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PART J

CHANCELLOR'S PAPERS ON  
HEALTH AND SOCIAL  
SECURITY SERVICES

PO -CH /NL/0223

PART J

Begin: 14/12/88

Ends: 25/1/89 (CONTINUED)

DD: 25 years

15/9/95



NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM  
AT 3.30PM ON WEDNESDAY 14 DECEMBER

Present: Chancellor  
Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Kelly  
Mrs Lomax  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Saunders  
Mr Griffiths  
Mr Call

.....

**NHS: BRIEFING MEETING**

The Chancellor noted that a great deal of progress had been made in the last week: he was extremely grateful to the Chief Secretary and officials for their efforts to secure this.

2. The meeting first discussed the paper on the FPS circulated by the Department of Health. The Chief Secretary said he was disappointed and surprised by the attempt to reopen the group's decision to put forward the FPC/DHA merger option. We should not give an inch on this. The proposal on so-called drug budgets was also disappointing - bureaucratic, and unlikely to improve expenditure control. The idea in paragraph 3(i) that the budget would be increased if it looked like being overspent was extraordinary. It was important to put pressure on high prescribing GPs, but this might be an area for the Audit Commission. Mr Parsonage suggested that it might be worth



salvaging from the DoH paper the idea of FPCs imposing financial penalties on high prescribers. The Chancellor also asked for a note on the progress of the review of PPRS, following the discussion in E(CP).

### GP numbers

3. The Chancellor commented that the real difficulty here was the way the review bodies operated, which meant that if the numbers of doctors increased, then the review body would simply up capitation fees to ensure the same level of income for the average doctor. The option of taking direct control over GP numbers, although not at first sight very attractive, might be the only way of getting to grips with the problem. Mr Kelly wondered whether it really was impossible to change the review bodies' terms of reference, either by imposing a cost envelope, as we had done with teachers, or by determining the number of patients that ought to be on the list of the <sup>Review Body's</sup> "average doctor". This would be worth considering, but if there was no success, then direct control of numbers would have to be the fall back. Further consideration would need to be given to the method of imposing controls. There might be a parallel with the recently introduced arrangements for limiting the number of pharmacists. There would have to be quotas for different parts of the country, presumably again on a weighted capitation basis. This could generate complaints, but any move could be defended robustly on the grounds that overall, the proposals would give better value for money. For example, the effect of the quotas might be to bring more GPs in to inner city areas, taking pressure off hospitals.

4. The Chancellor welcomed the proposal to increase the capitation fees element of doctors remuneration. But the combined effect of the proposals in *the paper* seemed to be that the proportion of remuneration represented by the basic practice allowance actually increased. Surely it was not right to pay



doctors for just for being there. If there was a wish to encourage GPs to set up in thinly populated rural areas, then the allowance should be turned into a rural practice allowance, which would be better targeted.

#### Incentives for GPs

5. The Chancellor said that he was very sceptical about the proposal to provide further direct financial incentives for GPs to opt in to the practice budget scheme. Allowing them to spend some of their surplus on accommodation ignored the fact that a large proportion of accommodation expenses were already directly reimbursed. The DoH option gave doctors no incentive to use extra money for patients. This was just one unsatisfactory aspect of a proposal about which Treasury Ministers had great reservations. The Chancellor asked for a one page note setting out our objections to the scheme, should the opportunity for a further full discussion arise.

#### White Paper

6. The Chancellor said that he suspected there would not be much time to discuss the White Paper at the meeting on the 16th. He had various comments which he would wish to feed in at the next meeting. Mr MacAuslan asked how we ought to be approaching the question of the public expenditure costs of White Paper proposals. There were already earmarked sums in the PES settlement, which would help with some of the immediate costs. There might be running cost difficulties in the short term, and we would have to look at these. As for the longer term, the Chief Secretary said that he would be in favour of declining to say whether the White Paper meant extra money, and if so how much. The whole matter would have to be looked at in the Survey. The Chancellor agreed that we should attempt to detach reform from the question of extra money. But it would be extremely difficult. The position would



be complicated by the announcement of the Review Body awards very shortly after the White Paper's publication. And the profile of health spending, with little growth planned for years 2 and 3 would also lead to expectations of substantial additions. Clearly, in the meantime, it would be sensible to start clearing ground at official level to establish the resource implications of the policies being agreed.

A handwritten signature in dark ink, appearing to read "Moira Wallace".

MOIRA WALLACE

15 December 1988

Circulation:

Those present  
Mr Culpin  
Miss Peirson

FROM: D P GRIFFITHS  
DATE: 14 December 1988

CHIEF SECRETARY

*BF in mha folder*

cc Chancellor —  
Paymaster General  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Richardson  
Mr Saunders  
Mrs Butler  
Mr Parsonage  
Mr MacAuslan  
Mr Sussex  
Mr Call

**NHS REVIEW: SELF-GOVERNING HOSPITALS**

I attach a list of responses to the points which Mr Clarke raised on self-governing hospitals at Monday's meeting.

We have given further thought to the likely size of the annual interest charges the self-governing hospitals sector will pay on their originating debt. Clearly this will depend on various factors including the number of self-governing hospitals, the interest rate charged and the valuation policy for the estate - for example, if land is assessed at its open market value, the originating debt of the London teaching hospitals will obviously be very large indeed.

However, it seems reasonable to assume that, if self-government is a success, there will be up to 100 such hospitals over the next five years (though DH envisage that eventually most or all 260 acute units and perhaps some other hospitals will obtain self-governing status). The bigger hospitals will be the first candidates for self-government (including the London teaching hospitals) so the average asset value is likely to be at least £100 million. Assuming a nominal interest rate of 10%, total annual interest charges on the originating debt could be of the order of £1 billion (equivalent to ½% of GGE in 1989-90).

*D.P. Griffiths*  
D P GRIFFITHS

NB

**SELF-GOVERNING HOSPITALS: ANSWERS TO MR CLARKE'S POINTS**

a. No need for EFLs: self-governing hospitals should be allowed to borrow freely from the markets subject only to constraints of audit and revenue (under contracts with districts), and reserve powers for the Secretary of State

All the borrowing of self-governing hospitals will be public expenditure. The absence of any financing limit for these bodies would seriously undermine control of public expenditure and set a very unwelcome precedent for other public sector bodies. These are not absolved from annual expenditure control nor allowed to borrow as they see fit.

The constraints proposed by the Secretary of State are not controls. Audit is retrospective and primarily concerned with the use made of resources not their scale. Nor does cash-limiting the budgets of district health authorities provide adequate control over self-governing hospitals' borrowing. Rather the reverse: the more costly and extensive the borrowing, the higher the charges made to health authorities. Moreover, it would not stop self-governing hospitals servicing their loans with yet more borrowing. And the proposed reserve powers for the Secretary of State would not provide effective control unless hospitals had to seek Departmental approval in advance every time they wanted to borrow from the private sector (the proposals then being scrutinised and approved or turned down). This could entail delay and extra work for the hospitals whereas once an EFL had been set they would be free to arrange their borrowings as they saw fit within the annual limit.

b. There should be a minimum automatic EFL so hospitals need approval only for larger commitments

Not the place to debate the size of the financing limits only the need for them. Limits must cover all a hospital's public expenditure otherwise they are not limits because the loopholes would be exploited.

[We agree that self-governing hospitals should have ready access to working capital and finance for new/replacement equipment. This



implies allowing them a certain level of borrowing (if they actually need to borrow for these purposes). But we must retain the discretion to set a negative EFL if a self-governing hospital has obtained significant receipts from sale of land or other assets or if it has built up very substantial reserves.]

c. EFLs too bureaucratic: in order to justify global EFL bid DH will need to scrutinise each hospital's proposals

No great bureaucratic exercise - similar budgetary procedures as in private sector. Self-governing hospitals will anyway have to produce corporate plans for efficient internal management. Department of Health will need to consider the hospitals' capital investment/disposal plans and internally generated resources when preparing global EFL bid but entirely proper that they should do so. In preparing their bids for more resources for the HCHS capital programme the Department do not provide nor does the Treasury require a breakdown of every single project that the funds are intended to finance. It would certainly be less bureaucratic than requiring the hospitals to obtain the Department's approval every time they wished to borrow.

d. In other countries market borrowing by analogous bodies would not score as public expenditure.

No precise foreign analogue. Clearly right that the borrowing of a public sector body should count as public expenditure. If public expenditure objectives are to remain economically meaningful, we must ensure that public expenditure aggregates reflect public expenditure. Otherwise we would lose track of the resources pre-empted by the public sector.

e. No need for Government to guarantee borrowing - risk investment secured against assets should be permissible.

The assets will be public assets and the liability for any borrowings will lie ultimately with the Government whether or not there is a specific Government guarantee. Government could not just stand by and allow the assets of a self-governing hospital to be distrained by creditors. Even if specific assets were pledged as security they would still be public assets

f. EFL regime as envisaged will not allow sufficient independence to be attractive

Offering them maximum independence short of privatisation. Self-governing hospitals will have very considerable autonomy - far more than DHA-managed hospitals: ownership of their assets; freedom to retain surpluses and build up reserves; and freedom to borrow. Privatisation programme demonstrates EFLs entirely consistent with management freedom and enterprise - all privatised companies used to have EFLs.

g. Self-governing hospitals should have the same freedom as polytechnics

Polytechnics, like universities, are independent private sector bodies and their borrowing is not public expenditure. The Government does not appoint their boards nor have the power to dismiss them nor remove their independent status. Even so they will have to follow some overall ground-rules regarding their borrowing. City Technology Colleges have to obtain the approval of the Department of Education before they can to borrow and opted-out schools are expressly prevented from borrowing.



HEALTH

Ch/

Hayden asked me

how you were minded to  
 deploy the useful BUPA  
 speech behind. It occurred  
 to him he might send  
 copies to Messrs Wilson  
 + Whitehead - unless of  
 course you wanted to  
 surprise the group with  
 it at some crucial  
 meeting, in which case  
 he would not want to  
 steal yr thunder. What  
 do you think?

OK to send  
 it to Messrs  
 W x W. But I  
 won't say that  
 unless I  
 know  
 you  
 know  
 the  
 whole  
 thing

mpw.

This is in case Mr Cleverly  
tries to use this report to  
reopen the agreement on  
private capital. In short,

1. MR SAUNDERS the article is nonsense.

2. CHIEF SECRETARY

Assuming the pilot  
projects are successful, there  
will be nothing standing in the  
way of extending CEM much  
more widely.

KS 15/12

From: J M SUSSEX  
Date: 15 December 1988

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Parsonage  
Mr Richardson  
Mr Griffiths  
Mr Call

#### NHS REVIEW: CONTRACT ENERGY MANAGEMENT

An article in today's "Guardian" (copy attached) reports the Association for the Conservation of Energy (ACE) accusing the Treasury of "forcing" the NHS to miss the opportunity of large savings on its energy bills. You may be asked for comment on it in tomorrow's meeting.

2. ACE is sponsored by large industrial companies and advocates widespread public sector use of contract energy management schemes, in which a private contractor undertakes an energy survey of a hospital, or whatever, installs and manages new energy efficient capital equipment, and receives payment in the form of a proportion of the achieved savings in fuel costs. Joint Treasury/Department of Energy guidance on financial aspects of energy management was circulated to all departments in May 1987, which actively encouraged the search for cost-effective contract energy management schemes.

3. The core of the accusation levelled by ACE appears to be that contract energy management (CEM) schemes are deterred by the requirement on the NHS to obtain Treasury approval for each individual project. CEM is new in the health service and we have still to learn whether it can yield the promised benefits. Two hospitals in North West Thames RHA are currently operating pilot contract energy management schemes. These pilots have been running for less than six months and no evaluation has so far been possible. Until a little experience of CEM has been accumulated it

seems sensible to see each individual proposal. Smaller Treasury involvement will be appropriate once CEM has proved itself.

4. We look forward to hearing from DoH the progress of the NWTRHA pilot schemes. In the meantime Treasury officials will continue to deal with CEM proposals from the NHS expeditiously.

  
J M Sussex

The Guardian

# Treasury blamed for £70m fuel waste by NHS

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**Patrick Donovan**  
Industrial Correspondent

**T**HE National Health Service is being forced to waste at least £70 million a year on unnecessary fuel costs because of the Treasury's reluctance to adopt European Community policies on energy saving programmes, a campaigning group has claimed.

The calculation, by the Association for the Conservation of Energy, coincides with the group's discussions with Community officials to find ways of pressing for a change in Treasury attitude.

The group, sponsored by Britain's biggest industrial companies, criticises the difficulty of getting official approval for outside contractors to install cost-saving energy management schemes in hospitals and other public sector buildings in what is a £52 billion a year European market, according to Community calculations.

In principle, the Treasury is prepared to allow these third-party energy finance projects, whereby an outside contractor refurbishes government-owned property to reduce fuel consumption in return for a percentage of the financial saving over a given period.

But Ace officials say the policy is virtually impossible to put into practice because of

time-wasting red tape created by the Treasury's insistence on approving each individual project.

A Treasury spokesman, while refusing to comment in detail, said the department was "eager for such proposals to come forward", but added that each project would be examined "to ensure best value."

It is precisely this attitude that is a "direct deterrent" to the setting up of such energy-saving schemes — already widely used in the US public sector — according to the Ace director, Mr Andrew Warren.

"Contractors will find it is just too much trouble to put in the necessary investment if it is so difficult to get Treasury approval. They must be given the necessary incentive."

He said there was a pressing need for the Treasury to change its stance and "take a more co-operative attitude" if Britain was to fully contribute to the EEC objective of reducing energy spending by 20 per cent in the decade ending in 1995.

Contract energy management could make a big contribution to reducing the running costs of the public sector, much of which is run with "extreme inefficiency", Mr Warren said.

The cost of wasted energy in the NHS alone accounts for at least 20 per cent of the health sector's energy bill, the group said.

## oth rough fund " 6

those and 62 per cent respectively. He laid much of the blame for the low take-up on decisions by some social workers and voluntary agencies to boycott the social fund. He described such action as deplorable but said its effect was lessening.

Mr Moore declined to confirm a recent Guardian report, based on confidential Department of Social Security estimates, that the number of claims for income support benefit had fallen by 26 per cent since it was introduced in April in place of supplementary benefit.

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5.15.12

SECRET

*PPR*

CHANCELLOR

FROM: R B SAUNDERS

DATE: 15 December 1988

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Mr Kelly  
Mrs Lomax  
Miss Peirson  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Griffiths  
Mr Sussex  
Mr Call

**NHS REVIEW**

I attach the further briefing notes commissioned at your meeting yesterday:

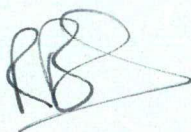
- a summary of our main current misgivings about GP practice budgets
- the possible ways of getting a grip on GPs' costs
- state of play on the PPRS.

2. Relevant to the first of these is the letter of 12 December from Mr Clarke's office about budgets for GPs with a large number of patients who use the private sector. The final paragraph of the letter contains a welcome recognition that the budgets will need to take account of the use of the private sector by the practices patients. But there are two aspects which are highly implausible:

- a. the suggestion that GPs will interrogate their patients about any private insurance cover before referring them privately. In any case, it is not the patients with insurance cover who concern us; it is those who decide not to have cover on the basis that they can ask their doctor to pay for their private treatment.

b. The proposition rests on the assumption that the practice will get a capitation-based budget in the first year, which can be reduced substantially in the second year if they have a relatively low number of patients requiring NHS treatment. But surely there will then be accusations by the practice of bad faith. And if it was made clear to them that the budget was liable to be reduced on this account, their enthusiasm for the scheme will be much diminished. So this may act as a powerful disincentive for practices to opt to hold budgets.

I have included the second of these in point 5 of the note about practice budgets.



R B SAUNDERS



**GP PRACTICE BUDGETS**

1. Ability to switch underspending to staff/premises will substitute for GP's own contribution to these costs. (See attached summary of system.) GPs will benefit pound-for-pound if they refer fewer patients to hospital. Potential for (at best) embarrassment or (at worst) scandal. This is so even without the proposal in the paper to let them keep up to 5% of budget if underspent.

2. Also proposed that surpluses can be diverted to "aspects of the practice which fall outside the budget", subject only to FPC approval. These will be items which are either outside the present remuneration system altogether or which GPs are expected to cover from the indirect expenses element of their fees (see Annex again). How is this justified? What is it proposed to allow? What criteria will be issued to FPCs for approving bids?

3. Paper proposes up to 20% of budget can be carried forward to next year if unspent. Understand also that Mr Clarke will be proposing that overspending of up to 10% should be allowed. Carryforward or overspending on this scale cannot be a charge on the Reserve - would have to be offset by reductions in regional and district budgets. Is this really saleable?

4. These practices will have budgets of £½m or so NHS money. What will be the arrangements for ensuring propriety? They will need to be audited, and NAO will expect access. [Present payments to GPs are for remuneration and expenses. They will presumably have their own accounts audited, but this will not be enough when they are being placed in charge of budgets for buying NHS services. They will be in much the same position as districts and will have to have similar audit arrangements.]

5. Proposals involve a lot of negotiation between practices and regions in setting budgets - eg about level of private referrals. GPs will require some guarantees about levels of funding before deciding to opt for these budgets. How far will that constrain negotiating room? Will it actually be possible to reduce budgets significantly in the second year if there turn out to be a lot of private referrals?

Unless satisfactory answers can be given to these points, scheme should be dropped.

**EXPENSES INCLUDED IN GP REMUNERATION SYSTEM**

Expenses reimbursed directly - 70% of staff costs (with some exceptions - eg spouses are generally excluded); rent on premises; grants of up to one-third of costs of premises improvements, with cost-rent scheme covering costs of balance.

Expenses reimbursed indirectly - All other expenses, including the 30% of staff costs not reimbursed directly, are recouped through fees and allowances. These are set so as to deliver average target net income, plus average expenses. 'Expenses' for these purposes means those allowable by the Inland Revenue, who provide the necessary data for setting the fees.

Mr Clarke's proposals therefore mean one or more of:

- a. reimbursing directly that part of staff etc costs meant to be covered in fees (with GPs gaining pound-for-pound)
- b. paying for direct expenses not presently allowed (eg employing spouses)
- c. paying directly for expenses, eg equipment, which are meant to be reimbursed through fees (as with a.)
- d. paying for expenses other than those which are allowed as business expenses by the Revenue.

**GP NUMBERS - TOTAL COSTS**

Cost of GPs is product of average income (target net income set by DDRB) and numbers (over which no direct control is attempted). If fees and allowances fail to deliver target average net income, adjustment (up or down) is made in a later year. So we do not control running costs of system. Could try to establish control in one of three ways.

1. Direct control of manpower numbers. We have recently switched to this for pharmacists, so FPCs now have experience of manpower control. Problem of presentation - Government would be accused of forcing GPs to keep up list sizes.
2. Give DDRB a cost envelope, like IAC for teachers. Very controversial - would be seen (correctly) as wrecking review body system.
3. Require DDRB to set target net income, but then calculate fees and allowances on existing not projected GP numbers. Abolish retrospective adjustment, so that if numbers grow average income is reduced. Does not give perfect cost control - still have to pay extra basic practice allowance for new GPs, even if total cost of capitation is fixed. Also DDRB may aim off by setting target net income (and hence fees) 1-2% higher than otherwise would.

Most effective control would be option 2. Option 3 would be ineffective if DDRB aimed off, and changing DDRB terms of reference would be controversial. Option 1 probably the most feasible in short term. Presentational problems would have to be faced by arguing that non-cash limited FPS pre-empts resources which could otherwise go to shortening waiting lists in acute hospital sector.

## REVIEW OF THE PHARMACEUTICAL PRICE REGULATION SCHEME

The review of the PPRS commissioned by E(CP) last November has just got under way, with DoH chairing a working group on which ST and PSE represent the Treasury. It has taken so long to get going because DoH took first the other E(CP) remit to look at pharmacists' contracts, which has resulted in the agreement to abolish cost-plus.

2. The PPRS has two potentially conflicting objectives: to control the cost of drugs to the NHS; and to encourage a strong research-based UK industry. It operates through a system of profit control. Drug company profits from sales to the NHS, after apportionment of R&D and other allowable costs, are supposed to show a return on capital of 17-21% (although some leeway is allowed in special circumstances).

3. We and DTI are sceptical about both the theory and practice of the PPRS. The second objective (R&D) sits unhappily with the Government's general stance on industrial support. We find implausible the DoH assertion that, without the PPRS, international companies will take their research capabilities elsewhere. (Decisions about locating R&D will be strongly influenced by supply side factors, like the availability of good scientists.) And we doubt the capacity of the small team of DoH accountants to police the scheme adequately. On the other hand, the industry attach a lot of importance to the scheme. They will be able to generate political support.

4. We will always have to control prices, at least of those drugs where no substitutes (generic or branded) exist. Direct negotiation of prices is an obvious method, although it was because this had supposedly proved unsatisfactory that PPRS-style aggregate control was introduced in 1969. Drug budgets at GP level would provide a further discipline; indeed the 1985 DHSS/Treasury review concluded that if drug budgets were introduced "we should abandon capital return - and hence the PPRS - as a yardstick for price regulation".

5. We shall, as a first step, be preparing a paper for the review on the economics of the PPRS. The review is expected to finish before the summer recess.

FROM: D P GRIFFITHS  
DATE: 15 December 1988

CHIEF SECRETARY

cc Chancellor  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Richardson  
Mr Saunders  
Mrs Butler  
Mr Parsonage  
Mr Sussex

**NHS REVIEW: SELF-GOVERNING HOSPITALS**

I have obtained more detailed information on the proposed monitoring and control regime for the borrowings of polytechnics and further education colleges. The draft financial memorandum for the Polytechnics and Colleges Funding Council states that the PCFC

" shall make such provision for the monitoring and control of institutional borrowing as seems to it necessary to protect the public interest in publicly-funded assets, to protect the publicly investment in institutions and to maintain accountability for the use of public funds. " Polytechnics have to obtain the prior approval of the Council if they wish to borrow on the security of publicly-funded assets and the Council in turn has to get the approval of the Secretary of State before it gives its consent. It also has to ensure there are effective arrangements for monitoring borrowing to fund recurrent expenditure (including requirements that polytechnics advise it of their borrowing intentions). It may also impose such conditions as it considers necessary on any polytechnic's power to borrow to fund recurrent expenditure. (DES wish to circumscribe the PCFC's powers in this respect but we will be opposing this.)

The financial memorandum has yet to be finally agreed but the regime proposed is clearly more stringent than the vague reserve powers which Mr Clarke envisages his Department having over self-governing hospitals' private sector borrowing. It would also entail much more bureaucracy and central oversight of borrowing than giving the hospitals a discretionary borrowing power subject to an annual financing limit.

*D P Griffiths*

D P GRIFFITHS



Inland Revenue

Personal Tax Division  
Somerset House

BF 19/12 4/11

I very much agree with this advice. We should try to avoid the tax treatment of child care becoming the focus of debate on this issue.

FROM: MISS R A DYALL  
DATE: 16 DECEMBER 1988

- 1. MR MACE
- 2. FINANCIAL SECRETARY

BAM  
16/12

CHILD CARE

1. Over the last few weeks the issue of child care has increasingly been attracting the attention of the press, Members of Parliament and representative bodies. This has generated publicity which has touched on a number of sensitive tax issues. This note looks at the background to these developments and the aspects of tax policy involved and discusses how these issues might best be handled.

Background

- 2. Various recent events and developments have heightened interest in child care.
  - a. Earlier this year the European Community Child care Network published a report on "Childcare and Equality of Opportunity" in the European Community. In addition to the consolidated report twelve national reports were prepared by experts in the field of child care. The Reports are primarily concerned with provision of child

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- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>cc Chancellor of the Exchequer</li> <li>Chief Secretary</li> <li>Paymaster General</li> <li>Economic Secretary</li> <li>Mr Culpin</li> <li>Mr Gilhooly</li> <li>Miss Hay</li> <li>Mr Knight</li> <li>Mrs Chaplin</li> <li>Mr Tyrie</li> <li>Mr Call</li> </ul> | <ul style="list-style-type: none"> <li>Mr Painter</li> <li>Mr Lewis</li> <li>Mr Mace</li> <li>Mr Massingale</li> <li>Mr Elliott</li> <li>Mr Keith</li> <li>Mrs Hubbard</li> <li>Miss Dyall</li> <li>Mr Evershed</li> <li>Mr Wilcox</li> <li>PS/IR</li> </ul> |
|---|--|

care, including publicly funded provision, but they also consider the tax treatment of child care in member states. The UK report "Caring for Children" criticises the UK tax regime because

- it recognises marriage rather than responsibility for children;
- it imposes a tax charge on the benefit of a workplace nursery;
- as a result of the business tax reforms capital allowances for employers setting up workplace nurseries are less generous than they were.

However the report is equivocal on the subject of tax relief for child care recognising that the cost would be high and the help provided badly targeted unless the relief were matched by a cash benefit for non-taxpayers (increasing the cost still further).

- b. The EC Reports have encouraged the Fawcett Society to launch a campaign in support of tax relief for child care. The Society has written to MPs arguing that demographic changes which will reduce the number of school leavers in the 1990s make it more important to provide incentives to encourage women with children to return to work.
- c. The EC Reports and the Fawcett Society campaign have led to some Parliamentary Questions about the Government's attitude to child care and its tax treatment. A copy of the latest PQ is attached.
- d. Partly in response to the EC Reports, (but also in the light of the demographic changes which will increase the demand for women with children to go back to work), the Ministerial Group on Women's Issues has been looking at the whole question of child care and how the

Government might encourage greater, and better quality provision without substantial increases in public expenditure. Mr John Patten, the Chairman of the Group has recently told the press about this work (see "Times" article of 14 November attached). Although he spoke in terms of employers playing a greater part in providing child care facilities as a means of solving their recruitment and retention problems the fact that a Ministerial Committee is now known to be taking an interest in the subject has inevitably raised expectations of some Government action on child care.

- e. Expectations of Government action on child care will provide encouragement to representative bodies who have an interest in the issue. Many of these bodies, like the Fawcett Society, the Working Mothers' Association and the Workplace Nurseries Campaign want changes in the tax treatment of child care. Since Mr Patten's press interview, for example, the National Council for One Parent Families has written to all the Ministers on the Group with proposals for encouraging lone parents to work. These include tax relief for child care, a review of the tax treatment of workplace nurseries, tax free "child care vouchers" and subsidising child care costs for those on low wages.
  
- f. My note of 12 December drew attention to recent press articles (copies attached) prompted by a letter from the Institute of Personnel Management to the Secretary of State for Employment, apparently urging him to persuade the Chancellor to lift the tax charge on the benefit of a workplace nursery. As you know this is a subject which crops up regularly during the run-up to the Budget and the Finance Bill debates. The Sunday Mirror has circulated a questionnaire to MPs about child care including a question about tax and workplace nurseries. This suggests more press comment on these issues may be in the pipeline.



g. OMCS has recently appointed a civil servant with specific responsibility for coordinating provision of day care nurseries and play schemes for the children of people working in the Civil Service. This appointment has also been the subject of press comment. The person concerned has close links with the Ministerial Group as she was formerly the Secretary of the Women's National Commission which is represented on the Group. She still has access to it as an OMCS official.

2. Clearly child care is a subject which is not going to go away, not least because at some point the Government may have to respond to the EC Reports and the Commission may take action on the Reports' recommendations. However there does seem to be a risk that in the meantime the pressure for change will become focused on the tax system. There is already a well-organised lobby in support of tax changes and tax reliefs are too often seen as an easy option which carries no cost. For example although the Ministerial Group is very conscious of the need to avoid increased public expenditure some non-Treasury Ministers may feel less committed to taking a firm stand on tax reliefs. The following paragraphs consider the likely pressure points (which will all be familiar to you).

#### Tax Relief for Child Care

3. Tax relief for child care has been resisted on three main grounds:-

- it would be inconsistent with the Government's general policy of withdrawing special reliefs so that lower tax rates are charged on a broader tax base;
- other expenses which put people in a position to work are not tax deductible;
- it would be expensive. The cost would depend critically on the precise rules for the relief. For

example a flat rate relief of £35 per week for all families with a child or children under 5 where the mother is working could cost around £350m. This figure takes no account of possible behavioural effects; different forms of relief might cost either more or less.

4. The proposal should be easier to resist because the representative bodies are themselves divided about it. Some fear that it would encourage poor quality child care by unqualified people. They also recognise that it would do nothing for parents below the tax threshold who may be most in need of child care support.

#### Workplace Nurseries

5. The greatest pressure is likely to concentrate on the tax charge on the benefit of employer-provided child care either in a workplace nursery or a subsidised place in a private nursery. The Government have successfully resisted calls for the abolition of the charge over a number of years. The main arguments are

- all benefits in kind should in principle be taxed;
- the value of a nursery place may be substantial;
- it would be unfair to exempt the benefit from tax when parents who have to make their own child care arrangements fund them out of taxed income.

This line may be difficult to maintain against the background of recent changes, particularly the exemption of workplace carparking, and other measures in the pipeline. However in view of the very firm stand taken on this issue in the past we assume you would not consider a change of policy now.

## £8,500 threshold

6. As the benefit of a workplace nursery is only taxed where the employee earns £8,500 p.a. or more an alternative approach may be to call for the threshold to be raised. This would of course have much wider implications, but the policy is at present that the limit should "wither on the vine". In your minute of 9 December to the Chancellor on Cars you gave the view that there should be no change in the threshold for 1989-90.

## Policy Line

7. Unless you feel that recent developments on child care have altered the situation to the extent that you are prepared to review your previous policy line we assume you will continue to resist pressure for change on these three issues. If this assumption is mistaken it would be helpful to know what changes you would like to consider and we could then let you have a separate paper.

## Next Steps

8. We cannot hope to avoid further publicity about child care; but if matters are not to get out of hand we suggest that a coordinated effort may be needed to discourage any expectation of tax concessions and ensure that other Ministerial colleagues both know your policy on the various tax issues involved and are careful not to suggest inadvertently the possibility of change. This might extend to

- correspondence
- Parliamentary Questions
- the work of the Ministerial Group
- publicity
- child care provided by the Government as an employer.

## Correspondence

9. You have already approved the terms of a reply to the Fawcett Society's letters about tax relief for child care. We propose to draft replies to any other correspondence you receive on child care on the basis that you do not think tax changes would be appropriate.

## Parliamentary Questions

10. We suggest you make clear in your reply to Mr McTaggart's Question and any others you may get like it that you are not prepared to consider changes in the tax treatment of child care.

## Ministerial Group on Women's Issues

11. There has been very little consideration of tax issues in the Group's recent work on child care. This has concentrated on employer provision of child care where the tax position is more favourable. The day to day costs to an employer of running a workplace nursery or subsidising a place in a nursery elsewhere are tax deductible. Capital allowances are available for capital costs of equipping a nursery, for example installing central heating, washing and cooking facilities and providing play equipment. For companies within the industrial sector the cost of building or acquiring premises for child care purposes may qualify for industrial buildings allowance.

12. Recent developments make it almost inevitable that other tax issues will come up at the next meeting. The Home Office has suggested that a factual paper explaining the tax treatment of child care would be helpful to put Ministers on the Group in the picture. We think there is some advantage in this as it would also provide an opportunity to make clear that the proposals being put forward by the various pressure groups have all been looked at in the past and

explain why they have been rejected. The paper would be presented by the Economic Secretary who is now the Treasury representative on the Group.

13. If the Group recommend an initiative aimed at encouraging employers to provide child care we could help by providing material which would publicise the tax relief and capital allowances available to employers. There is a slight risk that this might lead to calls for more generous capital allowances for workplace nurseries but we think any pressure here could be resisted. We doubt whether representative bodies would seriously imagine that the Government would restore 100% first year allowances or give buildings allowance for a commercial building simply to encourage employers to set up workplace nurseries.

#### Publicity

14. Much of the recent publicity on child care stems from or is linked to the activities of the Ministerial Group. Any Minister on the Group may be asked to comment on issues relating to child care or questioned about them in a press interview, or may want to make a speech on the subject. On the whole we suggest it would be better if non-Treasury Ministers did not make statements on the tax aspects. If asked to comment or questioned in a press interview they could say that tax was a matter for the Chancellor. Ministers may want to make speeches or write articles which include references to tax and this can be helpful - Mrs Currie was able to make some good points in her speech to the Institute of Directors' Women's Conference, for example - but it is essential that they clear them first so that we can make sure what is said is accurate. Press articles, such as that in "Today" of 12 December indicate that there is already confusion about the taxation of child care.

15. You may like consider whether recent press articles provide an opportunity to write to Members of the

Ministerial Group explaining that you see little scope for changes in the tax treatment of child care, asking them not to comment on tax issues in response to probings by the press and to clear with Treasury Ministers any written or speech material on tax. You could do this yourself as the Minister with the direct policy responsibility but it might come more naturally from the Economic Secretary as one member of the Group writing to colleagues. He could then say in the letter that he would be presenting a paper to the Group clarifying the tax treatment of child care for those still uncertain about the position. We attach a draft of the sort of letter the Economic Secretary might send, if you think this is a good idea. If you do decide to go ahead you will want to consider whether the draft strikes the right note.

#### Childcare in the Civil Service

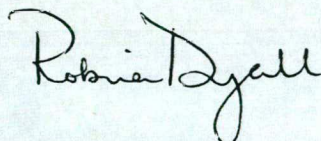
16. Previous initiatives on child care for the children of civil servants have not raised any tax issues because no element of subsidy was involved. However we understand that under current financial arrangements departments setting up workplace nurseries or holiday play schemes could choose to subsidise them, for example, if this were justified by recruitment/retention problems, provided that they could do so without increasing their budgets. If subsidies were introduced civil servants using the child care facilities would receive a benefit-in-kind to the extent of the subsidy and, like other employees, those earning £8,500 or more should be taxed on the value.

17. As the new initiative on child care is still in its early stages we suggest all that is necessary here is for us to write to the official in OMCS in charge of the project pointing out the tax implications to ensure that they are taken into account in any future planning. Once having established this contact we would hope to be able to keep in touch with developments and any new ideas as they emerge.

Recommendation

18. We recommend that you take action on the lines set out in paragraphs 9 - 17 above to discourage any public expectation that the Government will introduce changes in the tax treatment of child care. We are, of course, available to discuss the proposals if you wish, but it would be helpful to have your own, and the Economic Secretary's initial reactions. In particular

- i. Should the line in correspondence and answers to Parliamentary Questions be that the Government is not considering changes in the tax treatment of child care?
- ii. Should the Economic Secretary put a paper to the next meeting of the Ministerial Group explaining the tax treatment of child care and making clear that you are not prepared to consider changes?
- iii. Should the Economic Secretary write to members of the Ministerial Group explaining that you see little scope for tax changes, asking them not to comment to the press on tax aspects of child care and to clear any articles or speeches with you?
- iv. If the answer to iii. is yes, does the draft we have suggested strike the right note?
- v. Are you content for us to write to OMCS at official level about possible tax implications of projects involving subsidised child care for civil servants?



MISS R A DYALL

John Patten Esq MP  
Minister of State  
Home Office

#### MINISTERIAL GROUP ON WOMEN'S ISSUES

Since it was made public that the Ministerial Group is looking at the whole question of child care you, and I believe other members of the Group, have been lobbied by representative bodies seeking changes in the tax treatment of child care. These proposals, which include tax relief for child care costs and the abolition of the tax charge on the benefit of a subsidised workplace nursery, have been put forward on a number of occasions but have been rejected as inconsistent with the Government's general fiscal policy.

There have recently been a number of articles in the press on these and other tax aspects of child care, some trying to make a read-across to the work of the Group. Members of the Group may have been asked to comment, or may be in the future. If so I should be grateful if you and other colleagues would make clear that tax is a matter for the Chancellor. This is particularly important in the sensitive pre-Budget period when there is always a lot of speculation about tax generally. Members may also be asked to speak or write on the subject of child care and here it can be useful to mention positive tax points such as the reliefs available to employers for providing child care facilities. If you or other colleagues wish to refer to these topics I



should be grateful if you would clear what you want to say with Norman Lamont. Inland Revenue officials who support me on the Ministerial Group will be happy to advise on the subject matter when speeches are being drafted.

I propose to circulate a paper for the next meeting of the Group setting out the tax treatment of child care and explaining Government policy in this area. This is a complex subject and I hope colleagues will find the paper helpful.

I am copying this letter to other members of the Group.

PETER LILLEY

WRITTEN  
FRIDAY 9TH DECEMBER 1988

La - Glasgow Central

MR BOB McTAGGART: To ask Mr Chancellor of the Exchequer, if he will give consideration to the introduction of tax allowances for child care costs.

DRAFT REPLY

No.

~~BACKGROUND NOTE~~

MISS R A DYALL  
Inland Revenue  
Personal Tax Division 1  
Tel 2541 7349

P LEWIS  
Inland Revenue  
Personal Tax Division  
Tel 2541 6371

# Drive to help mothers at work in 1990s

## 'Time bomb' of big fall in school leavers

A campaign is to be mounted to persuade employers to provide child care facilities for working mothers.

The move is a government response to figures showing that women will take 10 per cent of new jobs within 10 years.

A Home Office minister said there was a demographic time-bomb ticking away under Britain's biggest employers.

The move will be aimed at 900,000 mothers keen to return to work, to counter a fall in school-leavers.

By Robin Oakley and Roland Rudd

The Government is preparing plans to mount a big publicity drive, similar to its single European market campaign, to force employers to provide child care facilities for working mothers.

The move comes after startling new figures have shown that four in five new jobs will have to be taken by women in less than 10 years.

A dozen ministers who represent the Government's working group on women's issues have been warned to expect the levelling-out of the 1970s baby boom to lead to women taking up no fewer than 80 per cent of new jobs from 1995 onwards.

The so-called demographic

time bomb will mean the supply of school leavers will be sharply reduced, and women workers will be vital to cover the shortfall.

Many will be working wives and mothers with small children and ministers believe that firms facing a labour shortage



Mr Patten: Help for skilled "mums' army" to work.

in the late 1990s will have to extend child care facilities to the extent that they rival company cars and season ticket loans as a working perk.

It could lead to something of a revolution in infant care, and may take Britain in the direction of other labour-short countries such as Japan and Israel, where many young people already spend their formative years in company creches or with company-provided nannies.

Mr John Patten, the Minister of State at the Home Office, who chairs the Government's working group, said yesterday: "There is a demographic time bomb ticking away under Britain's major employers.

"All over Britain companies are recognizing that training is critical and are investing huge sums of money in improving it.

"Quite a lot of that money can go too easily down the drain if well-qualified women are not encouraged to make use of their skills and return to work after maternity leave or their being raised their

cludes Mr Peter Brooke, the Paymaster General from the Treasury; Mr Richard Luce, the Civil Service Minister; Mr Patrick Nicholls, Parliamentary Secretary at the Department of Employment; Mrs Angela Rumbold, Minister of State for Education; and Mrs Edwina Currie, Parliamentary Secretary of the Department of Health.

It has set up a working group of officials to study the provision of better child care for working mothers.

The Government initiative comes after Britain's personnel managers were warned by the National Economic Development Council that they will face severe recruitment problems over the next seven years if they do not take advantage of the "mums' army" of up to 900,000 women keen to return to work.

A new report to be published later this week by the independent Industrial Relations Services says that working mothers are already being offered new forms of child care assistance because more employers realize that it costs less to help working mothers than to recruit new workers.

However, the Working Mothers' Association wants the Government to give working mothers new employment rights to enable them to take a minimum of four months parental leave per child at any time between birth and child's third birthday, in addition to maternity and paternity leave.

With so little public provision, many women have no option but to care for their children full-time for the first five years unless they receive practical help from their employer.

Facilities are also scarce for school-age children, although some local authorities are trying to help by keeping the schools open later. There are few schemes to cope with term-time and holidays.

The ministers will meet early in the new year to decide

drive is planned to push big employers into new initiatives. Ministers will emphasize that there are already tax incentives for them to make provision for working mothers and they commend the efforts of specific employers who have already set to work on the problem, such as Midland Bank and Penguin Books.

The Government will face pressure from pressure groups to stop treating workplace nurseries as a perk. Since 1984 employees making use of nurseries have had to pay tax on employers' contributions.

Employees are only exempt if they earn less than a £8,500 a year threshold for high earners - a figure set nine years ago.

Miss Wendy Chivers, of the Working Mothers' Association, said last night: "The tax on workplace nurseries and company child care should be

abolished. Child care provision or support should be regarded as an essential work expense, not as a taxable benefit."

Ministers expect the average working mother to have to pay £20 to £30 a week for the child care provided, but believe that on an average wage of about £8,500 a year there will be no shortage of takers.

A senior Cabinet Office Civil Servant, Mrs Susan Scales, a working mother, is co-ordinating the provision of day nurseries and play schemes for those working in the Civil Service, who include 230,000 women.

Mr Patten said yesterday that the Government did not want to do anything to weaken the family. Women will not be pressurized to return to work. But he added: "It is condescending to suggest that a working woman cannot be a good mother."

3/3

Times  
10-12-88

## 'Punitive' tax on crèches reviewed

By Roland Rudd, Employment Affairs Reporter

A change in the taxation on crèche facilities, which are treated as a perk and taxed at a higher rate than company cars, is under review by the Government as part of its campaign to persuade employers to introduce childcare provision.

In response to a call from the Institute of Personnel Management to remove crèche facilities from the field of taxable benefits, the Department of Employment said the Government's working group on women's issues is studying the tax system.

Ministers are looking at childcare facilities and the effects they may have in recruiting women employees. A Government spokesman said that while it was too soon to comment on specific proposals, the group was reviewing all aspects of policy.

Mr Chris Curson, the institute's vice-president, in a letter to Mr Norman Fowler, Secretary of State for Employment, warned that the Government's campaign to persuade employers to provide workplace nurseries was in danger of failing if it did not change the tax system.

Mr Fowler is asking employers to introduce them to help to recruit and assist the return to work of parents with pre-school age children.

He has told employers that those who fail to do so will be at a disadvantage in recruiting

women workers, who will account for up to 800,000 of the 1.1 million growth in the workforce up to 1995.

However, Mr Curson, while welcoming Mr Fowler's remarks, says that most employers cannot afford to set up nurseries because of a 'punitive' taxation system.

In some cases the value of a workplace nursery amounts to more than £2,500 a year per place. The Treasury argues that allowing employers to use such a facility free would put them at an advantage in terms of taxation.

But Mr Curson says that the effect is to make workers pay the equivalent to the charges for private nursery places, about £35 to £70 a week.

If the Inland Revenue's present practice is not changed, exhortations to employers to provide workplace nurseries are going to be of little use, Mr Curson said.

Mr Alistair Graham, director of The Industrial Society, yesterday added his voice to those calling on the Government to provide a real incentive to make childcare affordable to more women who wish to return to work.

He said it was a 'scandal' that Britain had only enough childcare places for 17 per cent of children aged less than five compared with 63 per cent in West Germany, 88 per cent in Italy and 97 per cent for Belgium.

**TODAY**

# Mothers' ruin <sup>10/1</sup>

MRS THATCHER'S team must know it is attempting the impossible with its two-faced plans to coax mothers back to work.

On the one hand, the Government is wooing mothers with promises that creches will be waiting for them if only they'll take up jobs again.

On the other, it is threatening to tax creche facilities — as if they were a perk like a company car. The result could easily be to make the cost of child care so high that it isn't worth working to pay for it.

There is a sound economic reason for wanting mothers to work. Fewer youngsters were born in the Sixties and Seventies. So there are going to be shortfalls in every part of the workforce in the Nineties.

By then Britain will need all the working people it can get and mums will be one of the few big sources left to be tapped.

If Government wants to get them back to work it should be thinking up tax incentives, not penalties.

It should forget all about clobbering women for putting their children into creches. Instead it should be getting ready to let working women make the cost of help in the home tax deductible.

Mrs Thatcher wants people to own their own houses. That's why she thinks mortgages should have tax advantages. If she wants to persuade mothers to go back to work she should make that worth their while too.

**TODAY**

# £20 tax on work mothers

2/11/11

by KEVIN EASON, Industrial Correspondent

MOTHERS who want to go back to work face a £20-a-week tax bill for using company nurseries.

Chancellor Nigel Lawson's blitz is similar to being taxed on having a company car.

It means some low-wage mothers could have their salaries almost wiped out because of company creche charges of up to £70 a week together with the tax bill.

The Treasury insists women who use company creches have a financial advantage over mothers with children in independent nurseries.

Mrs Lawson was attacked last night by the Institute of Personnel Management for encouraging mothers to return to work and hitting them with the bill.

It is demanding a pledge from Employment Secretary Norman Fowler that he will personally intervene.

## Allowance

Vice-president Chris Curson stormed: "It is ridiculous to say that these workers enjoy a financial advantage."

"Employees are required to pay for their creche places out of taxed income."

Tax for nurseries is based on what they cost an employer to provide.

A mother could lose £2,500 off her personal tax allowance, meaning a bill of £20 week for 40 per cent taxpayers and £12 for 25 per cent payers.

The IPM claims Britain is Europe's poor relation in providing child care at work and way out of step with countries like Canada, where the government provides pre-school places for the under-fives.

## THE INDEPENDENT

### Revenue

Johnson v Holleran (Inspector of Taxes); ChD(Morritt J); 13 Nov 1988.

A taxpayer who was made redundant, but who would otherwise have been dismissed on grounds of ill health, received monthly payments of "disability benefit" from the trustees of his former employer's pension fund. They were not, as the taxpayer claimed, taxable as payments on removal from his employment within the Income and Corporation Taxes Act 1970, ss 187 and 188 (now ss 148, 188 of the 1988 Act) under which they would have been exempt.

The taxpayer in person; Alan Moses (Inland Revenue Solicitor) for the Revenue.



Ch/Dick's note behind is slightly overstated. Paul G has ascertained from PM that she wishes to have in the diary a 1 1/2 hr mtg on Wed afternoon to resolve

- how we control FPS share of merger, and

\* - how do we make practice budgets acceptable to HMT?

If we reach <sup>bilateral</sup> agreement before then <sup>wed</sup> meeting is cancelled.

First step is to produce piece of paper for DoH <sup>what's to wrap with</sup> on practice budgets - to be cleared with you - and then for CST to continue bilaterals with Clarke, or do you want to be involved?

LINK  
to CST,

MP

FROM: R B SAUNDERS

DATE: 16 December 1988

CHIEF SECRETARY

cc Chancellor  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Griffiths

## NHS REVIEW: FPS

We understand from Richard Wilson that the following decisions were reached at this morning's meeting at No 10.

- a. FPCs and DHAs should not be merged, although their management should be brought together at regional level.
- b. The principle of indicative drug budgets was to be welcomed.
- c. The Prime Minister is reluctant to have the principle of GP practice budgets reopened.
- d. But Mr Clarke should discuss with you how the Treasury concerns about b. and c. should be accommodated.

2. While, on the face of it, this may appear a relatively bad outcome - we have lost the argument about merger, and GP practice budgets are to go ahead - it should be possible to salvage the important expenditure control points, as follows.

3. First, we must ensure that indicative drug budgets are turned into something worthwhile. This means building on the existing computerised information systems to set shadow drug budgets for individual practices, with genuine monitoring by FPCs and regions, backed up by sanctions. We may even be able to set cash limits (or something close to them) at regional level.

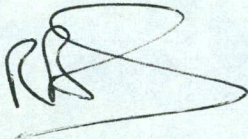
4. Second, we must place tighter controls over GP practice budgets. The present proposal that it should be possible to switch money from patient care to practice expenses is completely unacceptable. It is at odds with the standards expected of other professionals - eg the requirement for solicitors and accountants

1.16.12

SECRET

(?) to place the money of their clients in separate accounts. (Ian Whitehead has told me that he shares this view very strongly.) It makes sense to pay GPs a specific allowance (say £5000 or something) if they opt to hold a practice budget, and perhaps to include some performance pay in their remuneration, with one of the criteria to be staying within budget. But wholesale freedom to appropriate the budgets for their own purposes is not on.

5. We need to consider on Monday how to carry this forward. It is likely that you will need to have a meeting with Mr Clarke early next week.



R B SAUNDERS



CONFIDENTIAL

CH/EXCHEQUER	
REC.	16 DEC 1988
ACTION	MR SAUNDERS
COPIES TO	CST SIR P MIDDLTON SIR T BURNS, MR AXON, MR PHILLIPS, MR CULPIN, MR TURNBULL, MR KELLY MISS PEARSON, MR PARSONAGE, MR ORIFFITHS MR CALL.

✓ 16/12

"Health review is anti-Scottish" shock



*I should be written underlining*

Prime Minister

**NHS REVIEW**

As you know, I shall be unable to attend Friday's meeting of the Ministerial Group; but there are a few points which I should like to register on the papers that have been circulated.

**Pay and Conditions of Staff**

I agree that there are considerable risks in giving local employers freedom to set or negotiate their own conditions of service - indeed one of the main purposes of the present arrangements is to prevent leapfrogging settlements. The present arrangements are an impediment to change and they have delivered centrally negotiated agreements which are unsuited to local management arrangements. They also permit unions to appeal outwith their employing authorities against the local application of national agreements. I therefore look forward to seeing the results of the further work which Kenneth Clarke has in hand; and my officials are ready to contribute to any detailed discussions.

At this stage I would simply flag up for consideration the possibility of removing nursing auxiliaries from the remit of the Nurses Pay Review Body. Much of the industrial unrest over regrading has stemmed from auxiliaries (supported by COHSE and NUPE) yet their pay has increased substantially relative to other unskilled staff such as ancillaries. Their action is portrayed in the media as being undertaken by "nurses" when this is not strictly the case; nor are there problems in recruiting auxiliaries which require their pay levels to receive the same consideration as pay for qualified staff. I understand that the RCN may decide next year to offer auxiliaries membership. We should therefore review the current position quickly and assess whether the benefits of this change outweigh the likely difficulties in the way of delivering it.

I agree Kenneth Clarke's specific point on the freedom to negotiate pay and conditions which should be offered to self governing hospitals.

## Access to Private Capital

I welcome the clear statement in this paper of the extent to which existing rules permit a range of joint ventures between the NHS and the private sector and the commitment to explore ways of extending them to permit other worthwhile ventures.

## Managing the Family Practitioner Service

Kenneth Clarke's paper proposes non-cash limited drug budgets for each country disaggregated for regions and FPCs, and subsequently into indicative budgets for each practice. Presumably, the normal formula arrangements would apply and I would have discretion to set the drug budget for Scotland within my block subject to subsequent estimates scrutiny in the usual way. Subject to that, and to working out the details and to consultations with the profession (which I am sure will be necessary) I think this scheme could be applied in Scotland. It would be a year later, however, before the necessary information systems could be in place. It would be necessary for my Department to combine the roles envisaged for the Department of Health and regional health authorities and that will carry running cost implications. The Health Boards already fulfil the role which Kenneth envisages for FPCs in England in relation to excessive prescribing; in the Scottish chapter of the White Paper I intend to float the idea that in future Area Medical Committees will have a more consultative role in relation to these investigations instead of acting as the Health Boards' agents as at present.

Paragraph 16 of HC63 identifies two changes currently being discussed with the medical profession in the negotiations flowing from the Primary care White Paper. The second change proposes that the qualification for the full Basic Practice Allowance (BPA) should rise from 1000 to 1500 patients. My officials have already pointed out that, at 1 October 1986, 29% of the total number of unrestricted principals in Scotland had a list size of between 1000 and 1500. Scottish GPs would, therefore, be particularly affected by this proposed change. Furthermore, although many of these GPs are in urban areas, where there may be scope for the GP to increase the number of his patients, about 450 GPs are in rural or semi-rural areas where the scope for such an increase is limited - if it exists at all. This factor has to be borne in mind in considering the overall effect of the interrelating factors which bear upon the structure of the proposed new remuneration package.

**CONFIDENTIAL**

This number reflects the fact that list sizes in Scotland are generally smaller. I would not favour going beyond the indirect incentives we have already identified by adopting the personal financial inducements suggested in Kenneth's paper: the accusations summarised in paragraph 26 of his paper might be difficult to rebut.

**Draft White Paper**

I have already expressed a preference for a separate Scottish chapter in the White Paper; but I think that we should collectively reserve judgement on this point until we have an opportunity to consider the material from all three territorial Departments together. I have no particular drafting points to offer on the first three chapters, though clearly there are a number of differences of emphasis which will have to be picked up in the Scottish contribution.

I am copying this minute to Nigel Lawson, Peter Walker, Tom King, Kenneth Clarke, John Major, David Mellor, Sir Roy Griffiths, Sir Robin Butler and Ian Whitehead (Policy Unit).

**M R**

15 December 1988

CONFIDENTIAL

The first change is that capitation fees should be increased, as a proportion of fees and allowances, to over 50% - and might rise to as much as 60%. This also presents particular problems for me. The Scottish Medical Practices Committee is statutorily responsible for ensuring that the number of medical practitioners undertaking to provide general medical services in the areas of different Health Boards is adequate. If it decides that a practice is essential, then a doctor must be located in that particular area. If the income which the doctor can obtain is too low because of the current level of percentage of income attributable to capitation fees and the small number of patients available, the practice is identified as an "Inducement Practice". There are about 80 Inducement Practices in Scotland but, I understand, only about 3 in England.

As paragraph 19 of HC63 indicates, the Review Body each year recommends an intended average net income and average expenses, both to be reimbursed through fees and allowances. All Inducement Practitioners have their incomes brought up to an average net income determined by the Review Body on the basis of the evidence which it collects. If we were to decide that capitation fees are to form a greater proportion of income and that the Review Body must set fees and allowances accordingly, Inducement Practitioners, because of the sparsity of the population in their areas, might only be able to earn an income which is significantly below that of their urban counterparts.

While there is at present no numerical shortage of general medical practitioners willing to work in rural, sparsely populated areas, this is probably because such practitioners currently have a guaranteed level of income. If the rules are altered, the position might change rapidly with only less well qualified doctors applying for rural practices. I have no doubt that I would be open to criticism if proper account is not taken of such peculiarly Scottish circumstances; and it will be necessary to consider some means of safeguarding the position of those GPs who provide general medical services in sparsely populated areas.

*Oh yeah?*

On GP practice budgets, I propose to indicate in the Scottish chapter of the White Paper that we plan to introduce about 10 demonstration projects in Scotland along the lines discussed in the main chapter on this subject.



*M P*  
FROM: MISS M P WALLACE

DATE: 19 December 1988

**MR SAUNDERS**

cc PS/Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mrs Lomax  
Mr C W Kelly  
Mr Call

**NHS REVIEW**

The Chancellor has seen Mr Rifkind's minute of 15 December. He has commented that he shares the concern underlying Mr Rifkind's suggestion that we should consider the possibility of removing nursing auxiliaries from the Nurses' Review Body remit.

A handwritten signature in cursive script, appearing to read 'M P Wallace'.

**MOIRA WALLACE**



FROM: MISS M P WALLACE

DATE: 19 December 1988

BF 21/12  
22/12

MR PHILLIPS

PP

cc PS/Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Saunders  
Mr Parsonage  
Mr Call**HEALTH TECHNOLOGY ASSESSMENT**

The Chancellor was grateful for your note of 14 December. He would like to write to Mr Clarke, with copies to all members of the Review Group, asking what plans DoH have to improve their assessments of cost effectiveness in the health technology area. I should be grateful if you could provide a draft.

A handwritten signature in cursive script, appearing to read 'MPW'.

MOIRA WALLACE



Ch / I'm sorry to return  
with this, but I'm afraid  
neither Dick nor I are  
quite sure which  
particular bits of note  
concern you. My best  
guess is eg X in para 2  
where PM might  
reasonably say private  
Sector GPs manage.  
Is this what you have  
in mind?

YH MStw.  
mpw.

2.19.12

SECRET

*mp*

FROM: R B SAUNDERS

DATE: 19 December 1988

CHIEF SECRETARY

cc **Chancellor**  
 Paymaster General  
 Sir P Middleton  
 Mr Anson  
 Sir T Burns  
 Mr Phillips  
 Mrs Lomax  
 Miss Peirson  
 Mr Gieve  
 Mr MacAuslan  
 Mr Parsonage  
 Mr Richardson  
 Mr Sussex  
 Mr Rayner  
 Mr Burns  
 Mr Call

[ A very good statement of the case against practice budgets - altho' para 1 might seem too much like HMT negativity to the PM! ]

*mpw* ] *v. important to go through this to go out as a strike that w app small to the private sector.*

**NHS REVIEW: FPS AND GP PRACTICE BUDGETS**

You are meeting Mr Clarke tomorrow to prepare the ground for the further meeting arranged at No 10 on Wednesday to discuss outstanding FPS issues. There are three main ones:

- drug budgets
- GP numbers
- practice budgets.

2. On the first, you will need to press Mr Clarke to come up with some more acceptable proposals. As they stand at present, they exert no real pressure on drugs expenditure, and indeed appear to serve very little purpose. The main problem is the proposal (paragraph 3(i) of his paper) that there should be automatic compensation for overspending. What we need is a system embodying the following features:

- a. An overall budget at the start of the year for the FPS as a whole, set at a realistic level, and with some scope for virement between other FPS expenditure and hospitals expenditure on drugs.



- 2
- b. Some mechanism for influencing drugs expenditure in-year, perhaps by, for example, limiting the quantities of some drugs that may be prescribed to a patient at any one time. (better to steam ahead on generics, selected list - this sounds v. controversial)
- c. Shadow budgets for GPs, with regular (perhaps monthly) monitoring reports issued to them and to their FPCs, using the new PACT system. ↑ and publish?
- d. Powers for FPCs and regions to take action - including financial penalties - against GPs who persistently overprescribe without good reason.

This will of course be very controversial, particularly b. and d. so far as the medical profession are concerned. But unless Mr Clarke is prepared to pursue something on these lines, his proposals would appear to be more bother than they are worth.

3. On GP numbers, see the briefing I supplied last week. This was not, I understand, discussed at all on Friday.

4. Our biggest concern however is about GP practice budgets. We have distilled our worries into the attached note. The latest version of the proposals is better in one respect than what went before: end-year flexibility is now limited to 5% (overspending or carry-forward of underspending) and is to be contained within RHA budgets. But the most worrying feature - the idea that the budgets should allow GPs to switch money intended for patient care to their own purposes - remains.

5. You will wish to consider what to do with this paper. I recommend that you send it to Mr Clarke first thing in the morning, so that he has a chance to look at it before the meeting. If you agree, we will also send a copy to Richard Wilson and Ian Whitehead. It may be right, if Mr Clarke does not move from his proposals, to table it for Wednesday's meeting.



R B SAUNDERS

## GP PRACTICE BUDGETS: THE UNANSWERED QUESTIONS

## Note by the Treasury

## 1. What is the purpose of this scheme?

- If it is to provide an incentive not to over-refer, then it misses the target. The GPs most prone to over-refer will be those in small practices (eg the single-handed) who are ineligible for the scheme.
- If it is to give GPs greater freedom of referral, how can this be? GPs can already refer their patients to whichever consultant they believe can best meet their needs. They can only be better off with practice budgets to the extent that the proposals for contract funding by districts restrict freedom of referral. This can be presented as imposing a restriction in order to allow people to opt out of it.
- If it is to improve competition between hospitals, how does it add to that provided by districts? If anything, breaking up the "buyer" side will tend to increase rather than reduce the power of suppliers.

## 2. How will the scheme work?

- What treatments and conditions will be included? How are these to be defined (terms like "outpatient services" and "elective surgery" are no use) and how will borderline cases be assessed?
- What happens when a patient referred outside the budget arrangements turns out to require treatment which falls within it, and vice versa? By definition, a GP frequently is not certain what is wrong when he refers a patient to hospital.

- X |
- Nor will he know when the treatment will take place. So he refers the patient knowing neither the amount nor the timing of the expenditure he is incurring. In these circumstances, how can meaningful control be exercised over the budget?
  - What sort of contracts will the practice enter into? If they are to be "block" contracts, like districts will sign with hospitals, where is the incentive to reduce referral rates? If, on the other hand, each referral is to be individually recorded and paid for, that implies formidable administrative costs for the practice. Is the extra bureaucracy worth it?
  - How will the budgets be determined? If they are set on the basis of average costs per NHS patient, those practices with below average costs will have the strongest incentive to opt into the scheme. To the extent that they are allowed to retain surpluses, increased public expenditure is implied.

3. Why is it proposed to mix money intended for patient care with that for business costs? That verges on the improper. Other professionals - solicitors, accountants, financial services, etc - must keep a rigid separation between client funds and their own. GPs will benefit pound-for-pound if underspending on patient care is switched to practice expenses which they are meant to provide from the indirect expenses element of their fees. How is it proposed that FPCs should exercise control over this?

4. The proposed 5% end-year flexibility on underspending, and the right to overspend by 5%, have to be accommodated within the HCHS cash-limited Vote. Other regional budgets will therefore have to accommodate overspending by practices. Will they accept that? The Department will recall the difficulties created by the former scheme - only abandoned this year - under which individual districts had only 1% end-year flexibility.

5. Will the scheme mean that patients from practices with budgets will get preferential treatment in terms of waiting times etc, since they will be bringing extra money with them for the hospital? Is that acceptable?

6. It is agreed that the size of the budgets will have to take account of the numbers of private referrals by a practice, as a safeguard against the use of public money in substitution for private payment. But will it in practice be possible to reduce a practice's budget significantly in year 2 or 3? What guarantees of continued funding will practices expect when they opt to hold budgets?

7. Quite apart from the administrative costs identified above, the scheme implies that GPs will have to do a lot of negotiation with regions and FPCs. What is in it for them? Given that it is unacceptable to divert money from the budget to them, what incentives are to be offered?

8. If there are to be incentives to opt for practice budgets - and hence to increase the number of partners to the qualifying minimum - how does that square with the other proposals for limiting GP numbers? On the face of it, this will be a pressure to increase numbers, and hence costs, further.

9. The budgets will have to be audited - they could amount to several hundred million pounds. This will presumably be a task for the Audit Commission; will the practices pay the fees themselves? Is it the intention to legislate to refuse NAO access as well?

0344A



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

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

CONFIDENTIAL

Received 8.40 pm  
19<sup>th</sup> December  
FD

Miss C Evans  
HM Treasury  
Parliament Street  
LONDON

19 December 1988

MP

MP

Dear Cerys

NHS REVIEW: INDICATIVE BUDGETS

I attach a paper prepared by officials as background to my Secretary of State's discussion with the Chief Secretary tomorrow afternoon.

Yours

And

A J McKEON  
Private Secretary

CHIEF SECRETARY	
REC.	
TO	Mr SAUNDERS
TO	CRISIE P MIDDLETON
	Mr ANSON, Mr PHILLIPS
	Miss PEARSON, Mrs LOMAX
	Mr GRIFFITHS, Mr GILL

**CONFIDENTIAL****GP INDICATIVE PRACTICE BUDGETS: OPERATIONAL AND CONTROL MECHANISMS****SCOPE**

1. The NHS Review Group has agreed that those GP practices which are not eligible to participate in the drug element of the practice budget scheme or choose not to do so, will be subject to indicative GP drug budgets. The objective of indicative drug budgets will be to oblige GPs to subject their prescribing practice to critical examination and thereby remove such wasteful prescribing (whether in cost per item or volume terms) as currently exists whilst continuing to meet the cost of necessary drugs at fair prices. As participation in the practice budget scheme will be limited to those practices with a registered list of 11,000 patients or more, at least 90% of GP practices will be ineligible to join that scheme and will in consequence be subject to indicative budgets.

2. Indicative budgets would apply to a significant area of public expenditure. The drugs bill is the largest single element (36%) of FPS expenditure and in 1987/88 expenditure was £1,534m (England). There are wide variations in drug spending even as between FPCs, which may not be explained by differences in population structure and morbidity. Hence indicative budgets offer potential for savings in the levels of drug expenditure which would otherwise occur in future years.

**OPERATIONAL MECHANISMS**

3. A single national drug budget will be negotiated for each country as part of the annual public expenditure round. Fixing the level of these budgets will continue to be subject to the present problems of predicting demand, the mix of drugs which will be prescribed and the use of price factors which are exceeded in reality. Under present arrangements budget overshoots due to these

factors have been remedied through in-year increases in Supplementary Estimates. The total supplementary estimate (England) for 1987/88 was £25m on an initial budget of £1,514m (an increase of 1.7%). For the current year we expect to need a supplementary estimate of £50m on an initial budget of £1.706m (an increase of 3%). Avoidance of such Supplementary Estimates in future years can only be achieved through the use of sensible and realistic initial planning assumptions as well as through achievement of savings from the adoption of more cost-effective prescribing patterns. There will still be the risk of a national epidemic which increases demands on the service beyond the inherent flexibility in the system. We must make it plain in the White Paper that there will be adequate provision for the medical doctors to prescribe and for these prescriptions to be supplied at reasonable prices. The final option to avoid Supplementary Estimates in these circumstances is to meet the shortfall from HCHS expenditure. The presence of this last possibility in the system represents a powerful incentive for Regions to ensure that indicative budgets are adhered to in aggregate (see paragraph 9 below) but there would be obvious political difficulties if such a transfer of resources from HCHS had to take place on a significant scale at the end of the financial year resulting in short-term measures such as ward closures and the like.

4. In England the Department of Health would allocate its national drug budget to Regions, as the bodies which will in future be responsible for FPCs under the legislation stemming from the NHS Review. As a major objective of indicative budgets is to induce more rational prescribing patterns, allocation to Regions should be on the basis of some form of weighted capitation. This will call for research on the effects of determinants such as age and sex in order that the budgets - at each level - should be credible. Initially, as a transitional measure, this would need to be tempered by a recognition of historic differences between FPCs prescribing costs in order to effect a smoother introduction of the new system. Finally FPCs, having separately identified the funds needed for those of their practices involved in the cash limited drug budget,

would need to estimate indicative budgets for the remaining GP practices, essentially on the same basis as allocation from Region to FPC. These, following discussion with individual practices, would then be formally notified to each practice as their indicative budget. The indicative element would be cash limited as part of the overall drug budget at national, Regional and FPC level but there would not be a cash limit for the budgets of individual GPs.

#### MONITORING AND CONTROL

5. Effective in-year monitoring and control of GP indicative budgets by the FPC and individual practices is crucial to the success of the exercise. GPs will be required to submit monthly returns, based on information produced in their own surgeries, on the estimated cost of their prescribing for the previous months. This will almost certainly require all GPs to have microcomputers and the appropriate staff and software. The FPC will have to consider whether each return is within an acceptable margin of the indicative budget, taking into account seasonal factors affecting demand.
  
6. As soon as it becomes clear that a practice is significantly overrunning its indicative budget, the FPC will initiate discussions aimed at agreeing measures to bring the budget back into line. Medical experts would investigate and report back to the FPC. In the absence of an agreed outcome acceptable to the FPC, the FPC would have to consider bringing a Service Committee case against the GP concerned in respect of overprescribing. Such a threat would clearly have a deterrent effect, although such cases are not easy to prove in practice. The position of the FPC will however be reinforced by making a requirement to observe the FPC's policy on indicative budgets part of the terms and conditions of service. This would enable an FPC to proceed with greater ease in bringing a Service Committee case against a practice which was clearly not taking proper account of the need to pay due regard to its indicative budget.



7. It must however be expected that some practices will exceed their indicative budgets through no fault of their own, as the legitimate demand for drug prescribing cannot be guaranteed to follow a consistent pattern at the micro level. To cope with this situation FPCs will have to have the flexibility to reduce in year the indicative budgets of practices which are showing a pattern of underspend against their indicative budget. Hence those who underspend their indicative budgets will not be able to carry forward at least a proportion of the underspend into the following year. This would seem justifiable as the options of 'carry forward' and virement between budgets will be available to practices participating in the cash limited drug budget, where the practices concerned will be carrying a real element of risk in that overspends in one area will have to be met from elsewhere in the practice budget. This will not be the case for practices subject to indicative budgets and this should in itself provide an incentive for the large entrepreneurial practices to opt instead for the cash limited drug budget - in itself a desirable objective.

8. Introduction of this level of intensive monitoring and control of indicative budgets at FPC and practice level cannot be achieved without cost. GP practices will need to be equipped with suitable microcomputers for the operation of indicative budgets. In view of the crucial need to enlist the cooperation of GPs in operating indicative budgets, we should also need to consider the possibility of some form of performance pay for those operating indicative budgets effectively. FPCs will require extensive independent medical advice which will need to be budgeted for accordingly. There will be some cost to the Prescription Price Authority of developing the basic cost information package for GPs (up to £1m) and much smaller running costs thereafter.

**VIREMENT**

9. The FPC itself will not have the option of meeting any overspend on its drug budget through virement between other programme budgets. This is because FPCs only have control over their relatively small administrative budgets (on average only £600k per FPC). RHAs, who will need to receive regular reports on drug expenditure from FPCs, will however under these proposals have a common cash limit embracing both HCHS expenditure and FPS drug expenditure and freedom to vire between the two. Hence Regions will have a powerful incentive to provide positive supervision of FPCs in order to ensure that their FPCs stay within the aggregate of their indicative drug budgets. If their FPCs, considered in total, fail to stay within their drug budget the Region will be obliged to meet the overspend by compensating reductions in its HCHS expenditure, but politically there are plainly limits on their scope for doing this.

4.20.12

SECRET

FROM: R B SAUNDERS  
DATE: 20 December 1988

CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Sussex  
Mr Burns  
Mr Call

**NHS REVIEW: DRAFT WHITE PAPER**

The draft is to be discussed at the Prime Minister's meeting on Thursday, and you are holding a briefing meeting tomorrow.

2. In general, the draft is clearly and well written. It reflects, fairly for the most part, the decisions reached by the Ministerial Group, and I think succeeds in presenting them reasonably coherently. The style is clearly however a Civil Service one, and you may think the early chapters need to be jazzed up in the manner of chapter 12, which was I believe prepared by Mr Clarke's special adviser.

3. We have two main structural points. The first is that there should be an early chapter about the objective of securing better value for money. This would not run through the detailed proposals in later chapters, but would instead develop the theme that the best value needs to be obtained from the increased resources the Government is putting into health, and this will be achieved by giving people more responsibility and accountability for their decisions, both by delegating down the line and by closer integration of doctors and other clinicians into management. This would complement the existing chapter on objectives for improving the service. Secondly, if GP practice budgets are to be retained at all, they need to be given much less prominence than in the present draft. By making them the subject of the first substantive

chapter, they become effectively the centrepiece of the proposals. This is unwise, since they will deal at most with only a tiny fraction of NHS expenditure, and it is very doubtful whether they will be a success.

4. Turning to the individual chapters, I have no particular comments to offer on the foreword. As to chapter 2 (Delivering a better service), I would offer the following.

a. The section on customer care should be at the beginning, not the end. It also needs to say what specific action is going to be taken to cut waiting times. One possibility which is not canvassed explicitly in the draft, would be to set targets waiting times, as suggested in Mr Parsonage's minute of 7 December.

b. Paragraph 2.4, following as it does a passage about how successful the NHS has been, does not offer a very convincing answer to the question why the Review was set up in the first place.

c. Again (eg paragraph 2.9), there is too much prominence for GP budgets.

5. Chapter 3 (GP budgets) is dependent on further decisions about the scheme. The only specific comment I would offer at the moment is that paragraph 3.12, on the setting of budgets, fails to reflect the agreement that budgets will take account of experience of the level of private sector referrals, as a safeguard against abuse. This should be dealt with explicitly in the White Paper.

6. Chapter 4 (Self governing hospitals) reflects the agreement on pay, structure and finance at the last meeting. A few points.

a. The Secretary of State's reserve powers of intervention appear at several points, eg disposal of assets (paragraph 4.16) and borrowing (paragraph 4.17). But there is nothing about other areas of risk - eg acquisition of assets or imprudent investment. There should just be one general power to intervene when the Secretary of State considers that public funds or assets are or may be put at risk or otherwise in the public interest.

b. Paragraph 4.16 should refer to the requirement to earn a rate of return as well as that of breaking even taking one year with another.

c. Paragraph 4.18 on the procedure for achieving self government is silent on what happens if the various interest groups disagree - which is quite likely. Which is to take precedence? And how is it proposed to assuage the others?

7. Chapter 5 covers a range of issues on managing the hospital service, including delegation, pay, competitive tendering, cost and management information, capital and audit. I have no structural points on this chapter, but a number of detailed comments which can be fed in later. I have however a few points which might be mentioned at the meeting, on the paragraphs about capital (5.25-5.30).

a. The final three sentences of <sup>5.25</sup>~~5.28~~ are wrong: investment appraisals and cost comparisons for competitive tendering, etc must take account of all costs, including capital. If the sentences are true, that means that DoH are failing to enforce the existing guidance properly.

b. Paragraphs 5.29 and 5.30 are not so much about private capital, as the heading suggests, as about cooperation with the private sector. Its tone is generally much too gung-ho. It needs to draw attention also to the duties of health authorities to act with due prudence in the management of public assets and public funds. We will offer some drafting suggestions later.

c. The second sentence of 5.29 go beyond the agreement last time. The implication is that the capital element of any contracting out shall be treated as additional - which goes well beyond what the paper by the Chief Secretary and Mr Clarke said. The third sentence contains an inscrutable reference to Bromley-type schemes.

8. I have no particular comments to offer on chapter 6 (Hospital consultants). It reflects reasonably well the Group's decisions on medical audit (paragraph 6.5-6.11, management of consultants' contracts (6.14-6.15) and distinction awards (6.19-6.21)).

9. Again only a few detailed points on chapter 7 (funding).

a. Some of the drafting in this chapter gets rather obscure (eg 7.13 and 7.22).

b. Paragraph 7.24 and 7.25 seek to square the circle of setting up funding through contracts between districts and hospitals, while not interfering with the right of GPs to refer individual patients where they can best be treated, or where waiting times are shortest. I am still not wholly convinced that they have succeeded. But the best way to test this now would be to set up some pilot schemes.

c. Paragraphs 7.31 and 7.32 are all that remain of our earlier "performance funding" proposal. It has been transformed into a development of the existing waiting list initiative. Since this is meant to have a real impact on waiting times, it might be given more prominence, and perhaps made the subject of a forward reference from chapter 2. Note also the (uncosted) proposal in paragraph 7.32 for more consultant posts.

10. Chapter 8 (Managing the FPS) was circulated before the Chief Secretary's meeting with Mr Clarke this afternoon. So it takes no account of the agreement reached on drug budgets:

- that overspending should result in a reduced budget (at regional level) the following year;
- that GPs who persistently over-prescribe should be subjected first to some form of peer review, and if necessary disciplinary proceedings;

- but that it will take a year or two before budgets can be settled which are sufficiently robust to be generally accepted;
- and some investment in computers for practices will be required.

Nor does it embody the agreement on GP numbers:

- a higher proportion of pay in the form of capitation fees
- geographical variation in the basic practice allowance
- a reserve power to control GP numbers.

This would replace what is now paragraph 8.8, with the new proposals on drug budgets overtaking paragraphs 8.12-8.14.

11. Chapter 9 (A better organisation), with the final section of chapter 8, reflects the agreement on the future of FPCs, regions and the NHS Management Board. FPCs are to be renamed Family Practitioner Authorities. My only comment is that the section on the management board should make it clear that the chief executive will retain his existing accounting officer responsibility for the HCFS and - presumably - assume this responsibility for the FPS.

12. I think that chapter 10 (working with the private sector) should be dropped. It adds nothing to what has gone before (for example, paragraphs 10.6-10.8 simply repeat points from chapter 5). It contains no new proposals, other than some waffle about partnership.



R B SAUNDERS

*J P M*

*I am attached to the Secretary's legislative min. But let's put have a look @ the MPA suggestion.*

FROM: J P MCINTYRE  
DATE: 20 December 1988

CHIEF SECRETARY

cc PS/Chancellor  
Mr Anson  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Francis  
Mrs Chaplin  
Mr Tyrie  
Mr Call

*Ch/ re x thought wd need to be given to wording. This formulation would be taken as indication that we were definitely planning to freeze CB. Might be better to simply to put CB on same basis as IS - ie CB taken into account but whole benefit level accordingly higher and uprated whether CB is or not. Unless of course*

*The Reform Green/White Paper had lots of knowledge copy on why this a bad thing! hpa.*

CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT

The Chancellor (Miss Wallace's minute of 1 December) has asked whether we should seriously consider formalising the practice of compensating family credit recipients for a child benefit freeze, as a defence against future child benefit increases.

2. I have not of course consulted DSS, but it looks to me as though they could achieve this by amending the Family Credit (General) Regulations of 1987. In other words, primary legislation would not be needed. The powers under which these regulations are made, in the Social Security Act 1986, appear very general. They say nothing about the amounts of family credit or how they are to be calculated; this is left for the regulations.

3. If this is right, DSS could bring forward amendments to the regulations at any time. In practice, they might choose to do so at the same time as next year's uprating orders, if we decided to freeze child benefit again in 1990.

4. An alternative (which might carry more presentational weight) would be to amend the primary legislation itself to provide that the regulations "must compensate for any child benefit freeze."

5. If it is accepted that, in practice, we would not want to exercise the discretion not to compensate given under the existing legislation, then introducing this requirement would have no direct public expenditure cost. And, to the extent that the

X



compensation mechanism became more widely known and understood, it could help us to defend the freezing of child benefit.

6. This is the presentational advantage we would be looking for. But there might also be a disadvantage. At the moment, the compensation can be loosely described as "extra", on top of the prices uprating. The government has to do something to make it happen. Once it became automatic, it might be taken for granted. We might then come under pressure to repeat the 50p real addition to the child credits which has been agreed for next April.

7. I see two other reasons for caution. First, we should be focusing attention on the way in which the child credit rates in family credit are made up. This would be especially so if we chose the route of primary legislation. As already mentioned, this has an advantage in making the compensation mechanism better understood. But it would also provide an opportunity for the general adequacy of the child credit rates to be challenged. For example it might stimulate pressure for additional compensation for the loss of free school meals. £2.55 in compensation for the loss of free school meals was included in the construction of the original (April 1988) child credit rates. But, in future, this component will be uprated in line with the ROSSI (RPI minus housing) index, as a normal part of the child credits and not in line with the actual cost of school meals.

8. The other potential problem is that action on family credit might well generate pressure for income support families also to get the value of any child benefit compensation added on to their child allowances. As explained in my minute of 25 November, the effect of a child benefit freeze on income support families is simply that they get the whole of their prices uprating (by ROSSI); if child benefit is uprated, the amount of the child benefit increase is docked off their income support, leaving them no better off.

9. This different treatment of income support families is defensible. Income support is meant to be enough for families to meet their living costs

(except housing). It is logical that child benefit is taken into account as income in determining entitlements to income support. By contrast, the value of child benefit was deducted from the child credits in family credit when these were created in April 1988. A prices uprating of the child credits does not therefore, on its own, compensate for a child benefit freeze.

10. However, in drawing attention to the compensation issue in the family credit context, we might well stimulate pressure for the income support regulations to be amended in the same way. This would be expensive. For example, an extra 45p per child in income support next year (the effect of the child benefit freeze) would cost roughly £50 million. And we would be increasing out-of-work benefits for families in relation to in-work benefits.

#### Conclusions

11. I think the presentational arguments are in broad balance. The risks on income support persuade me to recommend leaving things as they are.



J P MCINTYRE

SECRET

FROM: R B SAUNDERS

DATE: 21 December 1988

CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Sussex  
Mr Burns  
Mr Call

**NHS REVIEW: DRAFT WHITE PAPER**

At this morning's briefing meeting, I was asked to provide some notes on the content of the proposed value for money chapter, and a line to take on the public expenditure implications of the Review.

**Value for money**

2. We think it is important to give value for money the same prominence as better service to patients in the White Paper. Paragraph 1.3 of the draft foreword does this - rightly, because the two are closely related - but fails to develop the efficiency theme. We need a new chapter on this, following chapter 2, which would include the following points:

- better patient care cannot be achieved unless the staff take pride in their work and feel they are running an efficient service.
- Patients will prefer to receive treatments in hospitals which are seen to be efficiently and well run.

- We therefore need to extract maximum value for money to ensure that the extra resources being made available for the health service are, so far as possible, finding their way into better patient care.
- To this end, a significant theme of the White Paper is how to get people in the health service to feel greater responsibility for the service they deliver to patients, and to get the lines of accountability right.
- So we are going for maximum delegation (forward reference to self governing hospitals and to reforms in hospitals generally in chapter 5).
- Also need to help doctors to take charge of the resources under their command, by giving them the responsibility and freedom to manage (forward reference to chapter 6, and to resource management initiative).

#### Expenditure implications

3. Before the White Paper is finally settled, we must be clear about its likely public expenditure implications. In some areas - like self governing hospitals - we can expect increased expenditure to be offset by improved efficiency. Indeed that is one of the primary purposes of the reforms. But elsewhere - for example information technology - extra expenditure may be inevitable.

4. The Department of Health should be asked to prepare a paper for the Group early in the new year, in consultation with the Treasury, setting out its view of the costs of the package. This needs to take account of the agreement that the 1988 Survey settlement for 1989-90 took account of the NHS Review proposals as they then stood. (In total, there is some £43m, including provision for the RMI.) Our objective would be to resist any bids for further money in 1989-90, and to get later years considered, in the light of competing priorities, in the 1989 Survey.

5.21.12

SECRET

5. When the assessment has been considered, it will need to be agreed what to say about costs at the time of the White Paper. Tactically, I suggest it is right to get this issue considered in the Review Group rather than bilaterally since the Prime Minister will not want the consequence of the Review to appear to be yet another large increase in public expenditure on health.

A handwritten signature in red ink, consisting of several loops and a long horizontal stroke at the end, resembling the initials 'R B'.

R B SAUNDERS

Ch/OK?

FROM: H PHILLIPS  
DATE: 21 DECEMBER 1988

mpw

**CHANCELLOR OF THE EXCHEQUER**

cc: Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Saunders  
Mr Parsonage  
Mr Call

OK  
w  
j

**HEALTH TECHNOLOGY ASSESSMENT**

You asked for a draft letter for you to send to Mr Clarke, copied to all members of the Review Group, asking what plans DOH have to improve their assessments of cost effectiveness in the health technology area.

2. I attach a draft.

(which I have translated into English!

mpw)

HP

**HAYDEN PHILLIPS**

DRAFT LETTER FROM THE CHANCELLOR  
TO THE SECRETARY OF STATE FOR HEALTH

new health technologies.  
The particular case  
study I saw  
covered  
the effectiveness of  
new treatments for  
Chronic renal disease

HEALTH TECHNOLOGY ASSESSMENT

have come Examples of the work  
I recently came across a case study produced by the Office  
of Technology Assessment in the United States, on the  
effectiveness and costs of continuous ambulatory peritoneal  
dialysis. I <sup>found</sup> ~~thought~~ this <sup>an admirably</sup> ~~was a pretty~~ clear and well  
presented piece of work, helpfully free of jargon with the  
minimum of technical explanation.

We are all familiar with the rapid pace of change in health  
technology. It is an international phenomenon, and new  
technologies have undoubtedly made an important contribution  
to improved standards of medical care. But it also seems to  
be a general rule that new technologies cost more than the  
ones they replace. This makes it all the more important  
that these developments are properly evaluated, taking into  
account their costs as well as likely clinical  
effectiveness.

I am aware that health technology assessment is already  
carried out in this country, much of it organised and funded  
by your department. But I wonder if there is scope for a  
better focus than now exists, particularly on cost  
effectiveness. I should accordingly be very interested to  
hear your views on the work and approach of the US Office of  
Technology Assessment and, more generally, on what plans

your department have to improve their assessments of cost effectiveness in this area.

I am copying this letter to the Prime Minister, Peter Walker, Tom King, Malcolm Rifkind, John Major and David Mellor; and to Sir Roy Griffiths, Sir Robin Butler, Professor Griffiths and Mr Whitehead in the No 10 Policy Unit, and to Mr Wilson in the Cabinet Office.





~~Carys Evans~~  
~~Mavis Contribution~~

MP [never  
circled  
and no need  
to!]

DRAFT

NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM  
AT HM TREASURY AT 11.30 ON WEDNESDAY 21 DECEMBER

Present   Chancellor  
          Chief Secretary  
          Sir P Middleton  
          Sir T Burns  
          Mr Anson  
          Mr Phillips  
          Mr Gieve  
          Mr MacAuslan  
          Mr Saunders  
          Mr Parsonage  
          Mr Call

NHS REVIEW: BRIEFING MEETING

The Chancellor said that he was unfortunately not able to stay for much of this meeting, but he hoped the Chief Secretary and others would be able to stay and work through in detail the points Treasury Ministers ought to make at this stage on the White Paper. He had a few general points to feed in. First, he agreed with all the points in Mr Saunders' minute of 20 December, although he attached less weight to Mr Saunders' concern that the passage in paragraph 2.4 failed to explain why the review had been set up in the first place. On structure, the Chancellor said he was quite clear that the chapter on GP Practice Budgets ought to come much later in the White Paper - after those on value for money, self governing hospitals etc. He also had a number of drafting points on the foreword:

- First, there was no contradiction between "building on all that is best in the NHS" and "standing by the principles on which it was founded", so the present second sentence of paragraph 1.2 ought to be split into two.

- The next sentence of paragraph 1.2 should be redrafted, to avoid a trap. It should read: "Our health service must continue to be available to all, regardless of income, for the most part free at the point of delivery, and financed largely out of general taxation."

2. On issues of substance, the Chancellor noted the progress that had been made bilaterally with the Department of Health on GPs drug budgets, and control of GP numbers. The Chancellor said he still saw attractions in being more direct with the doctors and dentists review body, by taking a view on the "right" list size for the "average doctor" whose remuneration the review body aimed to deliver. To avoid controversy, we could simply use the present average list size.

3. The Chief Secretary reported that the two sides were still fairly far apart on the question of GP practice budgets. We would be producing a short statement of the outstanding areas of disagreement. The note should make clear that there were very real problems of propriety and practicality. In particular, it should bring out the ways in which the proposal failed to "make the money follow the patient". A system of performance related pay for opting out GPs might be more acceptable, but there was now very little time in which to work up a proposal before publication of the White Paper.

MOIRE WALLACE  
21 December 1988

From PROFESSOR IAN McCOLL

Department of Surgery.  
Guy's Hospital.  
London. SE1 9RT  
01-407 7600 Ext. 2390

12 Gilkes Crescent.  
Dulwich Village.  
London. SE21 7BS  
01-693 3084

MP

*Handwritten red scribbles*

IMcC/GRC

21st December 1988

Mr H Phillips  
The Treasury  
Whitehall  
London SW1

*Handwritten red scribbles*

Chief Secretary

c. PS/Chancellor  
Mr Savulescu  
Mr Lawson

*Here's a bit of  
practicality from  
DyS (1988). Although  
we ought to distinguish  
between central  
monitoring and central  
control.*

*HP. 21/12.*

Dear Hayden

Thank you for the splendid lunch and for the interesting discussion about the NHS, I enjoyed it very much.

I would dearly like to see the problem of the waiting lists solved. I feel sure they could be reduced below half a million within a year if the relevant data were collected monthly from each hospital indicating the number and type of operations done, the number of surgical sessions and staff employed, the number and content of the waiting list for operations and details of waiting times to be seen in clinics. This would not involve much work as the details could readily be gathered by xeroxing the content of the theatre record books where the names of the surgeon and the operations are recorded. Confidentiality would not be a problem if the information was sent to a small central office in London in the charge of a doctor. Once it was known that the problem was being scrutinised, I am sure it would cease to loom so large on the horizon.

Yours sincerely

*Ian*

Ian McColl

17  
136

MP

FROM: H PHILLIPS

DATE: 22 December 1988

MR SAUNDERS

cc Chancellor  
Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mrs Lomax  
Miss Peirson  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Sussex  
Mr Burns  
Mr Call

**NHS REVIEW: DRAFT WHITE PAPER**

Three comments on your note of 21 December.

2. The first, which I have already mentioned to you, is that in either the vfm chapter or somewhere else we should try to inject the supply/demand analysis of healthcare which the Chancellor put to the Prime Minister and other members of the review group. If my recollection is right this analysis would help to explain why a review of the supply side of healthcare was necessary.

3. Second, Mr Anson and I think it would be sensible to weave into the vfm chapter our approach to handling the expenditure implications of the White Paper.

4. Third, that way of approaching the expenditure implications would, I judge, be better than tackling it in the way you suggest in paragraph -5 of your note. It is conceivable that if DoH put a paper on costs to the Review Group the Prime Minister might rule it out, this cannot be certain, and any such list of bids, even if rejected in the short-term, would gain a status which purely bilateral consideration of the detail would not have. And territorial Ministers would be quick to move in with their own list.

SECRET

5. Now we are charged with crafting the vfm chapter our task in handling expenditure implications is made easier. We still need to specify possible detailed estimates with DoH but they should be set in the context of the general approach, rather than themselves dictating it.

HP.

HAYDEN PHILLIPS

4.22.12

SECRET

MP

CHIEF SECRETARY

FROM: R B SAUNDERS

DATE: 22 December 1988

cc ~~Chancellor~~  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Gieve  
Mr MacAuslan  
Mr Parsonage  
Mr Richardson  
Mr Sussex  
Mr Burns  
Mr Call

**NHS REVIEW WHITE PAPER**

Following the cancellation of the meeting arranged for this afternoon, I attach as agreed a draft letter for you to send to Mr Clarke. It incorporates the main points recorded in Miss Evans' note of yesterday. I will put the others in the detailed letter I am sending to DoH officials.



R B SAUNDERS

DRAFT LETTER FROM CHIEF SECRETARY TO

Secretary of State for Health

**NHS REVIEW WHITE PAPER**

It may be of assistance to you to have the main comments which the Chancellor and I had intended to make on the first draft, had the meeting arranged for today not had to have been cancelled. My officials will be writing separately to yours with some further detailed drafting points.

2. In general, we felt the draft was a useful start. But we have some doubts about the way that the main message is presented. There are two general points. First, we need to be quite clear whether we are presenting the reforms as a fundamental change to the system, or as a continuation of the evolution that has taken place over the last five years or so. Both chapter 1 and the opening paragraphs of chapter 12 are ambiguous on this point. Our view is that the proposals amount to very significant reform indeed, and that it would be best to present them as such, particularly after a review which has taken us a year to complete.

3. Secondly, the draft needs to put patients first. This comes across most clearly in chapter 2, the order of which suggests that running the NHS more like other businesses and giving management the freedom to manage are more important than patient care. We must make it clear that the White Paper is primarily for the benefit of patients, and not primarily for the benefit of NHS managers.

4. Chapter 1 (Foreword) should begin by explaining why the Review has come about: that it is the consequence of the success of the NHS in meeting people's needs by providing ever more advanced services and treatment to more and more patients. As a result, the service has grown, with more doctors and nurses, more equipment, and so on. The Government has made available large and increasing sums of money to meet the costs. It is this growth which has placed the system under increasing strain and has led many people to question the way the service is organised and delivered. It could then go on, as paragraph 1.3 does, to set out the objective of a more efficient and responsive service.

5. In general, we think this chapter could be in rather more personalised terms than at present. On a couple of detailed points, if paragraph 1.2 is retained, the second sentence should be split into two unrelated statements, while the third sentence should refer to a service which is mostly free at the point of delivery and financed largely out of taxation.

6. If these proposals for chapter 1 are accepted, the first 4 paragraphs of chapter 2 (Delivering a better service) could be dropped. We think the final section of this chapter should be brought to the front (and that it should talk about patients, not "customers"). What is now paragraph 2.14 should contain positive proposals for dealing with waiting times, and not end just by saying that the problem remains. At present such proposals are buried in chapter 7. Paragraph 2.15 also deserves more prominence.



7. We were not sure what was added by paragraphs 2.5-2.7, and, since the message here may be open to misinterpretation, they might best be dropped. Paragraph 2.9, like other parts of the White Paper, gives too much prominence to GP practice budgets since, even if we decide to go ahead with them, they will cover no more than 2% of NHS expenditure, and probably a lot less. The proposals in respect of hospitals are much more important.

8. We think that chapter 2 should be followed by a new chapter on value for money. We will circulate a draft before the meeting arranged for 5 January.

9. We are to discuss the substance of chapter 3 (Practice budgets) separately. But irrespective of the outcome of that, it would be better to take this issue after chapters 4-7 on hospitals.

10. My officials will be giving yours detailed comments on chapters 4-9. I will mention only a few specific points.

a. Is it right to refer to "leaner and fitter" regions in chapter 5? The scope for removing functions cost-effectively is not demonstrated in paragraph 5.8, while proposals elsewhere in the White Paper will give them a lot of new tasks.

b. The drafting of chapter 7 needs to be looked at again. At present, it is rather unclear and obscure.

c. I was unclear about the reasons for changing the name of FPCs. Will the proposed new name not cause confusion with the Family Planning Association?

d. I thought the title of chapter 9 "Better decision making" was unfortunate since one of the main proposals involves removing many of our supporters from health authority membership.

11. Chapter 10 (Working with the private sector) does not seem to contain any proposals which are not made elsewhere, notably in chapter 5. This repetition should be removed.

12. Chapter 12 (Summary and timetable) should confine itself to just that. The first five paragraphs, if they are to be retained, are really for the Foreword.

13. I am sending copies of this letter to the Prime Minister, the Secretaries of State for Scotland, Wales and Northern Ireland, Sir Roy Griffiths, and Mr Wilson (Cabinet Office).

*Handwritten red scribbles and initials.*

FROM R P CULPIN  
DATE 22 DECEMBER 1988

*Handwritten red initials 'RR' with a checkmark.*

CHANCELLOR OF THE EXCHEQUER

*Ch*  
*Another letter with J Moore?*  
*Or do you want to write?*

NICs

*Handwritten initials 'AA' with a checkmark.*

There is nothing new in the papers John Moore gave you.

2. Essentially, there are two things wrong with NICs:

(a) the steps;

(b) the rate.

You ought to reduce both - but only in a year when, say, you are taking a penny off and have money to spare.

3. In the meantime, I am against tinkering.

4. I agree that it sounds sensible to use a Social Security Bill to drain money from the National Insurance Fund into health.

5. As to the UEL, I think it well worth exploring whether Mr Moore is definitely prepared to abolish the rule that it has to be 6½-7½ times the basic pension. That would give us flexibility, and flexibility must be a good thing.

6. But at the risk of sounding churlish, I should be a little suspicious of his Department's motives. They may well see earnings-indexation of the LEL and UEL as a Trojan horse to help get earnings indexation of the basic pension. And even if you see that off, earnings indexation of the UEL would still have a public expenditure cost, because the state would end up paying higher SERPS. The DSS briefs omit to mention this as a "con". They offer only the "pro" that earnings indexation of the UEL "allows SERPS contribution to be protected".

7. Quite what our long term policy for the UEL should be is an interesting question. I rather like the line in paragraph 80 of my paper for Dorneywood (attached). That turns in part on allowing the UEL to fall in relation to earnings (but not of course in relation to prices), so that the state draws back gradually from paying earnings related pensions to people who are reasonably well-off.

8. I do not mean for a moment that we should freeze the UEL in real terms for all time. If we had some flexibility, the UEL could be a useful source of revenue in some years; and in any case, I do not think it realistic to suppose that it could just go on falling in relation to earnings for ever and ever (any more than the basic pension). But I do think that the Establishment tends to be obsessed with the kink, and so to assume too automatically that jacking-up the UEL must obviously and always be the right policy.

9. Anyway, none of this is for the Budget. We have already set the UEL for 1989-90, (and probably produced a few net tax-and-NIC losers in the process). There is no point whatever in fiddling about with it.



ROBERT CULPIN

79. By about the same time - 2070 or thereabouts - someone working for around average earnings would be allowed only half as much tax relief on his pension contributions as would otherwise have been the case.

80. So Government policies would be bringing about major shifts in the provision of pensions.

- The social security reforms will encourage people to make more private provision, because both the basic state pension and SERPS will come to be less generous in relation to earnings.
- The 1989 tax reforms will limit the tax relief available on this higher private provision.
- They will also encourage people, at the margin, to switch their private provision from occupational to personal pension schemes.

81. If you want a quicker impact on the worst abuse, you could tilt the balance within occupational schemes away from the tax free lump sum, by under-indexing the cash limit on it. If, for example, it were indexed on average every other year, and so kept pace with only half the increase in prices, it could come to affect people retiring on average earnings after (say) 35 years instead of 80 years if fully indexed.

82. By 2070:

- it would then be roughly a fifth of average earnings, compared with one and a half times if the limit were fully indexed
- this could make a difference of over £5 billion, in today's prices, to the cost of tax relief on the lump sum.

## QUOTATIONS/REPRESENTATIONS ON NIC REFORM

### Trevor Holdsworth

(At Conference on Work and the Family on 2 March; reported in FT 3 March)

Sir Trevor said that 'if the national insurance lower earnings limit operated so that part-timers earnings more than £41 a week paid contributions only on pay above that amount, it would end a "serious disincentive" to work.'

### Institute of Directors Budget representations

"[The steps are] an extreme form of the poverty trap ... since an employee who accepts a pay increase of £1 pays substantially more than this in additional national insurance contributions ... We believe that a significant cost is worth paying for this [reform], since a move to the "slice basis" of charging national insurance contributions is one of the best-targeted means of relieving the tax burden on the lower paid."

### TUC Budget representations

"[The current NIC system] penalises low paid workers with very high "marginal" tax rates. ... A worker who earned £1 more than the lower limit of £43 ... would be liable for over £2 in NICs. Similarly, someone earning £110 a week who got a pay rise of £10 would find their national insurance contributions jump from £8.25 to £10.80, so losing over £2.60 from the pay rise. ... As a result ... gross earnings are heavily concentrated just below the national insurance earnings limits. ... National insurance contributions are clearly in need of urgent reform."

John Smith's statement to the Shadow Cabinet, 8 March

"Below [the LEL] national insurance is not paid. But as soon as an employee gets above the limit, he or she has to pay a contribution on the whole of their earnings. If he or she earns £44, the liability is immediately over £2 per week. ... the Chancellor should make a significant reform of the national insurance system by changing the lower earnings limit into an allowance so that national insurance contributions were paid only on the excess of income over £43. ... it would end the temptation to "bunch" wages at just below £43 ... and remove a serious poverty trap for lower wage earners."

Ch

OK? I suspect major flaw may be eligibility for personal pensions (essentially only those not in occupational schemes, whereas may be no such restriction in France). Will try to find answer AM, but

OK to gloss over this point?

AT

LOI MONORY

Loi Monory itself didn't last long

introduced in 1978

relief at marginal rates

invested in French equities or unit trusts

clawed back if sold within 5 years

scrapped in 1983

after criticism mainly benefit to rich

new scheme introduced

similar, but with flat-rate tax credit of 25%

new scheme scrapped in 1988

now further two new schemes

essentially personal pensions plus BES

'personal pension' scheme similar to UK one

relief at marginal rates, tax-free build up,

tax-free slice but bulk of pensions taxable

tax-free slice slightly more generous in French scheme

28% vs 25% in UK, and higher if pension taken later

'BES' scheme also similar to UK equivalent

front-end relief, for investment in new businesses,

clawed back if sold within 5 years

but French scheme gives only 25% flat-rate relief,

whereas BES gives relief at marginal rates

French limits very much less generous than UK ones

only £600 for Loi Monory

same for successor (double for couple)

now £750 per person for personal pension equivalent

and £950 per person for BES equivalent

(again, both double per couple)

Compare with UK (post Budget)

new contribution limits for personal pensions

ranging from 17½% to 35% of earnings, depending on age

(around £2,000 to £4,000 for someone on average earnings)

BES limit of £40,000

and new PEP limit of £4800 as well.



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## Themes for Lobby

Prudence and caution but continuing reform

Monetary policy key to anti-inflation

but right to support with sound fiscal policy

none sounder than ours

will have repaid one sixth net public sector debt etc

Features of 1988:

Rapid growth

Investment boom - business investment up 14½%

Inflation worldwide

All the signs are spending is slowing down as required

growth forecast at 2 per cent through the year

inflation to peak shortly but then fall steadily

current account last to turn round

Decided priority for this year should be reform of NICs

abolish steps

most people £3pw better off

means no cuts in income tax this year

but 20p objective remains

Lots of other important changes

abolition of pensioners' earnings rule - 1979 manifesto

new incentives for unleaded petrol - 3rd year in succession

some 'slow-burners' rather than headline-grabbers

improved incentives for wider share ownership

a package of changes to the tax treatment of pensions

reform of the taxation of life assurance companies

abolition of COBO and the queue [not 60's pop group!]

Sum up

cautious Budget, but reform continues

NICs cut, yet massive debt repayment

## MISCELLANEOUS DEFENSIVE-TYPE POINTS

### Pulls some rabbits out of the hat

Substantial reform of NICs - much more than the tinkering  
'expected'

[Took priority over widely-expected over-indexation of allowances  
or 1p off basic rate]

[Excise duty freeze - right this year not to add to inflationary  
expectations]

Significant changes in taxation of pensions

[Abolition of CGT gifts relief]

### Not a Budget dictated by No 10

Broad shape decided at Dorneywood

Doesn't include items PM alleged to have pressed on Chancellor

No over-indexation of thresholds

No change in MIR ceiling etc

No 1p off because right to give priority to NIC reform this year

### Not a repudiation of last year's Budget

All last year's measures stand

Vital supply side reforms, of lasting benefit

20p objective remains

but right to give priority to NIC reform this year

Clear that fiscal policy very tight in 1988-89

surplus now put at £14bn, versus £3bn in 1988 FSBR

Right to continue with prudent fiscal stance in 1989-90

## Not a boring Budget

Inevitably not as dramatic as last year's.

But who can call a Budget boring when it announces

repaying £28 billion of the national debt this year and next  
a major reform of national insurance contributions of benefit  
to all working people

a host of important other measures

abolition of pensioners' earnings rule

new duty concessions for unleaded petrol

boost for PEPs and significant additional incentives  
for employee share schemes

significant improvements to personal pensions as part  
of package of changes to taxation of pensions

reform of life assurance taxation

Compare that with most past Budgets

## What next?

You've been asking me this ever since last year's Budget  
Time to give it a rest

① cc Mr Phillips  
② BF ~~16/1~~ 23/1



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

BF  
23/1

23 December 1988

Rt Hon Kenneth Clarke QC MP  
Secretary of State for Health  
Richmond House  
Whitehall  
London SW1

cc CST  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Saunders  
Mr Parsonage  
Mr Call

BF 6/2

Dear Secretary of State,

**HEALTH TECHNOLOGY ASSESSMENT**

We are all familiar with the rapid pace of change in health technology. It is an international phenomenon, and new technologies have undoubtedly made an important contribution to improved standards of medical care. But it also seems to be a general rule that new technologies cost more than the ones they replace. This makes it all the more important that these developments are properly evaluated, taking into account their costs as well as likely clinical effectiveness.

I have recently come across examples of the work produced by the Office of Technology Assessment in the United States, on the effectiveness and costs of new health technologies. The particular case study I saw covered new treatments for chronic renal disease. I found this an admirably clear and well presented piece of work, helpfully free of jargon and with the minimum of technical explanation.

I am aware that health technology assessment is already carried out in this country, much of it organised and funded by your department. But I wonder if there is scope for a better focus than now exists, particularly on cost effectiveness. I should accordingly be very interested to hear your views on the work and approach of the US Office of Technology Assessment and, more generally, on what plans your department have to improve their assessments of cost effectiveness in this area.

I am copying this letter to the Prime Minister, Peter Walker, Tom King, Malcolm Rifkind, John Major and David Mellor; and to Sir Roy Griffiths, Sir Robin Butler, Professor Griffiths and Mr Whitehead in the No 10 Policy Unit and to Mr Wilson in the Cabinet Office.

Yours sincerely,  
Muir Wallace

PP NIGEL LAWSON  
(Approved by the Chancellor and signed in his absence)

BF 12/11 13/1



FROM: MISS M P WALLACE

DATE: 30 December 1988

PS/CHIEF SECRETARY

- cc Mr Anson
- Mr Phillips
- Mrs Lomax
- Miss Peirson
- Mr McIntyre
- Mr Francis
- Mrs Chaplin
- Mr Tyrie
- Mr Call

~~12/11~~

Duncan  
to read if  
you care  
+ chase #y

pl recirculate to all,  
to note correction of  
"deliberate mistake" at x.  
Sorry!

mpw.

**CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT**

The Chancellor has seen Mr McIntyre's minute of 20 December.

2. He comments that, at first blush, the secondary legislation route is attractive. However, he also thinks that we should consider carefully the precise wording of any amendment to either primary or secondary legislation: to say, in terms, that the regulations must compensate for any child benefit freeze would be taken as an indication that there were definite plans for a freeze. The Chancellor wonders whether it might not be better simply to put <sup>family credit</sup> child benefit on the same basis as income support, ie child benefit would be "taken into account" in calculating FC, but the whole level of family credit would be accordingly higher, and would be uprated whether child benefit was or not. This approach would also have the advantage that it would be manifestly even-handed between IS and FC recipients, and might therefore avoid the IS repercussions described in Mr McIntyre's minute.

X |

3. The Chancellor would be grateful for views on this approach; and in particular he would like to be reminded of the rationale that was given, at the time of the reforms, for the different treatment of child benefit in FC and IS.

7 |

mpw.

MOIRA WALLACE





DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister of State for Social Security and the Disabled

The Rt Hon John Major MP  
Chief Secretary to the  
HM Treasury  
Parliament Street  
LONDON  
SW1

TREASURY CHIEF SECRETARY	
REC.	- 5 JAN 1989
ACTION	Mr McIntyre
COPIES TO	Cr. F.S. Sir Piddleton, Mr Anson, Mr Culpin, Miss Pearson McCall

4 January 1989

*Dear John,*

NATIONAL INSURANCE CONTRIBUTIONS - RERATING 1988/89

As you know, John Moore has announced the main changes we will be making to National Insurance contributions (NICs) next April. We now have to agree on the rates for those groups of workers whose contributions have been modified to take account of special circumstances.

Two changes I propose stem from the reduction in unemployment and the resulting cost of unemployment benefit. The groups of contributors affected by this are Armed Forces and share fishermen.

\*The Armed Forces pay a specially rebated rate of NICs to take account of their statutory exclusion from certain benefits, notably unemployment benefit. According to the Government Actuary, the fall in unemployment should lead to a reduction in the rebate given to employees of 0.15 per cent (from 0.80 per cent to 0.65 per cent) and the same for employers (from 0.85 per cent to 0.70 per cent). This would of course lead to increases of these percentages in the NIC rates. The estimated additional contribution income from these changes would be of the order of £12m - £6m from employees and £6m from MOD.

\*The fall in unemployment affects share fishermen - of which there are some 10,000 - in the opposite way. Their special self-employed rate of NIC is increased to take account of their entitlement to unemployment benefit and Industrial Injuries Benefit. Currently the special rate is £6.55 a week compared to the normal self-employed rate of £4.05 a week the Actuary estimates that to take account of the change in unemployment levels the special addition should be reduced to £1.55 a week. Added to the new rate for 1989/90 of £4.25, the share fishermen rate would be £5.80 a week. The estimated reduction in NIC income from this would be nearly £400,000 in 1989/90.



**E.R.**

\*Earlier in the year we agreed that a change should be made in the special rate of NICs paid by Volunteer Development Workers. This was agreed between our officials. This would mean a reduction in the current rate of £6.55 a week to £4.30. The revenue implications of this are minuscule in terms of Fund income and would amount only to £180,000 at most in 1989/90.

All the above changes are usually introduced by regulation subject to negative procedure, although legal advice is that the change to share fishermans rate will need to follow the affirmative procedure. If you agree, perhaps we could leave officials liaise on timing.

I am copying this to Archie Hamilton, John Patten, Ian Stewart.

*Yours truly*

*Nicus.*

NICHOLAS SCOTT

PWP



FROM: J M G TAYLOR

DATE: 5 January 1989

MR CULPIN

*Put on public for meeting  
tomorrow w Mr Moore*

*[Handwritten initials and scribbles]*

NICs

The Chancellor was grateful for your note of 22 December. He agrees with your conclusions.

- 2. He will have a further bilateral discussion with Mr Moore.

*[Handwritten signature]*

J M G TAYLOR



→ Duncan  
→ Johnathan  
Prof

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

George Farnham Esq DL  
Chairman  
Leicestershire Health Authority  
20-28 Princess Road West  
Leicester  
LE1 6TY

January 1989

John Gray

Thank you for your letter of 11 January on behalf of the  
Leicestershire Health Authority.

I can assure you that your representations about excise duty on  
tobacco will be carefully considered in the run-up to the Budget.  
However, I hope you will understand that it would be inappropriate  
for me to comment further at this stage.

Yours  
Nigel Lawson

NIGEL LAWSON



**Inland Revenue**

Personal Tax Division  
Somerset House

FROM: MISS R A DYALL

DATE: 10 JANUARY 1989

FINANCIAL SECRETARY

**CHILD CARE: MINISTERIAL GROUP ON WOMEN'S ISSUES**

*The only [unclear] from [unclear] that it is [unclear] that, if we [unclear] attract [unclear] children, the [unclear] in [unclear] to pay [unclear] more, what [unclear] tax [unclear]*

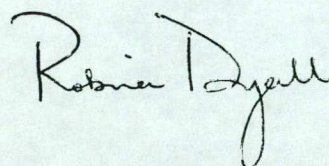
1. My note of 16 December mentioned that the Home Office had suggested a factual paper on the tax treatment of child care for the next meeting of the Ministerial Group on Women's Issues (now confirmed for 16 February). Since then we have received a formal request for this paper which is one of five commissioned from various departments about different aspects of child care.

2. The officials on the Group are to meet in mid January and first drafts of the papers are to be made available for that meeting. The Home Office may then produce a covering note drawing the different issues together. Departments have been asked to prepare papers on a common format with recommendations for the Group to consider. A draft of the paper on tax is attached. Some items have been included at the specific request of the Home Office, for example, the comparison with company cars which has been made by representative bodies.

- cc Chancellor of the Exchequer
- Chief Secretary
- Paymaster General
- Economic Secretary
- Mr Culpin
- Mr Gilhooly
- Miss Hay
- Mr Knight
- Mrs Chaplin
- Mr Tyrie

- Chairman
- Mr Painter
- Mr Lewis
- Mr Mace
- Mr Massingale
- Mr Elliott
- Mr Keith
- Miss Dyall
- Mr Evershed
- PS/IR

3. It would be helpful if you could confirm at this stage that you, (and the Economic Secretary who will present the paper at the 16 February meeting), are content with the approach we have adopted and the line taken on the tax policy issues involved.

A handwritten signature in cursive script, reading "Robin Dyall". The signature is written in dark ink and is positioned above the typed name.

MISS R A DYALL

## THE TAX TREATMENT OF CHILD CARE

1. This paper describes the tax treatment of child care in the context of the Government's wider tax policy. It also examines proposals which are sometimes made for changes in the tax treatment and the Government's response. The paper is divided into two sections: the first dealing with the tax position of employers, the second with that of parents.

### EMPLOYERS

2. An employer who provides child care for his employees' children can get tax relief for his day to day expenditure (see paragraphs 3-4 concerning capital expenditure). This applies whether the employer gives employees a cash allowance, or meets the fees for a place in a private nursery or with a child minder, or provides the care directly through a workplace nursery or playscheme. Relief is given by allowing the employer to deduct the expenditure in working out his profits for tax purposes. Where the employer operates a nursery or playscheme all the day to day running costs are deductible. These include rent, rates, heating, lighting, the wages of the staff, food, toys and play equipment.

3. An employer who sets up a workplace nursery can also get tax relief under the capital allowance system for his capital expenditure. These are allowances given in substitution for commercial depreciation charged in business accounts. Allowances are available for the cost of equipping a workplace nursery with "plant and machinery". These allowances cover a wide range of items which would include central heating, washing facilities, cooking facilities (such as a

cooker or microwave oven), other kitchen equipment (such as a fridge) and the more durable kind of play equipment.

4. The costs of constructing or acquiring commercial buildings do not normally come within the capital allowance system. However, if an employer is carrying on a trade in the industrial sector, industrial buildings allowance may be due for any capital expenditure he incurs on the construction of a building or the acquisition of an existing building, including any which are used as a nursery for his employees' children.

5. Formerly allowances were available which gave immediate relief for the whole of any qualifying capital expenditure on plant and machinery and a substantial part of qualifying capital expenditure on industrial buildings. These allowances were, for the most part, phased out of the capital allowance system over the period to 31 March 1986 as an essential part of the Government's programme of business tax reform launched in 1984. The purpose of these reforms has been to create a more neutral system, based on significantly lower rates of tax and allowances for depreciation at rates more closely linked to commercial reality. One result will be to ensure that the pattern of capital expenditure by businesses is no longer unduly distorted by tax considerations.

#### PARENTS

6. Under present tax rules there is no tax relief for parents on the cost of child care. This applies whether the parent is male or female, married or single, employed or self-employed.

7. Certain items of expenditure which an individual incurs in connection with a job can be deducted in arriving at the amount of their earnings for tax purposes. But the tax system distinguishes between expenses which put a person in a position to work and those which are incurred in actually doing a job for an employer or carrying on a trade or profession. The latter are tax deductible, the former, which are personal expenses, are not. For example, in order to work a person may have to travel to the place of employment, wear more formal clothes or take meals away from home at greater expense; but the costs of the home to work travel, clothes and meals do not normally qualify for tax relief. Child care costs are personal expenses of the same kind and similarly do not attract relief. Examples of the expenses which do qualify for relief are those incurred in travelling in the course of a job and the cost of text books provided by teachers. The expenses rule for employees is very strict and has been interpreted fairly narrowly by the Courts so that allowable expenses (beyond those reimbursed by employers) are exceptional.

8. It is sometimes suggested that tax relief should be available for child care expenses in order to encourage those with children (particularly married women) to take employment.

9. Some working parents do face problems in arranging child care; but a special tax relief for the costs they incur is not an appropriate response. The Government's view is that there is no case for treating these expenses differently from all the other expenses which people have to meet to enable them to work. To do so would also be inconsistent with the Government's wider tax policy of looking critically at special tax



reliefs with a view to broadening the tax base and allowing reductions in the rates of income tax. Lower tax rates themselves improve the incentive for everyone, including those with children, to work. There are also other considerations. At a practical level the multiplicity of arrangements for child care mean that a relief based on actual expenditure in each case would be extremely expensive, if not impractical, to administer. A flat-rate allowance, unrelated to actual expenditure, would be cheaper to administer but on either basis the tax revenue forgone would be very substantial. As an illustration, an allowance of £35 per week for each family with a child or children under 5 where the mother is currently working would cost about £350 million. All this cost would be incurred in giving relief to parents already in jobs before there was any effect in terms of stimulating an increase in the labour supply.

#### Employer-provided child care

10. Where an employer meets child care expenses on behalf an employee a tax charge will normally be made. If the employer simply pays a cash allowance to the employee that allowance is taxed as part of the employee's pay. The fact that the money is earmarked for a particular purpose makes no difference to its tax treatment. Similarly where an employer

- funds child care arrangements contracted by an employee with a nursery, childminder or nursery;
- gives vouchers exchangeable for child care services;

the employee is taxed on the payment made by the employer.

11. If an employer provides child care

- through a workplace nursery or playscheme;
- by contracting directly with a nursery, childminder or nursery to look after an employee's child or children;

the employee receives a benefit-in-kind which is taxed under special rules. Tax is charged on benefits-in-kind where the employee's salary, including the value of the benefit, is £8,500 per annum or more. Tax is paid on the value of the benefit measured as the cost to the employer of providing it. Where an employee makes some contribution towards the cost the taxable benefit is reduced by an equivalent amount.

12. The Government prefer employers to pay their employees in cash rather than in kind. However where payments in kind are made the general policy is that the full value should be taxed. There can be little doubt that the provision of child care in any of the ways described above is a valuable benefit to employees and there are no persuasive arguments for treating it differently from other benefits.

13. A few benefits are not taxed because of particular difficulties in applying the special rules to them. For instance

- some are excluded on a de minimis basis;
- others are excluded because of difficulties of compliance for employers

or of enforcement for the Inland Revenue.

There are also very limited exemptions of long standing which for historical reasons it would be difficult to withdraw.

14. Some groups with an interest in child care have called for the tax charge on the benefit of employer-provided child care to be lifted. The Government have resisted this proposal on the following grounds:

- i. all benefits-in-kind should in principle be taxable and in practice tax in is charged in the vast majority of cases;
- ii. the benefit of a workplace nursery can be substantial; (up to £2,500 p.a. or more in London). The benefit can be quantified so there are no administrative grounds for exemption;
- iii. basic rate taxpayers pay only £25 in tax on every £100 of child care provided free by employers. They also gain intangible benefits such as convenience and better quality care by professionally qualified staff. Parents who do not receive this benefit-in-kind have to pay the whole cost of child care themselves out of taxable income. It would be unfair to tip the balance further in favour of the parent receiving the benefit of employer-provided child care;

- iv. it would be wrong to exempt from tax child care provided as a benefit-in-kind when equivalent cash contributions by employers towards an employee's child care expenses are taxable.

15. Comparisons are sometimes drawn between the treatment of employer provided child care and company cars. As a benefit-in-kind company cars are taxed in a special way. The variety of cars provided for employees and the different mixes of private and business use make it impracticable to calculate the value of the benefit (as the cost to the employer) individually in every case. To overcome this difficulty the benefit of a company car is taxed according to a scale of charges based broadly on engine size with some adjustment in cases of negligible and very substantial business use. The Government recognise that these scale charges have historically been fixed at a level less than the full value of the benefit of the use of a company car and that this has led to under taxation. Government policy is to increase them to a level approximating more closely to the real value of the benefit. In recent years they have been raised substantially - in 1988 by 100 per cent. The remedy for any remaining disparity in the tax treatment of child care benefits as compared with company cars is fully to tax the benefit of a company car, not to exempt the benefit of child care.

#### The £8,500 threshold

16. It is a long standing feature of the personal tax system that employees are taxed on benefits-in-kind only where their salaries, including the value of the benefits, exceed a certain level. This has several undesirable

effects. In particular it creates for the lower paid a difference in tax treatment depending on whether they are paid in cash or in kind. This encourages the payment of benefits-in-kind rather than cash payments. It also creates a tax 'cliff' where a small increase in pay can cause a large increase in tax. The threshold was never part of an explicit policy of exempting those on low incomes. Before benefits in kind became more widespread in the 1970s it was exceptional for someone earning less than the threshold to receive them.

17. The threshold has remained at £8,500 since 1979 but is reviewed every year in the run up to the Budget. Government policy is now deliberately to allow the threshold to "wither on the vine". The vast majority of employees receiving benefits-in-kind are already taxed on them and the eventual intention is to abolish the threshold altogether. This is consistent with the policy objective of taxing benefits generally on their full value so as to reach a position of neutrality between the taxation of payments in cash and payments in kind. It is sometimes suggested that the threshold should be raised across the board or, exceptionally, for a particular benefit alone. Either of these proposals would clearly defeat the Government's wider objectives.

#### CONCLUSIONS

18. The tax system already gives employers tax relief on much of the cost of providing child care for their employees' children. However there is some doubt about how well the present provisions are known and some of the published material available on the subject (for example, The Working Mothers' Association's "Employer's Guide

to Childcare") is misleading. There is a case for some publicity to clarify the position, but employers will not play a greater role in the provision of child care unless they are persuaded that it is in their interests to do so. Recent contacts between officials on the Group and representatives of the Confederation of British Industry suggest that employers have yet to be convinced of this.

19. Personal expenditure by an individual on child care is dealt with in the same way as other expenses which put a person in a position to work. The benefit-in-kind of employer provided child care is taxed in the same way as benefits generally. This tax treatment is not intended to provide either an incentive or a disincentive for married women to work. It is in line with Government policy which has been to allow married women freedom of choice about working outside the home and not either to encourage or discourage them from taking up paid employment or self employment. There is no evidence to support the argument sometimes advanced that the tax treatment of child care is a barrier to married women's employment. Statistics show a steady increase in the number of married women working outside the home.

#### Recommendations

20. It is recommended that the Ministerial Group should

- i. endorse Government policy on the tax treatment of child care in the context of wider tax policy objectives;

- ii. consider, as part of any package of measures intended to encourage employers to take a greater role in the provision of child care, further publicity for the tax reliefs available to them.

Mr Scott  
PWP  
13/11

FROM: P FRANCIS  
DATE: 13 January 1989

- 1. MR MCINTYRE
- 2. CHIEF SECRETARY

- cc **Chancellor** 12/2  
 Financial Secretary  
 Mr Anson  
 Mr Phillips  
 Miss Peirson  
 Mr Bonney  
 Mr Fox  
 Mr Hansford  
 Mr Macpherson  
 Mrs Chaplin  
 Mr Tyrie  
 Mr Call

**NATIONAL INSURANCE CONTRIBUTIONS - RERATING 1989-90**

Mr Scott wrote to you on 4 January proposing new NICs rates for some of the groups of workers whose contributions are modified to take account of special circumstances.

2. Two of the three groups involved are affected because of the reduction in unemployment:

(i) the Armed Forces pay a reduced rate of NICs because of their statutory exclusion from certain benefits - particularly unemployment benefit. The fall in unemployment reduces the rebated element in their NICs, so that employees' and employers' contributions need to be increased by 0.15 per cent. (The effect on a Private's pay is a loss of around 20p a week.) The yield in 1989-90 is estimated at £12 - £6 million from employees and £6 million from MOD.

(ii) share fishermen have a special self-employed rate of NICs, currently £6.55 compared with the normal self-employed rate of £4.05. The extra £2.50 covers their entitlement to unemployment benefit and industrial injuries benefit. Accounting for the reduction in unemployment, the Government Actuary estimates that this supplement can be reduced to £1.55 in 1989-90, bringing the new rate for share fishermen to £5.80 (the new standard self-employed rate for 1989-90 being £4.25). The resulting reduction in NIF income in 1989-90 is estimated at nearly £400,000.



3. The third group, voluntary development workers, pay a current NICs rate of £6.55. Following representations from the VSO, who pointed out that many of these workers earn less than the lower earnings limit, it is proposed that their NICs rate should be reduced to 10 per cent of the LEL - £4.30 for 1989-90. (The 10 per cent figure is based on the combined Class 1 NIC rate for employees and employers.) The reduction in NIF income in 1989-90 is estimated at no more than £180,000.

4. DSS had prior discussions with MOD at official level on the proposed changes in the Armed Forces rates and objections seem unlikely - and certainly not sustainable with their current underspend. You approved a 0.1 per cent increase in the Armed Forces NICs rates last year to account for the loss of their rebates following zero-rating of the Employment Protection Allocation - the NIF allocation to the Redundancy Fund.

5. We recommend that you write to Mr Scott agreeing his proposals. An early response might help to forestall the possibility of any MOD objections.

6. A proposed draft reply is attached.



P FRANCIS

**DRAFT LETTER TO:**

Nicholas Scott, MP

Minister of State for Social Security and the Disabled

**NATIONAL INSURANCE CONTRIBUTIONS - RERATING 1989-90**

Thank you for your letter of 4 January.

I agree that the changes that you propose are, for the Armed Forces and share fishermen, a reasonable consequence of the reduction in unemployment and, for volunteer development workers, a justified change in the light of their average earnings.

I note that, while the share fishermen's rate may need to follow the affirmative procedure, the other two can be introduced by regulation. I agree that we can leave officials to liaise on timing for the former.

Copies of this letter go to Archie Hamilton, John Patten and Ian Stewart.

**JOHN MAJOR**



FROM: J M G TAYLOR  
DATE: 13 January 1989

PS/FINANCIAL SECRETARY

cc Chief Secretary  
Paymaster General  
Economic Secretary  
Mr Culpin  
Mr Gilhooly  
Miss Hay  
Mr Knight  
Mrs Chaplin  
Mr Tyrie

Sir A Battishill - IR  
Mr Painter - IR  
Mr Lewis - IR  
Miss Dyall - IR  
PS/IR

**CHILD CARE: MINISTERIAL GROUP ON WOMEN'S ISSUES**

The Chancellor has seen Miss Dyall's note of 10 January, and the attached draft paper on tax.

2. The Chancellor has commented that the only thing missing from the note is the thought that, if an employee cannot attract married women with children, the remedy is for him to pay them more, not to give them a tax break.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

02416



**CABINET OFFICE**  
*Central Statistical Office*

Great George Street, London SW1P 3AQ Telephone 01-270 6155

*From the Director: J. Hibbert*

CH/EXCHEQUER	
REC.	13 JAN 1989
<del>ACTION</del>	
COPIES TO	

Our ref P69/2

13 January 1989

Dear *Chancellor,*

*BE 17/11*  
*Pyp*

**SOCIAL TRENDS 1989 EDITION**

I have great pleasure in enclosing a copy of the latest edition of 'Social Trends', the 19th in this annual series. It is under embargo until it is published on 19 January.

Social Trends has proved a valuable reference source for ministers and top officials, using both social and economic data to give a broad description of British society and the social framework within which government business is conducted. Since government is the primary user of Social Trends, each chapter covers a broad area of policy concern and the focus within each chapter is on current policy issues.

This year's article is on social attitudes and so it complements the almost entirely factual data in the rest of the book. The authors of the article have chosen a small number of topics from the SCPR major annual attitudes survey, the main results of which were published in book form in November. It follows a similar article in Social Trends 15 and brings together results from the first five years of the survey.

May I again encourage the use of Social Trends by officials in your department. Being both readable and comprehensive it can save valuable time which would otherwise be spent searching elsewhere for information which can be found within its covers, and if further detailed statistics are required it provides references to departmental sources. In our experience, government officials find Social Trends a clear and concise guide to the data available in departments other than their own.

This publication is a collaborative venture which depends on the co-operation of your staff. We have therefore to thank our colleagues in all the government departments that have supplied the data and have given us the benefit of their expert advice.

We are constantly trying to maintain the topicality and comprehensiveness of the book and so, if in using Social Trends you identify any gaps in its coverage, I hope that you will let me know so that we can improve the publication further next year.

Yours sincerely

J HIBBERT

The Rt Hon Nigel Lawson, MP  
Chancellor of the Exchequer  
Parliament Street  
SW1P 3AG



Inland Revenue

Personal Tax Division  
Somerset House

FROM: MISS R A DYALL

DATE: 16 JANUARY 1989

*Ch/ see end of para 21  
of paper. 2/6/89*

FINANCIAL SECRETARY

**CHILD CARE: MINISTERIAL GROUP ON WOMEN'S ISSUES**

1. I attach the draft paper for the Ministerial Group on the tax treatment of child care revised to include the additional points you wanted to make and the point in Mr Taylor's minute of 13 January. I have also made some minor amendments in response to other comments received. The new material is sidelined.

2. You may like to see the attached press articles from Thursday's "Independent" which have given further publicity to the activities of the Group.

MISS R A DYALL

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cc Chancellor of the Exchequer  
Chief Secretary  
Paymaster General  
Economic Secretary  
Mr Culpin  
Mr Gilhooly  
Miss Hay  
Mr Knight  
Mrs Chaplin  
Mr Tyrie

Chairman  
Mr Painter  
Mr Lewis  
Mr Mace  
Mr Massingale  
Mr Elliott  
Mr Keith  
Miss Dyall  
Mr Evershed  
Mr Willmer  
Mr Wilcox  
PS/IR

## THE TAX TREATMENT OF CHILD CARE

1. This paper describes the tax treatment of child care in the context of the Government's wider tax policy. It also examines proposals which are sometimes made for changes in the tax treatment and the Government's response. The paper is divided into two sections: the first dealing with the tax position of employers, the second with that of parents.

### EMPLOYERS

2. An employer who provides child care for his employees' children can get tax relief for his day to day expenditure (see paragraphs 3-4 concerning capital expenditure). This applies whether the employer gives employees a cash allowance, or meets the fees for a place in a private nursery or with a child minder, or provides the care directly through a workplace nursery or playscheme. Relief is given by allowing the employer to deduct the expenditure in working out his profits for tax purposes. Where the employer operates a nursery or playscheme all the day to day running costs are deductible. These include rent, rates, heating, lighting, the wages of the staff, food, toys and play equipment.

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cooker or microwave oven), other kitchen equipment (such as a fridge) and the more durable kind of play equipment.

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5. Formerly allowances were available which gave immediate relief for the whole of any qualifying capital expenditure on plant and machinery and a substantial part of qualifying capital expenditure on industrial buildings. These allowances were, for the most part, phased out of the capital allowance system over the period to 31 March 1986 as an essential part of the Government's programme of business tax reform launched in 1984. The purpose of these reforms has been to create a more neutral system, based on significantly lower rates of tax and allowances for depreciation at rates more closely linked to commercial reality. One result will be to ensure that the pattern of capital expenditure by businesses is no longer unduly distorted by tax considerations.

#### PARENTS

##### i. Tax treatment of child care costs

6. Under present tax rules there is no tax relief for parents on the cost of child care. This applies whether the parent is male or female, married or single, employed or self-employed.

7. Certain items of expenditure which an individual incurs in connection with a job can be deducted in arriving at the amount of their earnings for tax purposes. But the tax system distinguishes between expenses which put a person in a position to work and those which are incurred in actually doing a job for an employer or carrying on a trade or profession. The latter are tax deductible, the former, which are personal expenses, are not. For example, in order to work a person may have to travel to the place of employment, wear more formal clothes or take meals away from home at greater expense; but the costs of the home to work travel, clothes and meals do not normally qualify for tax relief. Child care costs are personal expenses of the same kind and similarly do not attract relief. Examples of the expenses which do qualify for relief are those incurred in travelling in the course of a job and the cost of text books provided by teachers. The expenses rule for employees is very strict and has been interpreted fairly narrowly by the Courts so that allowable expenses (beyond those reimbursed by employers) are exceptional.

Should the tax treatment be changed?

8. It is sometimes suggested that tax relief should be available for child care expenses in order to encourage those with children (particularly married women) to take employment. More married women may be needed in the labour force in the 1990s because of demographic changes resulting in a reduction in the number of school leavers.

9. Some working parents do face problems in arranging child care; but a special tax relief for the costs they incur is not an appropriate response. The Government's view is that there is



no case for treating these expenses differently from all the other expenses which people have to meet to enable them to work. To do so would also be inconsistent with the Government's wider tax policy of looking critically at special tax reliefs with a view to broadening the tax base and allowing reductions in the rates of income tax. Lower tax rates themselves improve the incentive for everyone, including those with children, to work. There are also other considerations. At a practical level the multiplicity of arrangements for child care mean that a relief based on actual expenditure in each case would be extremely expensive, if not impractical, to administer. A flat-rate allowance, unrelated to actual expenditure, would be cheaper to administer but on either basis the tax revenue forgone would be very substantial. As an illustration, an allowance of £35 per week for each family with a child or children under 5 where the mother is currently working would cost about £350 million. All this cost would be incurred in giving relief to parents already in jobs before there was any effect in terms of stimulating an increase in the labour supply.

ii. Employer-provided child care

10. Where an employer meets child care expenses on behalf an employee a tax charge will normally be made. If the employer simply pays a cash allowance to the employee that allowance is taxed as part of the employee's pay. The fact that the money is earmarked for a particular purpose makes no difference to its tax treatment. Similarly where an employer

- funds child care arrangements contracted by an employee with a nursery, childminder or nursery;

- gives vouchers exchangeable for child care services;

the employee is taxed on the payment made by the employer.

11. If an employer provides child care

- through a workplace nursery or playscheme;
- by contracting directly with a nursery, childminder or nursery to look after an employee's child or children;

the employee receives a benefit-in-kind which is taxed under special rules. Tax is charged on benefits-in-kind where the employee's salary, including the value of the benefit, is £8,500 per annum or more. Tax is paid on the value of the benefit measured as the cost to the employer of providing it. Where an employee makes some contribution towards the cost the taxable benefit is reduced by an equivalent amount.

12. The Government's general policy is that where benefits-in-kind are provided the full value should be taxed, so that there is no tax advantage in making payments in kind rather than in cash. There can be little doubt that the provision of child care in any of the ways described above is a valuable benefit to employees and there are no persuasive arguments for treating it differently from other benefits.

13. A few benefits are not taxed because of particular difficulties in applying the special

rules to them. For instance

- some are excluded on a de minimis basis;
- others are excluded because of difficulties of compliance for employers or of enforcement for the Inland Revenue.

There are also very limited exemptions of long standing which for historical reasons it would be difficult to withdraw.

Should the tax treatment of employer-provided child care be changed?

14. Some groups with an interest in child care have called for the tax charge on the benefit of employer-provided child care to be lifted. The Government have resisted this proposal on the following grounds:

- i. all benefits-in-kind should in principle be taxable and in practice tax is charged in the vast majority of cases;
- ii. the benefit of a workplace nursery can be substantial; (up to £2,500 p.a. or more in London). The benefit can be quantified so there are no administrative grounds for exemption;
- iii. basic rate taxpayers pay only £25 in tax on every £100 of child care provided free by employers. They also gain intangible benefits such as convenience and better quality care by professionally qualified staff. Parents

who do not receive this benefit-in-kind have to pay the whole cost of child care themselves out of taxable income. It would be unfair to tip the balance further in favour of the parent receiving the benefit of employer-provided child care;

- iv. it would be wrong to exempt from tax child care provided as a benefit-in-kind when equivalent cash contributions by employers towards an employee's child care expenses are taxable.

15. At present the tax system is broadly consistent in its treatment of child care and other expenditure which puts a person in a position to do his or her job, such as the purchase of season ticket. If the employee pays, he or she does so out of taxed income and cannot get relief. If the employer pays, the employee is normally taxed on the benefit. If the benefit of a workplace nursery were exempted from tax this consistency of treatment would be destroyed. There would inevitably be pressure for other tax concessions, for example tax relief for the cost of a childminder, in order to restore fairness of treatment between parents who pay for child care themselves and parents who have child care provided for them.

#### Company Cars

16. Comparisons are sometimes drawn between the treatment of employer provided child care and company cars. As a benefit-in-kind company cars are taxed in a special way. The variety of cars provided for employees and the different mixes of private and business use make it impracticable to

calculate the value of the benefit (as the cost to the employer) individually in every case. To overcome this difficulty the benefit of a company car is taxed according to a scale of charges based broadly on engine size with some adjustment in cases of negligible and very substantial business use. The Government recognise that these scale charges have historically been fixed at a level less than the full value of the benefit of the use of a company car and that this has led to under taxation. Government policy is to increase them to a level which reflects to the real value of the benefit. In recent years they have been raised substantially - in 1988 by 100 per cent. The remedy for any remaining disparity in the tax treatment of child care benefits as compared with company cars is fully to tax the benefit of a company car, not to exempt the benefit of child care.

#### The £8,500 threshold

17. It is a long standing feature of the personal tax system that employees are taxed on benefits-in-kind only where their salaries, including the value of the benefits, exceed a certain level. However, this has several undesirable effects. In particular it creates for the lower paid a difference in tax treatment depending on whether they are paid in cash or in kind. This encourages the payment of benefits-in-kind rather than cash payments. It also creates a tax 'cliff' where a small increase in pay can cause a large increase in tax. The threshold was never part of an explicit policy of exempting those on low incomes. Before benefits in kind became more widespread in the 1970s it was exceptional for someone earning less than the threshold to receive them.

18. The threshold has remained at £8,500 since 1979 but is reviewed every year in the run up to the Budget. Government policy is now deliberately to allow the threshold to "wither on the vine". The vast majority of employees receiving benefits-in-kind are already taxed on them and the eventual intention is to abolish the threshold altogether. This is consistent with the policy objective of taxing benefits generally on their full value so as to reach a position of neutrality between the taxation of payments in cash and payments in kind.

19. It is sometimes suggested that the threshold should be raised across the board or, exceptionally, for a particular benefit alone. Either of these proposals would clearly defeat the Government's wider objectives.

#### CONCLUSIONS

20. The tax system already gives employers tax relief on much of the cost of providing child care for their employees' children. However there is some doubt about how well the present provisions are known and some of the published material available on the subject (for example, The Working Mothers' Association's "Employer's Guide to Childcare") is misleading. There is a case for some publicity to clarify the position, but employers will not play a greater role in the provision of child care unless they are persuaded that it is in their interests to do so. Recent contacts between officials on the Group and representatives of the Confederation of British Industry suggest that employers have yet to be convinced of this.

21. Personal expenditure by an individual on

child care is dealt with in the same way as other expenses which put a person in a position to work. The benefit-in-kind of employer provided child care is taxed in the same way as benefits generally. This tax treatment is not intended to provide either an incentive or a disincentive for married women to work. It is in line with Government policy which has been to allow married women freedom of choice about working outside the home and neither to encourage nor discourage them from taking up paid employment or self employment. There is no evidence to support the argument sometimes advanced that the tax treatment of child care is a barrier to married women's employment. Statistics show a steady increase in the number of married women working outside the home. If employers need to recruit and retain more married women with children in the 1990s and find difficulty in doing so the remedy is for them to pay working mothers more, not for the Government to give parents a tax break.

#### Recommendations

22. It is recommended that the Ministerial Group should
- i. endorse Government policy on the tax treatment of child care in the context of wider tax policy objectives;
  - ii. consider, as part of any package of measures intended to encourage employers to take a greater role in the provision of child care, further publicity for the tax reliefs available to them.

## Ministers plan boost to childcare facilities

By Judy Jones  
Parliamentary Correspondent

THE GOVERNMENT is planning to expand childcare provision and encourage women back to work to ease the skills shortage facing Britain in the 1990s.

Treasury ministers are considering tax incentives for employers who subsidise childcare for employees, but appear to have ruled out tax relief for working mothers.

John Patten, the Home Office Minister, wants more children looked after in their own communities rather than in workplace nurseries. In an interview with *The Independent*, he says the Government is anxious to achieve the "best possible framework of support for family life" as the numbers of working parents rises steadily over the next few years.

"My very strong feeling is that we do not want to see state or employer-provided workplace nurseries. I dread the thought of commuting children."

One of the country's leading voluntary childcare organisations, the Pre-school Playgroups Association, will be central in implementing and monitoring the initiative. Mr Patten, who chairs the Ministerial Group on Women's Issues, discussed proposals for enhancing the role of the PPA at a recent meeting with senior officers from the association.

Patten interview, page 6  
Nursery provision, page 6



## 'Hour has come' for nursery education

By Ngaio Crequer  
Education Correspondent

NURSERY education should be available for all three and four-year-old children if their parents desire it, the Education, Science and Arts Select committee unanimously recommended yesterday.

Timothy Raison, chairman of the Conservative-dominated committee MPs said: "This is the need whose hour has come. We are trying to create a climate favourable to the development of nursery education. We hope that Government will be influenced as part of this move."

Malcolm Thornton, Tory MP for Crosby, added: "All the social pressures we are seeing, the demand for labour and the lack of availability of labour, will bring about a series of pressures which may concentrate the Government's mind... and get the extra allocation of resources."

The MPs expected the Government to finance the expansion. In 1986-87 the cost of providing nursery or primary school places for 44 per cent of three and four-year-olds was nearly £400m. Mr Raison said that the expansion they wanted would cost "in the order of a few hundred million pounds". The report said: "We recommend that future White Papers should make higher provision for under-fives."

There are strong educational, social and market arguments for extending nursery education. "Pre-school education... caters for the child's needs at that time and may be justified in those terms," but can also prepare the child for the whole process of schooling, the report said.

Increasing breakdowns in marriage, more single parent families, and the dangers, as one witness put it, of "evil men and motor cars" made nursery education even more valuable.

Further, more women worked and wanted to work. The committee could not agree about the tax on workplace nurseries but commented that taxation of benefits in kind have made such nurseries more expensive. The MPs were concerned that some reception classes in primary schools were inappropriate. About 20 per cent of three and four-year-olds attend reception classes but the children are often with older pupils and the curriculum is unsuitable. The report says these classes must be improved.

■ *Educational Provision for the Under Fives*; Education, Science and Arts Committee, HC Paper No 30, 1988/89; HMSO; £6.30.



Mr Patten at the Home Office during his interview. He pointed out that many of his staff, like the civil servants in the background, are women. Photograph by John Voos.

## Patten's balancing act on childcare policy

John Patten, Minister of State at the Home Office, wants improved childcare facilities for working parents. Judy Jones reports.

THE MINISTER charged with coordinating the Government's policies for women, John Patten, has no doubt about the biggest gap to be plugged in this little-noticed sphere of Whitehall activity. It concerns the pressing shortage of childcare facilities for working parents.

One of the intriguing aspects of the issue is the delicate political balancing act facing the Government. While the Tories are anxious to avoid denting their popular image as the party of the family, the need for more help for working mothers is now widely acknowledged.

In an interview with *The Independent*, Mr Patten made clear that he opposes any dramatic increase in the number of workplace nurseries. Rather, he envisages government backing for new partnership between the voluntary and private sectors to provide community-based care in a family context.

My very strong feeling is that we do not want to see massive expansion of employer-provided workplace nurseries. I dread the thought of commuting children. There are three or four-year-old children with a father or mother or

both going out to work, I think the trauma or difficulty is enhanced by being tucked under the arm at Worthing station at 7.50 each morning and going off to some workplace nursery in London.

"What is needed is high-quality, small-scale local provision. And I think locally there is a vast pool of untapped provision among men and women who are at home — or could be at home — and can help set up these sorts of services."

He disclosed that he has held preliminary discussions with the Pre-school Playgroups Association on ways of mobilising this unseen "army" of potential carers. But the minister emphasised the need for employers to accept increasing responsibility for finding — and funding — childcare if they want to attract and retain the skills of women in their workforces.

"Employers in this country must realise that the only way to defuse this demographic time

bomb ticking away underneath them is by taking the initiative themselves to support family life, and to support mothers who want to work." Of course, no one wanted to dragoon women into work outside the home against their will. What the Government sought to establish was "the best possible framework of support for family life".

Detailed work on the review of childcare policy, including taxation aspects, will get under way at next month's meeting of the Ministerial Group on Women's Issues. It seems likely that any shift agreed on will focus on employers' tax liability, rather than that of employees. The treatment of workplace nurseries as a taxable "perk" for working mothers, which has been strongly attacked by women's and parents' organisations, seems set to continue. It has been pointed out to critics that a quarter of all families with children do not pay income tax and would not benefit from the reduction or elimina-

tion of this particularly liability.

Mr Patten appears to support this argument: "You do not get tax breaks for being available for work, for your Tube or bus fare, for example. But we will be discussing these points at our meeting in February."

There is perhaps one rather powerful piece of ammunition which critics of the ministerial group — described by Labour's spokesman for women, Jo Richardson, as a mainly cosmetic exercise — lob in Mr Patten's direction.

Since the departure of Edwina Currie as Under-Secretary for Health last month, there is just one woman on the 12 member group, Angela Rumbold, the Minister of State for Education.

But the imbalance in the composition of the group does not appear to cause Mr Patten any discomfort; nor the fact that he, as its chairman, is a man: "When you set up a committee to represent particular sectional interests it may be a good thing to have as

its chairman someone who is not a member of that group."

Earlier, Mr Patten proudly pointed out that a high proportion of his advisers were women and that the Home Office had taken a number of positive steps to boost the recruitment of women to Civil Service posts. "I hope you have noticed that I am totally dominated by ladies," he said, indicating with an air of mock exasperation the two female civil servants in attendance.

The most notable achievement of the ministerial group, since its inception in 1986, is the "equal opportunities proofing" of legislation announced last year to safeguard against inadvertent discrimination in laws and regulations.

Mr Patten endorses the Prime Minister's declaration in 1982 that "the battle for women's rights has largely been won". "I agree. What we are talking about now is opportunities rather than rights."

■ Following this interview, the Home Office informed *The Independent* that Virginia Bottomley, Under-Secretary for the Environment, had accepted an invitation to join the group.

Susan 03.16.1.89

PWP



**FROM:** MISS S J FEEST  
**DATE:** 16 January 1989

**BEN SAWBRIDGE**

cc 2 PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Phillips  
Mrs Case  
Mr Edwards  
Miss Peirson  
Mr Robson  
Mr Gieve  
Mr Shore

**PAC: NEXT WEEK**

The Financial Secretary was grateful for your minute of 13 January 89 and has noted the contents.

A handwritten signature in cursive script that reads "Susan Feest".

**SUSAN FEEST**

FROM: MRS JUDITH CHAPLIN

17th January 1989

FINANCIAL SECRETARY

cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Mr Culpin  
 Mr Gilhooly  
 Miss Hay  
 Mr Knight  
 Mr Tyrrie

PS/IR  
 Miss Dyall - IR

~~Handwritten notes in red ink:~~  
 Miss Dyall's original paper behind.  
 1 entry 2 500  
 PS in 600  
 pm - 2  
 x pm - 3.  
 17/1

**CHILD CARE: MINISTERIAL GROUP ON WOMEN'S ISSUES**

I mentioned to you that I thought the paper prepared by Miss Dyall should cover the point which is often raised by women's groups, that if canteens and sports facilities are not taxed as benefits in kind why should work place nurseries be? The paper does say that some benefits are exempt and the exemptions are of "long standing which for historical reasons it would be difficult to withdraw". As we agreed, it would be difficult politically to withdraw the exemptions on canteens and sports facilities; but I think there is a stronger argument which could be used.

2. Canteens and sports facilities have to be available to all employees, but not all employees use them. Therefore if they were taxed as a benefit in kind on all employees, some employees would be paying tax on a benefit which they were not receiving. I think most people would accept that it would be administratively impossible to check what employees used them and for what periods. Women are taxed on the benefit of a workplace nursery only if they are receiving the benefit, and so there is a fundamental difference between the benefits.

3. On the wider issue, as a Ministerial group has been set up there will be the expectation that some positive proposals emanate from it. A proposal for a tax relief is always the easiest solution. The arguments against a tax relief for workplace nurseries would be more convincing if we could show the tiny proportion of women who would

benefit compared with the number of women working. It would also be more convincing if we could show that the tax on the benefit on average was relatively small compared with the earnings of those women.

4. As I understand it from the Inland Revenue the latest figures we have are DHSS figures for 1981, when there were 50 workplace nurseries providing 2,000 places. The figure in the paper relating to the scale of the benefit of a workplace nursery "up to £2,500 pa or more in London" comes from anecdotal and other evidence. I would have thought the average benefit must be substantially less than this, and even if the numbers of women benefiting from the use of workplace nurseries has increased substantially, the numbers must still be tiny in relation to the numbers of women working. It would be useful to have more up to date figures to refute the impression of many women being charged substantial sums.

Jc

JUDITH CHAPLIN



FROM: J M G TAYLOR

DATE: 17 January 1989

*67. 24/1*

*26/1*  
*Per Chase*

PS/CUSTOMS & EXCISE

cc PS/Economic Secretary  
Mr K Sedgwick FP

**CHANCELLOR'S CONSTITUENCY CASE: LEICESTERSHIRE HEALTH AUTHORITY**

... I attach a letter from the Chairman of the Chancellor's local health authority. This is a straight forward budget representation, pressing for an increase in tobacco taxation.

2. I should be grateful for a draft reply for the Chancellor's signature.

A handwritten signature, likely of J M G Taylor, consisting of stylized initials.

J M G TAYLOR

CHAIRMAN

George Farnham, DL

Please ask for:

GF/mt

Our Ref:

Your Ref:

LEICESTERSHIRE  
HEALTH AUTHORITY

20-28 Princess Road West  
Leicester, LE1 6TY

Telephone: (0533) 559777



11th January, 1989.

Dear *Nigel,*

In common with other Health Authority Chairmen I have been asked to 'lobby' you on the subject of smoking. My view is further influenced by the fact that my father was an inveterate smoker and died of lung cancer.

As Chairman of the largest Health Authority in England and Wales I am extremely concerned at the cost to the Health Service here in Leicestershire of treating illnesses directly associated with smoking. It has been reliably estimated that smoking related illnesses cost the NHS around £500 million each and every year.

As you will know, smoking is a major factor in coronary heart disease, which is the single largest cause of death in our country. Over 2,000 people living in Leicestershire die from heart disease every year. In your own constituency of Blaby 170 people die each year. Many of these are premature, and therefore unnecessary, deaths. The cost of treating coronary heart disease alone, here in Leicestershire, is estimated at a staggering £8,657,179 a year. Moreover, smoking related illnesses cost industry in Leicestershire 3,920 lost working days each year.

At a time when we are trying to run a good health service within very tight financial constraints these kinds of costs must be regarded as unacceptable.

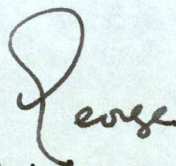
A further worry is the number of young people who start to smoke. Although there is an encouraging decrease in boys who start smoking, this is not the case for girls. Between 1984 and 1986 the percentage of 15 and 16 year old boys who smoke regularly fell from 28% to 18%, but for girls there was hardly any reduction in that 27% of 15 and 16 year old girls are still smoking regularly.

It is known that whenever taxation is increased on cigarettes there is a corresponding fall in consumption. There is, however, no loss in revenue to the Treasury. On the contrary, the revenue will rise even higher than the present level of £5,737 million.

For all the reasons I have set out - the costs to our health services and the costs to our peoples' lives - I urge you to increase the taxation on cigarettes and other tobacco products.

For the sake of our health, please act soon!

Yours sincerely,

A handwritten signature in black ink, appearing to read "George". The signature is written in a cursive style with a large, looping initial "G".

Chairman

The Rt. Hon. Nigel Lawson, M.P.,  
Chancellor of the Exchequer,  
The Treasury,  
Parliament Street,  
London,  
SW1P 3AG.



FROM: J M G TAYLOR  
DATE: 18 January 1989

A large, stylized handwritten signature in the top right corner of the page.

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Culpin  
Mr Gilhooly  
Miss Hay  
Mr Knight  
Mr Tyrie *Mrs Chaplin*

PS/IR  
Miss Dyall - IR

**CHILD CARE: MINISTERIAL GROUP ON WOMEN'S ISSUES**

The Chancellor has seen Mrs Chaplin's note of 17 January.

2. He has commented that he entirely agrees with Mrs Chaplin's points on the fundamental difference between canteens and sports facilities, and work place nurseries, and on the need to point up the tiny proportion of women who would benefit from a creche relief compared with the number of women working.

Handwritten initials, possibly 'JMG', in the center of the page.

J M G TAYLOR



FROM: R B SAUNDERS

DATE: 19 January 1989

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Sir P Middleton
- Mr Anson
- Sir T Burns
- Mr Byatt
- Mr Monck
- Mr Phillips
- Mrs Lomax
- Miss Peirson
- Mr Spackman
- Mr Burr
- Mr Parsonage
- Mr Waller
- Mr Harding
- Mr Sussex
- Mr Wellard
- Mr Rayner
- Mr Call

*Thanks*  
*Content for HMO officials*  
*to circulate this paper.*  
*Bar I wd go*  
*from on the*  
*'monopoly profits'*  
*change. The drug*  
*companies central face a*  
*themselves are in a very competitive*  
*at the only element of market,*  
*given for patients*  
*as pointed out & X, is independent of PPRS.*

*Content for paper to be  
 circulated on basis set out  
 by Mr. Saunders?*

**REVIEW OF THE PHARMACEUTICAL PRICE REGULATION SCHEME**

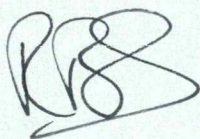
You will recall my mentioning that this review, commissioned by E(CP) in November 1987, is now under way. You may like to see the attached paper which we have prepared on the economic costs and benefits of the scheme. It has been prepared largely by Mr Sussex.

2. It does not hazard any quantification of these costs and benefits, largely because it is very difficult to say how the absence of the PPRS would affect either the prices paid by the NHS or the profitability of UK-based pharmaceutical companies. Nor is it possible to say whether changes in, or abolition of, the PPRS would significantly affect location decisions by multi-national companies. But I think the arguments point clearly to the conclusion that the industrial support objective of the PPRS is inappropriate. Even if it were accepted that the pharmaceutical industry R&D needs support (and it is by no means clear why this should be so), then public procurement policy is not the right mechanism. DTI officials have expressed broad agreement with this view.

3. But some control must be exerted over the price paid by the NHS: many drugs are produced by monopoly suppliers, and the patients who use them are under no price constraint other than a fixed prescription charge in some cases. Zidovudine, a very expensive drug produced by Wellcome, which is the only even partially effective treatment so far available for AIDS, is a good case in point.

4. For this reason, the proposals in the NHS Review for drug budgets held by GPs (even in the weak "indicative" form agreed by DoH) are an important development. They hold out the prospect of making prescribing by GPs price-sensitive for the first time, and hence of developing a viable alternative to the PPRS for controlling NHS costs. We will make sure this is looked at carefully in the Review, although given the timing, the paper has to be a little coy about what is actually proposed in the White Paper.

5. I should be grateful for your confirmation that you are content for the Treasury to circulate the paper on these lines.



R B SAUNDERS

## ECONOMIC APPRAISAL OF THE PPRS

### Note by H M Treasury

The purpose, nature and recent history of the Pharmaceutical Price Regulation Scheme (PPRS) are described in papers PPRS 88/2-4. The scheme is non-statutory but is adhered to closely by pharmaceutical companies operating in the UK. The Scheme is likely to have a major effect on the profitability of those companies and on the prices paid for medicines by the National Health Service. The PPRS implies costs as well as benefits for the UK economy. The purpose of this note is to identify these costs and benefits and to appraise the desirability of the Scheme from an economic standpoint.

### Objectives of the PPRS

2. The current PPRS has been in effect since 1 October 1986. Its stated purposes are:-

- i. to promote a strong and profitable research-based pharmaceutical industry in the UK;
- ii. to ensure that the UK obtains continuing supplies of medicines, especially innovative medicines;
- iii. to regulate the prices paid for drugs by the NHS.

The appropriateness of these objectives and the ability of the PPRS to achieve them are discussed in the following sections.

### i. Sustaining a research based pharmaceutical industry

#### (a) Promoting the pharmaceutical industry

3. Various arguments are sometimes advanced for supporting an industry:

- effects on employment, the balance of payments and other macroeconomic variables;

- making competition "fair" when other countries are subsidising their industries;
- protection of a domestic industry where this is of strategic importance;
- support to an "infant industry" which is expected to be competitive in the long term;
- encouraging location in the UK of an industry capable of earning monopoly profits, so that the benefit of those profits accrues to the UK.

There may also be grounds for industry support based on the need to ensure that producers are able to recover the benefits of innovations resulting from research and development. These arguments are dealt with separately in paragraphs 12-14 below.

4. The first two arguments listed above should be given little weight. It is not government policy to attempt to increase employment or improve the balance of payments by protecting individual industries; indeed, such attempts are likely to prove counter-productive. Public procurement policy is to concentrate on maximising value for money. The existence of a positive trade balance for a particular industry is not a reason to support that industry but rather indicates the existence of a comparative advantage for the UK in the world economy.

5. It may be that other countries subsidise their pharmaceutical industries, so that the UK industry could find itself uncompetitive despite being an efficient producer. While this would lead to an inefficient use of world resources, the UK might benefit if it simply took advantage of the lower world prices that result.

6. It might be argued that the existence of a domestic drug manufacturing capability is necessary for strategic reasons. Even if this view is accepted it is not in itself a justification for

support. The case for this depends on showing that a domestic pharmaceutical industry of sufficient capacity would not otherwise exist.

7. Decisions to locate in the UK will be influenced by the availability of infrastructure and of skilled and relatively low-cost labour; by the established good reputation of UK medical research; by the preferences of key staff; and so on. The strong growth of the UK economy and reduced level of corporate taxation in recent years have created a good environment to do business in. A substantial pharmaceutical industry presence in the UK could be expected with or without the PPRS.

8. The UK pharmaceuticals business is not obviously an "infant industry". The ability of a firm to carry out effective pharmaceutical research and development may well depend on having built up a fund of expertise but the mature UK pharmaceuticals industry appears well-endowed in this respect.

9. Many products of the pharmaceutical industry lack close substitutes, so offering scope for monopoly profits. Encouraging the location of production of such drugs in the UK could benefit the domestic economy if, as a result, a greater proportion of the monopoly profits were retained in the UK. The profits earned by UK-based producers may, of course, leak abroad, particularly where the producer is a foreign-owned multi-national, but they will to some extent be subject to UK taxation and perhaps also in part be retained by UK employees. Some element of the benefit will therefore be retained here. As in the case of a strategic industry, this argument for supporting pharmaceutical companies rests on demonstrating that without support a significantly smaller amount of activity would occur in the UK. As discussed above, there are good reasons to suppose that pharmaceutical production might continue to locate in the UK even without the PPRS.

10. The PPRS contains two lures for the pharmaceutical industry: the "merit ranking" of companies which determines where within the range 17%-21% their allowed rate of return on (historic cost)

capital employed will lie; and the interpretation of the "grey area" of excess profits which companies may be allowed to keep if they can successfully argue that these have arisen from the company's own efforts at increasing efficiency. Companies are persuaded to locate in the UK by the understanding that the Department of Health will then allow them a higher rate of retained profit on their NHS sales than if they were located abroad. The scope for discrimination by the Department is limited by international obligations, and the extent to which the PPRS turns marginal location decisions in the direction of the UK is unclear.

11. Under the terms of the PPRS, firms which import medicines into the UK are allowed transfer prices which include up to 14.5% of the price as profit. If this 14.5% of turnover represented less profit than 17%-21% of capital employed then there would exist an incentive to switch (at least some) production to the UK. If, on the other hand, 14.5% of turnover represents more profit than 17%-21% of capital employed then there exists a perverse incentive within the PPRS to locate production abroad and merely to import into the UK.

(b) Supporting pharmaceuticals research and development

12. Government intervention to support research and development (R&D) is only appropriate when there is a market failure, such as where the benefits of R&D cannot be captured by those undertaking it. The patent system is aimed at ensuring that fear of competition from free-riding imitators does not act as a deterrent to worthwhile R&D. The appropriate length of patent protection is an important matter but one which is independent of the PPRS.

13. Market failure may also occur when the investment required is particularly long-term, large-scale, or risky, so that private companies are unwilling to undertake it. The pharmaceutical industry generally involves large R&D costs relative to the costs of any subsequent production. There is then the possibility that consumers might be in a position to force down the prices paid for

any innovatory products to such an extent that sunk R&D costs could not be recovered.

14. The PPRS does not support all pharmaceutical R&D undertaken in the UK. Rather is it designed to allow firms to recover in the prices they charge for sales to the NHS just that proportion of R&D costs which is attributable to NHS drug sales. The main incentive to companies to locate their R&D in the UK is provided via the merit ranking system and the "grey area", described above.

ii. Ensuring continuing supplies of medicines

15. The supply of medicines, and especially of new medicines, to the UK market will be driven primarily by companies' expectations of profit in the face of competition from rival producers. The supply of medicines is best safeguarded by the maintenance of an open competitive marketplace for them in the UK. The supply of medicines in the UK is not dependent upon production or R&D taking place here. However, location in the UK may mean that, on average, new medicines reach UK recipients of health care sooner than they otherwise would.

16. The decision where to launch a new medicine is likely to be determined by the standing of a country's medicine licensing and assessment system and by the size of its market. Relative profit margin in the later stages of a drug's life may be a, somewhat smaller, influence. These factors appear likely to dominate the additional incentive provided by the PPRS to firms to launch new products in the UK via merit ranking and the "grey area". Paper PPRS 88/4 indicates that about 50% more new chemical entities were released in the UK than in the USA over the period 1980-1987. The extent to which the greater number of new chemical entities launched in the UK was due to UK/US differences other than the PPRS is unclear.

iii. Price regulation

17. Worldwide the pharmaceutical industry is not very concentrated. However, the market for medicines is highly

segmented with much greater concentration of production within individual therapeutic categories. The report of the 1985 review of the PPRS suggested that about half of the drugs on the market have identical substitutes, 5-10% have no close substitutes and the remaining 40% have imperfect substitutes. The market is further segmented by product differentiation between countries. This is partly the result of different licensing requirements but is also encouraged by the companies themselves with differences in packaging and presentation. Significant scope for unregulated producers to earn monopoly profits therefore exists. The objective of monopoly regulation is to limit this scope while encouraging efficiency. The following paragraphs sketch out some alternative types of monopoly regulation.

(a) Rate of return regulation

18. The PPRS is essentially rate of return regulation. It provides a framework within which pharmaceutical companies set prices so that costs can be covered and an acceptable return on capital achieved. This form of regulation is administratively simple, as it avoids direct price negotiations for individual drugs, but has the disadvantage that it considerably weakens the incentive to producers to keep costs down (and it may also encourage them artificially to inflate the capital asset base on which the allowed rate of return is calculated).

19. The PPRS attempts to overcome the disincentive to efficiency by the operation of the "grey area". Companies are allowed to retain higher profits up to a maximum (normally) of 50% of target profit if they can show that they result from: "the launch of a new product, improved efficiency, or other factors clearly arising from the company's own efforts". A company has no guarantee of what excess profits it will be allowed to retain. This element of uncertainty is intended to be a stimulus to efficiency but it might instead lead to satisficing behaviour by pharmaceutical companies.

20. This aspect of the PPRS is an example of the tendency for regulatory rules to become more complex in order to offset



unwanted side-effects. However, greater complexity can itself have costs (such as diverting managerial time and resources into post hoc rationalisation of why excess profits should be retained). Simple regulatory rules have the advantage of having clear effects; they are relatively cheap and easy to administer; and they minimise the opportunities for the industry to exploit the system and "capture" the regulator.

21. Rate of return regulation such as the PPRS risks distortion of relative prices between the individual products whose prices are being jointly regulated. It creates the scope for several types of cross subsidisation: between international markets; between sectors; and between individual drugs. Transfer prices are allowable costs under the PPRS (up to 14.5% of turnover). This provides the possibility for cross-subsidising international sales from NHS sales. The PPRS also enables proprietary drug manufacturers to sell their branded drugs to NHS hospitals at prices so low that they undercut competing generic drugs, which are not protected by the PPRS. The producer of branded drugs is able to subsidise loss-leading hospital sales by raising the prices it charges for its sales of the same and other branded drugs to the (non-cash limited) Family Practitioner Services.

(b) Direct price negotiation/setting

22. Direct price negotiation, drug by drug, is administratively more cumbersome than overall profit regulation but it could remove (or at least reduce) the opportunities for cross-subsidy described above. It would, however, risk becoming merely another form of rate of return regulation if prices were agreed on the basis of producers' reported costs.

23. One approach might be to use international (import) prices either to set the drug prices paid by the NHS or simply as a basis for negotiation. The report of the 1985 review of the PPRS suggested that it was too difficult to make international price comparisons for drugs. But it is also difficult to accept that a drug has an international monopoly but that it is impossible to compare its price across countries. This method at least deserves

further investigation since average drug price levels appear to differ widely between countries. Paper PPRS 88/4 shows that within the EC average drug price levels in 1986 varied from around 40-50% below UK levels in France, Italy, Spain and Portugal, to around 15-25% above UK levels in West Germany, the Netherlands and Ireland. (International prices for the same drug may vary widely. The pharmaceutical industry has high sunk costs and low marginal costs and so is likely to charge different prices if it can segment its market and is willing to sell some of its product at or near marginal cost. At present the NHS, through the PPRS, guarantees to pay at least average cost and if the pharmaceutical company can successfully manipulate its accounts, the NHS pays more. However, the NHS with its monopsony power in the UK market is in a good position to bargain for a more favourable price, below average cost.)

(c) Prescribing practices

24. For those drugs which face some effective competition, there would be less need for price regulation if prescribing were price-sensitive. Drug procurement by the HCHS is funded from hospitals' overall cash-limited funds. This does impose some price sensitivity for the hospital drugs bill. GPs however, who account for 80% of the NHS' drug bill, are not constrained by price in their prescribing although the range of drugs prescribable is limited by the Selected List Scheme in seven therapeutic areas. Generic prescribing is encouraged but remains voluntary, so that generic drugs account for less than 10% (by value) of drugs prescribed.

25. Price-sensitive prescribing could be promoted in various ways, for example by giving GPs effective budgets or by requiring them to prescribe generically. This would strengthen price competition and extend the scope for negotiating individual drug prices while leaving some of them unregulated. The forthcoming White Paper on reform of the NHS will announce measures designed to make drug prescribing in the family practitioner service more price sensitive. The White Paper is due to be published at the end of the month. The implications for the PPRS of these reforms will need to be considered carefully.

## Conclusions

26. The case for promoting the UK pharmaceutical industry rests largely on the economic rent which may be retained in the UK and would otherwise not be produced or would leak abroad. If however this were accepted as an objective of Government policy, the arrangements for drug procurement by the NHS would not seem to be the best mechanism. While the existence of the PPRS may contribute to decisions by pharmaceutical companies to locate operations in the UK, the scale of this effect needs to be realistically assessed against the other factors which influence location, and its benefit must be balanced against the considerable costs of paying more than necessary for medicines.

27. The supply of medicines to the UK depends on the existence of a market for them, and on the patents/licensing regime. The net impact of the PPRS in this area does not seem large.

28. On this analysis, the first two objectives of the PPRS listed in paragraph 2 appear to be inappropriate. There is however a need for continuing regulation of prices paid by the NHS for drugs, in view of the monopoly power of producers. Rate of return regulation, as in the PPRS, is one option for regulation. It has the merit of simplicity, but disadvantages such as a weakened incentive to efficiency and the opportunity for cross-subsidy between products and markets. Direct negotiation (or price setting) based on international price comparisons and other factors is an alternative which merits consideration.

29. Measures will also be announced in the forthcoming NHS White Paper designed to make drug prescribing by GPs more price sensitive. The implications of this will need to be taken into account.

8/2



FROM: MRS JULIE THORPE

DATE: 23 January 1989

MR MICHIE

cc PS/Financial Secretary  
PS/Economic Secretary  
Mr Gilhooly  
Mr Call  
Mr Jefferson Smith  
Mr Kent  
Mr Stark  
Mr Gaw  
Mr Craske  
Mr P R H Allen

**ALCOHOL AND EXCISE DUTIES**

The Chancellor has agreed to see Mr Hurd, Mr Clarke and Mr Wakeham to discuss alcohol and excise duties, at 4.00pm on Wednesday 8 February, at No.11.

2. Please can you arrange for suitable briefing to reach this office by close of play on Monday 6 February.

A handwritten signature in cursive script that reads 'Julie Thorpe'.

MRS JULIE THORPE



FROM: J M G TAYLOR  
DATE: 23 January 1989

*JMG*

MR SAUNDERS

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Byatt  
Mr Monck  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr Packman  
Mr Burr  
Mr Parsonage  
Mr Waller  
Mr Harding  
Mr Sussex  
Mr Wellard  
Mr Rayner  
Mr Call

**REVIEW OF THE PHARMACEUTICAL PRICE REGULATION SCHEME**

The Chancellor was grateful for your note of 19 January.

2. He is content for Treasury officials to circulate the paper. But he would go easy on the "monopoly profits" charge. The drug companies certainly face a monopsony in the NHS; but they themselves are in a very competitive market, and the only element of monopoly derives from patent protection - which, as pointed out in paragraph 12 of the paper, is independent of the PPRS.

*JMG*

J M G TAYLOR



**Inland Revenue**

SECRET

1 of 18

Savings and  
Investment Division  
Somerset House

7237

From: A J WALKER

Date: 25 January 1989

- 1. MR KUCZYS
- 2. CHANCELLOR

6487 ✓ DWK 25/1

Ch OK? OK, This as back ground to X, a quote from Mr Graham of BURA will be helpful.

**PRIVATE MEDICAL INSURANCE: BRIEFING FOR HEALTH MINISTERS**

1. We have been asked by the Department of Health for a contribution on the new relief for private medical insurance for inclusion in their general briefing for Mr Clarke on the White Paper.

2. I attach briefing. I should be grateful for your approval to send it, together with the text of the arranged Parliamentary Question and Answer, to the Department of Health.

which you have already approved DWK

3. More detailed briefing for the Treasury and Inland Revenue Press Offices is in preparation. — and will be ready shortly DWK

9

A J WALKER

- c.c Chief Secretary
- Financial Secretary
- Sir P Middleton
- Mr Phillips
- Mr Culpin
- Mr Saunders
- Mr Griffiths
- Mr MacPherson
- Mr Towers
- Mr Call

- Mr Isaac
- Mr Corlett
- Mr Bush
- Mr Kuczys
- Miss MacFarlane
- PS/IR
- Mr Walker

TAX RELIEF FOR MEDICAL INSURANCE PREMIUMS

Why relief needed?

Need to provide help to those who wish to continue medical insurance when employer-provided cover ceases on retirement: a time when individual's income falls and medical insurance premiums rise.

*To meet objective above.  
Why not wider relief?*

Why limit relief to over-60s?

*Unnecessary*

Number of people covered by private medical insurance grown significantly in recent years, especially where insurance cover provided by employers. ~~So fiscal incentive for medical insurance not needed except for special circumstances of retired people.~~

*Special tax reliefs should always be available except where cost for them can be charged back out.*

X

How will the relief work?

Relief will be given by deduction at source (in similar way to MIRAS scheme for mortgages) from April 1990. Will be available where individuals aged 60 and over pay own premiums, or where premiums paid, for example, by families on their behalf. Inland Revenue will consult medical insurance industry on details of scheme.

Details of tax relief

Refer to Inland Revenue.

DRAFT PQ AND ANSWER

Q. To ask the Chancellor of the Exchequer whether the Government has any plans to introduce income tax relief on premiums for private medical insurance, and if he will make a statement.

A. In the White Paper "Working for Patients" (Cmnd 555) the Government today announced a new income tax relief on premiums for private medical insurance for those aged 60 and over. The relief will be given at the basic rate by deduction at source (in a similar way to the MIRAS arrangement for mortgagees). It will be available either where an individual aged 60 or over pays his or her own premiums on an eligible policy, or where someone else, such as a relative, pays on their behalf. Where higher rate relief is due, the additional amount will be given by the tax office, eg by adjustment to the PAYE code or in an assessment.

Legislation to introduce the relief will be contained in the next Finance Bill, and will take effect from 6 April 1990. I have authorised the Inland Revenue to consult the medical insurance industry urgently about the details of the relief.



pwp

FROM: H PHILLIPS

DATE: 25 January 1989

CHANCELLOR

cc Chief Secretary  
Sir P Middleton  
Mr Anson

NOTED

MRS CURRIE

The Department of Health have told me that Mrs Currie is writing her memoirs and has requested access to a range of DoH papers. (Memoirs is perhaps too weighty a description as what I understand she has in mind is a very rapid concoction which would come out soon). She is intending to write about the NHS Review, as well as the background to her resignation.

2. DoH are considering what, under the rules, Mrs Currie might be allowed to see. They will consult us if any exchanges with Treasury Ministers, or officials, are involved.

HP.

HAYDEN PHILLIPS