance from target	-	2.43%	6.27%

BF to mpw  
15/11FROM: J P MCINTYRE  
DATE: 14 November 1988

PS/CHANCELLOR

cc PS/Chief Secretary  
Mr Phillips  
Mr Tyrie

## POORER PENSIONERS: SURVEY DISCUSSIONS

You asked me to check what had been said in the various exchanges between Mr Moore and the Chief Secretary in the course of this year's survey round. I attach copies of the relevant letters, and an extract from the minutes of the bilateral held on 15 September, with the relevant sections sidelined.

2. Also included are the letters dealing with the DSS proposals for a CB/poorer pensioners package. There was no letter from Treasury Ministers commenting on the draft minute Mr Scott's office sent on 24 May, nor on the final version of the minute which was sent to the PM on 8 June. But the minute does refer to the Chief Secretary's views. As I recall, comments on the draft were given over the telephone by me to Mr Chislett, following a meeting with the Chief Secretary.

JM

J P MCINTYRE



Ch/

This is depressing.  
DSS are looking for complexity for its own sake. But this 3-tier system will just create new anomalies at borderslines, and also demands that basic pension should mirror the structure.

mpw.

P.S. Having seen the complexity of DSS proposals, I gather CST would like to sleep on it, and have a quick word after Prayers, rather than a chat tonight. mpw.

FROM: J P MCINTYRE  
DATE: 15 November 1988

CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Ramsden  
Mrs Chaplin  
Mr Tyrie  
Mr Call

POORER PENSIONERS

I saw DSS officials this afternoon. They had discussed a number of options with Mr Moore and whittled them down to two (Options 1 and 2 in the annexes attached), both involving changes to Income Support. I was told that Mr Moore preferred Option 1.

2. As you will see, these Options are both more expensive and more complicated than the option discussed in my minute of 11 November. Option 1 would cost £388 million in a full year; Option 2 £342 million. And each would involve the creation of a new Intermediate Pensioner Premium (IPP), so that there would be a 3-tier system of IS for pensioners instead of the current 2-tier system.

3. On the expense, Mr Moore will argue that nothing less will do to meet the expectations that have been aroused. On the complication, he will say that unless there is a good deal of restructuring (as well as additional money) it would be difficult to sustain the argument that it was not possible to work up the details of the scheme before the uprating statement at the end of last month. People would say: where are all these complex details the officials are supposed to have been working out?

4. On timing, I gather Mr Moore now takes the view that too early an announcement would smack of panic. He is now thinking in terms of early in the New Year. He envisages implementation in October 1989. April 1989 is ruled out because the Local Authorities could not do the consequent housing benefit changes in time, even if there were an early announcement. On the other



hand, he thinks it would be politically impossible to wait until the next normal uprating in April 1990. (The additional administrative costs of a mid-year uprating, which Mr Moore wants, would be roughly £10-20 million, including LA expenses.)

5. My reaction to Options 1 and 2 was to say that they provided insufficient choice for Thursday's Ministerial meeting. I asked for a third option, on the lines set out in my 11 November submission, to be costed and on the table for discussion (without prejudice to Treasury Ministers' views). This is attached as Option 3, costed by DSS at £230 million in a full year. Other options are not ruled out, and we are of course free to put forward others if we want.

#### Assessment of Options

6. Option 1 would give single pensioners on IS between 70 and 79 an extra £3 a week, couples £4, over and above the already announced rates for 1989-90. The increases for those over 80 and the disabled would be an extra £3.50 (singles) and £5.55 (couples).

7. Option 1 is distinguished from Options 2 and 3 by helping the 70-75s, as well as the over-75s. There are about 2 million pensioner households in this age-bracket, of which around 700,000 are on IS/HB. By definition, this group on IS/HB have very small SERPS or occupational pension entitlement - otherwise they would not qualify for means-tested benefits. But perhaps the more important question is whether or not they had a reasonable opportunity to earn a higher SERPS or occupational pension entitlement. DSS will argue that at least as far as SERPS is concerned, many of them did not. Many are single women who will have retired at least 10 years ago before SERPS was introduced.

8. The extra cost of helping the 70-75s in Option I is roughly £75 million in a full year.

9. In total, Option 1 would have 3.1 million gainers, nearly a third of the entire pensioner population. It would bring an additional 215,000 onto benefit.

10. Option 2, like Option 1, involves creation of a new intermediate tier. But the new tier starts at 75 instead of 70. This reduces the number of gainers from 3.1 million to 2.4 million (ie by the 700,000 on benefit who are in the 70-75 age group).

11. The cost does not fall commensurately, however. This is because DSS have boosted the increases for the over-75s above the Option 1 figures - to £4 a week for a single pensioner aged 75-79 and £5 for couples (compared with announced 1989-90 rates). The over-80s would get an extra £5.50 and £7.55 respectively.

(Why~  
because they  
feel they  
ought to  
spend  
lots!)

12. Disabled pensioners would also be treated differently from Option 1. Instead of all getting the top premium, only those over 75 would be on the top premium; those under 75 would get the new intermediate premium.

13. The net effect of these changes from Option 1 is to cut the cost by £46 million to £342 million in a full year.

14. Option 3 would retain the existing 2-tier structure. There would be 2 changes:

a. The age threshold for the higher premium would come down from 80 to 75.

b. The higher premium would be increased by £2 for singles and £3 for pensioners.

If, in addition, all disabled pensioners continued to get the higher premium (as now), they would get the same increases. On this basis, there would be 2 million gainers in all.

#### Other Proposals

15. Mr Moore is apparently very interested in making up a "package", with the IS change as the main element. I got the impression that DSS are scrambling around looking for minor add-

ons. This would be to make for a more credible presentation. His officials also mentioned that he wants to see some help in the Budget for the less well-off owner occupiers, which might also be presented as, partly at least, further help for pensioners. No specifics were mentioned.

### Conclusions

16. It seems to me that Option 3, especially if it included something for the disabled might well meet the bill. Leaving aside the extra cost, I am not attracted by the DSS idea that additional complication of the structure (it is arguably complex enough already) is a good selling point for Options 1 and 2. It might help convince people that an announcement was not feasible at the time of the uprating statement, but I doubt it. Any solution based on adjusting IS faces the risk of criticism that it could have been worked up before. More important, I think, will be our ability to present the changes positively and clearly - creating a new tier for the 70-80s (Option 1) or 75s-80s (Option 2) is not very helpful from that point of view.

17. There are of course numerous other options we could pursue. And we now have the means to do ready reckoner costings.

Jm

J P MCINTYRE

OPTION 1

S E C R E T

Age points	60 for ordinary pensioner premium
	70 for intermediate pensioner premium
	80 for highest pensioner premium
Enhancement	£3.00 for single pensioners
	£4.00 for couples

All disabled claimants over 60 receive highest pensioner premium.  
Illustrative 1989/90 rates for premium:

	singles £	couples £	announced rates singles £	couples £
OPP	11.20	17.05	11.20	17.05
IPP	14.20	21.05	11.20	17.05
HPP	17.20	25.05	13.70	19.50

Gainers on 1989 rates

Existing Income Support beneficiaries:

Non-Disabled

Single	70-79:	535,000	gain up to £3.00
Couple	70-79:	90,000	gain up to £4.00
Single	80 or over:	395,000	gain up to £3.50
Couple	80 or over:	40,000	gain up to £5.55

Disabled

Single	60-79	65,000	gain up to £3.50
Couple	60-79	65,000	gain up to £5.55
<b>Total:</b>		<b>1,190,000</b>	

New Income Support beneficiaries

Single	70-79:	55,000	gain up to £3.00
Couple	70-79:	35,000	gain up to £4.00
Single	80 or over:	30,000	gain up to £3.50
Couple	80 or over:	10,000	gain up to £5.55
Disabled	60-69	20,000	gain up to £5.55
<b>Total :</b>		<b>150,000</b>	

Housing Benefit: new beneficiaries - 75,000  
existing beneficiaries - 1.7 million  
**Total number of gainers - 3.1 million**

Cost: 1989/90	Income Support	£117 million
	Housing Benefit	£68 million
	<b>Total:</b>	<b>£185 million</b>

Cost: 1990/91	Income Support	£245 million
	Housing Benefit	£143 million
	<b>Total:</b>	<b>£388 million</b>

Age points                    60    for ordinary pensioner premium  
                                   75    for intermediate pensioner premium  
                                   80    for highest pensioner premium

Enhancement                £4.00 for single pensioners  
                                   £5.00 for couples

Disabled 60-74 receive intermediate pensioner premium, disabled 75-79 receive highest pensioner premium.  
 Illustrative 1989/90 rates for premium:

	<u>singles</u>	<u>couples</u>	<u>announced</u>	<u>rates</u>
	£	£	singles	couples
			£	£
OPP	11.20	17.05	11.20	17.05
IPP	15.20	22.05	11.20	17.05
HPP	19.20	27.05	13.70	19.50

Gainers on 1989 rates

Existing Income Support beneficiaries:

NON-DISABLED

Single	75-79:	285,000	gain up to	£4.00
Couple	75-79:	45,000	gain up to	£5.00
Single	80 or over:	395,000	gain up to	£5.50
Couple	80 or over:	40,000	gain up to	£7.55

DISABLED

Single	60-74:	45,000	gain up to	£1.50
Couple	60-74	55,000	gain up to	£2.55
Single	75-79	20,000	gain up to	£5.50
Couple	75-79	10,000	gain up to	£7.55

**TOTAL**                    895,000

New Income Support beneficiaries:

Single	74-79:	40,000	gain up to	£4.00
Couple	70-80:	25,000	gain up to	£5.00
Single	80 or over:	20,000	gain up to	£5.50
Couple	80 or over:	10,000	gain up to	£7.55
Disabled	60-79:	15,000	gain up to	£7.55

**Total:**                    110,000

Housing Benefit: new beneficiaries - 50,000

existing beneficiaries - 1.3 million

**Total number of gainers: 2.4 million**

Cost: 1988/89	Income Support	£115 million
	Housing Benefit	<u>£48 million</u>
	<b>TOTAL:</b>	<b>£163 million</b>

Cost: 1989/90	Income Support	£242 million
	Housing Benefit	<u>£100 million</u>
	<b>TOTAL:</b>	<b>£342 million</b>

S E C R E T

**SICK AND DISABLED PEOPLE OVER AGE 60**

The proposal, included in the costings, is that, under Option 1, all sick and disabled pensioners should receive the highest pensioner premium. Under Option 2, those who are sick and disabled and age 60/74 should get the intermediate pensioner premium and those age 75-79 should get the highest pensioner premium. There would be no change in the disability premium for those under age 60.:

		Cash	Gains	Numbers (000s)	
		Option	Option	Option	Option
		1	2	1	2
Age 60-69	single	£5.50	£1.50	30	30
	couple	£7.55	£2.55	40	40
Age 70-79	single	£5.50	N/A	35	N/A
	couple	£7.55	N/A	25	N/A
Age 70-74	single	N/A	£1.50	N/A	15
	couple	N/A	£2.55	N/A	15
Age 75-79	single	N/A	£5.50	N/A	20
	couple	N/A	£7.55	N/A	10
80 or over	single	£5.50	£5.50		
	couple	£7.55	£7.55		

(N/A = not applicable)

OPTION 3

Age points 60 for ordinary pensioner premium  
75 for higher pensioner premium

Enhancement of HPP #4.50 for single pensioners  
#5.45 for couples

The disabled aged 60-79 receive the HPP; those aged less than 60 experience no change.

Illustrative 1989/90 rates for premium:

	singles #	couples #
OPP	11.20	17.05
HPP	15.70	22.50

*HPP*  
*72.50*  
*72.45*  
*48.60*  
*74.30*

Gainers on 1989 rates

Existing Income Support beneficiaries:

Non-disabled 75-79:	285,000	gain up to #4.50
Non-disabled 75-79:	45,000	gain up to #5.45
80 or over:	395,000	gain up to #2.00
80 or over:	40,000	gain up to #3.00
Disabled 60-79:	65,000	gain up to #2.00
Disabled 60-79:	65,000	gain up to #3.00

New Income Support beneficiaries

Non-disabled 75-79:	35,000	gain up to #4.50
Non-disabled 75-79:	15,000	gain up to #5.45
80 or over:	10,000	gain up to #2.00
80 or over:	5,000	gain up to #3.00
Disabled 60-79:	5,000	gain up to #2.00
Disabled 60-79:	5,000	gain up to #3.00

Housing Benefit: new beneficiaries - 45,000  
existing beneficiaries - 990,000

Total number of gainers - 2.0 million

Cost: Income Support #150 million  
Housing Benefit # 80 million

TOTAL #230 million

~~BF 10 M 18/10~~

FROM: D P GRIFFITHS  
DATE: 15 November 1988

PS/CHIEF SECRETARY

- cc Chancellor
- Mr Anson
- Mr Phillips
- Miss Peirson
- Mr Turnbull
- Mr Gieve
- Mr Saunders
- Mr Call

MP

Ch/interested in x?  
no.  
map

HEALTH CHARGES

We have now received the draft transcript of the Social Services Committee hearing last week. I attach the relevant extracts relating to the pledges given on health charges.

2. As you will see, pledges were given at two points: Mr Mellor undertook that no charges would be introduced for breast cancer and cervical cytology screening; and, after some exchanges on sight tests and dental inspections, Mr Clarke stated his intention not to extend charges to new areas of the general medical services.

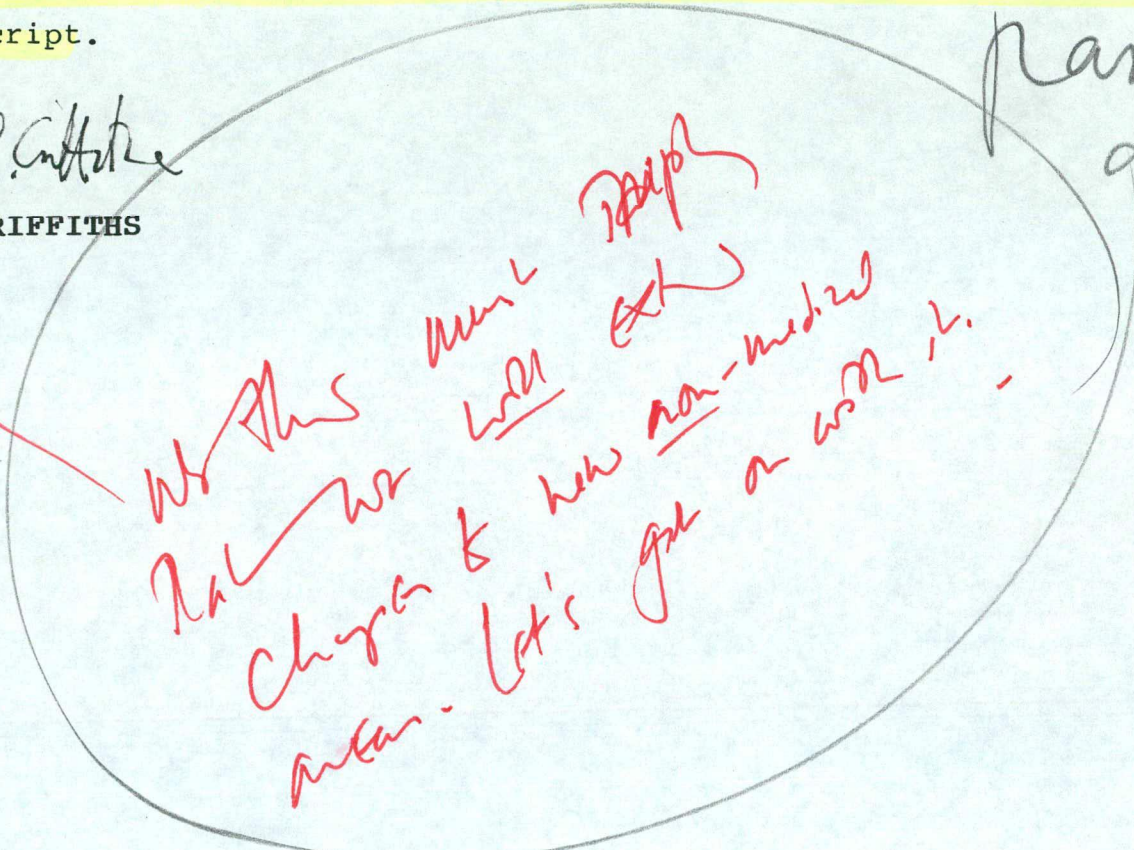
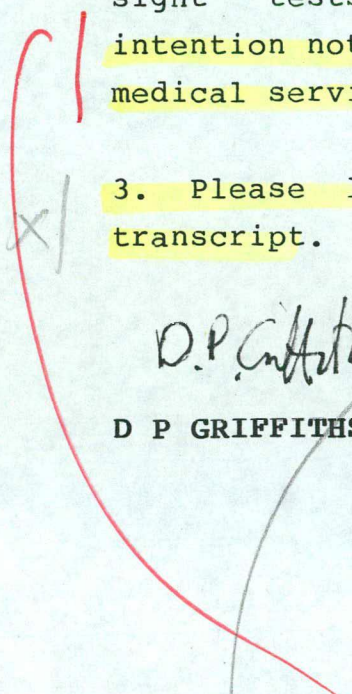
3. Please let me know if you wish to see a copy of the full transcript.

D.P. Griffiths

D P GRIFFITHS

Planned on.

What this means  
that we will  
charges to new non-medical  
areas. Let's get on with it.





end is a matter within the control of local government and not within the control of central government in this particular area.

Dr Moonie

27. I should like to return to something Mr Mellor said. What other models for community care are you looking at?

(Mr Mellor) The ones that have been suggested from within the Health Service, for instance of primary care authority. It is plainly necessary to take account of those when looking at the particular model that Roy Griffiths himself proposed.

Mr Winterton

28. Could I follow up on primary care and Mr Mellor's mention of increased emphasis on screening. I presume he is meaning breast screening and cervical cytology screening. Can I ask a leading question: do you intend to charge for that screening?

(Mr Mellor) I can give you a straight answer: no.

29. Tell me then what is the difference between not charging for cervical cytology and breast screening and urine and other such screening procedures and charging for eye tests and dental checkups?

(Rt Hon Kenneth Clarke) May I put my argument, a purely personal one; the Minister may well have a different one. I do not think the analogy is exact. Leaving aside all the other arguments you can have about the desirability of charging for eye tests and dental examinations a straight comparison between screening examinations of a medical kind and those two examinations, I personally think is false. If you look at screening for cervical cancer, screening for breast cancer, urine samples, testing for diabetes, the whole purpose of introducing those was to seek to detect a particular disease. You invite people to come forward and

(Rt Hon Kenneth Clarke) The short answer is no, plainly I do not.

35. Give examples.

(Rt Hon Kenneth Clarke) You are now turning to arguments about the accuracy or otherwise of tests. I am not sure I would accept that an eye test is more accurate as an examination for glaucoma than a smear test for cervical cancer but let us leave that on one side and if you wish to pursue that you can get more expert evidence than I on both points about how accurate. The other illogicality is that given we have always charged for dental, optical and pharmaceutical services, it was becoming increasingly an anomaly that whilst we charged for practically every other procedure we did not impose modest charges for the examinations of the teeth and eyes in the first place.

Chairman

36. Would it be fair to say that you did have somewhat different views on this; you were then drafted back into the department to defend a brief; you were known to have strong objections to charging for tests. Would it be fair then for the Committee to say that if other charges for tests were suggested you would fight your corner well on it?

(Rt Hon Kenneth Clarke) I do not agree with your premise. Although you have used it in debate against me before it is not true. I actually never had very strong feelings at all on the subject. The quotes that were used to seek to indicate that I had a different view in the past in my opinion were quotes taken out of another debate where I was explaining the consequences of what we were then proposing. It is not the case that I have changed my

view. It is not the case that I have changed my views; if I had never been in the Department of Health at all or the Government I do not believe I would have been on the same side of the argument as Mr Hayes and Mr Winterton last week. It is just not one of the things where I personally have seen a great principle involved.

So far as charging policy is concerned, I have no intention of extending charges into medical areas. Ever since 1951 it has been accepted that dental, pharmaceutical, optical services are legitimate objects of charging and there is no prospect of going back on that at the moment with all the pressures on the Health Service budget in my opinion. To go into the general medical services and start introducing new forms of charge, for example visiting the doctor and so on, we have no intention of doing whatever.

Mr Winterton

37. Can I say we welcome that assurance which we shall certainly hold you to in this Committee. Can I take you up on one particular point. When this debate was taking place last week and in another place earlier this week, one of the great points that you made was that you needed the money for other areas of primary health care. Can I put to you though that in September of this year, not through the Government's fault but because of the European Community, we started charging VAT on spectacles and contact lenses. Would not in fact the money that the Government gets through that source now more than pay for still providing free examinations for eye testing?

(Rt Hon Kenneth Clarke) It is a pity and it has been looming over the horizon for some time and has finally happened. It does go back to a directive that we accepted in the late 1970s. When

PERSONAL

**CHANCELLOR**

*Thank:*

FROM: A G TYRIE

DATE: 15 November 1988

cc: Mr Gieve

**PENSIONS: THE NICK WOOD ARTICLE**

After we spoke about this last night I rang Nick Wood and got him to agree to insert a paragraph, marked x on the attachment.

2. Nick was apologetic. He immediately acknowledged that the source had been wrongly attributed but that he had already corrected it, at 8.00p.m. last night, and for all but the first edition. He was at pains to explain that I was not his source, but remained adamant (while refusing to tell me who) that he did have someone who had told him this.

3. On balance, I believe him. It might have been an MP, speaking out of turn. Nonetheless, it was just as unwelcome.

*AG*  
**A G TYRIE**

# Pensioners could get an extra £500m in benefits

By Nicholas Wood and Philip Webster

More than one million of Britain's poorest and oldest pensioners could gain by as much as £500 million in extra benefits in the wake of the disputed briefing of Sunday newspaper political correspondents by Mr Nigel Lawson, Chancellor, it was disclosed yesterday.

Sources indicated one result of the furore over his briefing would be to make it harder for him to contain the cost of the package of new benefits being drawn up by Mr John Moore, Secretary of State for Social Security.

The sources suggested instead of costing £100 million extra, as first envisaged by the Treasury, the eventual bill could be between £200 million and £500 million.

Last night, a Treasury spokesman confirmed that a scheme was being worked on but said any numbers were purely speculative.

The disclosure came as the Labour leadership declared its determination to continue harrying Mr Lawson.

It was considering whether to attempt to refer Mr Lawson's conduct to the Com-

mittee of Privileges after its application for an emergency debate failed in the Commons.

Mr Gordon Brown, shadow Chief Secretary to the Treasury, sought the debate, suggesting that Mr Lawson seemed intent on betraying a "trust which millions of people have put in the welfare state and around which they have organized their lifetime's finances".

After Mr Bernard Weatherill, the Speaker, turned down the request, Labour leaders met immediately to discuss ways of keeping up the pressure on Mr Lawson.

Mr Roy Hattersley, the deputy leader, said last night: "We consider Mr Lawson's conduct to be so serious that that we have no intention of allowing the matter to drop".

Sources close to Mr Lawson, however, insisted yesterday that contrary to the overwhelming weight of Opposition and media comment since the briefing, there had been no inconsistency between the Chancellor's remarks and his subsequent statement to the Commons.

cst.rj/docs/15.11.3

**PERSONAL AND CONFIDENTIAL**

**CHANCELLOR**

*1 Agui*

**FROM:** A G TYRIE  
**DATE:** 15 November 1988  
**cc:** Chief Secretary  
Mr Gieve

**PENSIONS: TIMING OF THE ANNOUNCEMENT**

It crossed my mind last night that we should not disclose, if we can avoid it, exactly when we are intending to make this announcement to DSS until the latest possible moment. It would be bound to leak and, without control over the presentation, could nullify the potential benefit or even be damaging.

2. I have already mentioned this point to Alex; I think Hayden Phillips is just the man to play this tricky hand!

*AGT.*

**A G TYRIE**

PERSONAL AND CONFIDENTIAL

**CHANCELLOR**

FROM: A G TYRIE  
DATE: 15 November 1988  
cc: Chief Secretary  
Mr Gieve

PENSIONS: GORDON BROWN LETTERS TO PM AND YOURSELF

On reflection, I wonder whether you should reply again at all. Anything you say, however trivially new, would almost certainly get coverage in the newspapers.

2. We could just get the Prime Minister to write back to Gordon Brown saying:

"The Chancellor has already made a statement in the House on the subject matter of your letter. He has also replied to earlier correspondence with you".

AGT.

A G TYRIE

RESTRICTED

CHANCELLOR

FROM: A G TYRIE  
DATE: 15 November 1988  
cc: Chief Secretary  
Mr Gieve  
Mr Hudson  
Mrs Chaplin  
Mr Call

*Handwritten signature in red ink*

LABOUR'S PENSIONS PLEDGE

We discussed this yesterday.

2. In "The Cost of Labour's Manifesto", issued during the election, we costed out Labour's pledge at £13.85 billion. This was originally a Meacherism, although backed by an overwhelmingly carried party conference motion. For the first set of costings I did I think we restricted ourselves to the modest £5 and £8 per week pledge, worth about £2½ to £3 billion. Of course, once the full Meacher pledge was restated in the Manifesto Labour could hardly complain at it being costed.

3. I attach the relevant documents, in the unlikely event that they are useful for the Queen's Speech debate.

*pp*  
*AG*  
A G TYRIE



- iv) the Government's power to revoke and re-issue British Telecom's licence.

Conference believes that this combination of measures:

- a) will enable a new model of social ownership to be set out;
  - b) would strengthen consumer rights through powerful independent representation;
  - c) would give employees effective rights for information, consultation and negotiation;
  - d) would integrate British Telecom into national industrial policy including support for British supplying industries;
- b) the introduction of legislation to:
- i) bring British Telecom and its subsidiaries back into social ownership through the issue of non-voting securities to replace shares at the same time as British Telecom returns to public ownership;
  - ii) restore one national integrated telecommunications network by British Telecom purchasing the United Kingdom assets of Cable and Wireless PLC, including Mercury Communications Ltd;
  - iii) restore the salaries and conditions of staff employed by the subsidiaries where those have deviated from these enjoyed by staff directly employed by British Telecom.

Conference calls for the early publication by the National Executive Committee of a plan of objectives for the future of British Telecom.

**Carried**

### Composite 35

This Conference expresses grave concern at the Tory Government's privatisation policies. It believes that this attack on the public sector threatens the jobs of many trade unionists, and the quality of services received by the community and that privatisation in the health service and transport and the threat of forced privatisation of local council services are of particular concern. Conference proposes the following strategy.

- a) district Labour parties, labour groups, trades councils, and trade unions should establish close links with workers facing privatisation;
- b) joint campaigns against privatisation should be established, which should consider preparation of local "alternative plans" against privatisation aiming at the creation of more responsive and accountable public services;
- c) a public service strategy document be drawn up outlining key areas in which public provision needs to be developed or strengthened, together with a plan of action to promote the strategy.

Conference calls upon the National Executive Committee to:

- i) devise a public service strategy to extend public ownership and the resourcing of the public sector and instigate a radical review of the public ownership system to determine which major industrial companies and financial institutions are to be taken into public ownership;
- ii) increase worker participation in management decision making;
- iii) ensure that an incoming Labour government in its first five years of office transfers back into public ownership without compensation all those assets and public services which have been privatised by the present Government with a resulting loss of jobs and worsening of working conditions and public welfare.

**Lost**

## Welfare Policies

### NEC Statement Taxation and Social Security

(Text of statement available in *Statements to Conference*, B/038/86, price £3 plus 30p postage from Labour Party Sales, 150 Walworth Road, London SE17 1JT.)

**Approved**

### Composite 14

This Conference, recognising the service given to Britain by its Senior Citizens, is deeply concerned at the present situation of State Retirement Pension which denies Pensioners the right of choice, dignity, independence and security in retirement; the increasingly heavy burden of fuel costs borne by Pensioners which undermines their health and well being; and the increasing costs and erosion of Public Transport Services on which Pensioners depend.

Conference therefore determines that the Party manifesto for the

next General Election shall make an immediate commitment to:

- a) a pensions level of not less than one half of average earnings for a married couple and not less than one-third for a single person;
- b) ensure Pensioners' ability to maintain warm and well lit homes with adequate heating allowances covering all fuels without a means test;
- c) make provision for Pensioners to be exempt from standing charges for gas, electricity, telephone and also television licences;
- d) introduce a statutory free fare scheme for Pensioners on Public Transport throughout the United Kingdom;
- e) establish a regular Tax Free Christmas Bonus of £20 and a substantial increase in the present death grant of £30, both to be linked to the rate of inflation;
- f) produce a longterm strategy to progressively reduce the male retirement age from 65 to 60.

Card Vote 28 For: 6,412,000; Against: 3,000

**Carried**

### Composite 15

This Conference calls on the next Labour Government to take an active part in the study of a basic income scheme and to formulate plans to reform the structure of social security, basing it on the concept of a social income payable to each individual and to dependent children.

Towards implementing this policy conference demands that the next Labour Government:

- a) ensures that all people dependent on state benefit will be paid enough to enable them to live decently with dignity to an acceptable level equivalent to other EEC countries;
- b) that as a matter of urgency, the retirement age for men is reduced to sixty years with no loss of pension rights;
- c) the maternity grant is restored to at least a payment of £125 which would return it to its 1969 level;
- d) the period of service with an employer to qualify for maternity pay is reduced as far as possible;
- e) periods of service with different employers are transferable for the purposes of the qualifying period;
- f) maternity pay is 100% of normal earnings;
- g) pregnancy supplement is paid to expectant mothers who are in receipt of supplementary benefit;
- h) a disablement allowance varying according to severity of disablement, assessed according to limitation of activities, for people of all ages with sensory, mental or physical disabilities matching at the 100% rate the war and industrial pension (currently £62.50 per week) to compensate for the indirect as well as direct financial disadvantage of disablement;
- i) an invalidity or disablement pension payable to disabled people of all ages incapable of work, irrespective of contribution record, sex or marital status at a rate higher than the long term rate of supplementary benefit (currently £37.50 per week);
- j) special allowances, such as dietary, heating, wear and tear and companionship or guide dog allowances, to meet the additional specific expenses of certain types of disability including diabetes and blindness;
- k) a special scheme to provide grants for technological and other aides to improve housing, equality of living conditions, opportunities for occupation, transport, and communications for people with disabilities.

**Remitted**

### Composite 16

This Conference recognises that:

- 1) We all at some time in our lives depend on state benefits;
- 2) that benefits have never been paid at an adequate level and that the system was an unpopular under Labour governments as it is now.

This Conference declares its wholehearted opposition to the social security legislation now before Parliament.

Conference notes that:

- a) women will bear the brunt of this legislation;
- b) women make up the majority of claimants;
- c) women will lose maternity grant and family income supplement;
- d) fewer women will get maternity allowance and widows' pension;
- e) child benefit will be at risk;
- f) it is women who will have to manage the family's reduced income;
- g) women's jobs will be lost as Department of Health and Social



# The Cost of Labour's Manifesto

*From Costly to*  
637.2424.12641.  
*2 Eleanor Goodman 2609.*

*Burns. - 998.6126.*  
*Byatt. - 388.3888.*

23 May 1987

Details of the annual cost at 1987-88 prices of the full implementation of Labour's Manifesto pledges are set out below.

## PLEDGES

	£ Million
<b>1. Pensions.</b> 'We will immediately increase the single pension by £5 per week and the pension for a married couple by £8 . . . We will fully restore the State Earnings-Related Pensions Scheme as part of the process of achieving our objective of a pensions level of one-third average earnings for single people and one-half average earnings for married couples'.	13,850
<b>2. Child Benefit.</b> 'We will increase child benefit by £3 per week for all children, raise the allowance to the first child by £7.36p'.	3,480
<b>3. Housing (new build and rehabilitation).</b> 'We will launch a major house building and public and private sector housing renovation drive'.	3,010 3-3
<b>4. Public Service Employment.</b> 'A further 300,000 new jobs will improve the health and education services and the neglected community and caring services. The depleted customs services will be strengthened in the fight against drugs. The revenue and benefit departments will be staffed to increase efficiency'.	2,880
<b>5. Education Throughout Life.</b> 'We will ensure that more adults have access to higher education and give them the "second chance" of personal development'.	1,660
<b>6. Overseas Aid.</b> 'We will double Britain's aid budget in order to achieve the United Nations' target of 0.7% of national income within five years'.	1,570
<b>7. Minimum Wage.</b> 'We will implement . . . the introduction of a statutory national minimum wage'.	1,500
<b>8. Training for Adult Unemployed.</b> 'The Adult Skillplan will develop life-long training and education for everyone needing to supplement and update skill in work'.	720
<b>9. Energy Policy.</b> 'Gradually diminishing Britain's dependence upon nuclear energy . . . We will invest substantially in research into, and the development of, the renewable energy resources, as part of the alternative means of power . . . We will take action to deal with acid rain'.	680
<b>10. NHS Health Charges and Private Practice.</b> 'We will begin to reduce [prescription charges] with the purpose of securing their eventual abolition . . . Labour will end privatisation in the NHS . . . beginning to phase out pay beds and remove public subsidies to private health'.	630
<b>11. Unemployment Benefit (long-term rate).</b> 'We will extend the long-term supplementary benefit rate to the long-term unemployed'.	570

**Educational Maintenance Awards.**

510

'There will be maintenance allowances for 16-18 year olds whose family circumstances would otherwise impede their further education.'

13. **Education for the Under 5s.** 490  
'We will make nursery education available for all 3 and 4 year olds'.
14. **NHS Waiting Lists.** 400  
'We shall speedily reduce [waiting lists] by . . . targeting increased resources.'
15. **Private Schools.** 360  
'We shall end . . . public subsidies to private schools'.
16. **Pensioners' TV Licences.** 330  
'We will begin the abolition of the TV licence fee for pensioners.'
17. **Training for Young People.** 310  
'For young people we will establish an integrated, high quality Foundation Programme that will guarantee for all sixteen year olds at least two years of education, training and work experience according to their needs.'
18. **Job Release Scheme.** 310  
'We will extend the voluntary Job Release Scheme to men over 60.'
19. **Standing Charges.** 300  
'We will begin discussions with the fuel industries with a view to phasing out standing charges.'
20. **Railways.** 280  
'Labour will invest to . . . improve . . . rail services.'
21. **Schools: Buildings, Books and Equipment.** 270  
'We will make provision for smaller classes and ensure that children have up-to-date books, equipment and buildings.'
22. **Sewerage.** 270  
'Jobs will be generated . . . by repairing . . . sewers that the nation needs.'
23. **Winter premium.** 180  
'We will provide pensioners on supplementary benefit and others on low incomes with a £5 winter premium to help with fuel bills.'
24. **Energy Conservation.** 130  
'Labour will initiate a major energy conservation programme.'
25. **Death Grant.** 110  
'We will restore and increase the death grant.'
26. **Maternity Grant.** 70  
'We will restore and increase the maternity grant.'
27. **One Parent Family Benefit.** 70  
'We will increase one parent family benefit by £2.20 (per week).'
28. **British Industrial Investment Bank.** 50  
'Set up the British Industrial Investment Bank with strong bases in Scotland, Wales and the English regions, to ensure finance for industry . . . on terms which encourage long-term development.'
29. **Concessionary Fares.** 50  
'There will be good concessionary fare schemes for local travel for pensioners and people with disabilities.'

30. <b>Scottish devolution.</b>		10
'We shall legislate in the first parliamentary session to establish a democratically elected Scottish Assembly in Edinburgh.'		
31. <b>Crime prevention grants.</b>		10
'Our crime prevention programme will . . . provide stronger locks, stouter doors and vandal proof windows for tenants and home owners — especially older citizens — who have difficulty in meeting the costs.'		
32. <b>Disability income scheme.</b>		not yet costed
'We will start to phase in a new disability income scheme.'		
33. <b>Carer's Allowance.</b>		not yet costed
'The Labour Government will consequently provide a carer's allowance.'		
34. <b>AIDS.</b>		not yet costed
'We will step up the fight against AIDS by increasing research resources.'		
35. <b>Welsh Development Agency.</b>		not yet costed
'The Welsh Development Agency will be given greater powers and funds.'		
36. <b>Land reclamation.</b>		not yet costed
'Increase resources for reclaiming derelict land.'		
37. <b>Sport.</b>		not yet costed
'Our Support Sport Programme will provide more resources for physical education and training through more playing fields and facilities, better equipment . . .'		
<b>Total, excluding items not yet costed</b>		<b>35,060</b>

## BASIS OF COSTING

### 1. Pensions.

Pensions increased to a third of average earnings for single pensioners and a half for married couples. Incorporates Labour's 'immediate' pledge to increase pensions by £5 (single) and £8 (couple). Assumes linked and means tested benefits raised in line (See also Michael Meacher, 2 October 1986, *1986 Labour Party Conference*, Composite Motion 14.)

### 2. Child Benefit.

£3 a week increase, and cost of £7.36 per week increase for first child. Assumes supplementary benefit scale rates for children and housing benefit needs allowances increased in line with inflation and a ~~New Partnership, a New Britain, August 1985~~

### 3. Housing.

25,000 renovations a year at £12,500 each (*New Jobs for Britain*, March 1987, *Investing in People*, February 1987 and *A New Partnership, a New Britain*, August 1985). 100,000 new local authority house starts a year at £27,000 each (see also *New Jobs for Britain*, March 1987, *Investing in People*, February 1987.)

### 4. Public Service Employment.

Effect on pay bill *only* of providing an additional 300,000 public sector jobs net of overlaps with 'Education for Under 5s', item 13, and 'NHS Waiting Lists', item 14 (See also *New Jobs for Britain*, March 1987.)

### 5. Education Throughout Life.

Adult education courses at £1,800. Assumes take-up by 1 per cent of adult population (See also *Education Throughout Life*, January 1986.)

### 6. Overseas Aid.

Increase overseas aid spending to UN target of 0.7 per cent of national income over 5 years.

### 7. Minimum Wage.

Public services cost *only* of minimum wage at two-thirds of average earnings. Removed from costings issued 20 March 1987 after pledge was apparently abandoned by John Prescott in Commons (6 November 1986. *Hansard*, Col. 1169.)

### 8. Training for Adult Unemployed.

Provide 75,000 adult traineeships for the unemployed, introduce project-based scheme for training adult unemployed providing 100,000 places, and produce 30,000 trainers over 2 years. Net of savings on social security benefit expenditure (*New Jobs for Britain*, March 1987.)

## **Energy Policy.**

End fast reactor research, increase research on nuclear waste disposal and into renewable energy sources. Control power station emissions to reduce sulphur dioxide and nitrogen oxide emissions by 30 per cent by 1993. Replace nuclear power stations with coal (See also *New Jobs for Britain*, March 1987; *Investing in People*, February 1987; and *NEC Statement to 1986 Labour Party Conference*.)

### **10. NHS Health Charges and Private Practice.**

Phase out all health charges and end private practice in the NHS (See also *Investing in People*, February 1987.)

### **11. Unemployment benefit (long-term rate).**

Pay long term scale rate to unemployed after a year on benefit.

### **12. Educational Maintenance Awards.**

£27 a week for over-16s in full time education. Additional 30,000 16 year olds stay on at school. Net of savings on YTS and social security benefits. Gross cost £730 million. Assume 30% saved from means testing (*Charter for Young People*, June 1985; see also *New Jobs for Britain*, March 1987).

### **13. Education for the Under 5s.**

Right to pre-school education for all children between the ages of 3 and 5. Assumes 80% take-up (See also *New Jobs for Britain*, March 1987, and *Charter for the Under 5s*, April 1985.)

### **14. NHS Waiting Lists.**

Commitment to increase spending on NHS by 3 per cent a year in real terms. (Reconfirmed by Michael Meacher. *Newsnight*, 20 May 1987.) Assume all spent on waiting lists.

### **15. Private Schools.**

Assume 90% of total private school population forced into the state sector (See also *Charter for Pupils and Parents, 1985*; Giles Radice in *The Guardian*, 17 April 1985.)

### **16. Pensioners' TV Licences.**

Free TV licences for pensioners (See also Gerald Kaufman, *Hansard*, 20 November 1986, Col. 724.)

### **17. Training for Young People.**

Foundation training programme for 75,000 young people, and extended training scheme for 75,000 unemployed young people. Net of savings on social security benefit expenditure (See also *New Jobs for Britain*, March 1987.)

### **18. Job Release Scheme.**

Extend the Job Release Scheme to men over the age of 60. Net of savings on social security benefit expenditure. (See also *New Jobs for Britain*, March 1987.)

### **19. Standing Charges.**

Abolish standing charge for gas and electricity for pensioners. Pledge to abolish telephone standing charges apparently dropped (See also *1986 Labour Party Conference*, Composite Motion 14.)

### **20. Railways.**

Electrification of all main lines not already in programme (*Fresh Directions*, March 1987.) See also *New Jobs for Britain*, March 1987, and *Investing in People*, February 1987.

### **21. Schools, Buildings, Books, Equipment.**

Increase spending on school buildings by £850 million over 5 years (See also *A New Partnership, a New Britain*, August 1985; *New Jobs for Britain*, March 1987; *Investing in People*, February 1987).

### **22. Sewerage.**

Increase sewerage investment by £1.35 billion over 5 years (See *A New Partnership, a New Britain*, August 1985; *New Jobs for Britain*, March 1987, *Investing in People*, February 1987.)

### **23. Winter Premium.**

Winter premium of £5 a week for needy pensioner and widows (See also Michael Meacher, *Hansard*, 6 March 1986 and *1986 Labour Party Conference*, Composite Motion 14.)

### **24. Energy Conservation.**

Annual cost of 5 year programme of house insulation (*New Jobs for Britain*, March 1987.)

**25. Death Grant.**

Increase Death Grant from £30 to £200 (Michael Meacher in *Financial Times*, 2 April 1986, also 1984 Labour Party Conference, Composite Motion 63.)

**26. Maternity grant.**

Increase the Maternity Grant from £25 to £125 (1986 Labour Party Conference, Composite Motion 15, supersedes 1984 conference motion.)

**27. One Parent Family Benefit.**

Assumes means-tested benefits raised in line.

**28. British Industrial Investment Bank.**

Assumes lending of £2 billion in year one and interest subsidy of 4 per cent on 60 per cent of loans. No allowance for bad debts (BIB described in *New Jobs for Britain*, March 1987, in *Investing in People*, February 1987, and by Roy Hattersley in *Financial Times*, 19 September 1986.)

**29. Concessionary fares.**

Concessionary fares for pensioners (*Fresh Directions*, February 1987, and *Charter for Transport*, April 1985.)

**30. Scottish devolution.**

Commitment to establish an elected Scottish Assembly. Running and servicing costs *only* (*Fresh Directions*, February 1987, and Labour Party *Statement on Devolution*.)

**31. Crime Prevention Grants.**

Using Association of Metropolitan Authorities' cost assumptions (*Investing in People*, February 1987.)

~~COPY NO. 4~~  
ORIGINALS.

Increase state pension to a third average earnings for single pensioners and a half for married couples.

Labour Party conference 1986 Composite 14.  
"the Party manifesto ... shall make an immediate commitment to:  
(a) a pensions level of not less than one half of average earnings for a married couple and not less than one third for a single person."

- a) average earnings £197.50
- b) rate from April 1987
- c) linked benefits and means tested benefits for pensioners raised in line

- a) £13,500 million for GB
- b) £13,850 for UK

1987-88 prices.

Full year.

Immediate

None.

Item 40 is net of overlap with this pledge. Assumed to subsume Labour's previous pledge to increase pensions by £5 a week for a single person and £8 a week for a married couple (cost £2,400 million for UK).

Main components(GB): RP £11,250m  
 LHB £1,500m  
 Widows' Ben £500m  
 Supp Ben £250m

NB Labour have stated that in first 2 years of Government they would only be committed to raising pensions by £5/£8. (Mr Hattersley in speech to AGM of Labour Solidarity Campaign, 15 February 1987.) Full commitment is nearly five times what Labour say would do in first two years.

A E W White 511 25052

SOURCE AND DATE

ASSUMPTIONS USED

COST

PRICE AND PROVISION BASIS

FULL YEAR/OTHER

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

IMPLICATIONS FOR OTHER PROGRAMMES

OVERLAPS

COMMENTS

CONTACT POINT



FROM: MISS M P WALLACE

DATE: 15 November 1988

PS/CHIEF SECRETARY

cc PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Saunders  
Mr Gieve  
Mr Parsonage  
Mr Griffiths  
Mr Sussex  
Mr Tyrie  
Mr Call

## NHS REVIEW: FUNDING

The Chancellor has seen Mr Saunders' minute of 14 November.

2. His main general comment is that he thinks the manoeuvre of "abolishing" RAWP, and then recreating it, reads rather awkwardly at points. He therefore thinks it would be better to say explicitly that we transform RAWP by

- (a) using up-to-date population figures (projections);
- (b) abolishing published targets;
- (c) enabling hospitals to attract additional funds, as pointed out in the last sentence of paragraph 11, which in the Chancellor's view is the really important change.





3. The Chancellor has also noted the reference in paragraph 2 to adjustments for age structure and morbidity, This <sup>point</sup> is expanded in the last 2 sentences of paragraph 6. He wonders if we are sure this won't lead to even more argument. Would it not be safer to stick to mortality?

... 4. Finally, the Chancellor had a number of detailed drafting comments, which I have marked on the attached copy.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE

DRAFT

**FUNDING THE HOSPITAL SERVICE**

**Note by the Chief Secretary to the Treasury and the Secretary of State for Health**

This paper considers the mechanisms by which:

- a. the Department of Health allocates funds to regional health authorities
- b. regions allocate funds to district health authorities, and
- c. districts fund hospitals, including both self-governing hospitals and those managed by the districts.

**Introduction**

2. As a Group we are agreed that RAWP, the present system for allocating funds to regions, should be ended and replaced by a simpler system along the lines of the model set out in paper HC35. Regions would be funded by the Department on the basis of "weighted capitation" (total population adjusted for age structure and morbidity). Regions would fund districts broadly on the same basis, and districts would introduce performance-related incentives into the funding of hospitals.

3. We are also agreed that health authorities should continue to be responsible for providing those "core" services which have to be available locally: casualty, urgent medical treatment, paediatric services, maternity and ante-natal care, some types of long stay care, and so on. They would have to be funded to enable them to do this. They would also have to enter into contracts to secure other types of service, mainly elective surgery, on behalf of their local populations.

4. This new system will introduce new incentives to improve efficiency. Health authorities will secure health care from the hospitals they consider best able to provide it, while hospitals will be able to compete for business from health authorities other than their local one. Under the present system, by contrast, money is allocated according to where the hospitals are. The RAWP process has been seeking over several years to equalise the spread of hospitals across the country, with considerable upheaval and protest in consequence.

X 5. When fully operational, <sup>the new</sup> ~~this~~ system will make redundant the present role of regions in allocating funds to districts and the adjustments on account of cross-boundary flows. But both will have to be retained during the transitional period. So it is important to keep in mind the distinction between regions and districts in moving to the new system. The problems are quite different at the two levels. We look first at the regions.

The regional transition

6. Until such time as we can do away with the role of regions in allocating resources, the aim should be to fund regions year-by-year, replacing RAWP with a simpler system. Allocations would be based on regional populations, weighted according to age structure and demographic mix, with some adjustment for, eg, London weighting pay costs. The overall health of the region's population would also figure, although the precise method would have to be considered further. Mortality rates are used as a proxy in RAWP, but this is not wholly satisfactory, since today's mortality tends to represent yesterday's, rather than today's, ill-health.

X 7. It will be essential to remove the present arrangements ~~for~~ <sup>where</sup> dealing with ] cross-boundary flows <sup>are only reflected in</sup> ~~by~~ complicated, and obscure <sup>and related</sup> modifications to population weightings. Instead there would be explicit cash adjustments based on the most recent data for numbers and up-to-date costings of different types of treatment. Moreover, these adjustments would, unlike the present system, be made to allocations, ie the money paid to the regions, and not to the artificial targets. In this way, cross-boundary adjustments would become much fairer and much more transparent.

8. Getting to the new distribution of resources will be a problem. The existing pattern of allocations is unlikely to match it very well. Just how great will be the mismatch can best be judged from the existing RAWP targets, which are the best indication we have of the shift in resources that would be implied by an immediate switch to a weighted capitation system. This is

discussed further in Annex A, which shows that while most regions are now fairly close to target, quite sizeable transitions are still implied for three - NE Thames, NW Thames and East Anglia.

9. There are three broad options for managing the transition:

a. move to a weighted capitation system as soon as possible, with some transitional buying out if need be

b. an immediate move to weighted capitation for the 11 regions within 3% of RAWP targets, phasing in the system for the other three

c. bring all regions to a weighted capitation distribution, perhaps over a period of, say, three years, with those above target losing resources to those now below target.

*- without imposing cuts or freezes elsewhere -*

X 10. The "levelling up" implied by the first of these options would be very expensive indeed: full levelling-up would cost over £750m a year, while anything less would mean that significant disparities would remain. Nor do we think it would be acceptable to treat a minority of regions differently from the rest, as the second option would imply: this will create confusion, and would if anything prolong rather than remove the problems created by RAWP targets.

11. So in our view the best course would be a phased adjustment. This could be achieved over 3 years from 1989, although some residual transitional protection might be needed for NE Thames.

Those regions who lost money would not however be obliged to respond with unplanned hospital closures: their hospitals will, under the new system of "contractual" funding, be able to compete to attract patients from outside the region.

X 12. To sum up, therefore, we recommend moving to the new weighted capitation system, with no <sup>published</sup> "targets" different from the cash allocations. This would be over a period of 3 years with cash adjustments for cross-boundary flows. After the transitional period, allocations would be set year-by-year based on the new, simplified formula.

#### The transition for districts

expand | 13. At present districts are funded by regions, but on varying bases. Some use formulae akin to RAWP, but most fund their districts according to the pattern of hospitals. Under the new system, we would propose, as with regions, to move to weighted capitation allocations and to make cross-boundary flow adjustments explicit and transparent.

14. But there are significant complications to the district-level transition:

- the change will have to run alongside the move to a contractual basis of funding. It will take time to develop a system for districts to enter into contracts with hospitals which make sense in terms of financial management without unacceptably limiting the ability of GPs to refer their patients to where they can be treated quickest or most cost-effectively;

- variations in provision between districts are much larger than between regions, and it would be placing an unrealistic weight on cross-boundary adjustments to expect them to <sup>compensate for</sup> pick up all differences between population and provision;
- any shift in resources away from inner city areas with historically high hospital use to suburban and rural areas would have to take account of differences in primary care standards, and be managed carefully over time; and
- the capital charging system proposed in HC56 will have differing impact on districts, according to the state of the capital stock they inherit, and will have to be phased in carefully.

15. For these reasons, the transition to weighted capitation at district level is likely to take longer than that at regional level.

16. A start cannot be made without improved information at district level about population, movement of patients and costs of different types of treatment. Once that is available, and it should come naturally from the improved information systems we are proposing more generally, cross-boundary flows could be dealt with by a rather similar process <sup>to that</sup> ~~as~~ for regions.

- Explicit cash adjustments would be made to allocations in anticipation of cross-boundary flows based on the previous year's experience. Until we have legislation allowing inter-district charging, allocations to districts would be net of such adjustments.
  
- Districts would then physically pay the adjustments to each other, once the necessary legislation was in place, the amounts determined by a formula set at regional level.
  
- Finally, regions would stand back entirely from the process of cross-boundary adjustment between districts. The adjustments would simply follow as a result of contracts agreed between districts.

17. To sum up, the transition at district level will take longer than at regional level. But the general principles - the objective of weighted capitation funding and transparent cross-boundary charging - are the same. Once "contracted<sup>ed</sup>" funding is in place, cross boundary adjustments and - ultimately - the regional role in funding can be phased out.

#### Performance funding of hospitals

18. The final stage in the resource allocation process is the passage of money from districts to hospitals. Once the new system is fully operational, there will be automatic performance incentives, since districts will be seeking the most cost-



effective deals from hospitals. But during the transitional period, a system of top-sliced performance funding, along the lines set out in HC27, is necessary. This will help to deal with the common complaint that hospitals which increase their efficiency cannot make commensurate improvements in the numbers of patients they treat without some additional funding to cover the variable cost element of treating those extra patients. The scheme would also include incentives for some hospitals to concentrate on waiting list cases and to draw in patients from elsewhere so as to have the maximum impact on waiting lists. The amount of money to be set aside for the scheme within the agreed total provision for health expenditure should be the subject of annual discussion between us in the public expenditure survey.

#### Self-governing hospitals

19. There is no reason why the process of transition to the new funding arrangements should delay the programme of self-government in hospitals. It is of the essence of self-governing hospitals that they will be funded by contracts with districts. We need to ensure that districts are ready to negotiate these contracts, possibly before they are set to move into "contract funding" more generally. To that extent, the introduction of self-governing hospitals will help to accelerate the pace of change at district level. The hospitals will need contracts to supply both "core" and "contract" services on behalf of local districts. Further work is needed on the form that these contracts will take, and on the costings that will underpin them.

20. One effect of hospitals switching to self-governing status may be to denude some districts of most of their functions. They will need to amalgamate with other neighbouring districts. If districts had already merged with the - in terms of area, larger - FPCs, this subsequent disruption might be avoidable.

### GP practice budgets

X X
X
X
 21. While <sup>there is agreement that</sup> the principle of GP practice budgets <sup>has attractions</sup> ~~is attractive~~, the Treasury have reservations about their ~~practicability~~ <sup>of a full-blown scheme</sup>. This is to be addressed separately. Assuming for the moment, however, that these problems are resolved, GP practice budgets would be an alternative mechanism for funding part of the acute hospital sector. The money for them ~~will~~ <sup>would</sup> therefore need to come out of the hospital and community health services budget, not the FPS.

X
 22. Whether the allocation should be made by districts or by regions depends on whether a decision is taken to merge districts and FPCs. If we go ahead with merger, it would be logical and sensible to give the merged bodies responsibilities for setting budgets for those practices who opt to hold them. If however <sup>would be problems of accountability</sup> ~~there might be difficulty~~ if districts are allocating money to GPs who are then not responsible to FPCs for their stewardship of it. It would be better in these circumstances to give the responsibility to regions, to whom both districts and FPCs would be reporting.

Capital

23. The capital programme is at present allocated to regions on the basis of weighted capitation, projected 5 years ahead. We see no need to change this principle, although the formula will in future need to be the same as that for current expenditure.

24. Self-governing hospitals would have to bid against regional budgets if they wished to undertake new capital investment. They would be required to produce business plans and investment appraisals which would demonstrate the soundness of the proposed investment against the normal criteria applied to NHS capital projects.

Timetable and summary

25. The proposals in this paper may be summarised in the form of the following schematic timetable.

April 1989 - Transitional allocations, based on existing RAWP formula, but with more transparent cross-boundary adjustments.

- Begin work on improved information about population etc at district level.

April 1990 - First year of <sup>transition to</sup> new weighted capitation formula as basis for allocations to regions.

- Experimental schemes for contractual funding of hospitals
  - New top-sliced performance funding scheme.
- April 1991 - Introduction of explicit cash payments for cross-boundary flows between districts.
- April 1992 - Extend contract funding to all districts
- Cross-boundary adjustments negotiated between districts; adjustments between regions unnecessary.
  - transition to weighted capitation at regional level complete
- April 1994 - Introduction of contract funding completed; cross-boundary adjustments at district level and performance funding phased out.
- April 1995 - Substantial progress towards weighted capitation at district level.

## REGIONAL ALLOCATIONS AS COMPARED WITH WEIGHTED CAPITATION

The best proxy for weighted capitation that is available at present is RAWP targets. These give distributions between regions, according to population, adjusted for age mix, morbidity and cross-boundary flows. The following table shows the actual allocations in 1989-90 (with estimates in brackets of what the figures would be without adjustment for cross-boundary flows), and the distances of the allocations from target in 1988-89 and 1979-80. Most regions are within two or three percentage points of target now, except for East Anglia (4% below) and NW and NE Thames (4½% and 7% respectively above target). While the changes in individual regions vary quite considerably over the period - compare, for example the progress of NE and SE Thames respectively towards target - largely as a result of the targets themselves shifting with population changes, the general picture is of very considerable movement towards target, and hence a more equal spread of resources across the country.

	Allocation 1988-89 (and estimated allocation without cross-boundary flow adjustment) £m	Percentage distance of allocation from target 1988-89	Percentage distance of allocation from target 1979-80
Northern	735 (731)	- 1.56%	- 7.47%
Yorkshire	830 (834)	- 1.39%	- 3.68%
Trent	1010 (1034)	- 2.70%	- 7.25%
East Anglia	438 (426)	- 3.99%	- 5.10%
NW Thames	808 (837)	+ 4.46%	+12.98%
NE Thames	1007 (987)	+ 7.29%	+11.46%
SE Thames	898 (905)	+ 1.69%	+10.03%
SW Thames	746 (754)	+ 0.97%	+ 5.90%
Wessex	615 (625)	- 1.79%	- 3.70%
Oxford	482 (494)	- 2.58%	+ 0.58%
South Western	732 (721)	- 1.39%	- 4.01%
West Midlands	1186 (1174)	- 1.32%	- 5.81%
Mersey	586 (583)	+ 1.48%	- 1.00%
North Western	1005 (972)	- 1.35%	- 8.76%
Average distance from target	-	2.43%	6.27%

15.11.1

SECRET

*mp*

*M*

CHIEF SECRETARY

FROM: R B SAUNDERS

DATE: 15 November 1988

cc *✓* Chancellor  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Parsonage  
Mr Griffiths  
Mr Sussex  
Mr Tyrie  
Mr Call

**NHS REVIEW: FUNDING**

I attach a copy of this paper in the form in which I have now sent it to Department of Health.

*RBS*

R B SAUNDERS

Oh/ sorry this  
got weeded  
by accident.  
~~Given~~ Given  
X, there wd  
be advantage  
in writing  
round today if  
poss. I could  
be amended

from the car  
if you wish.

mpw.

CONFIDENTIAL

*pl attach eps*

FROM: R B SAUNDERS

DATE: 16 November 1988

CHANCELLOR

*OK*  
*Ch/ak for me to write as drafted?*  
*[I wd leave out £.]*  
*para on costs*  
*mpw*

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Parsonage  
Mr Griffiths  
Mr Sussex  
Mr Call

**MHS REVIEW: DEPARTMENT OF HEALTH PAPERS**

I attach a draft letter covering our main points on the three Department of Health papers which were not discussed at the Prime Minister's meeting last week. The draft also takes the opportunity to make the point about costs, which was in the minute prepared for you to send to the Prime Minister before the last meeting, but not in the event sent. It does not raise the question of consultants' contracts: the present intention is for Mr Clarke to send you a letter describing his proposals in more detail, and this is expected to come round on Friday.

2. The letter also brings out our concerns about GP practice budgets and private sector patients. Mr Phillips and I raised the issue at a meeting this morning with Richard Wilson, at which the Department of Health and Ian Whitehead of the Policy Unit were also present. We think we succeeded in convincing them that there is a serious problem here. Now is therefore a good opportunity to reinforce the point in correspondence.

R B SAUNDERS



CONFIDENTIAL

## DRAFT LETTER FROM MISS M P WALLACE TO:

Paul Gray Esq  
10 Downing Street  
LONDON

## NHS REVIEW

At the Prime Minister's meeting on 8 November, the Chancellor said he would circulate his main comments on the papers which were on the agenda but not discussed.

First a general point about costs. Treasury Ministers cannot be expected to endorse proposals which may cost more money without being given a clear idea of how much is involved. The references to additional costs in these and other papers must be fully quantified and the whole package properly costed. The Treasury should not be faced in subsequent surveys with bids which are then described as unavoidable flowing from uncosted White Paper commitments

A better service to patients

The Chancellor considers this to be of very great importance. It will be essential for the public presentation of the review to contain a credible package for improving the service provided to patients. The issue of waiting times is central. He was therefore disappointed by the absence of firm proposals in paragraph 10 of the paper. He thinks that the White Paper will need to hold out a much more solid prospect of progress towards reduced waiting times.

CONFIDENTIAL

The Chancellor was also concerned about the emphasis which the paper places on broad issues of health policy. This review is about the organisation and delivery of health care, ~~not about health policy.~~ He thinks it will greatly confuse the Government's message if wider health policy considerations are introduced into the White Paper. The proposed emphasis on the work being done to develop a portfolio of health indicators is a case in point. The Chancellor has accepted that this should be taken forward and indeed welcomes the prospect of improved measures of health outcomes. But the work is still at an early stage of development and careful consideration will need to be given to its eventual use. ~~[It is not suitable material for]~~ the White Paper.

*He thinks its inclusion would be misunderstood, and he would prefer it pursued in a more low-key way.*

### The public and private sectors

In discussing whether we should seek to "blur the distinction" between the public and private sectors, ~~the emphasis has always applied that~~ it is essential to distinguish public and private provision of health care from public and private finance. The Chancellor strongly favours blurring the distinction ~~between public and private~~ in the provision of health services. A publicly-funded National Health Service should be encouraged to buy services from the private sector where it is more cost effective. He would therefore prefer to see a stronger steer from the centre in promoting competitive tendering for clinical services than is proposed in the paper. On this point, he is reluctantly prepared to agree with the Secretary of State's approach, in view of the assurances given previously, although it would obviously have been better had such assurances not been given.

CONFIDENTIAL

*entirely hand the Chancellor feels*

But it is essential to maintain the distinction between public and private financing of health care. The dangers of blurring this distinction are illustrated by the proposition in paragraph 4(i) that GPs with their own practice budgets should be able to send patients to private as well as public sector providers. This implies that GPs will be able to use public money to refer their patients privately, even where those patients would otherwise have paid for themselves. For practices with large numbers of private patients, this could mean a substantial substitution of public for private financing. This would result in higher public expenditure on health care, and reduced private expenditure on it.

This is a serious flaw in the present proposals for GP practice budgets. There are two possible ways of addressing it. The first would be to prohibit GPs from using their practice budgets to refer patients privately. But the Chancellor thinks this would be *contra to established Govt policy* impossible to reconcile with the emphasis elsewhere in the Review ~~on encouraging a partnership between the public and private health care sectors.~~ That leaves the second alternative, which would be to find some way of reducing GP practice budgets in line with the proportion of their patients who use the private sector. If it can be done, this would both deal with potential abuse and tackle the related problem that GPs with a large proportion of patients who use the private sector would get far too much if the budgets were based simply on capitation. But it is not easy to see how such a system could work, since GPs do not as a matter of course

CONFIDENTIAL

hold the relevant information about their patients. He would like to hear the Secretary of State's views on how this problem can be tackled.

Professional and employment practices

The Chancellor does not agree that an independent inquiry into the best use of professional resources in the NHS is right. We shall be making significant proposals affecting the way consultants work, in terms of both their conditions and their involvement in hospital management. A separate inquiry could well get into the same territory and would - at best - give the impression of muddle, with the criticism that if we are prepared to have an independent inquiry on this point, why not other aspects of the Review. ~~[He thinks we must look again at what we could sensibly propose in 'The White Paper']~~

I am sending copies of this letter to Private Secretaries to the Secretary of State for Health, the Minister for Health, the Secretaries of State for Scotland, Wales and Northern Ireland, Sir Roy Griffiths, Sir Robin Butler, Mr Wilson (Cabinet Office) and Mr Whitehead (Policy Unit).



# Doctors making ends meet

**Nicholas Timmins**  
on the success story  
at Guy's hospital

"WHEN I came to Guy's five years ago I couldn't believe it," says Elaine Murphy, Professor of Psychogeriatrics at the London teaching hospital. "It was anarchy. Consultants were sounding off to the newspapers, there was internecine warfare between one group of consultants and another, and an absolute slanging match between doctors and administrators. It was like walking into the middle of a war.

"There was a sense of hopelessness, that the place was going down and no one could do anything about it. A lot of that has changed. There is now a sense of purpose."

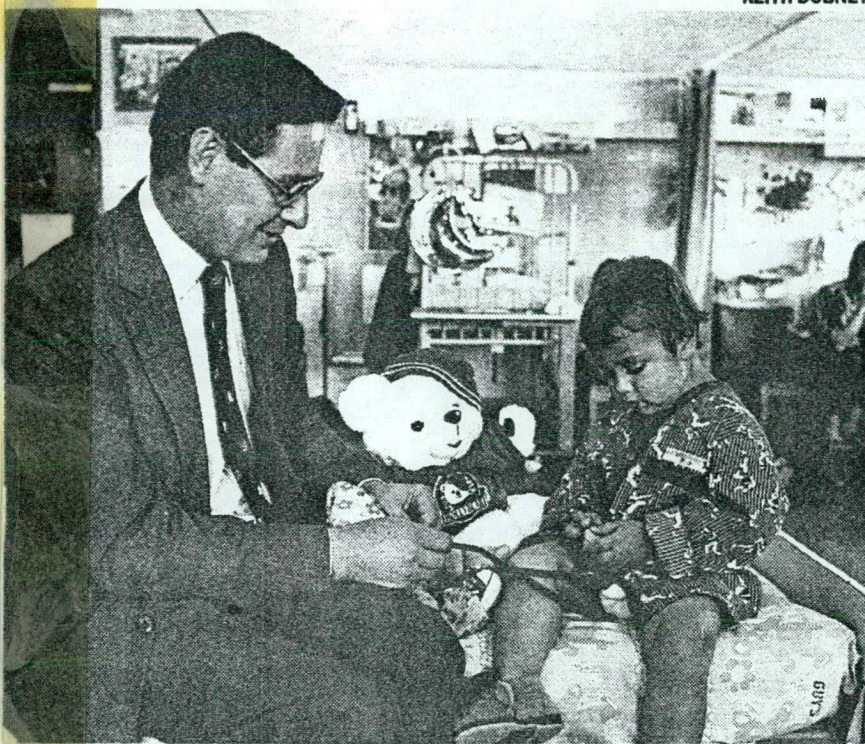
What has changed at Guy's in numerical terms is awesome. Since 1983, the unit which includes Guy's Hospital has closed 28 per cent of its beds. It has cut its expenditure by 15 per cent, and its staff by 17 per cent. Yet, on the figures the hospital produces it may, just may, treat more patients this year than its previous record in 1982.

It has been done, at least in part, by getting doctors to take a central role in running the hospital. And whatever else comes out of the Government's NHS review, a key part of the package will require doctors and nurses to take more responsibility for the resources they use — a bigger role, if you like, in managing the health service.

What hit Guy's in the early to mid-1980s was the same downward spiral that affected every London teaching hospital. Money was pulled out of London to develop services elsewhere. In 1983 planned spending on the NHS was cut by 1 per cent, and the inexorable process of the Government underfunding pay awards and demanding efficiency savings had started.

The result at Guy's was mayhem. Cyril Chantler, Professor of Paediatric Nephrology, says: "Every year we overspent. We'd discover that in June, pass July and August thinking about cuts, and September and October introducing them — usually by emergency ward closures which is a hopeless way of cutting spending. In 1984 we closed over 100 beds and in the next two months treated more patients than in the same period the year before. We thus had the dubious distinction of being the first London hospital to spend more by closing beds. It just couldn't go on."

What the Guy's consultants did was agree to take responsibility themselves. In place of the old management system, 14 "clinical directorates", mini-hospitals within the hospital, were set up. Each consists of a consultant — one each for medicine, surgery, radiology, paediatrics, etc. — backed by a nurse and a business manager



Professor Cyril Chantler is firm: 'You have no freedom until you live within your budget'

who run each directorate as a triumvirate.

The directorates are given a budget and report to a board which monitors how the hospital is doing month by month. Within their budgets, the doctors and nurses have considerable freedom to do what they like — so long as they stay within it.

While the hospital debated the idea in 1984, the financial situation went from bad to worse. In early 1985, Guy's yet again hit the headlines. Alan Yates, the hospital's cardio-thoracic surgeon, faced with patients literally dying on the waiting list, was told he would have to stop operating for six weeks because the money had run out. "They told me I'd overspent my budget," he says. "But they couldn't actually tell me what my budget was. It was crazy."

In April 1985, when the new management board took over, the hospital had a debt of £1.2m that threatened to reach £5m by the year's end.

Staff account for 70 per cent of NHS spending. Guy's bit the bullet and cut — 10 per cent of staff, including doctors, went. New Cross Hospital, the other part of the Guy's unit, was closed. Nurses were given their own budgets. Records and other staff were decentralised to the directorates, which, wherever they could, started earning money by charging other NHS districts for specialised services. And the doctors began to look at just how they spent the cash.

As the savings were made, the doctors decided where to put them. Early last year,

for the first time in a decade, Guy's took some items off its "priority" development list. An observation ward was set up which reduces the number of patients "bumped" on the day of operation because beds have been filled overnight by observation cases.

The lifts in the tower have been replaced, medical records can now be found, much of the place has been painted and the operating theatre air-conditioning, which years of neglect had made a dangerous source of infection, has been renewed.

What all this has meant for patients is harder to assess. The numbers treated initially dropped by 6 per cent — well down, but by far less than the cut in spending. They are now on the way back up. Despite much shorter hospital stays, Guy's says readmissions caused by too-early discharge have not risen. Waiting lists soared — but have started to fall again.

Alan Yates, director for the heart unit, says on balance the changes have been good: "It's made us look at what we spend." There is a plastic skin surgeons unit to place over the chest incision. "It costs £15 a time. When you are doing 750 patients a year, that's quite a lot of money. Before I had no idea what it cost, and if an administrator had told me to stop using it I'd have told him to get lost; what did he know about it? But having our own budget, we looked into it and found it doesn't in fact do anything to reduce wound infections. So we stopped using it. That's a fairly

KEITH DOBNEY

typical example, but only doctors can take those decisions."

In real terms, he says, his budget is the same now as when he was told to stop operating three years ago. But last year his unit did 625 open-heart operations against 425 then. Overall, from being in 1983 the most expensive London teaching hospital per case, Guy's is now the third cheapest.

The consultants are proud of what they have done, but wary of over-selling it. "We're still struggling really and we've still a lot to learn," Dr Hugh Saxton, the current management board chairman, says. This year the hospital is again grappling with a potential overspend. Greater efficiency does not of itself bring in more money, as Alan Yates is quick to point out. "We now do three times as many open-heart operations as St Thomas's Hospital on virtually the same budget, but we don't get any reward for that efficiency. To be fair, the region and those higher up have started to recognise that." Next year, his unit and St Thomas's will be paid their fixed costs and then the variable costs — drugs, dressings and equipment — in addition for each case. That should mean he will not overspend by doing more work. "What then happens, when everyone starts working harder and putting more patients through, I don't know."

Guy's had some particular incentives to make the change. It was told bluntly that it would not get a new £30m ward block unless it got its spending under control. It had more peripheral units to close than the neighbouring St Thomas's district, which is currently £2.8m in debt with 137 beds shut and is going through the sort of fire Guy's experienced three years ago. Last week it too decided to introduce clinical directors.

The experiment has raised complex issues — about clinical freedom (the right of doctors to do what they think best for the patient) and what might be dubbed the "Quisling factor". Cyril Chantler, the first management board chairman, is firm about clinical freedom. "If you don't have any resources, you don't have any clinical freedom. By maximising what you do have, you can increase your clinical freedom."

And there is the "Quisling factor" — whether by agreeing to live within budgets consultants are conniving in underfunding of the NHS. Elaine Murphy says: "That issue comes up all the time. No one would argue that we are not badly underfunded. But, if we are going to jump off the top of Guy's Tower in protest, we have to be able to show the Government and the public that we are doing the best that can be done with what we've got. We're beginning to be able to do that."

Cyril Chantler puts it more simply. "If you have the clinicians involved, at the end of the day they are not going to compromise. The doctor's responsibility remains to the patient."

FROM: MISS M E PEIRSON

DATE: 16 NOVEMBER 1988

CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Sir Peter Middleton  
Mr Anson  
Mr H Phillips  
Mr Beastall  
Mr Potter  
Mr Saunders  
Mr Tyrie  
Mr Call

Ch/   
① I have not yet minuted out your comment behind - I assume the brackets mean minute to CST only?  
X  
② The C & AG letter <sup>(attached)</sup> is pretty predictable. Here we go! m.p.w.

**NHS AUDIT: LORD PRESIDENT'S MEETING AND C&AG'S PROPOSAL**

1. You questioned whether it was advisable to include a provision in the Housing and Local Government Bill, when that is published in January, which would provoke a debate on the health service. I have not yet got the view of Parliamentary Counsel, but you may like to know meanwhile the legal advice obtained so far. You should also be aware that the Comptroller and Audit General has just written suggesting that he (and therefore the NAO) should be the new independent NHS auditor, rather than the Audit Commission.

**Housing and Local Government Bill**

2. DOE's legal advice is that, unless health is mentioned in the long title of the Bill, and a clause referring to health is included in the initial publication, it would not be possible to expand the Bill at a later stage to provide the full legislation required for the transfer of the statutory audit of the NHS to the Audit Commission. DOE's lawyers are now seeking the views of Parliamentary Counsel, with the aim of obtaining advice in time for the meeting with the Lord President.

3. DOE advise that another option for the necessary legislation would be the 1989 Finance Bill. If you like we could take further legal advice on that; but it would add 10 or more clauses to what I understand is already looking a very lengthy Bill - unless some

How kind!

CONFIDENTIAL  
NOT FOR NAO EYES

of those clauses can be replaced by secondary legislation; and it would mean that you were generally in the lead (though health Ministers could take those clauses through).

4. If instead we wait for the health review legislation, that would prevent the Audit Commission from taking any significant part in NHS audit in advance of their acquiring full responsibility, but would not otherwise matter. And DH are considering the possibility of exchanges of staff between themselves and the Audit Commission, during the run-up to the legislation, to allow the Commission to get some experience.

C and AG proposal

5. The letter from the Comptroller and Auditor General (copy attached) proposes that he, and therefore the NAO, rather than the Audit Commission, should take over the statutory audit of the health service. Mr Anson is having a meeting with Mr Bourn (and the Permanent Secretaries of DH and other interested departments) on Friday, and following that we shall put forward further advice to you and the Chancellor.

6. However, we shall not encourage Mr Bourn to think that you would wish to change your minds as regards the Audit Commission. As Mr Bourn's letter says, the idea that the NAO should take over the statutory audit of the health service was put forward by the sponsors of the 1983 Bill leading to the National Audit Act, and was resisted then by the Government. The NAO report to the C&AG, and thence to the PAC; the C&AG does not report to the Government, and it seems unlikely that the PAC would agree that he should. Therefore the Secretary of State for Health (who is responsible for the funding of the NHS, and must therefore have available to him an external audit of the NHS' use of the money) would have no control over the work of the NAO, and could not, for example, ask for particular subjects to be covered in the value for money studies in the health field. It has to be said also that, despite what Mr Bourn says in his letter, the NAO value for money studies are not as good as those of the Audit Commission.

*MEP*

MISS M E PEIRSON



FROM: M J SPACKMAN  
DATE: 16 November 1988

*Just  
Shah.*

MISS WALLACE

*12/2*

*Ch/  
15 X*

cc: Sir Peter Middleton  
Mr Anson

*preferable?*

*Handwritten notes in red ink, including '10/11/88' and other illegible scribbles.*

**SOCIAL TRENDS**

*mp*

Your minute of 11 November asked me to try to negotiate further on the wording about people's attitudes to the level of their own taxation.

2. The authors take it as a point of principle that they never quote results as a proportion of only those who expressed a positive view, excluding the "don't knows". I have pressed hard on the scope for relaxing this, but it is an absolute sticking point. I believe however, having talked further to the CSO, that the authors would take the following wording, which I hope goes a good way towards getting across the point that the overwhelming majority of those who expressed a view felt that taxation was too high:

*X*

"On the other hand almost nobody felt, when we asked them in 1986, that they were currently undertaxed. Of the 85 per cent of people who expressed a view only 24 [per cent] feel that tax levels are acceptable and the remaining 61 [per cent] feel that they are too high or much too high."

3. If the Chancellor can accept this (and prefers it to the authors' proposal in your minute) I will take it up with the CSO.

*Handwritten notes in red ink: "A. Will the letters be sent all over again? ..."*

*Handwritten signature in red ink.*

M J SPACKMAN

SECRET AND PERSONAL

FROM: JUDITH CHAPLIN  
DATE: 16 November 1988

CHIEF SECRETARY

Cc: Chancellor ←  
Mr Tyrie  
Mr Call

POORER PENSIONERS

Having seen Mr McIntyre's minute of 15 November, I would agree with him that there is little point of introducing the complication of an extra intermediate level of pension premium for pensioners on income support. Adding two different levels to the basic pension level would seem sensible only if it was over a longer age span (from 70 years old). That, however, seems ruled out on grounds of cost and also is hardly targeting on a minority.

2. I do not think adding in a third level gives a convincing reason why it was not possible to work up the details of the scheme before the uprating statement at the end of last month. It would be complicated to administer and for people to know whether they were entitled to it but not complicated to announce or set up.

3. A complication which would presumably have justified the delay would be tapering the withdrawal of IS but that would be a major complication of the system.

4. A more believable reason for the delay in announcing it would be to relate it to the take-up issue. Clearly DSS officials have been considering whether they can identify the pensioners at the levels of income who would be entitled to the additional help. It has obviously been considered whether the money can be channelled to them automatically rather than them applying for it. This appears not possible because of the lack of information on occupational pension entitlements. Such discussions would have taken time.

5 I think how this scheme is publicised to pensioners will be very important. Perhaps a leaflet could go with all new pension books in April which has the simple message that if your income is under £X a week as a married couple or £Y a week as a single pensioner you may be entitled to additional money under the income support scheme. It would also have to say where to apply and how you can get help with the application.

Jc  
JUDITH CHAPLIN

FROM: J P MCINTYRE  
DATE: 16 November 1988

CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Ramsden o.r.  
Mrs Chaplin  
Mr Tyrie  
Mr Call

#### POORER PENSIONERS

Following our discussion yesterday evening, I have looked at the cost of variants on Options 1 and 3. I should emphasise that the costings DSS made yesterday give us only a crude ready-reckoner for working out the cost of variants.

#### Option 1

2. The aim here is to produce a version of the DSS 3-tier approach which retains an element of extra help for the 70-74 age group, as well as the over-75s and is closer to our desired budget of £200 million. Let us call this Option 1A.

3. If we assume an extra £2 for single pensioners and £3 for couples both in the new intermediate tier (70-79) and in the existing over-80s tier, this would cost, very roughly, £240 million in a full year. The number of gainers would be slightly lower than the 3.1 million for Option 1, because the smaller increases in the premia would float fewer extra people onto IS and HB.

4. One way of reducing the cost further, nearer to £200 million, would be to leave the disabled premium unchanged. This would save around £30 million, giving a total cost of some £210 million.

#### Option 3

5. I should first report that DSS have told me this morning that the full year cost of Option 3 is £5 million higher than the figure they gave yesterday. So Option 3 as it stands would cost £235 million.

6. The aim of the variant (Option 3A) would be to do something for the 70-74s whom Option 3 does not help at the moment. This could be done by reducing the age threshold for the higher premium to 70 instead of 75, and partly offsetting the extra cost of this by cutting back the increase in the higher premium to £1.50 for single pensioners and £2.25 for couples. This would cost around £300 million in a full year. Again, if the disabled were left out, this would be reduced, in this case by about £20 million.

7. The reason why the cost of 3A is so high is that the extra expense of bringing in the 70-74 group more than outweighs the savings from cutting back the increases in premia.

#### Issues

8. The key questions which need to be resolved seem to me as follows:

- i. Roughly how much are we prepared to spend?
- ii. Are we content to use the IS route, or do we want to keep other options in play?
- iii. Whom do we want to help?
  - the over 80s?
  - the over 75s?
  - the over 70s?
  - the disabled?
- iv. What is the minimum increase for any of the target groups?
- v. Do the age groups which benefit have to get the same increase? Or can we discriminate?
- vi. When do we want the announcement?
- vii. When do we want implementation?

9. I attach a summary of the options identified so far, including Mr Scott's proposals in the Summer.

Jm

J P MCINTYRE

## COMPARISONS OF OPTIONS

Increases in premia (£ per week)  
over announced rates for 1989-90,  
for singles and couples respectively:

<u>Option</u>	Over 80*	75-79	70-74	Cost (£ million full year)
Scott	2/3	-	-	75
1	3.50/5.55	3/4	3/4	388
1A	2/3	2/3	2/3	240
2	5.50/7.55	4/5	-	342
3	2/3	4.50/5.45	-	235
3A	1.50/2.25	4/4.70	4/4.70	300

\* The over-80s premium is currently the same as the premium paid to all disabled pensioners, of whatever age. These costings assume that the disabled premium is increased by the same amount as the over-80s premium, except in the case of Option 2 where the disabled over 75 would get the top premium and those under 75 would get the new intermediate premium.

1.50 2.55

CHANCELLOR

FROM: J P MCINTYRE  
DATE: 16 November 1988

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Ramsden  
Mrs Chaplin  
Mr Tyrie  
Mr Call

*Thanks. I have started to draft. I will not have it until next wk, I think.*

*Ch*  
*This is CST approved draft.*

*AB*

## PENSIONS ETC: LETTERS FROM GORDON BROWN MP

Mr Brown has written (a fourth time) to you, dated 12 November, and he has also written to the PM on 13 November. I understand it has been agreed that you should give a single reply to these letters.

2. The letter addressed to you focuses on two issues said to have arisen in your 4 November briefing of journalists: the child benefit commitment in the manifesto and the need to "educate" Government backbenchers about targetting. It also alleges that inconsistent explanations have been given by the Treasury for the absence of a transcript of the briefing. It ends by asking why you are unwilling to allow the tapes to be made subject to voice enhancement procedures.

3. On the two benefits issues, your 10 November letter to Mr Brown confirmed that:

"the only change we have in mind is to provide extra help to the poorest pensioners, and that for the rest the Government's policy remains unchanged".

4. Your reply might simply say that there is nothing to add. You might go further and say there will be nothing to add until an announcement is made on the details of the poorer pensioners measure. But this might give the impression that an

announcement was imminent. If so, it may be better not to elaborate.

5. As far as the transcript is concerned, your letter of 10 November said:

"...no transcript of the meeting exists. This is for the simple reason that the machine failed to record."

Again, you may feel there is nothing to add.

6. Turning to Mr Brown's letter to the PM, he urges that you should make a further statement to the House. Mr Brown justifies this by reference to two "new" factors:

i. "the unanimity of the accounts of the journalists present, and across the spectrum of newspapers, but also the independent corroboration of the Chancellor's means testing objectives in a separate Saturday briefing to the highly respected political editor of ITN."

ii. "reports that senior DSS officials were also called over the weekend of 4 November to 7 November to provide some relief for the difficulties the Chancellor had created for himself. The result was to unwrap a proposal which had, I understand, been abandoned at least for implementation in 1988. This gives rise to the serious question about whether what emerged was a cynical attempt to misrepresent the record of what the Chancellor truly said..."

7. I understand from Mr Gieve that there was no separate Saturday briefing of ITN. The reference to the 1988 Survey discussion of a poorer pensioners initiative is of course consistent with what you have said about discussions with Mr Moore and the agreement that further work should be done on the options. In short, there is nothing "new" here to justify a further statement to the House.

8. I attach a draft reply, which has been discussed with the Chief Secretary.

JM

J P MCINTYRE



DRAFT LETTER TO:

Gordon Brown MP  
House of Commons  
LONDON SW1

*Still draft  
(not on the  
machine)*

Thank you for your letter of 12 November. You have also written to the Prime Minister on 13 November.

*I have already made the position perfectly clear in*  
~~On the issues you raise there is nothing to add to~~ my earlier letters to you of 8 and 10 November and ~~to~~ the answers given to Parliamentary Questions. *I have nothing to add to that.*

I think it is a great pity that you have chosen to persist in raising unnecessary fears among pensioners, despite the clear assurance I have given that the only change we have in mind is to provide extra help to the poorest among them. ~~I should have thought that this was a prospect you could warmly welcome, and I hope you will eventually be able to bring yourself to do so.~~

NIGEL LAWSON

PERSONAL



*Handwritten signature*

FROM: A C S ALLAN  
DATE: 16 NOVEMBER 1988

MR TYRIE

cc: Mr Gieve

PENSIONS: THE NICK WOOD ARTICLE

The Chancellor was grateful for your minute of 15 November.

*Handwritten signature: ACSA*

A C S ALLAN

PERSONAL AND CONFIDENTIAL



*ps*  
FROM: A C S ALLAN  
DATE: 16 NOVEMBER 1988

MR TYRIE

cc: PS/Chief Secretary  
Mr Gieve

**PENSIONS: TIMING OF THE ANNOUNCEMENT**

The Chancellor was grateful for your minute of 15 November, and agrees with the point you make.

*ACSA*

A C S ALLAN

RESTRICTED



*py*

FROM: A C S ALLAN

DATE: 16 NOVEMBER 1988

MR TYRIE

cc: PS/Chief Secretary  
Mr Gieve  
Mr Hudson  
Mrs Chaplin  
Mr Call

LABOUR'S PENSIONS PLEDGE

The Chancellor was grateful for your minute of 15 November.

*ACSA*

A C S ALLAN

CONFIDENTIAL

CHANCELLOR

FROM: A G TYRIE  
DATE: 16 November 1988  
cc: Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Gieve  
Mr Hudson  
Mrs Chaplin  
Mr Call

✓ ✓ (80% draft follows)

PENSIONS: LETTERS FROM GORDON BROWN

I discussed Paul Macintyre's note of today with him and the Chief Secretary in the drafting. Reluctantly, I agree we have to send something.

2. I think there is a good case for deleting the whole of the last paragraph. If we thought that there was a reasonable chance that we could get coverage for the line: "Lawson accuses Brown of scare mongering over pensioners" or "Lawson challenges Brown to welcome prospect of new pensions scheme" I would support keeping the last paragraph. But the odds must be that any coverage would be less than favourable.

3. Failing complete deletion, I would, in any case, prefer to see the last sentence removed. I think the fact that Gordon Brown and Neil Kinnock have, between them, had the opportunity in at least five letters and on three parliamentary occasions to welcome the prospect of the scheme is a good debating point - an indication of their real motives in all this. I would rather store it up for the debate on the Address. *I think this point has some force even if Labour do eventually welcome anything we announce before the debate.*

*AGT*

A G TYRIE



FROM: MISS M P WALLACE  
DATE: 17 November 1988

*mp*

PS/CHIEF SECRETARY

*Sarah*

**NHS AUDIT: LORD PRESIDENT'S MEETING**

The Chancellor has seen your minute to Miss Peirson of 14 November.

2. He has commented that, while he would be perfectly happy to have the Audit Commission clauses added at a late stage in the Bill, if this were possible, he would not want them to miss the Bill altogether. Nor does he consider the extension of the Audit Commission's powers to the NHS at all controversial.

*Mpw*

MOIRA WALLACE

MP



FROM: MISS M P WALLACE

DATE: 17 November 1988

MR SPACKMAN

cc Sir P Middleton  
Mr Anson

**SOCIAL TRENDS**

The Chancellor was grateful for your note of 16 November. In his view, the wording you propose is just preferable to the authors' previous proposal. He adds, as a postscript that it might be better to avoid all ambiguity by deleting the words "per cent" after the 24 and the 61.

*M P Wallace*

MOIRA WALLACE



Ch

Andrew Tyrie is  
very worried about leaks  
leading to new stories  
in the Sunday's press.  
He's concerned that you  
should impress this  
firmly on J Moore & N Sutt

AA

New numbers from  
Paul M<sup>c</sup>I behind

mpw



## PENSIONERS: FURTHER COSTINGS

MP

Option 1B: i.e. an extra £2 for singles and £3 for couples in the 75-79, over 80s, and disabled groups.

estimated cost: £164 million

Option 1C: i.e. an extra £2.50 for singles and £3 for couples in the 75-79, over 80s, and disabled groups.

estimated cost: £196 million.

Option 1C would increase the single IS entitlement as a proportion of the couple's entitlement by 1 per cent for both the ~~over~~ 75-79s and over-80s (from 64% to 65%, and from 65% to 66% respectively).

Option 1D: i.e. an extra £2.25 for singles and £3.25 for couples in the 75-79, over 80s, and disabled groups.

estimated cost: £183 million

Option 1D would leave the single IS entitlements as a proportion of the couple's entitlement virtually unchanged.

Recommendation: Get Option 1B properly costed by DSS.

If it turns out as cheap as £164 million, then we have room to consider further options like 1C and 1D.

Age points	60 for ordinary pensioner premium
	70 for intermediate pensioner premium
	80 for highest pensioner premium
Enhancement	£3.00 for single pensioners
	£4.00 for couples

All disabled claimants over 60 receive highest pensioner premium.  
 Illustrative 1989/90 rates for premium:

	singles	couples	announced rates	
	£	£	singles	couples
			£	£
OPP	11.20	17.05	11.20	17.05
IPP	14.20	21.05	11.20	17.05
HPP	17.20	25.05	13.70	19.50

**Gainers on 1989 rates**

Existing Income Support beneficiaries:

Non-Disabled

Single	70-79:	535,000	gain up to £3.00
Couple	70-79:	90,000	gain up to £4.00
Single	80 or over:	395,000	gain up to £3.50
Couple	80 or over:	40,000	gain up to £5.55

Disabled

Single	60-79	65,000	gain up to £3.50
Couple	60-79	65,000	gain up to £5.55
<b>Total:</b>		<b>1,190,000</b>	

New Income Support beneficiaries

Single	70-79:	55,000	gain up to £3.00
Couple	70-79:	35,000	gain up to £4.00
Single	80 or over:	30,000	gain up to £3.50
Couple	80 or over:	10,000	gain up to £5.55
Disabled	60-69	20,000	gain up to £5.55
<b>Total :</b>		<b>150,000</b>	

Housing Benefit: new beneficiaries - 75,000  
 existing beneficiaries - 1.7 million  
**Total number of gainers - 3.1 million**

Cost: 1989/90	Income Support	£117 million
	Housing Benefit	£68 million
	<b>Total:</b>	<b>£185 million</b>

Cost: 1990/91	Income Support	£245 million
	Housing Benefit	£143 million
	<b>Total:</b>	<b>£388 million</b>

OPTION 2

S E C R E T

Age points	60	for ordinary pensioner premium
	75	for intermediate pensioner premium
	80	for highest pensioner premium
Enhancement	£4.00	for single pensioners
	£5.00	for couples

Disabled 60-74 receive intermediate pensioner premium, disabled 75-79 receive highest pensioner premium.  
 Illustrative 1989/90 rates for premium:

	singles £	couples £	announced singles £	rates couples £
OPP	11.20	17.05	11.20	17.05
IPP	15.20	22.05	11.20	17.05
HPP	19.20	27.05	13.70	19.50

Gainers on 1989 rates

Existing Income Support beneficiaries:

NON-DISABLED

Single	75-79:	285,000	gain up to £4.00
Couple	75-79:	45,000	gain up to £5.00
Single	80 or over:	395,000	gain up to £5.50
Couple	80 or over:	40,000	gain up to £7.55

DISABLED

Single	60-74:	45,000	gain up to £1.50
Couple	60-74	55,000	gain up to £2.55
Single	75-79	20,000	gain up to £5.50
Couple	75-79	10,000	gain up to £7.55
		<u>TOTAL</u>	<u>895,000</u>

New Income Support beneficiaries:

Single	74-79:	40,000	gain up to £4.00
Couple	70-80:	25,000	gain up to £5.00
Single	80 or over:	20,000	gain up to £5.50
Couple	80 or over:	10,000	gain up to £7.55
Disabled	60-79:	15,000	gain up to £7.55
<b>Total:</b>		<u>110,000</u>	

Housing Benefit: new beneficiaries - 50,000

existing beneficiaries - 1.0 million

**Total number of gainers: 2.1 million**

Cost: 1988/89	Income Support	£115 million
	Housing Benefit	<u>£48 million</u>
	<b>TOTAL:</b>	<b>£163 million</b>

Cost: 1989/90	Income Support	£242 million
	Housing Benefit	<u>£100 million</u>
	<b>TOTAL:</b>	<b>£342 million</b>

**SECRET**OPTION 3

Age points 60 for ordinary pensioner premium  
75 for higher pensioner premium

Enhancement of HPP £4.50 for single pensioners  
£5.45 for couples

The disabled aged 60-79 receive the HPP; those aged less than 60 experience no change.

Illustrative 1989/90 rates for premium:

	singles £	couples £	announced rates singles £	rates couples £
OPP	11.20	17.05	11.20	17.05
HPP	15.70	22.50	13.70	19.50

## Gainers on 1989 rates

Existing Income Support beneficiaries: 895,000, of whom

Non-disabled 75-79:	285,000	gain up to £4.50
Non-disabled 75-79:	45,000	gain up to £5.45
80 or over:	395,000	gain up to £2.00
80 or over:	40,000	gain up to £3.00
Disabled 60-79:	65,000	gain up to £2.00
Disabled 60-79:	65,000	gain up to £3.00

New Income Support beneficiaries: 75,000, of whom

Non-disabled 75-79:	35,000	gain up to £4.50
Non-disabled 75-79:	15,000	gain up to £5.45
80 or over:	10,000	gain up to £2.00
80 or over:	5,000	gain up to £3.00
Disabled 60-79:	5,000	gain up to £2.00
Disabled 60-79:	5,000	gain up to £3.00

Housing Benefit: new beneficiaries - 45,000  
existing beneficiaries - 990,000

Total number of gainers - 2.0 million

1/2 year cost 1989/90: Income Support £ 75 million  
Housing Benefit £ 40 million  
TOTAL £115 million

Full year cost 1990/91: Income Support £160 million  
Housing Benefit £ 85 million  
TOTAL £245 million

(formerly  
£230m  
then £235m)



NOTE OF A MEETING HELD AT NO 11 DOWNING STREET AT  
4.00PM ON WEDNESDAY 16 NOVEMBER.

Present: Chancellor  
Chief Secretary  
Mr Anson  
Mr McIntyre  
Mrs Chaplin  
Mr Tyrie

**POORER PENSIONERS**

The Chancellor thanked Mr McIntyre for his agenda note. On the first question - how much we should be prepared to spend - the Chancellor said he attached importance to keeping the cost below £200 million. No-one could say that this was an insignificant amount: it was more than the total cost of the Christmas bonus (£115 million), and the original Scott scheme (£70 million). To spend more would, in any case, only increase the presentational problems. The Chief Secretary said that in his view the reception of the scheme would depend, in large part, on the individual amounts pensioners received, and it was important to make sure that these would not be seen as derisory. Mr Anson noted that these considerations effectively ruled out a scheme that would extend below 75 year olds.

2. There was agreement that all were content to use the income support route. The Chancellor said that he did not think that the complex restructuring proposed by DHSS was justified by their wish to explain why the scheme could not have been announced with the uprating. We could perfectly well point out that we had wished to look at a range of options, and had finally concluded that a relatively simple one was the best.



3. It had already been noted that the wish to constrain costs within £200 million, and to have reasonable amounts for each individual, effectively limited the scheme to the over 75's. The Chancellor said he thought this consistent with the declared aim of helping the older and poorer. We could not, of course, say that we were helping all those who had missed out on SERPS. There would be some hard cases still, notably women who had retired earlier without SERPS. However, even lowering the threshold for the higher premium to 70 would not catch all who had missed out on SERPS. Also, a lower threshold would mean either spreading the available sum more thinly among individuals, or making more cash available: neither was attractive. We should focus on the fact that at the moment we had two triggers for extra help - age and income - and we were making both of these more generous. On the question of the disabled, the Chief Secretary said that he thought there was no option but to stick with the present system where all disabled pensioners over 60 were entitled to the higher pensioner premium, and this was agreed.

4. The meeting then discussed whether the age groups who benefited should get the same increase, or whether some discrimination was preferable. In itself, creating a three-tier system was at first blush unattractive. But there were also disadvantages to the two-tier option 3, which would create a single higher pensioner premium, but which would give more of the "new money" to the 75 to 79 year olds. There would be confusion among pensioners about how much they could expect to get, and potential for disappointment amongst older pensioners when they got less than the headline figures in the press. It was also noted that the costings of this option had changed - the latest figure was £235 million, higher than our preferred ceiling.

5. On the other hand, as far as a three-tier system was concerned, if DSS were right in saying that the administrative cost was not prohibitive, then there were attractions in a simple



addition of £2 for singles and £3 for couples in each of the three groups - over 80s, over 75's, and all disabled pensioners. It was agreed that, on balance, this option was to be preferred to the original Option 3. It would be less confusing for pensioners, would create less of a "step" between 74 and 75, minimising resentment at that level. And we could justify the continuation of the step at 80 by pointing to its long standing and widespread use - eg in the tax system, or the age addition to the basic pension - as the average point at which pensioners became more frail, and therefore incurred associated costs. Mr McIntyre said he thought that the cost of this might come out at less than £200 million. But we would need to get DSS to do a proper costing, which would also set out how many would gain, and what take-up was expected.

6. On the question of timing, it was agreed that we should aim to implement the scheme in October 89, as April had been ruled out as impractical. The Chancellor and Chief Secretary were agreed that, ideally, the announcement should be made during the Debate on the Address: leaving it to January, as had been suggested by DSS, was unattractive. It was not yet clear when the social security day would fall in the debates, but clearly time could be short. It was agreed that, for speed, the Chancellor and Chief Secretary would see Messrs Moore and Scott tomorrow morning, and attempt to reach agreement on the preferred option.

MOIRA WALLACE  
16 NOVEMBER 1988

**Distribution:**

Those present  
Sir P Middleton  
Mr Phillips  
Mr Gieve

SECRET

FROM: A C S ALLAN  
DATE: 17 NOVEMBER 1988

CHANCELLOR

## NHS REVIEW: FUNDING PAPER

The Chief Secretary and Mr Clarke have not been able to agree a paper for circulation tomorrow. But they think they may have found a way forward (see below). So Hayden has been deputed to persuade Paul Gray and Richard Wilson that the Chief Secretary and Mr Clarke should consider a draft over the weekend, meet at 8.30 on Monday morning, and circulate the paper later that day. An attempt will also be made to delay Wednesday's meeting with the Prime Minister - though I don't give much for the chances of that.

2. The difference between the Chief Secretary and Mr Clarke is over handling the London region. Based on weighted capitation, London is very overprovided (as we know from RAWP): North West and North East Thames would lose substantially from a move to uniform weighted capitation rates across the country. The Chief Secretary's line is that they can offset the loss by selling services to other regions, since they will have lots of facilities: this is entirely consistent with money following the patient - and is indeed in practice what effectively happens now. Mr Clarke feels this would be too difficult and disruptive, and wants to compensate London by paying an extra £86 million.

3. The compromise is to fiddle the weighted capitation rates, so that less is taken from London and less given to other regions. In effect, a London premium would be permanently built into the system, and justified by London being "special".

A handwritten signature in blue ink, appearing to be 'A C S Allan', written over a horizontal line.

A C S ALLAN



RESTRICTED



BF 201

FROM: A C S ALLAN

DATE: 17 ~~OCTOBER~~ 1988  
NOVEMBER

*pyg*

MR MCINTYRE

cc: PS/Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Ramsden  
Mrs Chaplin  
Mr Tyrie  
Mr Call

PENSIONS ETC: LETTERS FROM GORDON BROWN MP

The Chancellor was grateful for your minute of 16 November. He has slightly amended the draft, and I attach a revised version. He is not, however, planning to send it until next week.

Ch  
I'm sorry that, in the hubbub this week, we failed to return the to you for signature. Worth hanging off today with amendments marked?

A C S ALLAN

*OK an*  
→

DRAFT LETTER TO

Gordon Brown MP  
House of Commons  
London SW1

Thank you for your letter of 12 November. You have also written to the Prime Minister on 13 November.

I have already made the position perfectly clear in my earlier letters to you of 8 and 10 November and the answers given to Parliamentary Questions. I have nothing to add to that.

*It is regrettable*  
~~I think it is a great pity that you~~ <sup>chose</sup> ~~[have chosen]~~ to persist in raising <sup>unfounded</sup> ~~unnecessary~~ fears among pensioners, despite the clear assurance I <sup>had</sup> ~~have~~ given that the only change we <sup>had</sup> ~~have~~ in mind <sup>was</sup> ~~is~~ to provide extra help to the poorest among them. As you will have seen, John Major announced details of this extra help yesterday.

NIGEL LAWSON



cc CST  
 Sir P Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Phillips  
 Miss Peirson  
 Mr Turnbull  
 Mr Gieve  
 Mr Parsonage  
 Mr Griffiths  
 Mr Sussex  
 Mr Saunders  
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

18 November 1988

Paul Gray Esq  
 10 Downing Street  
 LONDON  
 SW1

*Dear Paul,*

**NHS REVIEW**

At the Prime Minister's meeting on 8 November, the Chancellor said he would circulate his main comments on the papers which were on the agenda but not discussed.

**A better service to patients**

The Chancellor considers this to be of very great importance. It will be essential for the public presentation of the review to contain a credible package for improving the service provided to patients. The issue of waiting times is central. He was therefore disappointed by the absence of firm proposals in paragraph 10 of the paper. He thinks that the White Paper will need to hold out a much more solid prospect of progress towards reduced waiting times.

The Chancellor was also concerned about the emphasis which the paper places on broad issues of health policy. This review is about the organisation and delivery of health care. He thinks it will greatly confuse the Government's message if wider health policy considerations are introduced into the White Paper. The proposed emphasis on the work being done to develop a portfolio of health indicators is a case in point. The Chancellor has accepted that this should be taken forward and indeed welcomes the prospect of improved measures of health outcomes. But the work is still at an early stage of development and careful consideration will need to be given to its eventual use. He thinks its inclusion in the White Paper would be misunderstood, and he would prefer it pursued in a more low-key way.



### The public and private sectors

In discussing whether we should seek to "blur the distinction" between the public and private sectors, the group has agreed that it is essential to distinguish public and private provision of health care from public and private finance. The Chancellor strongly favours blurring the distinction between public and private in the provision of health services. A publicly-funded National Health Service should be encouraged to buy services from the private sector where it is more cost effective. He would therefore prefer to see a stronger steer from the centre in promoting competitive tendering for clinical services than is proposed in the paper. On this point, he is reluctantly prepared to agree with the Secretary of State's approach, in view of the assurances given previously, although it would obviously have been better had such assurances not been given.

On the other hand the Chancellor feels it is essential to maintain the distinction between public and private financing of health care. The dangers of blurring this distinction are illustrated by the proposition in paragraph 4(i) that GPs with their own practice budgets should be able to send patients to private as well as public sector providers. This implies that GPs will be able to use public money to refer their patients privately, even where those patients would otherwise have paid for themselves. For practices with large numbers of private patients, this could mean a substantial substitution of public for private financing. This would result in higher public expenditure on health care, and reduced private expenditure on it.

This is a serious flaw in the present proposals for GP practice budgets. There are two possible ways of addressing it. The first would be to prohibit GPs from using their practice budgets to refer patients privately. But the Chancellor thinks this would be contrary to established Government policy. That leaves the second alternative, which would be to find some way of reducing GP practice budgets in line with the proportion of their patients who use the private sector. If it can be done, this would both deal with potential abuse and tackle the related problem that GPs with a large proportion of patients who use the private sector would get far too much if the budgets were based simply on capitation. But it is not easy to see how such a system could work, since GPs do not as a matter of course hold the relevant information about their patients. He would like to hear the Secretary of State's views on how this problem can be tackled.

### Professional and employment practices

The Chancellor does not agree that an independent inquiry into the best use of professional resources in the NHS is right. We shall be making significant proposals affecting the way



consultants work, in terms of both their conditions and their involvement in hospital management. A separate inquiry could well get into the same territory and would - at best - give the impression of muddle, with the criticism that if we are prepared to have an independent inquiry on this point, why not other aspects of the Review.

I am sending copies of this letter to Private Secretaries to the Secretary of State for Health, the Minister for Health, the Secretaries of State for Scotland, Wales and Northern Ireland, Sir Roy Griffiths, Sir Robin Butler, Mr Wilson (Cabinet Office) and Mr Whitehead (Policy Unit).

Yours,

Moir


MOIRA WALLACE

Assistant Private Secretary

FROM: M A BOLTON  
 DATE: 18 NOVEMBER 1988

1. MR MCINTYRE  
 2. CHANCELLOR

*JM*  
*18/11.*



- cc Chief Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Phillips  
 Miss Peirson  
 Mr Gieve  
 Mr Turnbull  
 Mr Ramsden  
 Mr Speedy  
 Mrs Chaplin  
 Mr Tyrie  
 Mr Call

**STATE PENSIONS: LONG TERM EXPENDITURE PROJECTIONS**

You asked for the key facts on long term state pension costs.

2. The latest published figures are those given in the GAD report on the Social Security Bill 1986, Command 9711. A summary of the relevant details is given below. The figures given are at November 1985 prices. (These are also the most up-to-date figures available within government).

<u>£bn (1985)</u>	<u>1993-4</u>	<u>2003-4</u>	<u>2013-4</u>	<u>2023-4</u>	<u>2033-4</u>
RP Basic Pen (earnings-uprating)	19.4	22.5	28.8	37.0	47.2
Pre-reform SERPS	1.1	4.3	10.1	16.9	25.5
Total	20.5	26.8	38.9	53.9	72.7
RP Basic Pen (Prices-upratings)	17.4	17.4	19.2	21.2	23.4
Post-reform SERPS	1.1	4.2	7.5	10.3	13.2
Total	18.5	21.6	26.7	31.5	36.6
Savings from SERPS reform	-	0.1	2.6	6.6	12.3
Savings from prices upratings	2.0	5.1	9.6	15.8	23.8
Total Savings	2.0	5.2	12.2	22.4	36.1
Projected number of retirement pensioners '000	9,840	9,780	10,890	12,160	13,410

3. The figures for 1988-89 in the 1988 PEWP were 9,735,000 pensioners, receiving a total of £18.9 billion basic retirement pension plus £377 million SERPS.

4. The 1986 Social Security Act modified the SERPS scheme by a number of measures: firstly, the additional pension was to be based on lifetime average earnings, rather than the best 20 years. Secondly, additional pensions were to be calculated on the basis of 20 per cent of earnings, rather than 25 per cent. Thirdly, the amount of SERPS which could be inherited by a spouse would be one half, rather than up to the full amount. As you know, steps were also taken to encourage the spread of occupational and personal pensions, for example by making it easier to opt out of SERPS. As a result of all these changes, the projected cost of SERPS in 2033 has been almost halved.

5. The reform of SERPS, combined with the uprating of the basic pension by prices rather than the greater of prices or earnings, has created very considerable overall savings in the cost of pension provision in the future. The effects of the SERPS measures will not be felt until the turn of the century, but will rapidly become significant, while the break with earnings has already led to reduced expenditure, and will continue to do so. The table above shows that the combined effect by 2033-4 is that Government expenditure on pensions should be around half its projected figure had these steps not been taken.

6. New figures for long term pension costs will be available towards the end of this year when we see the draft of the next Quinquennial Review by GAD. This is expected to be published early next year.

*Michael Bolton*

**M A BOLTON**

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 18 NOVEMBER 1988

FOR PM  
BILATERAL

CHANCELLOR

POORER PENSIONERS

*I will discuss with CSO April*

*Ch/ Gray Paul thinks PM will be concerned about this. See also note from Paul M behind on "what other options did you rule out?"*

You asked us to investigate whether we really cannot introduce our changes earlier than October, perhaps even in April. I have had a word with Paul McIntyre about this.

2. The problem with April is that secondary legislation is required, and the local authorities have to be consulted on this. DSS lawyers say consultation would have to allow at least three weeks. That would take us to Christmas and then we could never pick up the time lost.

3. Paul has spoken to Chislett about the possibility of doing something at the beginning of the summer. DSS are very unhappy about this idea. The problem, apparently, would be that the first stages of preparing the poorer pensioners premium for June or July would overlap with the last stages of preparing for the normal April uprating, and - in Scotland - the set-up to deal with community charge rebates etc. Paul thinks these reasons are fairly powerful, though clearly not overwhelming if other considerations dictate that we have to accelerate the timetable.

*PS. For also but not know the later promise date of introduction a 1 Oct start date.*

*Mpw*

MOIRA WALLACE

*Paul Mc I says beginning May. Tord Ch.*

*Mpw*



PERSONAL AND CONFIDENTIAL

FROM: J P McINTYRE

DATE: 18 November 1988

CHANCELLOR

cc: Chief Secretary  
Mr H Phillips  
Mr Ramsden  
Mrs Chaplin  
Mr Tyrie  
Mr Call

## POORER PENSIONERS: BILATERAL WITH PRIME MINISTER

You may find it helpful to have a note on alternatives to income support, in case the Prime Minister raises this. The other options we looked at were:

(i) An increase for all pensioners over 75

There are 3¼ million over 75. So £2 per head would cost nearly £400 million. Although two-thirds of this age group get income support and/or housing benefit, significant sums would have been spent on people above benefit levels. Would have been contrary to targeting policy and attacked as such. Would have cost much more than IS and spread money more thinly.

(ii) A new benefit for over 75s ("Pensioner Plus")

Possibility was examined of topping up the SERPS or occupational pension entitlements of the over 75s where these were less than, say, £ 3. But DSS have records covering SERPS only. So pensioners would still have had to fill in a form or declaration. Would have been attacked as another means test. And if rules had been less stringent than for existing means-tested benefits (IS and HB), would have raised questions about those too. New benefit hardly justified in order to pay extra few pounds.

(iii) An increase for all pensioners born before, say 1914

Contrary to targeting policy, as (i). Would have faded away more quickly than (i) but at risk of upsetting pensioners born just after the chosen date who would not qualify as they grew older.

Jm

J P McINTYRE

*b*

SECRET AND PERSONAL

CHANCELLOR

*Ch/ by the way, I have not done a note of 2 meetings with Mr M + Mr S yesterday, and don't propose to!*

FROM: A G TYRIE  
DATE: 18 November 1988  
cc: Chief Secretary  
Mr Phillips  
Mr McIntyre  
Mr Gieve  
Mrs Chaplin  
Mr Call

*Rob!*

*no values!*

POORER PENSIONERS: SURVEY DISCUSSIONS

*mpw. 18/11*

*V. Imp.*

I have been through the papers attached to Mr McIntyre's minute of 14 November to see what scope for embarrassment could be generated by leaks of this earlier correspondence with DHSS.

*behind*

2. Assuming that these are all the papers I don't think that we are too vulnerable and we should be able to sustain our present line:

- The recognition of the special needs of older pensioners, dependent solely on basic benefits, was raised by the then DHSS Ministers with the Chief Secretary in May and the Prime Minister was consulted in June.
- A scheme was discussed in the Survey but remitted for further work by Treasury and DSS officials on the options.

Vulnerable areas

3. I think there are four of these:

(i) "The Government was intending to 'target' the Christmas bonus all along".

*✓*

I think this is the only serious awkwardness in anything that might leak. The Chief Secretary's letter of 15 July carries the implication that the Christmas bonus might be tampered with to pay for the pensioners' package. The exact words were "the possibility of associated action on the Christmas bonus". Journalists would leap on this to

*(also ref letter Mr Momi's of 25 May)*

justify their references to the Christmas bonus after the briefing.

Our line would have to be: "The Government have no plans to change the Christmas bonus. That was the Survey decision".

- (ii) "The scheme you announced cost nearly three times as much as the one discussed in the Survey".

I think we are reasonably well protected on this. Nick Scott's scheme (£2/£3 to the disabled, and to those over 80), set out in his 8 June letter, looks remarkably similar to the one we are putting through. The main difference between this and our scheme (apart from the extra 50 pence) is that we have put in a new tier between 75 and 79.

I think our line can be: "The main reason for the difference between the cost of the two schemes is caused by the decision to introduce a new band for 75 to 79 year olds. Further detailed work by officials after the Survey showed that there were substantial numbers of pensioners in this age group who had had no opportunity to benefit from SERPS. The scheme is designed to target help to these pensioners".

I can't believe we will have a lot of problems explaining an extra 50 pence, though I would rather have done without it.

Mr McIntyre has checked the cost of the 75 to 79 component. It is about half the difference between the Scott scheme and the revised scheme.

There is a problem on the SERPS point. The "detailed work by officials" also discovered large numbers, mainly women, of pensioners who had no chance to benefit from

SERPS in the 70-74 age group. But I think we can resist that on grounds of affordability.

- (iii) "You were originally going to look at this scheme in next year's Survey, presumably for implementation in the Spring of 1990. You have brought forward, not only the announcement of the scheme, which you admit, but the date of implementation, to October 1989."

I think our line to take on this can be: "Further work showed that the income support route was the best. Once this was clear the Government decided to give pensioners the benefit of the scheme at the earliest practicable opportunity, which is October 1989".

- (iv) "In practice the Government has implemented what the Chief Secretary is said to have wanted, as set out in Nick Scott's letter of 8 June: to allocate savings from the freeze in child benefit to pensioners."

I don't think this would run. It would not help journalists justify their erroneous suggestion that some pensioners were to lose out from Government plans to target help on the poorest. On the other hand, it could reopen Child Benefit wounds.

4. This is all very worst case stuff. With luck nothing will leak and none of these vulnerable areas will be exposed.

AGT.

A G TYRIE

CONFIDENTIAL

DRAFT LETTER TO NO. 10

CHILD BENEFIT

1. Following the meeting with backbenchers on 17 May, I agreed to set out our thinking on child benefit in more detail, bearing in mind specifically the implications of our manifesto commitment. I think it is important to do so in the wider context of our approach to social security during the rest of the current Parliament.

2. This must, in my view, maintain where possible the emphasis in the reformed structure on placing resources where they help to meet the greatest needs. Despite the great and increasing size of the social security budget, we shall undoubtedly come under growing, perhaps irresistible, political pressure to do more for vulnerable groups, particularly the elderly poor. For pensioners generally, we can point to the growth in occupational provision and SERPS; but there are significant numbers of older pensioners, and those who are sick and disabled, who are dependent solely on the basic benefits. They are also, of course, a group who suffered particularly badly from the undermining of savings through inflation during the 1970s. Following last month's changes we are already under pressure to do more to recognise the special needs of such people and these pressures may well become stronger as the next election approaches: it will be increasingly difficult politically to justify merely protecting such pensioners against prices when the living standards of much of the rest of the community are rising significantly faster.

3. Against this background it is essential to keep under constant review the scope for public expenditure savings in existing benefits as a means of paying for such improvements. These are increasingly difficult to find in a way acceptable to our supporters. Frankly, child benefit is the only major area where savings look possible now. Officials from DHSS and Treasury have been looking at possibilities and I attach a note summarising the options they have

reviewed. Clearly there can be no question of withdrawing child benefit from the great run of families, including those of particular concern to Timothy Raison and his friends, ie those who are above the income support or family credit level but who are by no means particularly well-off. But there is much less to be said for continuing to pay child benefit on a universal basis even to families whom most people would regard as quite adequately off and well able to meet their family commitments in full. Many such families have enjoyed significant improvements in living standards over recent years and the most well-off will, of course, be keeping considerably more of their own money as a result of successive, and particularly the most, recent budget tax changes. I see little real social or political justification for continuing to pay child benefit to such families, particularly when there are other, much higher priority groups in need of any resources which could be spared.

4. We have therefore been considering, with John Major, the possibility of withdrawing child benefit from families with relatively high incomes (from both partners - say £25,000 or £30,000. A £30,000 family cut-off - my own preferred option - would affect only 4-5 per cent of families but could save around £180 million in current terms: more by the time the change was introduced. A £25,000 family income cut-off would affect around 8 per cent of families but could increase the savings to perhaps over £300 million.

5. A change of this kind has many attractions. At their meeting with you, Timothy Raison and the other backbenchers recognised that it was not easy to justify paying child benefit to those on higher incomes, particularly when they had benefited so much from tax cuts. Any move from universality would, of course, be criticised: but a cut-off at say £30,000 ought not to be too hard to defend. It would certainly put the Opposition in a curious position, were they to emerge as strong defenders of the group they usually define as the "wealthy".

6. The earliest this change could possibly be implemented would be 1990 (probably in the Autumn). This would avoid likely election years and would give some flexibility, at a sensitive time, to do more for those in particular need as well as making some contribution to reducing public expenditure. However, I do not believe we could carry this change if it were seen purely as a savings measure. I should therefore like to reserve part of the savings for

greater help to poorer pensioners. In particular, I should like to increase the income support premiums to give an extra £2 (single) or £3 (couple) to the older pensioners - those above 80 - and to all disabled pensioners on income support. This would help over a million people, at a cost of around £90 million.

7. Timing, however, is a major constraint. To implement the child benefit changes in 1990 would require primary legislation in the coming Session and therefore some public statement shortly, preferably this side of the Summer Recess. I doubt if it would be possible or sensible to announce the child benefit change in isolation, so that if we envisaged a fuller package it would be appropriate to give some idea of what it would contain. On the other hand, we would clearly not want to decide the details too far in advance of implementation.

8. The major question, of course, is whether such a change to child benefit would be seen as consistent with the Manifesto commitment. I would hope that we could present the change as a minor adjustment, affecting a small minority of families who, since the last election, have done particularly well from rising living standards and reductions in tax. If pressed, we would have to concede that anything short of complete universality did represent a change of focus since the Manifesto, but argue that it was well justified on its merits and in the light of higher priorities for scarce public resources.

9. In the meantime, we also need to consider the intermediate PES years. There is an outstanding commitment to save some £44 million in 1989 by a less than full uprating of child benefit next year. This is likely to be difficult in the Commons and I doubt if the Lords would prove any easier. Politically, I have little doubt that even those who favour universal child benefit would as Timothy Raison's group seemed to when we saw them, prefer withdrawal from better off families rather than a further, across the board, real terms reduction.

10. I hope you may agree that this is something we should discuss as a matter of some urgency, in view of the wide spread and increasing political interest in these issues.

11. I am copying this to John Major.

NICHOLAS SCOTT





12/11/88

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

**PRIME MINISTER**

**POORER PENSIONERS**

The Chief Secretary and I have now agreed with John Moore how best to take forward our plans to provide additional help for poorer pensioners.

As you know, this was discussed both before and during the public expenditure round this year. John Moore and Nick Scott put forward a scheme which would have provided additional income support for the over-80s and also for disabled pensioners. After discussion, it was agreed that further work should be done on the options available to us.

We have now reached the conclusion that income support is undoubtedly the simplest and most effective way of targeting additional resources on poorer pensioners. We also agree that the coverage of the new measure should be wider than just the over-80s and the disabled.

The scheme we have agreed would increase the income support paid to pensioners aged 75 and over by £2.50 a week for single pensioners and by £3.50 a week for couples. The over-80s, who already get a higher premium than other pensioners, would receive the same increases; and their special position would therefore be maintained. So would that of disabled pensioners irrespective of age: they already enjoy the over-80s premium and would receive



the new increases. The increases would be around 5 per cent over and above the rates already announced for 1989-90.

About 900,000 single pensioners and pensioner couples already on income support would gain from these changes. And nearly 1 million, with incomes above income support levels, would also gain, albeit to a lesser extent, since their entitlement to housing benefit would automatically increase as a result of the alignment of income support and housing benefit under the April 1988 reforms. In addition, an extra 60,000 would become eligible for income support and an extra 40,000 for housing benefit. This would help to address directly the concern expressed by some of our supporters about the "nearly poor" with incomes currently just above income support levels.

The full year cost would be £195 million. But implementation would not be possible at the beginning of 1989-90, both for administrative reasons and because secondary legislation will be required. We believe that October next year would be the right time to introduce the increases. On this basis, the additional benefit expenditure in 1989-90 would be under £100 million. This would not be allowed to increase our public expenditure totals but be met from the Reserve.

Now that we have agreed on the best way forward, I think there is every reason to announce our plans as soon as possible. The longer we delay, the greater the risk that unreasonable expectations will build up, not to mention the ever-present danger of a leak. And until we announce our plans, it is certain we will continue to be harried on the subject. Some delay might have been justified if we had preferred a more complex option, such as a new benefit, with a separate means test, which would have clearly needed a great deal of working up. But now that we have decided



to go for the relatively simple means of adapting the existing system there is no case for delay on these grounds.

I would therefore be grateful for your agreement to the changes set out above and that John Moore should announce them during the debate on the Queen's Speech.

I am copying this minute to John Moore.

A handwritten signature in dark ink, appearing to be "N.L.", with a horizontal line underneath.

[N.L.]

18 November 1988



*ps/aa*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

18 November 1988

R Clark Esq  
PS/Secretary of State  
Dept. of Health and Social Security  
Richmond House  
79 Whitehall  
LONDON  
SW1A 2NS

*Dear Rod,*

**POORER PENSIONERS**

...

I attach a draft of the Chancellor's minute to the Prime Minister, approved by the Chancellor and the Chief Secretary, and would be glad to know if your Secretary of State is content.

*Yours  
Alex*

A C S ALLAN  
Principal Private Secretary

**DRAFT MINUTE TO:**  
**PRIME MINISTER**  
**POORER PENSIONERS**

The Chief Secretary and I have now agreed with John Moore how best to take forward our plans to provide additional help for poorer pensioners.

As you know, this was discussed both before and during the public expenditure round this year. John Moore and Nick Scott put forward a scheme which would have provided additional income support for the over-80s and also for disabled pensioners. After discussion, it was agreed that further work should be done on the options available to us.

We have now reached the conclusion that income support is undoubtedly the simplest and most effective way of targeting additional resources on poorer pensioners. We also agree that the coverage of the new measure should be slightly wider than just the over-80s and the disabled.

The scheme we have agreed would increase the <sup>new</sup>~~existing~~ income support level for all pensioners aged 75 and over by £2.50 a week for single pensioners and by £3.50 a week for couples. The over-80s, who already get a higher premium than other pensioners, would receive the same increases; and their special position would therefore be maintained. So would that of disabled pensioners irrespective of age: they already enjoy the over-80s premium and

would receive the new increases. The increases would be around 5 per cent over and above the rates already announced for 1989-90.

About 900,000 single pensioners and pensioner couples already on income support would gain from these changes. And nearly 1 million, with incomes above income support levels, would also gain, albeit to a lesser extent, since their entitlement to housing benefit would automatically increase as a result of the alignment of income support and housing benefit under the April 1988 reforms. In addition, an extra 60,000 would become eligible for income support and an extra 40,000 for housing benefit. This would help to address directly the concern expressed by some of our supporters about the "nearly poor" with incomes currently just above income support levels.

The full year cost would be £195 million. But implementation would not be possible at the beginning of 1989-90. We believe that October next year would be the right time to introduce the increases. On this basis, the additional benefit expenditure in 1989-90 would be under £100 million. This would not be allowed to increase our public expenditure totals but be met from the Reserve.

Now that we have agreed on the best way forward, I think there is every reason to announce our plans as soon as possible. The longer we delay, the greater the risk of a leak. And until we announce our plans, it is certain we will continue to be harried on the subject. Some delay might have been justified if we had preferred a more complex option, such as a new benefit, with a

separate means test, which would have clearly needed a great deal of working up. But now that we have decided to go for the relatively simple means of adapting the existing system there is no case for delay on these grounds.

I would therefore be grateful for your agreement to the changes set out above and that John moore should announce them during the debate on the Queen's Speech.

I am copying this minute to John Moore.

**NIGEL LAWSON**



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

cc. CST  
 ✓  
 Sir P Middleton  
 Sir T. Burns  
 Mr Anson  
 Mr Phillips  
 Mr McIntyre  
 Ms Pearson  
 Mr Gieve

18/11/88

Mrs Chaplin  
 Mr Tyrie  
 Mr Call

**PRIME MINISTER**

1. Alex  
 2. MP

**POORER PENSIONERS**

The Chief Secretary and I have now agreed with John Moore how best to take forward our plans to provide additional help for poorer pensioners.

As you know, this was discussed both before and during the public expenditure round this year. John Moore and Nick Scott put forward a scheme which would have provided additional income support for the over-80s and also for disabled pensioners. After discussion, it was agreed that further work should be done on the options available to us.

We have now reached the conclusion that income support is undoubtedly the simplest and most effective way of targeting additional resources on poorer pensioners. We also agree that the coverage of the new measure should be wider than just the over-80s and the disabled.

The scheme we have agreed would increase the income support paid to pensioners aged 75 and over by £2.50 a week for single pensioners and by £3.50 a week for couples. The over-80s, who already get a higher premium than other pensioners, would receive the same increases; and their special position would therefore be maintained. So would that of disabled pensioners irrespective of age: they already enjoy the over-80s premium and would receive



CONFIDENTIAL



the new increases. The increases would be around 5 per cent over and above the rates already announced for 1989-90.

About 900,000 single pensioners and pensioner couples already on income support would gain from these changes. And nearly 1 million, with incomes above income support levels, would also gain, albeit to a lesser extent, since their entitlement to housing benefit would automatically increase as a result of the alignment of income support and housing benefit under the April 1988 reforms. In addition, an extra 60,000 would become eligible for income support and an extra 40,000 for housing benefit. This would help to address directly the concern expressed by some of our supporters about the "nearly poor" with incomes currently just above income support levels.

The full year cost would be £195 million. But implementation would not be possible at the beginning of 1989-90, both for administrative reasons and because secondary legislation will be required. We believe that October next year would be the right time to introduce the increases. On this basis, the additional benefit expenditure in 1989-90 would be under £100 million. This would not be allowed to increase our public expenditure totals but be met from the Reserve.

Now that we have agreed on the best way forward, I think there is every reason to announce our plans as soon as possible. The longer we delay, the greater the risk that unreasonable expectations will build up, not to mention the ever-present danger of a leak. And until we announce our plans, it is certain we will continue to be harried on the subject. Some delay might have been justified if we had preferred a more complex option, such as a new benefit, with a separate means test, which would have clearly needed a great deal of working up. But now that we have decided

CONFIDENTIAL



to go for the relatively simple means of adapting the existing system there is no case for delay on these grounds.

I would therefore be grateful for your agreement to the changes set out above and that John Moore should announce them during the debate on the Queen's Speech.

I am copying this minute to John Moore.

A handwritten signature in black ink, appearing to be "N.L." with a small flourish at the end.

[N.L.]

18 November 1988



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

18 November 1988

R Clark Esq  
PS/Secretary of State  
Dept. of Health and Social Security  
Richmond House  
79 Whitehall  
LONDON  
SW1A 2NS

*Dear Rod,*

**POORER PENSIONERS**

... I attach a draft of the Chancellor's minute to the Prime Minister, approved by the Chancellor and the Chief Secretary, and would be glad to know if your Secretary of State is content.

*Yours  
Alex*

A C S ALLAN  
Principal Private Secretary

DRAFT MINUTE TO:  
PRIME MINISTER  
POORER PENSIONERS

*Please type  
for signature*

The Chief Secretary and I have now agreed with John Moore how best to take forward our plans to provide additional help for poorer pensioners.

As you know, this was discussed both before and during the public expenditure round this year. John Moore and Nick Scott put forward a scheme which would have provided additional income support for the over-80s and also for disabled pensioners. After discussion, it was agreed that further work should be done on the options available to us.

We have now reached the conclusion that income support is undoubtedly the simplest and most effective way of targeting additional resources on poorer pensioners. We also agree that the coverage of the new measure should be ~~slightly~~ wider than just the over-80s and the disabled.

The scheme we have agreed would increase the <sup>new</sup> ~~existing~~ income support ~~level~~ <sup>paid to</sup> for ~~all~~ pensioners aged 75 and over by £2.50 a week for single pensioners and by £3.50 a week for couples. The over-80s, who already get a higher premium than other pensioners, would receive the same increases; and their special position would therefore be maintained. So would that of disabled pensioners irrespective of age: they already enjoy the over-80s premium and

would receive the new increases. The increases would be around 5 per cent over and above the rates already announced for 1989-90.

About 900,000 single pensioners and pensioner couples already on income support would gain from these changes. And nearly 1 million, with incomes above income support levels, would also gain, albeit to a lesser extent, since their entitlement to housing benefit would automatically increase as a result of the alignment of income support and housing benefit under the April 1988 reforms. In addition, an extra 60,000 would become eligible for income support and an extra 40,000 for housing benefit. This would help to address directly the concern expressed by some of our supporters about the "nearly poor" with incomes currently just above income support levels.

The full year cost would be £195 million. But implementation would not be possible at the beginning of 1989-90. <sup>both for administration</sup> We believe <sup>years of Revenue Secretary together would be required</sup> that October next year would be the right time to introduce the increases. On this basis, the additional benefit expenditure in 1989-90 would be under £100 million. This would not be allowed to increase our public expenditure totals but be met from the Reserve.

Now that we have agreed on the best way forward, I think there is every reason to announce our plans as soon as possible. The longer we delay, the greater the risk <sup>of a leak. And until we</sup> ~~of a leak.~~ <sup>not unreasonable expectations will build up,</sup> ~~And until we~~ announce our plans, it is certain we will continue to be harried on the subject. Some delay might have been justified if we had preferred a more complex option, such as a new benefit, with a

*not to mention the risk of a leak. And until we*

separate means test, which would have clearly needed a great deal of working up. But now that we have decided to go for the relatively simple means of adapting the existing system there is no case for delay on these grounds.

I would therefore be grateful for your agreement to the changes set out above and that John moore should announce them during the debate on the Queen's Speech.

I am copying this minute to John Moore.

**NIGEL LAWSON**



BL

5.2	1.0	6.2
6.7	2.7	9.4
6.3	1.8	8.1
4.1	0.1	4.2
6.2	1.2	7.4
6.6	1.7	8.3
4.3	1.7	6.0
5.2	0.7	5.9

---

81	44.6	10.9	55.5
	5.6	1.2	6.9



# Preface

## PROGRESS IN OBSTETRICS & GYNAECOLOGY VOLUME 7

JOHN STUDD

I write this Preface to Volume 7 during the 40th anniversary of one of this country's great achievements, the National Health Service, at a time when its defects are being emphasized from all directions. Certainly there are problems. One that should concern all in training is the question of future career prospects. It is hard to understand the co-existence of long waiting lists and middle-aged trainees waiting for jobs. Although this career bottleneck is worse in surgery and medicine than in our own specialty, our record is no cause for congratulation and our failure to promote married women is a waste of great talent. This enigma of unemployed doctors and untreated patients is even more incomprehensible because the UK has fewer doctors per unit population than any European country except Turkey. The response to this are plans to reduce the number of medical students and also limit the number of specialists in training!

There are many deficiencies, such as nurses' pay and equipment expenditure, in the National Health Service but the fundamental cause of these manpower anomalies is the fact that overwhelming health demands are supported by too few consultants. The promise of consultant expansion over the years has been a cruel political deception and simply has not happened. A 1986 report from the Royal College of Surgeons quantified this deficiency in terms of numbers of consultant surgeons. The 12 per hundred thousand population of West Germany, 11 in Belgium and the USA, 6 in Holland compare well to the miserable 2 in the United Kingdom. It is difficult to obtain comparable figures for obstetrics and gynaecology but it would appear to me that the 3000 ACOG Fellows in New York State and the 850 in rural North Carolina are examples of how the 900 consultants in England and Wales is a hopelessly inadequate number to do the job. This deficiency is the result of medicine being poorly funded by a monopoly employer.

The prolonged, even excessive, training for consultants in the United Kingdom creates highly trained and competent individuals but the result of the financial restrictions is that too few consultants chase around doing too many things. They have to cope with a busy NHS practice embracing all areas of our specialty from oncology to endocrinology. They will also have extensive undergraduate and postgraduate teaching commitments, occasionally a research interest and frequently a large private practice. The disheartened 'juniors' wait in the wings for a consultant post to appear at the average age of 38—sometimes 42 in many surgical specialties. All this is bad for the quality of patient care and for the recruitment of talented graduates into hospital medicine. It is my belief that greater use of the private sector can ease many of these problems.

Funding for health care in this country is believed to be inadequate because it compares unfavourably with the total health care budget of other Western countries. Comparable OECD figures for 1985 (Table 1) which are the latest available show

## vi PREFACE

Table 1. Health expenditure in 1985 as a percentage of GNP (Gross National Product)

	Public %	Private %	Total %
Canada	6.5	2.1	8.6
Denmark	5.2	1.0	6.2
France	6.7	2.7	9.4
Germany	6.3	1.8	8.1
Greece	4.1	0.1	4.2
Italy	6.2	1.2	7.4
Netherlands	6.6	1.7	8.3
Spain	4.3	1.7	6.0
Sweden	8.4	0.9	9.3
United Kingdom	5.2	0.7	5.9
United States	4.4	6.4	10.8
OECD average	5.7	1.7	7.4

that the 5.9% of gross national product spent in the UK is almost the lowest with the USA, spending 10.8% of GNP, being the highest. However, the deficit is nearly all explained by the size of the contributions from the private sector (Table 1). The UK private health care expenditure is 12% of total health care expenditure compared to 20% for the Netherlands, 22% for Germany, 29% for France and 59% for the United States. The OECD average is 22%. If we can make this up we can have a properly funded health service.

The private sector is at last expanding with new hospitals being built and staffed. All this is for the good, but it must not become the privileged layer of a two-tier medical system. The challenge of the times is to use the revenue and skills from the private sector to increase the number of consultants by producing more posts for trainees, more choice for the patients and thus maintain high medical standards. We must recognize that this can only happen with little extra cost to the exchequer as no government of whatever hue has ever chosen to adequately fund the NHS or create the number of consultant posts necessary.

I have previously written (*Progress in Obstetrics & Gynaecology*, Volume 7) of the way in which excellent clinical research occurs using private funds. The private sector can also be used to support the NHS if consultants with busy private practice commitments give up sessions in order to create new consultant posts. This is already happening and one can only hope that the trend accelerates allowing many new and virtually cost-free five to eight session consultant posts to be created. The income will be made up by research sessions or from the greater amount of private work that will be available.

Would not our major hospital departments be better off without the senior registrar logjam but with 10 committed half-time consultants rather than five nearly whole-time consultants? At the same time it will remove the brutalizing effect of a perceived professional failure on the families of decent, able senior registrars. Such a formula will not work for all specialties, in all parts of the country but it is an option that could be offered to a London surgeon even if not to a Tyneside perinatal paediatrician.

There is no doubt that British medical standards are under siege and being eroded by crude financial controls. Fortunately alternative resources are available to correct this. We must forget our prejudices and allow the vast clinical, research and employment potential of private funding to be exploited for the general benefit of the nation's health care.