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CHANCELLOR'S PAPERS ON HEALTH AND SOCIAL SECURITY SERVICES

PO -CH /NL/0223

PART K

Begins: 26/1/89

Ends: 31/3/89

DD: 25 years

15/9/95

chex.rm/ds/20 UNCLASSIFIED

FROM: D I SPARKES
DATE: 26 January 1989

PWP

MR PHILLIPS

cc Chief Secretary
Sir P Middleton
Mr Anson

MRS CURRIE

The Chancellor has seen and was grateful for your minute of 25 January concerning Mrs Currie's intended memoirs.

DIS.

DUNCAN SPARKES

FROM: D I SPARKES
DATE: 26 January 1989

MR WALKER - Inland Revenue

PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Phillips
Mr Culpin
Mr Saunders
Mr Griffiths
Mr Macpherson
Mr Towers
Mr Call

Mr Isaac - IR
Mr Corlett - IR
Mr Bush - IR
Mr Kuczys - IR
PS/IR

PWP

PRIVATE MEDICAL INSURANCE: BRIEFING FOR HEALTH MINISTERS

The Chancellor was grateful for your minute of 25 January attaching briefing on the new relief for private medical insurance for the use of Health Ministers.

2. He proposes the following amendments:

<u>Why limit relief to over 60s</u>?

To meet objective above.

<u>Why not wider relief</u>?

Unnecessary; number of people covered by private medical insurance grown significantly in recent years, especially where insurance cover provided by employers. Special tax reliefs should always be avoided except where case for them can be clearly made out.

3. The Chancellor has also suggested that, in support of the latter line to take, you might like to draw Health Ministers' attention to the attached speech (top copy only) by Mr Bob Graham, Chief Executive of BUPA, on 29 November. The burden of his speech was that general reliefs for private medical insurance are not necessary; appropriate quotes appear on pages 5 and 11:

> "I believe that the future of the private sector does not depend on propping up by artificial economic stimuli".

> "Instead of handing economic bouquets to the private sector the Government should concentrate on making the public health service as efficient as possible".

D.S.

DUNCAN SPARKES

chex.md/mw/15 UNCLASSIFIED R1

FROM: MISS M P WALLACE
DATE: 9 December 1988

MR SAUNDERS 2

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Culpin
Mr Parsonage
Mr Griffiths
Mr Call

SPEECH BY BOB GRAHAM - CHIEF EXECUTIVE, BUPA

The Chancellor thought you and others might be interested to read
... the attached speech sent to him by Mr Bob Graham, Chief Executive of BUPA.

MPW.

MOIRA WALLACE

217/12 15/12/88

FINANCIAL TIMES CONFERENCE

29 NOVEMBER 1988

THE WIDENING ROLE OF THE INDEPENDENT SECTOR

BY BOB GRAHAM

CHIEF EXECUTIVE, BUPA

ABOUT TWO AND A HALF YEARS AGO, SOME OF US AND OTHERS - WHO HAVE SINCE LEFT THE SCENE, CAME TO THE LAST FINANCIAL TIMES CONFERENCE ON PRIVATE HEALTH CARE AND SPECULATED ON THE FUTURE OF THE INDUSTRY. WE DEALT AT LENGTH WITH THE HOT TOPICS OF THE DAY AT A TIME WHEN THE GROWTH OF INDEPENDENT HEALTH CARE WAS MODEST AND EFFECTIVE COST CONTROL HAD NOT YET BEEN ACHIEVED. PERHAPS INDEED THAT CONFERENCE WAS THE SPARK WHICH IGNITED THE INTENSE DEBATE WHICH HAS GATHERED MOMENTUM OVER THE PAST FEW YEARS AND DURING THIS YEAR IN PARTICULAR.

FEW SUBJECTS CAN HAVE INSPIRED SUCH A PLETHORA OF OPINIONS, SPECULATION AND RECOMMENDATION FROM SUCH A WIDE RANGE OF PEOPLE INCLUDING POLITICIANS, ACADEMICS, JOURNALISTS, BROADCASTERS, DOCTORS AND ECONOMIC AND SOCIAL INSTITUTIONS.

ALMOST EVERY CONCEIVABLE ROLE AND EVERY POSSIBLE FORM OF GOVERNMENT ASSISTANCE HAS BEEN ADVOCATED FOR PRIVATE MEDICINE. TO NAME JUST A FEW: THE PERENNIAL TAX RELIEF ON HEALTH INSURANCE SUBSCRIPTIONS; TAX REBATES FOR INDIVIDUALS WHO PAY FOR THEIR TREATMENT PRIVATELY; HEALTH VOUCHERS; THE RIGHT TO OPT OUT OF THE NHS FOR A REDUCED TAX CONTRIBUTION; THE PRIVATE SECTOR TO MANAGE A NATIONAL INSURANCE SCHEME OR TO RUN LARGE PARTS OF THE NHS; THE FORMING OF HEALTH MAINTENANCE ORGANISATIONS BETWEEN THE PRIVATE SECTOR AND THE NHS.

THE LATEST IDEA BEING PROPOUNDED IS THAT TAX EFFECTIVE HEALTH TRUSTS SHOULD BE ESTABLISHED FOR PRIVATE SECTOR EMPLOYERS.

BUT TWO AND A HALF YEARS LATER, AND FOLLOWING THE GOVERNMENT'S FAIRLY MUTED PRONOUNCEMENTS ON HEALTH CARE MADE AT THE CONSERVATIVE PARTY CONFERENCE LAST MONTH, WHAT IS THE REALITY? NONE OF THESE THINGS HAS TRANSPIRED. HOWEVER, HEALTH INSURANCE HAS CONTINUED TO GROW STEADILY; SOME SERVICES LIKE MEDICAL SCREENING HAVE EXPANDED RAPIDLY; AND NEW PRODUCTS AND SERVICES HAVE BEEN DEVELOPED WITHOUT ANY SPECIFIC AID FROM GOVERNMENT.

THE PRIVATE HEALTH CARE SECTOR HAS BECOME A £1 BILLION INDUSTRY, SERVING OVER 10% OF THE POPULATION AND PROVIDING ABOUT 14% OF UK HEALTH CARE. THE LATEST ESTIMATE IS THAT ABOUT 17% OF THE NATION'S ELECTIVE SURGERY IS NOW PERFORMED IN THE PRIVATE SECTOR.

OVERALL, THE INDUSTRY HAS DEVELOPED FASTER THAN THE ANNUAL GROWTH OF THE NATIONAL ECONOMY AND THIS HAS BEEN ACHIEVED WITHOUT ANY OF THE SO CALLED "INCENTIVES" PRESCRIBED FOR THE SECTOR.

THE HEALTH INSURANCE MARKET, FOR EXAMPLE, HAS EXPANDED BY ABOUT 17% IN THE PAST THREE YEARS, WHILST MEDICAL SCREENING HAS GROWN BY A QUITE DRAMATIC 50%. SHEER COMMONSENSE HAS SEEN A GREAT DIMINUTION IN THE IDEALOGICAL BARRIERS BETWEEN THE PUBLIC AND PRIVATE SECTORS AND CO-OPERATION BETWEEN THE TWO IS NOW INCREASINGLY COMMON.

IN ANY CASE, I BELIEVE THAT THE FUTURE OF THE PRIVATE SECTOR DOES NOT DEPEND ON PROPPING UP BY ARTIFICIAL ECONOMIC STIMULI OR BY THE ACCEPTANCE OF UNREALISTIC OR INAPPROPRIATE POLITICALLY INSPIRED ROLES. SUCH PLATFORMS WOULD BE AN INSECURE BASIS ON WHICH TO BUILD A BUSINESS. WE HAVE SEEN ALL TOO MANY EXAMPLES OF WHAT CAN HAPPEN TO BUSINESSES WHICH RELY ON GOVERNMENT HAND-OUTS OR PATRONAGE.

DISTORTION OF MARKET FORCES IS NOT GOOD AND IT WOULD BE UNWISE TO BASE FUTURE PLANNING ON ECONOMIC CRUTCHES GIVEN TO THE INDUSTRY BY A GOVERNMENT OF ONE POLITICAL PERSUASION WHICH COULD LITERALLY BE KICKED AWAY OVERNIGHT BY A NEW REGIME OF A DIFFERENT PERSUASION.

THERE IS ANOTHER REASON WHY I AM NOT SURPRISED THAT THE VARIOUS LEAKS AND KITE FLYING EXERCISES OF RECENT YEARS HAVE NOT BECOME REALITY - AND THAT IS BECAUSE, OF COURSE, TAX BREAKS AND SUBSIDIES ARE ALIEN TO THE BASIC PHILOSOPHY OF A CONSERVATIVE GOVERNMENT WHICH WANTS TO REDUCE THEM AND NOT ADD TO THEIR NUMBER. ITS INTENTION IS TO ELIMINATE ANOMALIES AND SIMPLIFY THE TAX SYSTEM SO THAT, AS FAR AS POSSIBLE, BUSINESSES AND INDIVIDUAL CITIZENS WILL STAND FAIRLY AND SQUARELY ON THEIR OWN ECONOMIC FEET.

IF ANYONE HAD ANY DOUBTS ABOUT THIS, KENNETH CLARKE'S SPEECH AT THE TORY PARTY CONFERENCE LAST MONTH MUST HAVE DISPELLED ANY ILLUSIONS: THERE WAS NO HINT OF AID OR PRIVILEGE FOR PRIVATE MEDICINE.

MOREOVER, I BELIEVE IT TO BE RIGHT AND PROPER THAT USERS OF PRIVATE MEDICINE SHOULD PAY THEIR FULL SHARE OF TAXES TOWARDS THE NHS THUS AVOIDING BOTH THE SUGGESTION AND THE REALITY OF A TWO TIER SYSTEM OF HEALTH CARE WITH FIRST AND SECOND CLASS SERVICES.

THERE IS LITTLE DOUBT IN MY MIND THAT THE FUTURE OF THE PRIVATE SECTOR IS FIRMLY HITCHED TO ITS ABILITY TO COMPETE EFFECTIVELY IN THE NEW CLIMATE OF POPULAR CAPITALISM WHICH HAS TAKEN ROOT IN BRITAIN AND WHICH IS SPREADING RAPIDLY NOT ONLY ACROSS THE WESTERN WORLD BUT ALSO INTO THE EASTERN BLOC. IT IS EVEN EMERGING IN THIRD WORLD COUNTRIES AS WELL.

WE ARE ALL FAMILIAR WITH THE ELEMENTS OF POPULAR CAPITALISM: PRIVATISATION, WIDER SHARE AND PROPERTY OWNERSHIP; THE ENDING OF RESTRICTIVE PRACTICES AND MONOPOLIES; THE FOSTERING OF COMPETITION; AND THE WITHDRAWAL OF GOVERNMENT TO A REGULATING ROLE.

THIS NEW WAVE OF THINKING IS TRANSFORMING ECONOMIES AND APART FROM BRITAIN, TWO CLASSIC EXAMPLES ARE JAPAN AND SINGAPORE. POPULAR CAPITALISM IS BEING EMBRACED BY SOCIALIST GOVERNMENTS IN FRANCE, AUSTRALIA, NEW ZEALAND AND SPAIN, AND BY THE COMMUNIST REGIME IN CHINA. THROUGH GLASNOST AND PERESTROIKA, ELEMENTS OF CAPITALISM ARE NOW BEING INTRODUCED IN RUSSIA AS WELL: THE NEW PRIVATE HOSPITAL IN MOSCOW IS SPECTACULAR EVIDENCE OF RAPIDLY CHANGING ATTITUDES - ATTITUDES WHICH ARE CONCERNED MORE WITH SUCCESSFUL OUTCOMES RATHER THAN THE ROUTE TAKEN, OR POLITICAL DOGMA.

ECONOMIC LIBERALISATION BRINGS WITH IT A BROADER POPULAR UNDERSTANDING OF PERSONAL ECONOMIC AND FINANCIAL AFFAIRS AND MANY MORE PEOPLE PARTICIPATE IN EQUITY MARKETS, HOME OWNERSHIP AND THE PROVISION OF THEIR OWN PENSIONS. IT ALSO ENCOURAGES INDIVIDUALS TO TAKE GREATER RESPONSIBILITY FOR THE COURSE OF THEIR OWN LIVES AND THE WELL-BEING OF THEIR OWN FAMILIES.

HEALTH CARE, AS PROBABLY ONE OF THE MOST PERSONAL AND INTIMATE ASPECTS OF HUMAN LIFE, MUST BE AN IMPORTANT ELEMENT IN THIS.

REFORM OF GENERAL TAXATION POLICY IS AN INTEGRAL PART OF THE PROCESS. WHAT HAS BEEN ACHIEVED IN THE UNITED STATES IS DRAMATIC: THERE HAS BEEN A MASSIVE SIMPLIFICATION AND MANY SPECIAL ALLOWANCES HAVE BEEN ELIMINATED. THE HIGHEST RATE OF INCOME TAX IS NOW ONLY 27% AND YET MORE REVENUE IS BEING COLLECTED THAN BEFORE.

IN THE UK THE PROCESS IS WELL UNDER WAY. WE HAVE HAD SEVERAL TAX CUTS AND CORPORATION TAX HAS COME DOWN FROM 52% TO 35%. I HAVE NO DOUBTS THAT THE SYSTEM WILL BE FURTHER STREAMLINED AND SHAPED TO KINDLE INITIATIVE AND ENTERPRISE.

ACROSS THE WORLD THERE IS ALSO THE GROWING REALISATION THAT FREE ENTERPRISE CREATES THE WEALTH AND PROSPERITY WHICH ENABLES GOVERNMENTS TO PROVIDE ADEQUATELY FOR THE DISADVANTAGED AND THE POOR.

I REMAIN CONVINCED THAT THE NHS WILL CONTINUE TO BE THE PRINCIPAL PROVIDER OF HEALTH CARE IN BRITAIN FOR THE FORESEEABLE FUTURE. I THEREFORE BELIEVE THAT IT IS ABSOLUTELY RIGHT THAT INSTEAD OF HANDING ECONOMIC BOUQUETS TO THE PRIVATE SECTOR THE GOVERNMENT SHOULD CONCENTRATE ON MAKING THE PUBLIC HEALTH SERVICE AS EFFICIENT AS POSSIBLE SO THAT IT CAN GIVE MAXIMUM VALUE FOR EVERY TAX POUND SPENT ON IT.

AS THE SECRETARY OF STATE DECLARED AT HIS PARTY'S CONFERENCE: "THE NHS IS NOT A BUSINESS, BUT IT HAS TO BE MORE BUSINESSLIKE.

"WE WILL SPREAD THE BEST QUALITIES OF THE ENTERPRISE ECONOMY THROUGHOUT IT."

THIS MEANS OF COURSE THAT THE HORIZONS OF THE PRIVATE SECTOR WILL CONTINUE TO BE BOUNDED BY THE NHS. HOWEVER, THAT STILL LEAVES ENORMOUS SCOPE BECAUSE AS WE ALL KNOW, THE DEMAND FOR HEALTH CARE IS INSATIABLE - IT SIMPLY CONTINUES TO OUTSTRIP THE GROWTH OF PROVISION. WITH PUBLIC DEMAND INCREASING AND THE INEVITABLE IMPOSITION OF PUBLIC EXPENDITURE CEILINGS, THE EXTRA RESOURCES AND SERVICES CAN ONLY COME FROM THE PRIVATE SECTOR.

I BELIEVE THERE MUST BE CONSIDERABLE SCOPE FOR INDEPENDENT HEALTH CARE IN THIS COUNTRY. THE PROPORTION OF GROSS NATIONAL PRODUCT SPENT ON PRIVATE MEDICINE IN BRITAIN IS ONLY 0.8% WHILST IN BOTH GERMANY AND FRANCE IT IS 1.8%.

THE NATURAL GROWTH OF THE PRIVATE SECTOR IN THE UK WOULD MATCH THESE FIGURES BY THE END OF THE CENTURY IF NOTHING ELSE CHANGED, BUT OF COURSE THINGS ARE CHANGING:

WE HAVE TO RECOGNISE THAT CONSUMERISM IS BECOMING THE ORDER OF THE DAY. PEOPLE ARE DEMANDING HIGHER STANDARDS AND WANT CHOICE. AND A HEALTHY ECONOMY IS ENSURING THAT THEY HAVE GREATER DISPOSABLE INCOMES TO INDULGE THEIR PREFERENCES.

THAT IS THE PRIVATE SECTOR'S OPPORTUNITY.

THAT IS ITS CHALLENGE.

IT IS UP TO US TO GAIN OUR SHARE OF RISING PROSPERITY IN THIS UNFETTERED FREE MARKET BY DEVELOPING THE PRODUCTS AND SERVICES WHICH ATTRACT THE PUBLIC AND CONVINCING IT OF THE VALUE OF PRIVATE HEALTH CARE. TO DO SO, WE MUST JOSTLE NOT ONLY WITH EACH OTHER BUT ALSO WITH EVERY OTHER TYPE OF BUSINESS WHICH IS COMPETING FOR A SHARE OF TOTAL DISPOSABLE INCOME.

BUT IT IS NOT JUST A MATTER OF COMPETING FOR A SHARE OF THE <u>INCREASE</u> - IT IS ALSO UP TO US TO EDUCATE INDIVIDUALS TO SPEND A GREATER SHARE OF <u>CURRENT</u> DISPOSABLE INCOME ON THEIR OWN AND THEIR FAMILIES' HEALTH CARE.

THE MAGNITUDE OF THE SCOPE IS CLEAR WHEN YOU CONSIDER THE HUGE SUMS SPENT ON LEISURE PURSUITS: THE £7.5 BILLION SPENT EACH YEAR ON THE THOROUGHLY UNHEALTHY HABIT OF SMOKING; THE £16.5 BILLION SPENT ON ALCOHOL (ALMOST AS MUCH AS THE BUDGET OF THE NHS ITSELF); THE £600 MILLION SPENT ON FOOTBALL POOLS; THE £4.3 BILLION SPENT ON THE DOGS AND HORSES; AND THE £1.6 BILLION SPENT ON JACKPOT MACHINES AND BINGO.

IN THE NEW POPULAR CAPITALISM, MAKING MONEY IS NOT REGARDED AS SOMETHING EVIL. SIMILARLY, THERE IS ALSO AN INCREASING ACCEPTANCE THAT MAKING REASONABLE PROFITS IN HEALTH CARE IS IN THE PUBLIC INTEREST BECAUSE IT IS THOSE PROFITS WHICH ENSURE THE AVAILABILITY OF THE SERVICES AND THE QUALITY STANDARDS WHICH PEOPLE INCREASINGLY SEEK.

THE PRIVATE SECTOR HAS, IN THE PAST, DESCRIBED ITSELF SOMEWHAT EUPHEMISTICALLY AS "COMPLEMENTARY" TO THE NHS - MEANING THAT IT SIMPLY PROVIDED ADDITIONAL RESOURCES WHICH IN COMPARISON WITH THE NHS WERE FAIRLY MODEST AND MAINLY IN THE FIELD OF ACUTE SURGERY. WHILE STILL A COMPLEMENTARY SERVICE, IT IS, HOWEVER, BECOMING MORE SOPHISTICATED AND DIVERSIFIED - SO MUCH SO THAT AS THE NHS BECOMES FREE TO MAKE PROFITS ITSELF, COMPETITION BETWEEN IT AND THE PRIVATE SECTOR IS NOW BECOMING A REALITY.

THIS IS HAPPENING NOT ONLY IN RELATION TO PAY-BEDS BUT IN MANY OTHER AREAS. ALSO, OF COURSE, WITH MORE UNFETTERED AND ENLIGHTENED MANAGEMENT, THE NHS IS NOW MUCH MORE READILY PREPARED TO BECOME A CUSTOMER OF THE PRIVATE SECTOR WHERE IT PERCEIVES GOOD VALUE AND QUALITY OF SERVICE.

AS MR CLARKE SAID AT BRIGHTON: "THE REALITY IS THAT IN FUTURE WE ARE GOING TO HAVE A MIXED HEALTH CARE ECONOMY AND OUR AIM IS TO GET THE FULL BENEFIT OF THAT FOR ALL PATIENTS."

INDEED, BUPA'S OPINION POLLS OVER THE YEARS HAVE SHOWN A GROWING PUBLIC DESIRE FOR A MIXED ECONOMY IN HEALTH CARE.

THIS COMPETITIVE TREND WILL, IN MY VIEW, SPREAD TO EVERYONE IN HEALTH CARE - INCLUDING CONSULTANTS, GP'S AND NURSES.

FOR EXAMPLE, TO QUOTE MR CLARKE AGAIN: "WE WANT THE PATIENT TO CHOOSE THE GP HE THINKS BEST FOR HIM, AND TO CHANGE HIS GP WHEN HE WANTS."

IT IS FASCINATING TO NOTE THAT THE LABOUR PARTY ALSO SEEMS TO BE BEGINNING TO REGARD THE NHS PATIENT AS SOMETHING OTHER THAN A SUPPLICANT AND TO BE EMBRACING THE MERITS OF COMPETITION IN HEALTH CARE.

FOR THE FIRST TIME THAT I CAN RECALL AT A LABOUR CONFERENCE NO RESOLUTIONS WERE DEBATED THIS YEAR WHICH CALLED FOR THE ABOLITION OF PRIVATE HEALTH CARE. INDEED, THE ISSUE OF HEALTH CARE WAS INCLUDED IN A DEBATE ON AN INTERIM REPORT PRODUCED BY A LABOUR POLICY REVIEW GROUP WITH THE INTERESTING TITLE OF "CONSUMERS AND THE COMMUNITY".

IT IS REFRESHING TO NOTE THE WORD "CONSUMER" - PERHAPS NEXT YEAR WE MIGHT EVEN GET A MENTION OF CUSTOMERS.

DURING THE DEBATE, ROBIN COOK, THE SHADOW HEALTH SECRETARY, SAID: "WE ARE GOING TO PUT BUPA OUT OF BUSINESS BY PROVIDING A BETTER SERVICE THAN BUPA CAN MATCH."

WELL MR COOK, I HAVE NEWS FOR YOU:

I ACCEPT YOUR CHALLENGE, GLADLY.

WE WELCOME COMPETITION.

WE THRIVE ON IT.

COMPETITION WILL ENSURE THAT THE PATIENT RECEIVES A GOOD DEAL AND MAXIMUM CHOICE. WHEN THE CUSTOMER IS KING, ALL CITIZENS GET BETTER VALUE FOR HEALTH CARE MONEY.

I CONGRATULATE YOU ON YOUR NEW ENLIGHTENMENT - THE PATIENT HAS NEVER HAD SUCH GOOD NEWS FROM LABOUR.

BUT WHY DO YOU WANT TO PUT US OUT OF BUSINESS? YOU WOULD SIMPLY DEPRIVE FIVE OR SIX MILLION OF THE ELECTORATE OF THE RIGHT TO CHOOSE AND INCUR THEIR ANGER, AS WELL AS LENGTHENING WAITING LISTS AND THROWING A VERY LARGE ADDITIONAL BURDEN ON THE NHS.

THE LATEST POLICY PRONOUNCEMENTS BY THE SOCIAL AND LIBERAL DEMOCRATS AND THE SOCIAL DEMOCRATS INDICATE THAT THEY ALSO SEEM INTENT ON "STAND ON YOUR OWN FEET" POLICIES FOR PRIVATE MEDICINE AND GREATER CO-OPERATION AND COMPETITION BETWEEN THE TWO SECTORS.

COMPETITION, HOWEVER, MUST BE FAIR AND THE PLAYERS MUST EXPECT TO COMPETE ON EQUAL TERMS. THE NHS, FOR EXAMPLE, SHOULD NOT BE ALLOWED TO COMPETE ON AN UNREALISTIC COSTING BASIS, OR THROUGH SUBSIDY BY THE TAXPAYER, NOR, FOR EXAMPLE, SHOULD PRIVATE PATIENTS HAVE TO PAY SO MUCH MORE FOR DRUGS THAN DO NHS PATIENTS.

RECENTLY, AS A RESULT OF A RULING BY THE EUROPEAN COURT, THE GOVERNMENT ANNOUNCED THAT PRIVATE HOSPITALS AND NURSING HOMES ARE TO PAY VAT ON NEW BUILDINGS, WHILST COMPARABLE NHS FACILITIES ARE EXEMPT. THAT IS NOT AN EQUITABLE SITUATION AND I SINCERELY HOPE THE GOVERNMENT WILL TAKE ACTION TO RECTIFY IT.

SO WHAT DOES ALL THIS AUGUR FOR THE FUTURE OF PRIVATE HEALTH CARE?

IT MEANS THAT MARKET FORCES WILL PREDOMINATE AND THAT A NATURAL BALANCE WILL DEVELOP BETWEEN THE NHS AND THE PRIVATE SECTOR IN WHICH EACH WILL LEAVE TO THE OTHER WHAT IT CAN DO BEST. THIS WOULD MEAN A TRULY COMPLEMENTARY RELATIONSHIP WITHOUT UNDUE OVERLAP OR DUPLICATION AND THE BEST POSSIBLE USE OF THE MONEY WHICH THE COMMUNITY IS PREPARED TO SPEND ON ITS HEALTH CARE NEEDS.

AS THE NHS CONTINUES TO BE MORE BUSINESSLIKE AND ARTIFICIAL BARRIERS ARE DISMANTLED, THERE WILL BE MORE DEALS BETWEEN THE TWO SECTORS. IT WILL NOT ALWAYS BE LOGICAL FOR THE NHS ITSELF TO BUILD AND OPERATE EVERY FACILITY AND SERVICE WHEN BETTER RESULTS AND LOWER COSTS CAN BE OBTAINED THROUGH SUB-CONTRACTING. SUB-CONTRACTING TOO CAN AND SHOULD BE A TWO WAY STREET. MARKET FORCES WILL ALSO DICTATE THAT IT IS WISE AT TIMES TO FORM PARTNERSHIPS AND ENGAGE IN JOINT VENTURES.

AS MR CLARKE SAID IN HIS CONFERENCE SPEECH, NHS MANAGERS SHOULD BE PREPARED TO BUY SERVICES FOR THEIR PATIENTS FROM THE PRIVATE SECTOR SO LONG AS THEY BARGAIN HARD AND PAY AS LITTLE AS POSSIBLE; AND SHOULD BE READY TO SELL SERVICES TO THE PRIVATE SECTOR AS LONG AS THEY CHARGE THE HIGHEST POSSIBLE PRICE. I HAVE NO QUARREL WITH THIS AS LONG AS IT IS REALISED THAT THE PEOPLE ON THE OTHER SIDE OF THE NEGOTIATING TABLE WILL HAVE SIMILAR OBJECTIVES.

IN THE TRADITIONAL FIELDS OF HEALTH INSURANCE AND PRIVATE HOSPITALS, I BELIEVE THAT GROWTH WILL CONTINUE TO BE STEADY.

THE PRIVATE SECTOR IS SOMETIMES CRITICISED BECAUSE OF THE COST OF HEALTH CARE. AS IN ANY MARKET SITUATION, THIS WILL REGULATE ITSELF - ALREADY WE SEE SIGNS: NEW CHEAPER INSURANCE SCHEMES ARE BEING INTRODUCED TO MEET MARKET NEEDS; DOCTORS' MONOPOLIES AND TOTAL CLINICAL FREEDOMS ARE BEING CHALLENGED AND FEES AND HOSPITAL COSTS ARE COMING UNDER PRESSURE.

AS A RESULT, THE RATE OF COST INFLATION IN HEALTH INSURANCE SUBSCRIPTIONS HAS BEEN MUCH REDUCED.

IN A FREE MARKET WITH INCREASING COMPETITION WE WILL ALSO SEE THE CONTINUING INTRODUCTION OF NEW HEALTH INSURANCE PRODUCTS TAILORED TO SPECIAL OBJECTIVES AND MARKETS. INCENTIVES FOR RISK REDUCTION ARE BEGINNING TO APPEAR. THEY INCLUDE DISCOUNTS FOR NON SMOKERS, DEDUCTIBLES, NO CLAIM BONUSES AND REDUCED BENEFIT SCHEDULES.

NEW SCHEMES ARE BEING INTRODUCED FOR THE ELDERLY, AND PAYMENT BY CREDIT CARD IS BECOMING INCREASINBLY COMMON.

PRIVATE HOSPITALS WILL CONTINUE TO GAIN ADDITIONAL REVENUE BY DEVELOPING SPECIAL SERVICES FOR LOCAL COMMUNITIES.

IT HAS BEEN SAID THAT THERE ARE TOO MANY PRIVATE HOSPITALS. THAT MAY BE PARTLY TRUE IN ONE OR TWO AREAS, BUT RATIONALISATION IS OCCURRING WHICH WILL ENSURE THAT ECONOMIES OF SCALE AND STANARDISATION PREVAIL. ON THE OTHER HAND THERE IS SCOPE FOR SMALLER SPECIALISED LOCAL HOSPITAL SERVICES THROUGHOUT THE COUNTRY. A LEADING OBSERVER SAID SOME WEEKS AGO THAT THE MARKET COULD SUPPORT 100 NEW HOSPITALS BY THE YEAR 2000.

OTHER AREAS OF GROWTH WILL BE IN DAYCARE AND COMMUNITY CARE. HOSPITALS ARE EXPENSIVE AND WILL BECOME INCREASINGLY ANACHRONISTIC IN RELATION TO THE MORE ROUTINE SURGICAL AND MEDICAL PROCEDURES. DAY CLINICS AND HOME CARE MAKE GREAT SENSE, AND WILL BE A MAJOR FEATURE OF THE HEALTH CARE SCENE OVER THE NEXT QUARTER CENTURY.

HERE AGAIN, THE PRIVATE SECTOR HAS A SUBSTANTIAL OPPORTUNITY IN PROVIDING CLINICS, TOGETHER WITH NURSING AND OTHER HELP FOR PEOPLE IN THEIR HOMES.

BUT THERE ARE AREAS WHERE I THINK GROWTH IS GOING TO CONTINUE TO BE VERY RAPID:

WHILE THE MORE TRADITIONAL SECTORS LIKE HEALTH INSURANCE AND PRIVATE HOSPITALS WILL CONTINUE TO ENJOY STEADY GROWTH, PREVENTIVE MEDICINE, THE CARE OF THE ELDERLY AND OVERSEAS VENTURES ARE PRESENTING NEW AND EXCITING OPPORTUNITIES FOR THE ALERT AND EXPERIENCED HEALTH CARE COMPANIES.

PREVENTIVE MEDICINE MUST BE A PARTICULARLY PROMISING FIELD: NEVER BEFORE HAS THE PUBLIC BEEN SO AWARE OF HEALTH MATTERS FROM DIET TO EXERCISE, AND INCREASINGLY PEOPLE ARE APPRECIATING THE VALUE OF SCREENING. NEVER BEFORE HAVE EMPLOYERS BEEN SO CONSCIOUS OF THE CLOSE RELATIONSHIP BETWEEN A HEALTHY WORK FORCE AND A HEALTHY BOTTOM LINE ON THEIR BALANCE SHEET.

THE NHS IS FULLY STRETCHED TO PROVIDE A SICKNESS SERVICE SAFETY NET FOR THOSE WHO NEED IT. PREVENTIVE MEDICINE IS THUS NOT SEEN AS A PRIMARY ROLE FOR GOVERNMENT. INCREASINGLY, BY CREATING A HEALTHY ECONOMY AND GREATER DISPOSABLE INCOMES, GOVERNMENT EXPECTS THE PUBLIC AND EMPLOYERS TO PLAY A GREATER ROLE IN MAINTAINING THEIR OWN AND THEIR EMPLOYEES' HEALTH.

THIS PROVIDES HUGE OPPORTUNITIES FOR THE PRIVATE SECTOR IN THE FIELDS OF MEDICAL SCREENING AND OCCUPATIONAL HEALTH.

ANOTHER AREA OF GREAT POTENTIAL IS THE CARE OF THE ELDERLY. IN A BUOYANT AND GROWING ECONOMY WITH MORE PERSONAL PENSION SCHEMES AND INVESTMENT SCHEMES MANY MORE PEOPLE WILL BE ABLE TO CATER FINANCIALLY FOR THEMSELVES IN OLD AGE.

THE ELDERLY ARE BECOMING A NEW ECONOMIC FORCE IN THEIR OWN RIGHT AS A GROWING PROPORTION OF OLDER PEOPLE ARE NOW COMPARATIVELY WELL OFF.

ELDERLY PEOPLE HAVE FINANCIAL MUSCLE AND A WHOLE NEW INDUSTRY IS DEVELOPING TO SERVICE THEIR NEEDS.

WITH THE NUMBER OF PEOPLE OVER 65 IN BRITAIN PROJECTED TO RISE BY A FURTHER MILLION BY THE TURN OF THE CENTURY THE SUBSTANTIAL TOTAL OF MORE THAN 10 MILLION WILL CONSTITUTE A HUGE DEVELOPING MARKET FOR THE HEALTH CARE INDUSTRY.

ALREADY, ABOUT HALF THE FACILITIES FOR THE ELDERLY ARE OWNED AND OPERATED BY THE PRIVATE SECTOR, AND THIS PROPORTION WILL INCREASE.

AS MORE COMPANIES EMERGE TO MEET THE DEMANDS FOR SCREENING AND CARE OF THE ELDERLY, THERE ARE NATURAL ANXIETIES ABOUT STANDARDS OF QUALITY, WITH CALLS FOR GREATER GOVERNMENT REGULATION, INSPECTION AND CONSTRAINTS.

WHILE REGULATION WHETHER SELF-IMPOSED OR GOVERNMENT ENFORCED IS DESIRABLE, I BELIEVE THAT AS IN OTHER FIELDS, THE BEST WAY OF ACHIEVING HIGH QUALITY IS THROUGH COMPETITION. IN HEALTH CARE PARTICULARLY THE BUSINESS WILL GO TO THOSE WHO PROVIDE THE BEST QUALITY AND VALUE FOR MONEY.

THE POWERFUL TRUTH IS THAT COMPETITION IS THE ONLY REAL GUARDIAN OF THE CUSTOMER INTEREST.

ANOTHER EXCITING FIELD OF OPPORTUNITY LIES OVERSEAS. AS POPULAR CAPITALISM SPREADS THROUGHOUT THE WORLD MANY GOVERNMENTS ARE SEEKING TO REDUCE THE HEALTH CARE TAX BURDEN ON THE STATE AND TO ENLARGE THE PRIVATE MEDICAL SECTOR. THERE IS A GREAT RESERVE OF KNOWHOW IN THE PRIVATE SECTOR IN BRITAIN IN THE FINANCING AND RUNNING OF HEALTH CARE AND IN WORKING WITH GOVERNMENT AND PUBLIC AUTHORITIES.

THUS ADVISING AND WORKING WITH OVERSEAS GOVERNMENTS AND FORMING JOINT VENTURES WITH COMPANIES ABROAD MUST BE A SIGNIFICANT BUSINESS OPPORTUNITY FOR THOSE MEMBERS OF THE BRITISH PRIVATE SECTOR WITH THE KNOW-HOW AND COURAGE TO IDENTIFY AND GRASP THE OPPORTUNITIES AS THEY PRESENT THEMSELVES. OUR AMERICAN FRIENDS HAVE BEEN DOING THIS SUCCESSFULLY FOR MANY YEARS AND THERE IS NO REASON WHY THE UNITED KINGDOM SHOULD NOT HAVE A SHARE OF THE ACTION.

I AM SURE THAT WE SHALL HEAR MANY REFERENCES AT THIS CONFERENCE TO 1992 AND I DO NOT INTEND TO DWELL ON IT AT ANY LENGTH OTHER THAN TO SAY THAT I BELIEVE THE OPPORTUNITIES AND THREATS WHICH WILL BE IDENTIFIED WITH THE PROPOSED SINGLE EUROPEAN MARKET ARE ALREADY IN EXISTENCE.

OF COURSE, THE PRIVATE HEALTH CARE SECTOR MUST PROTECT ITS HOME MARKET AGAINST INCREASING OVERSEAS COMPETITION BUT NOW IS THE TIME TO SEIZE THE OPPORTUNITIES WHICH I BELIEVE EXIST, DESPITE THE MONOLITHIC AND BUREAUCRATIC NATURE OF SOME EUROPEAN STATE HEALTH CARE SYSTEMS.

IN SHORT, MR CHAIRMAN, LADIES AND GENTLEMEN, THE ECONOMIC AND POLITICAL BAROMETER IS SET FAIR FOR PRIVATE MEDICINE - FAIRER THAN I HAVE EVER KNOWN IT IN THE PAST.

FREE MARKET FORCES WILL SET THE OPPORTUNITIES FOR OUR FUTURE. I THINK THAT THIS IS ENTIRELY RIGHT AND ENTIRELY FAIR. IT WILL ENSURE THAT THE BEST AND MOST EFFICIENT ELEMENTS OF THE HEALTH CARE INDUSTRY WILL SURVIVE AND PROSPER - AND THAT IS FIRMLY IN THE BEST INTERESTS OF THE PUBLIC.

Ends

FROM: J P MCINTYRE
DATE: 27 January 1989

CHIEF SECRETARY

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

Ch/ In the light of this advice, shall we return to the idea of amending the secondary legislation at the same time as this year's uprating orders?
DIS

yes pl.

CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT

Following my submission of 20 December, the Chancellor asked (Miss Wallace's minute of 30 December to your private secretary) whether we might put family credit on the same basis as income support in terms of its relationship with child benefit. Child benefit would be taken into account in calculating family credit entitlements, as it is now for income support, and family credit would be uprated each year whether or not child benefit was uprated. I am sorry that further advice has been held up. This is partly because of the need to consult DSS on one or two technical points.

2. The main difficulty with this approach is that it would tend to result in lower family credit upratings than under the present system. This is because we would be putting the value of child benefit into the family credit rates and uprating them by ROSSI, whereas at present family credit recipients get a RPI uprating of child benefit - either through the uprating of child benefit itself or through an addition of the same amount to family credit (as will happen in April).

3. So an apparently technical change, designed to bring family credit into line with income support, could well arouse strong opposition on the grounds that we were trying to make savings. Gordon Brown has already been onto the point that the means tested benefits are uprated by ROSSI rather than the RPI, which tends to increase by more.

4. Annex A sets out the calculations, both for a year when child benefit is uprated and for one when it is frozen. It shows that, on the assumptions made, the family credit uprating would be 15p a week less if it were dealt with like income support instead of as at present.

5. The Chancellor also asked to be reminded of the rationale, in the social security reforms, for the different treatment of child benefit in family credit and income support.

6. The answer is that the reforms did not alter the position which applied under the previous means-tested benefits, supplementary benefit and family income supplement. DSS have taken the view that FIS/FC are not subsistence benefits which should be adjusted immediately (in the same way as IS) to take account of any change in circumstances. They are awarded for six months periods without alteration. There is therefore no need to set FIS/FC rates to allow for any circumstances where child benefit may not be payable and thus no reason to include the value of child benefit within the FIS/FC rates.

7. With SB/IS, on the other hand, DSS say there are circumstances in which the means-tested benefit would continue to be paid but not child benefit. They admit this affects very few cases, and I do not see this as a very cogent argument. There is some logic, however, in income support as a subsistence benefit being adjusted automatically to reflect any increase in child benefit - if it were not, we would be implying that the subsistence income level had gone up.

Conclusion

8. If we were inventing income support and family credit afresh, I think we might well want to put them on the same basis in relation to child benefit. But to try to do so now might well invite accusations of cuts and unwelcome attention on the levels of income support and family credit generally.

9. This still leaves the option of putting compensation in family credit for a child benefit freeze on a statutory basis, which was discussed in my minute of 20 December.

JM

J P MCINTYRE

Annex A: CALCULATION OF FAMILY CREDIT

Example I: Child benefit not uprated

	CURRENT SYSTEM		CHILD BENEFIT INCLUDED IN FC
Year 1	32.10	adult credit	32.10
	6.05	child credit	13.30
	38.15	maximum FC	45.40
	75.00-	net income	75.00
	51.45	FC threshold	51.45
	23.55 X 0.7		23.55 X 0.7
	= 16.49	excess income	= 16.49
	38.15-	maximum FC-	45.40-
	16.49	excess income	16.49
			27.91
			7.25 (deduction of CB)
	21.66	=FC entitlement	21.66
Year 2			
	33.40	adult credit	33.40
	6.30	child credit	13.85
	39.70	maximum FC	47.25
	75.00-	net income	75.00-
	53.50	FC threshold	53.50
	21.50 X 0.7		21.50 X 0.7
	=15.05	excess income	=15.05
	39.70-	maximum FC-	47.25
	15.05	excess income	15.05
	24.65		32.20-
(Add CB compensation)	0.45		7.25 (deduction of CB)
	25.10	FC entitlement	24.95

Assumptions:

(i) Family with one child under 11 on net income of £75 per week.
(ii) Net income is unchanged between Years 1 and 2.
(iii) RPI increases by 6 per cent.
(iv) ROSSI increases by 4 per cent.

Example II: <u>Child Benefit uprated</u>

	CURRENT SYSTEM		CHILD BENEFIT INCLUDED IN FC
Year 1	Calculations as for Example I		
	21.66	FC entitlement	21.66
Year 2			
	33.40	adult credit	33.40
	6.30	child credit	13.85
	-----		-----
	39.70	maximum FC	47.25
	75.00	net income	75.00
	53.50	FC threshold	53.50
	-----		-----
	21.50 x 0.7		21.50 x 0.7
	=15.05	excess income	=15.05
	39.70-	maximum FC-	47.25-
	15.05	excess income	15.05

			32.20-
			7.70 (CB deduction)
	-----		-----
	<u>24.65</u>	=FC entitlement	<u>24.50</u>

<u>Assumptions:</u>

As for Example I.

FROM: J P MCINTYRE
DATE: 31 January 1989

1. MR PHILLIPS HP. 31/1
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Peretz
Miss Peirson
Mr Francis
Mr Speedy
Mrs Chaplin

NICS AND EQUAL PENSION AGE

Mr Phillips and I yesterday saw Michael Partridge, DSS Permanent Secretary, at his invitation, to follow up the meeting which you and Mr Moore had about NICs on 9 December and also to discuss the handling of work on an equal state pension age. This is to seek your agreement to the basis on which we should proceed with DSS.

NICs

2. Mr Moore's main concerns were reported to be twofold:

a. To make the NIC system more coherent, particularly in relation to the tax system; and

b. to adopt measures which, taken together, would have the net effect of cutting the NIF surplus.

3. Mr Moore was said to be especially concerned to do something at the lower end, preferably in a way that would get rid of the NIC steps. He was also interested in the idea of achieving more flexibility on the uprating of the Lower Earnings Limit and Upper Earnings Limit (which are at present linked by statute to the basic pension and thereby to prices under current policy).

4. Mr Partridge said that his Secretary of State did not see bigger increases in the NHS allocation as an important means of reducing the surplus. (Neither were the Department of Health keen on the idea.) However, a little more flexibility was not ruled out, and the possibility could be looked at.

5. Mr Partridge envisaged these areas being examined by a very small group of DSS and Treasury officials, with a minimum of exchanges being carried out on paper. He thought that perhaps three or four officials on each side might be directly involved. Once matters got to the point where Ministers could engage, Mr Moore was likely to prefer meetings to exchanges of correspondence.

6. On the timetable, Mr Partridge said DSS would like to see the various options worked up in time for you and Mr Moore to take a view on them by July. This would enable decisions requiring primary legislation to be reflected in the 1989-90 Social Security Bill.

7. Our reaction was that, while all of these areas seemed worth examining, the handling of the work would need to take account of the importance which Treasury Ministers were bound to attach to retaining flexibility on Budgetary decisions. For this reason, it was extremely doubtful whether decisions with a substantive effect on the NIF and the PSDR could be taken in time for inclusion in a Bill to be introduced early in the 1989-90 Session. If any significant proposals were agreed, it was much more likely that decisions would not be finally taken and announced until the 1990 Budget. A special Bill, introduced after the Budget, might in those circumstances be the answer, if primary legislation were needed. In any event, we said that we would have to consult you on the timetable and handling.

8. Subject to your views, we think that we can go along with the DSS proposals (as to content, handling, and timetable) on the strict understanding that any work finalised in the Summer will be very much by way of an interim report which might inform the 1990 Budget preparations, and that final decisions on whether or not to

make any NICs changes next year must be taken and announced in the Budgetary context. We would of course keep FP in close touch with this work.

(its interaction with possible Budget measures)

Equal Pension Age

9. You will recall that, in the course of the 1988 Survey, we asked Mr Moore to come forward with proposals for an equal state pension age by the end of the year, with a view to making long term savings in public expenditure. Although we have not yet seen these proposals, it is clear that DSS have made some progress in working up the options, and Mr Partridge told us yesterday that his Secretary of State was very keen to consult colleagues soon, probably with a view to a Green Paper being published later this year. He is apparently concerned that developments in Europe, such as a judgment in a European Court case, could constrain our choice of options - in particular, it might become more difficult to pursue Mr Moore's favoured option of equality at 65, if Europe were to favour "levelling down" as the means to achieving equality rather than an "levelling up". Mr Moore is also thought to be anxious to take advantage of the increased awareness of coming changes in the structure of the labour market, which would make it easier to defend raising the pension age for women.

10. Mr Partridge told us that DSS envisaged consultation first with the Treasury and Treasury Ministers, before Mr Moore took his proposals to the PM and a very limited number of other colleagues sometime in March. Mr Moore's thinking was that the paper for the PM should include an assessment of three main options: equality at 63, 65, and 67, with a recommendation for 65 (though any subsequent Green Paper might have to contain a wider range, perhaps from 60-70).

11. The next step would be for DSS officials to consult us on the costings of the options, in preparation for Mr Moore to put proposals to you and the Chief Secretary.

12. Quite apart from the need to make sure that the costings are done on a sensible basis, this whole issue will need very careful handling. But, subject to your views, we will let DSS officials

know that we are broadly content with the timetable Mr Moore has in mind. In the preparatory work, we would make it clear that your position was reserved on which of the options you might want to support.

Conclusions

13. If you are content with the recommendations in paragraphs 8 and 12, we will proceed accordingly with DSS.

JMc

J P MCINTYRE

chex.rm/ds/30 CONFIDENTIAL

FROM: D I SPARKES
DATE: 31 January 1989

67

28/2

PS/CHIEF SECRETARY

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

CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT

The Chancellor has seen a copy of Mr McIntyre's minute to the Chief Secretary of 27 January setting out the arguments for and against putting family credit on the same basis as income support in terms of its relationship with child benefit.

2. He agrees with Mr McIntyre that putting income support and family credit on the same basis now might invite accusations of cuts and draw unwelcome attention to the levels of income support and family credit generally. He suggests that we pursue instead the option of compensating family credit recipients for a child benefit freeze on a statutory basis via secondary legislation, as noted in Miss Wallace's minute to you of 30 December.

BF → JMWT
14/2

[To chase: is Mr McIntyre taking this forward?]

D.I.S.

DUNCAN SPARKES

NURSING POLICY STUDIES CENTRE

DIRECTOR: DR. JANE ROBINSON

UNIVERSITY OF WARWICK

COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 523523
EXT. 3985/2985

PMP

PW

JJAR/PSW

February 1989

CH/EXCHEQUER

REC.	24 FEB 1989
ACTION	MR SAUNDERS
COPIES TO	CST SIR P MIDDLETON SIR T BURNS, MR ANSON MR PHILLIPS, MR CULPIN MRS LOMAX, MISS PEIRSON MR PARSONAGE, MR GRIFFITHS MR CALL

/24/2

- REPORT TOP COPY ONLY

Rt Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
11 Downing Street,
London SW1A 2AB.

Dear Chancellor,

I have pleasure in enclosing a complimentary copy of **Griffiths and the nurses:** a national survey of CNAs, our third report in a four year study of the issues in modern nurse management. Any comments on this or earlier reports in the series would be welcomed.

I enclose a copy of the Centre's quadrennial report which explains the background to the Centre.

Yours faithfully,

Jane Robinson

Jane Robinson
Director

Encls:

chex.ps/j/32 UNCLASSIFIED

14/2

FROM: MRS JULIE THORPE

DATE: 3 February 1989

MR MICHIE

cc PS/Financial Secretary
PS/Economic Secretary
Mr Gilhooly
Mr Call

Mr Jefferson Smith - C&E
Mr Kent - C&E
Mr Stark - C&E
Mr Gaw - C&E
Mr Craske - C&E
Mr P R H Allen

ALCOHOL AND EXCISE DUTIES

My minute to you of 23 January was about the Chancellor seeing a deputation about alcohol and excise duties on Wednesday 8 February. Please note that this meeting has now moved to 11.30am, on Tuesday 14 February and I would therefore be grateful if you could arrange for the briefing to reach this office by close of play on Friday 10 February.

Julie Thorpe

MRS JULIE THORPE
Diary Secretary

BF 13/2

(PS meeting file)

H.M. CUSTOMS AND EXCISE
NEW KING'S BEAM HOUSE, 22 UPPER GROUND
LONDON SE1 9PJ
01-620 1313

FROM: L I STARK
Revenue Duties Division B6

DATE: 9 February 1989

1. Mr Kent 9/2
2. PS/CHANCELLOR

ALCOHOL MISUSE : CHANCELLOR'S MEETING WITH CABINET COLLEAGUES

The Chancellor is meeting the Home Secretary, the Lord President of the Council and the Secretary of State for Health on 14 February at 11.30 am on alcohol misuse and the excise duties on drinks. As requested in Mrs Thorpe's further note of 3 February to Mr Michie FP, I attach briefing for the meeting.

2. On past experience the issues likely to be raised are:-

   a) general increase in the rates of drinks duties
   b) a higher rate of duty on stronger beers
   c) a narrowing of the duty differential between beer and cider.

Louis Stark

L I STARK

Circulation:	PS/Chief Secretary	CPS
	PS/Financial Secretary	Mr Jefferson Smith
	PS/Paymaster General	Mr Wilmott
	PS/Economic Secretary	Mr Kent
	Mr Culpin	Mr Baust
	Mr Gilhooly	
	Mr Michie	
	Mr Call	

BRIEFING NOTES

Background

(a) Legislative changes

1. Following last year's Finance Act, two changes were introduced from the 1 October 1988 with the aim of encouraging the consumption of lower strength drinks. The first abolished the 1030° original gravity (OG) minimum duty rate for beer effectively reducing the duty on beers with an alcoholic strength between 1.2% and 2.6%. The second brought in new and favourable duty bands for lower strength mixed drinks between 1.2% and 5.5%, often known as "coolers". These are essentially mixes of wines or spirits and mineral waters or fruit juices. (No excise duty is charged on most alcoholic drinks not exceeding 1.2%).

(b) Low alcohol beers

2. For technical reasons, basically problems with producing a quality beer with such a low OG, brewers have so far not taken much advantage of the new duty structure. They have been more concerned to promote and develop their range of low alcohol beers of 1.2% or less to which consumers have reacted favourably. (These beers are of better quality because they are brewed to full strength before the alcohol is removed, thus retaining much of the flavour). Such has been the demand that most brewers have now launched, or are in the process of launching their own brands. Some brewers predict that such beers will take about 2% of the total beer market by the end of 1989 as against 1% in 1988. Their growth will have an increasingly corrosive impact on the revenue with up to £40 m at risk in 1989, the exact figure depending on how much of this growth is at the expense of normal strength beers.

(c) Coolers

3. Although there has been a rapid expansion in the number of new "coolers" coming on to the market since 1 October, indications are that they are not taking off as the trade would have hoped. Unfavourable consumer reaction to their taste seems to be the major problem and may prove an insurmountable one. Sales in the US, where "coolers" have been established longer, have significantly fallen off in recent years.

(c) Total alcohol consumption

4. After peaking in 1979 at over 10 litres of pure alcohol (lpa), consumption of alcohol (per head of the UK adult population) has remained fairly flat at around 9.1/2 lpa. This masks however a change in popularity of drinks with light wine growing strongly, largely at the expense of the more traditional beers. Lager too grew and now accounts for about 50% of all beer sold. While we do not yet have final figures for 1988, indications are that the flattish pattern will continue: total duty clearances will be only slightly ahead of 1987. By comparison with other countries, UK consumption is modest, placing it around 24th in the league of alcoholic consumption.

isterial Group on Alcohol Misuse

5. The Group, chaired by Mr Wakeham with the Economic Secretary as a member, will publish its first Annual Report shortly. In it, the Group identify two areas of concern associated with alcohol misuse; dangerous acts such as drink/driving, domestic violence and hooliganism; and long term adverse effects including deteriorating health, poorer employment prospects and disintegration of the family unit. The Report also contains some interesting statistics on alcohol misuse, namely that:-

i) an estimated 1.1/2 m people in the UK drink at levels medically regarded as harmful with a further 7 m seen as drinking beyond sensible limits

ii) over 3000 people died in the UK in 1986 from alcohol related illness; in the same year about 23000 admitted to psychiatric hospitals and units with alcohol related diagnoses

iii) around 125000 drivers convicted of drink/driving offences in 1987

iv) 1400 (1 in 4) road accident deaths each year in GB associated with excess alcohol, costing society an estimated £700 m

v) 20-30% of non-serious violent offences notified to police occur in or near licensed premises and around 90% of public disorder incidents recorded involved heavy drinking.

6. From the start, the Group have recognised that taxation matters are for the Chancellor. They welcomed the two measures on lower strength drinks introduced on 1 October. That apart, they have kept clear of offering taxation solutions to alcohol misuse, preferring to tackle areas of greatest concern directly through education and other social initiatives while supporting the efforts of the law and order agencies in this field.

●SUES LIKELY TO BE RAISED

Overall duty increase

7. It is likely that those present will argue at least for revalorisation of the drinks duties if not restoration of the duties to their pre-1985 levels in real terms. The DHSS particularly would like to see an overall increase in duty levels to offset so they say the recent fall in real prices, to assist in their broad aim of a reduction in per capita consumption of alcohol. Other colleagues may point to the serious problems caused by alcohol misuse as identified by the Ministerial Group and growing public awareness. A further duty standstill may be seen as inconsistent with the Government's commitment to combat alcohol misuse.

8. In meetings with the Economic Secretary, various drinks' associations have voiced their objection to dealing with alcohol misuse through taxation changes. They believe that the problem needs to be tackled directly through measures aimed at discouraging misuse, and have been actively involved in promoting education initiatives on drinking, a development welcomed and encouraged by the Ministerial Group.

9. The RPI for beer - the drink mainly associated with misuse - rose 50% more than the general RPI in the period 1979 to 87. Indeed since the 1985 Budget, beer prices have risen by 6% in real terms, despite the standstill in duty in the 1986 and 1987 Budgets.

Line to take

Recognise alcohol misuse is a serious problem which Government has to face and deal with effectively. Applaud excellent efforts so far of Ministerial Group in this area and look forward to publication of their 1st Annual Report. Point out however that in the UK the trend in alcohol consumption is fairly flat and the level modest in world terms; and that majority of population drink moderately and sensibly - a point accepted by the Ministerial Group. Need to be wary of penalising them through tax increases to deal with the minority who misuse alcohol. Also a wide range of factors, both economic and social, need to be taken into account in setting duty levels. Nevertheless, colleagues' points noted and will be given due consideration in reaching decision on drinks duties in next month's Budget.

Higher duties on strong beers

10. The Home Office is concerned about binge beer drinking among young men (18-24) and its links with violent behaviour. They have commissioned a special research study exploring public disorder among young men covering six towns in the South East, the findings of which should be available early this year. Their concern has led them in the past, supported by the DHSS and the Department of Transport, to press for a restructuring of the beer duty to encourage a switch from stronger to weaker beers. They have not however raised the point in the Ministerial Group and by their silence generally on the subject may be less inclined to press hard for this now.

11. Beer accounts for around half of all money spent on drink and has been widely blamed for causing hooliganism among young men, the so called "lager louts". It is estimated that they drink more beer per head than other sections of the population and consume most of their alcohol as beer. From police statistics there is little doubt that drunkenness is a factor in some criminal and anti-social behaviour - but whether duty changes would turn some young men to drinking weaker beers and so change their behaviour must be open to conjecture.

12. There are strong arguments against loading duty on stronger beers. It would penalise the majority of sensible beer drinkers. The maximum feasible increase would only be about 17p per pint. Beyond that strong beer would be taxed more heavily than table wine, which would be politically unacceptable. It is unlikely therefore that any acceptable increase would be large enough in proportion to the high price of strong lagers (around £1.20 to £1.30 per pint in the South East) to deter young men from drinking stronger beers, particularly given the high disposable income of this group. Furthermore, the trade and Customs would face increased administrative costs through departing from the present linear duty scale for beer. Complications would arise for example over the increasing practice of brewing at very high gravity followed by dilution to the required strength after the duty point. This would have to be taken into account in arriving at the duty due, under a non-linear scale.

13. In any event, young men wishing to get drunk quickly could switch to other stronger drinks if strong beers rose in price. Indeed in terms of value per unit of alcohol, lower quality table wines and British sherry currently offer a cheaper alternative and would be just as potent if not more so.

ne to take

Introduced measure in last Budget abolishing minimum duty rate for beer, reducing duty on very weak beers (1.2-2.6%). Good arguments against further changing beer duty structure to load duty on stronger beers. Would create a non-linear duty scale for beer leading to additional costs and complications for both the trade and Customs. Moderate beer drinkers will also be penalised. No real evidence though that it would have desired effect on those at whom it is aimed, who seem willing even now to pay very high prices for strong beers; hardly surprising given their high level of disposable income. Indeed encouraging that non- and low alcoholic beers are the fastest growing sector of the beer market with trade predictions for doubling of sales in 1989.

Cider duty

14. Average cider is normally stronger than average beer. In terms of duty it bears a flat rate, regardless of strength, of just over half that on typical strength beer. Baroness Masham's Home Office Working Group on Alcohol and Young People recommended that cider duty should gradually be brought into line with beer. In response to this, cider was given the same absolute increase as beer (1 pence per pint inclusive of VAT) in the 1988 Budget. This caused clearances of cider to fall further and they have yet to recover this lost ground.

15. The generally depressed state of the cider market is causing concern to cider producers who complain of not being able to generate sufficient profits to re-invest in the industry. They point out that despite the duty differential, cider is priced in pubs on a par with premium lagers. They claim too that cider plays no part in the so called activities of "lager louts".

Line to take

Point out reasons for relatively low duty on cider. Small rural UK industry with agricultural base whose production costs are comparatively high. Important customer for apple growers. Despite duty differential cider no cheaper than lager in pubs. Also would like to see some hard evidence of connection between cider and problems of alcohol misuse among young men. Even then would have to balance such evidence against other factors in setting duty levels.

novst1.25

CONFIDENTIAL

FROM: P FRANCIS

DATE: 10 FEBRUARY 1989

JW 10/2.

1. MR MCINTYRE

2. FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Peretz
Miss Peirson
Mr Monck
Mr Gilhooly
Mr Ilett
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Lewis - IR
PS/IR

Judging from the article, it looks as if preference shares (& any other fixed interest stocks) should be included, as well as unit trust units, ASAP?

* 2. RE ~~the~~ employers' NICs on [illegible] loans, are we confident that there are no problems abt charging employers NICs but not employees NICs on a particular form of remuneration? I can recall no precedent.

NICs AND EQUITIES

In the light of growing evidence that some employers were paying their employees in gilts in order to avoid liability for National Insurance Contributions, you proposed to Mr Moore last March that this loophole should be closed. Mr Moore agreed and DSS regulations came into effect last May to formally impose liability to employers' NICs on such payments.

2. The possibility of including equities in the new regulations was considered but ruled out, partly because there was no clear evidence of the abuse extending to equities, and partly because of considerations affecting employee share schemes. It was agreed that the possibility of extending the regulations to equities should be kept under review, pending further evidence from Inland Revenue and DSS.

3. The attached article from Accountancy Age (2 February) claims that such NICs avoidance is "reaching significant proportions" and that unit trusts that invest solely in gilts are being marketed with this specific objective - together with a warning to buy before Budget Day.

4. Two specific cases of payment in equities were reported to you later last year, but the wider picture, including any effect of a switch from gilts to other securities, has yet to emerge. Since such payments are outside PAYE and not normally reported to IR until after the end of the tax year, it will not be possible to make a full assessment until later this year.

5. It is however relevant to record a further case of payment in equities that came to the attention of IR's head office this week. It involved shares to the value of £7.4 million paid in bonuses to nine employees in one company - a loss in employers' NICs of over £3/4 million in one case. The large amount involved reflects the earlier pattern of payments in gilts. Such payments are mainly confined to directors and senior staff and, while the number of cases is limited, the amounts involved in each case can be significant.

6. It is therefore timely to invite Ministers' views on two options:

(a) should regulations be introduced soon to extend NICs liability to payments in unit trusts only?

(b) should officials consider extending NICs liability to payments in all forms of securities?

7. Option (a) should be a simple matter to bring into effect quickly for 1989-90 by new DSS regulations, subject to consultation with DTI. To leave things as they are might encourage wider abuse and look very slow off the mark in the light of the attached article and other likely press coverage. This is not an issue for the Finance Bill, so it would be a matter of judgement whether or not to announce it in the Budget. In the interest of minimising the opportunity for further NICs avoidance between announcement and implementation, it would be best if DSS were able to lay the regulations on the day of the announcement.

8. Option (b) would be much less easy to arrange quickly. Difficult decisions would have to be taken on how far employee

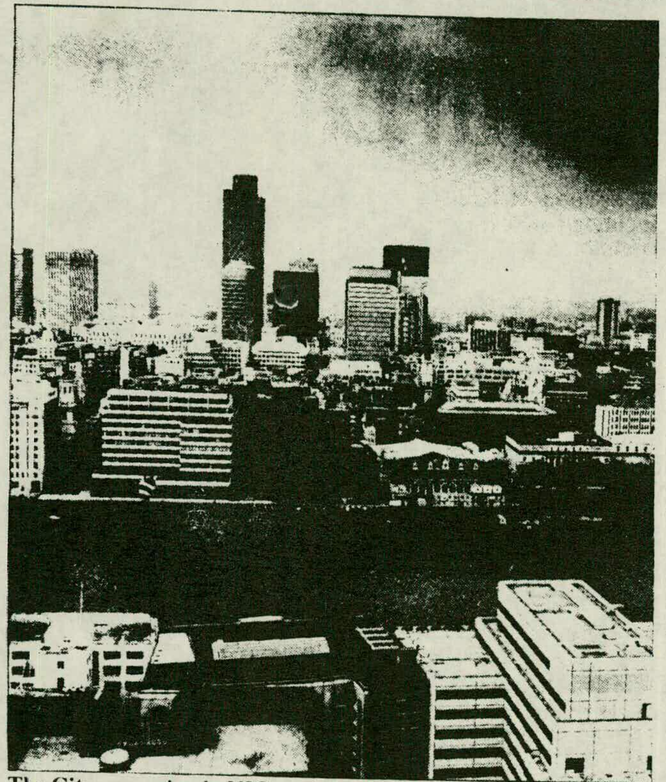
share schemes should be exempted from any extension of NICs liablility to all forms of securities. The evidence that equities generally need to be covered is still limited and, as the Accountancy Age article suggests, employers are likely to be more wary of equities because of their greater volatility. However, this may be less of a deterrent as other loopholes are closed off. Further exploration of this option therefore seems advisable when IR's evidence is available in the autumn, if not before.

9. We would be grateful for your guidance on (a) whether measures to cover unit trusts should be introduced soon, ahead of any possible further extension, and if so, your views on the timing, and (b) whether officials should consider extending NICs liability to other securities before evidence on the degree of avoidance in 1988-89 is available from the Revenue.

P FRANCIS

Accountancy Age 2/2/89

Treasury set to close up loophole on NIC dodge



The City: engaging in NIC avoidance schemes

By Karen Motyl

The Treasury looks set to close the loophole left open last year when it tried to clamp down on companies which avoid national insurance contributions on employee bonus payments.

Instead of paying cash the employer would purchase gilts which were given to the employee as part of his remuneration package. Being benefits-in-kind, gilts would not result in any liability to NIC. The employee could then immediately sell the gilts which by their nature would be unlikely to undergo any significant price fluctuations.

Such schemes were most prevalent among City institutions or companies who incur large bonus payments and for directors' bonuses in private companies – areas where significant savings could be made.

Anti-avoidance regulations which took effect in May last year specifically brought gilts into the NIC net. But they did not prevent the use of equities, preference shares or unit trusts as avoidance vehicles.

Though at the time the government warned that it would not tolerate any abuse of the tax system through similar schemes, leading tax specialists say many employers have ignored the warnings, and the chancellor is expected to take action in the Budget.

Vincent Fernandes, an NIC specialist with Arthur Andersen said: 'I suspect avoidance is reaching significant levels. The route is quite simple and despite the recent redundancies some City institutions still make very large bonus payments.'

Because of the volatility inherent in shares, unit trusts which invest solely in gilts are now being marketed specifically for the NIC avoidance market.

Price Waterhouse have admitted that because of the likelihood of a crackdown they are advising clients to make any such intended bonus payments before Budget day.

RESTRICTED

FROM: J P MCINTYRE
DATE: 10 February 1989

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Gieve
Mr Gilhooly
Mr Matthews
Mr Pickford
Mr Francis
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call

OK. No strong views on timing of publication. NL

Ch, Content with text (as amended)? Publication next week, or wait? JS 10/2

LIVING STANDARDS OF FAMILIES WITH CHILDREN

I attach a draft article which Mr Moore would like to put in the Daily Telegraph next week, rebuting claims (eg by the recent CPAG pamphlet "Changing Tax" and by Joe Rogaly in the FT) that living standards of families with children have been declining in relation to incomes generally. The draft is in the form of a letter to Joe Rogaly, which is what Mr Moore originally wanted; it would be adapted for publication as an article.

2. There are some good points in the draft:

i. Benefits for families with children have risen in real terms by 25 per cent since 1978-79, compared with a fall in real terms of 7 per cent between 1974-75 and 1978-79.

ii. From 1979 to 1985, average living standards of couples with children rose by 8.6 per cent, compared with those without children which rose by 5.9 per cent and of single people without children by 5.5 per cent.

iii. Living standards of single parents between 1979 and 1985 rose by 10 per cent in real terms.

iv. Contrary to much public comment, take-up of income-related benefits is relatively high: almost 90 per cent on an expenditure basis.

3. The argument at (iv) is not as soundly based as we might like. It is based on 1983 and 1984 data for take-up of supplementary benefit, housing benefit, and family income supplement, and it mainly reflects estimates for the first two of these which accounted for the bulk of expenditure. FIS take-up was more like 65 per cent on an expenditure basis. However, if DSS are prepared to defend this as their latest and best estimate of take-up overall, I doubt whether we should take issue with them.

4. I have asked DSS why they have used the period to 1985 when the 1986 Family Expenditure Survey data are available. The answer is that the Households Below Average Income statistics are compiled on a biennial basis; the next publication will be based on the 1987 FES. In any event, DSS doubt whether extending the period to 1986 would affect any of the conclusions.

5. In general, the text seems OK, though we have suggested some amendments on pages 1 and 2 to make clearer the point that it is the growth in earnings rather than changes in the tax system which have increased revenues since 1978-79.

6. We thought you would like an opportunity to look at the draft article, not only because of the substance but also the timing, in the run-up to the Budget.

7. The case for doing an article of this kind now is not particularly strong. For the moment at least, the argument about child benefit and family credit has gone off the boil, and the original reason for preparation of the draft (Rogaly's article) was two weeks ago. So the story has gone a little cold. From this point of view, it might be better if Mr Moore kept his powder dry until the child benefit issue comes to a head again, perhaps when the Commons votes on the issue, as it may do at Third Reading

of the Social Security Bill, probably in mid-March. Another option would be to use this material after the Budget.

8. We would be grateful to know whether you are content with the text (as amended) and whether you are happy for DSS to go ahead with the article next week or if you would prefer them to wait until these issues may have warmed up again.

JM

J P MCINTYRE

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FLAG E

DRAFT

NOT FOR PUBLICATION

Joe Rogaly
Financial Times

The Living Standards of Families
With Children

I regret to say I was more than a little disappointed with your Politics Today article "A kinder, gentler budget surplus" published on January 20.

Much of the first half of the article considered John Hills pamphlet "Changing Tax" - a statistical exercise applying the tax-package of 1978-79 to wealth created since that date. I do not recollect that 1978-79 was either particularly kind or gentle. Nor does a glance at Social Trends (which you also mention) suggest that the nations welfare was really much improved by Labour's overall management of the economy. As the chart on page 85 demonstrates, real disposable income per head fell in 1974, 1975, 1976 and 1977. Incomes only began to rise when Labour produced election tax packages, but the immediate upshot was the Winter of Discontent. What this Government inherited was hugely inflationary and competitively damaging promissory notes to numerous groups of workers.

[SEE INSERT AT END.]

~~Nor, if we compare like with like, is the contention that the tax-burden has increased one than can be sustained. If real earnings had not grown since 1978-79 then the percentage paid in income tax and national insurance would have dropped:~~

PERCENTAGE OF GROSS EARNINGS PAID IN INCOME-TAX AND NICS
ZERO EARNINGS GROWTH: 1978-79 TO 1988-89

Multiples of average earnings	1/2	3/4	1	1 1/2	2
One earner couple 2 children under 11					
1978-79 : %	2.5	14.5	21.0	26.0	28.0
1988-89 : %	-2.5	11.0	17.0	22.0	23.0

In the table, Child benefit has been netted off from tax payments to enable direct comparisons to be made with 1978-79 when child-tax allowances were still being phased out. In fact, of course, real ~~average male earnings~~ take-home pay, which necessarily takes account of indirect taxation through the retail price index, ha~~ve~~s grown by ~~29 per cent~~ at least 20 per cent since 1978-79 ~~whilst half average earnings have grown by over 26 per cent.~~ throughout the income distribution.

Neither do comparisons of families with children suggest they fared particularly well during Labour's period of office. As John Moore pointed out during the Debate on Child Benefit on 18 January (Hansard Col 359), between 1974-75 and 1978-79, support for families with children dropped in real terms from £7.4 billion to £6.8 billion - a real reduction of 7.3 per cent. Under this Government, and on the same definition (which <u>excludes</u> supplementary benefit and housing benefit for couples with children and <u>includes</u> child tax allowances) real provision has risen by 25 per cent. If we look at the total position, Labour policies of help for families with children produced far less than this Government.

Later in your article you quote a point made by Frank Field [Hansard 18 January Col 364], which I preferred to interpret as a question, as if it were an established fact. Frank's main argument, and here I quote what he first said, and not the subsidary point you mentioned, was as follows:

> "..... the crucial point is how [the] increase in living standards [of families with children] compare with that of other groups. Despite all the Secretary of State's figures, that comparison did not feature in his speech, for one simple reason: that a comparison of families with children and other taxpayers shows that the rise in living standards of those who are responsible for the next generation has been much lower than that of taxpayers without children or of taxpayers who are single".

Whether or not one agrees with Frank's main point of principle, it is more than a little unfortunate that you did not quote what I said during my closing speech [Col 385]:

> "From 1979 to 1985, average living standards of couples with children rose by 8.6 per cent. Living standards of couples without children rose by 5.9 per cent; and those of single people without children by 5.5 per cent. So living standards of families with children undoubtedly rose faster than those of families without them, and faster than those of single people".

By way of background, you may find it helpful to know that my figures are for the non-pensioner household population [and the same relative position applies at all levels]. The figures make allowances for the differing size and composition of households, which means direct comparisons are possible of the improvements in the different living standards of couples with children, couples without children and single people. On an incidental point, which I did not mention, the living standards of single parents rose by 10 per cent over this same period.

Later in the same column you reported comments saying that this year's decision on Child Benefit has hit some of the least well off. And, in support, you then said that Family Credit only reaches one third of those who it is intended to help. The central point of principle which you do not address is that income-related benefits provide a mechanism capable of providing substantial extra help to those whose incomes are modest or non-existent while Child Benefit is capable only of spreading substantial expenditure thinly. And at this point it is also worth remembering that amongst families who stand to gain from an increase in Child Benefit (those who do not receive income-related benefits) around 70 per cent have incomes above average earnings.

Nor in practice, are the income-related benefits as a whole nearly as ineffective as your article seeks to suggest. As a general proposition, and on observable past patterns, almost £9 in every £10 of possible income-related benefit expenditure is claimed. Since there will always be those who are in only short-term need and others who, for whatever reason, choose not to claim, 90 per cent target effectiveness is not a bad record - particularly when those who do not claim are in general those eligible for only modest amounts.

In practice, this same point applies to Family Credit. For Family Income Supplement there was a distinct "take-up gradient". The proportion of people who claimed and were eligible to amounts in excess of £10 exceeded 70 per cent, whilst caseload take-up amongst people eligible to less than £5 was only 30 per cent. Although it will be some years before similar precise Family Credit estimates are available, the early indications are that a very similar pattern is emerging. Whilst Family credit has yet to prove popular amongst those higher up the earnings scale, it is exceeding our expectations amongst those eligible to the larger amounts. Family Credit expenditure is already exceeding the original estimate of £400 million for this year and it is already doing a good job for those who are claiming it.

Viewed in this context, the argument that this year's uprating, which allocated an extra 50 pence for every child eligible for an income-related benefit as well as ensuring that the Child Benefit freeze did not bite on them, actually hit some of the least well-off presents less than a balanced view. Those who are not claiming Family Credit are generally not the least well off within that population and they are benefiting from real earnings growth. Nevertheless, we are concerned to ensure that as many as possible of this newly eligible population know more about this new benefit which is why we are running a major advertising campaign in April.

INSERT FOR PAGE 1

Since 1979, one of our aims has been to ~~ensure~~ reduce progressively the burden that the tax system itself places ~~should~~ ~~not~~ ~~add~~ ~~to~~ ~~the~~ ~~burden~~ on taxpayers. Our success in this is shown in the table below. It shows what <u>would</u> have happened since 1978-79 if real earnings had not increased: the proportion of earnings paid in income tax and national insurance by a family man would have declined. Of course, in practice, real earnings <u>have</u> increased at all income levels, and that is why the yield from income tax and national insurance has risen.

chex.md/jmt/5 CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 13 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Peretz
Miss Peirson
Mr Monck
Mr Gilhooly
Mr McIntyre
Mr Ilett
Mr Francis
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Lewis IR
PS/IR

NICs AND EQUITIES

The Chancellor has seen Mr Francis' note of 10 February.

2. He has commented that, judging from the article, it looks as if preference shares (and any other fixed interest stocks) should be included in the scope of the regulations, as well as unit trust units, as soon as possible.

J M G TAYLOR

FROM: J M G TAYLOR
DATE: 13 February 1989

MR MCINTYRE

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Gieve
Mr Gilhooly
Mr Matthews
Mr Pickford
Mr Francis
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call

LIVING STANDARDS OF FAMILIES WITH CHILDREN

The Chancellor was grateful for your note of 10 February.

2. He is content with the text of the draft article, as amended by you. He does not have any strong views on the timing of publication.

J M G TAYLOR

est.ld/hughes/13 Feb/Peirson

CONFIDENTIAL

FROM: N. D HUGHES
DATE: 13 February 1989

MISS M PEIRSON

cc: PPS
PS/Chief Secretary
PS/Sir P Middleton
Mr Anson
Mr Phillips
Mr Fox
Mr Gieve
Mr Mortimer
Mr S Willis
Mr A White
Mr Call

ESTABLISHMENT OF AN EMBRYO MEDIA ADVISORY SERVICE

The Economic Secretary has seen and was grateful for your minute of 10 February and Mr Willis' of the same date. He has made the following comments:

(i) How rigid is the rule that agencies should not have a policy role?

(ii) Has the embryo MAS a policy role? Its essence seems to be preparatory work with the non-government sector.

(iii) Why do they oppose appointing a VIP as Chairman designate? What is the alternative?

(iv) If we give this to Mr Ingham won't that cause worse stories?

N D HUGHES
Assistant Private Secretary

chex.rm/jmtl/26 CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 14 February 1989

MR STARK - CUSTOMS AND EXCISE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gilhooly
Mr Michie
Mr Call

Mr Unwin - C&E
Mr Jefferson-Smith - C&E
Mr Wilmott - C&E
Mr Kent - C&E
Mr Baust - C&E

ALCOHOL MISUSE: CHANCELLOR'S MEETING WITH CABINET COLLEAGUES

The Chancellor was grateful for the briefing note which you provided for his meeting this morning with the Home Secretary, The Lord President of the Council, and the Secretary of State for Health, on alcohol misuse and the excise duties on drinks.

2. This was a brief discussion. The Lord President said that the Ministerial Group on Alcohol Misuse recognised that taxation matters were for the Chancellor. That said, the Group hoped that the Chancellor would announced in the Budget a modest increase in the duties on alcohol. In particular, they hoped that increases would be skewed to encourage consumption of low alcohol beers. The steps which the Chancellor had taken last year had had a useful impact.

3. The Chancellor took note. He commented that the trend in alcohol consumption in the UK was now fairly flat.

J M G TAYLOR

0661A

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

The Rt Hon Nigel Lawson MP
Chancellor of Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER
REC. 15FEB1989
ACTION MR PHILLIPS
COPIES TO CST
SIR P MIDDLETON
SIR T BURNS
MR ANSON
MR SAUNDERS
MR PARSONAGE
MR CALL

15 February 1989

✓15/2

Dear Nigel,

HEALTH TECHNOLOGY ASSESSMENT

In your letter of 23 December you ask what plans my Department has to improve its assessments of cost effectiveness in the area of medical technology. It may be helpful first to outline the work already being done by my Department in what is, I agree, an important field.

Over the last two years my Chief Scientist has held regular meetings, involving the Medical Research Council, to agree priorities for future Health Technology Assessments (HTAs) which we might sponsor. In drawing up their list, the committee take account of studies carried out by others in the UK (including universities, health authorities themselves and the private sector) and in other countries. The latter includes the very valuable work carried out in the USA both by the Office of Technology Assessment (which you mention) and by the National Centre for Health Services Research.

My Department considers it particularly important to take account of the work of others in this field both in view of the cost and difficulty of carrying out full-scale assessment, and because the number of centres with the necessary expertise and multi-disciplinary skills is relatively limited (the shortage of good health economists is a particular constraint here). Moreover, the rapid development of technology may mean that an evaluation becomes out of date before clinical trials - with their necessary delays to watch for possible side effects - are complete. In view of these constraints, my Department has up to now adopted a selective approach to sponsoring new research in this field, concentrating particularly on projects where the need for full evaluation was most pressing - and where the evaluation itself was most likely to be cost-effective.

E.R.

To complement this selective approach to sponsoring full-scale HTAs, my Department carries out technical evaluations - covering performance, safety, and cost - of a broad range of medical devices (from X-ray equipment to humidifiers), and reports on these to the NHS. These evaluations generally concentrate on "proven" technologies rather than new technologies. In addition, my Department supports a range of investigations which, while falling short of full-scale HTAs, are aimed at providing the NHS with clinical, technical, and economic information on new technological developments in diagnosis and treatment.

I agree on the importance of focusing on cost-effectiveness; this is being given increased emphasis in the studies sponsored by my Department. Guidance was issued to health authorities in June last year on option appraisal for medical and scientific equipment, as a further step in ensuring that cost-effectiveness is taken fully into account in local management decisions on purchasing.

In my view, the need for management to be as fully informed as possible about the effectiveness (and cost-effectiveness) of new medical technology will become even more important with the separation of buyer and provider functions. Buyer authorities may well have to choose between competing providers, one of whom offers a more expensive service using the latest technology. The buyer will need to decide which offers the best deal for patients.

I have therefore asked my officials to take steps to ensure that NHS managers (in both buyer and provider authorities) are kept fully informed of the results of HTA conducted elsewhere (including overseas). For this, it would be important to accompany such information on these evaluations with critical reviews of their thoroughness. One possibility might be to commission the Kings' Fund to do this work.

I have also asked my officials to look again at whether the somewhat selective approach we have taken so far on sponsoring full-scale HTAs is still valid, particularly given the changed climate which results from the NHS Review. It may well be that, as your letter implies, a larger effort here would be cost-effective, even given the constraints of skill shortages and so on. Such work might usefully be broadened to encompass costly existing technologies which have not been evaluated, new technologies which, while not involving expensive equipment, had large expenditure implications (eg because of the number of potential "customers"), and drugs with major expenditure implications.

My officials will keep yours in touch with progress in this area.

Yours ever,
Ken

KENNETH CLARKE

From: J M SUSSEX
Date: 16 February 1989

1. MISS PEIRSON
2. CHANCELLOR

Ch,
Content to write
as proposed?

OK

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips o.r.
Mr Parsonage
Mr Saunders o.r.
Mr Griffiths
Mr Call

HEALTH TECHNOLOGY ASSESSMENT

Mr Clarke's response of 15 February, (which was shown in draft to Mr Phillips, Mr Parsonage and Mr Saunders), to your letter of 23 December 1988 is positive and helpful. He recognises the need for more evaluation than hitherto of the cost-effectiveness of health technologies and comments favourably on the work of the US Office of Technology Assessment in this area.

2. Mr Clarke has initiated two broad areas of work by his officials:

i. to take steps to ensure that the results of health technology assessments are critically scrutinised (possibly by the Kings Fund) and disseminated to NHS managers; and

ii. to review the scale and scope of the health technology assessments sponsored by the Department, including consideration of whether cost-effectiveness evaluation could usefully be spread to new areas such as drugs.

Both are welcome.

3. A brief, self-explanatory, suggested reply is attached.

J M Sussex

J M Sussex

14/16/2

DRAFT ~~LETTER~~ TO:

Pse type final

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
LONDON SW1A 2NS

February 1989

HEALTH TECHNOLOGY ASSESSMENT

Thank you for your letter of 15 February which I found most encouraging. I look forward to hearing the outcome of the work your officials are now undertaking both to ensure dissemination of the results of cost effectiveness studies of health technology to NHS managers and to consider how the scope of such studies can be broadened most usefully.

NIGEL LAWSON

M J Sasson E3

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

23 December 1988

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

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

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,

Moira Wallace

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

0661A

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for ~~SXXXXSXXXXXX~~ Health

Mr Griffiths

To note Mr Phillips' comment

MJP 16.2

The Rt Hon Nigel Lawson MP
Chancellor of Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER
REC. 15 FEB 1989
ACTION: MR PHILLIPS
COPIES TO: CST, SIR P MIDDLETON, SIR T BURNS, MR ANSON, MR SAUNDERS, MR PARSONAGE, MR CALL

15 February 1989

Miss Peirson.
This is a v helpful response, which I, Mr Saunders & Mr Parsonage had seen in draft. Cd you arrange for advice to come forward accordingly. - HP 15/2.

Dear Nigel,

HEALTH TECHNOLOGY ASSESSMENT

In your letter of 23 December you ask what plans my Department has to improve its assessments of cost effectiveness in the area of medical technology. It may be helpful first to outline the work already being done by my Department in what is, I agree, an important field.

Over the last two years my Chief Scientist has held regular meetings, involving the Medical Research Council, to agree priorities for future Health Technology Assessments (HTAs) which we might sponsor. In drawing up their list, the committee take account of studies carried out by others in the UK (including universities, health authorities themselves and the private sector) and in other countries. The latter includes the very valuable work carried out in the USA both by the Office of Technology Assessment (which you mention) and by the National Centre for Health Services Research.

My Department considers it particularly important to take account of the work of others in this field both in view of the cost and difficulty of carrying out full-scale assessment, and because the number of centres with the necessary expertise and multi-disciplinary skills is relatively limited (the shortage of good health economists is a particular constraint here). Moreover, the rapid development of technology may mean that an evaluation becomes out of date before clinical trials - with their necessary delays to watch for possible side effects - are complete. In view of these constraints, my Department has up to now adopted a selective approach to sponsoring new research in this field, concentrating particularly on projects where the need for full evaluation was most pressing - and where the evaluation itself was most likely to be cost-effective.

3/16/2

6
86.

E.R.

To complement this selective approach to sponsoring full-scale HTAs, my Department carries out technical evaluations - covering performance, safety, and cost - of a broad range of medical devices (from X-ray equipment to humidifiers), and reports on these to the NHS. These evaluations generally concentrate on "proven" technologies rather than new technologies. In addition, my Department supports a range of investigations which, while falling short of full-scale HTAs, are aimed at providing the NHS with clinical, technical, and economic information on new technological developments in diagnosis and treatment.

I agree on the importance of focusing on cost-effectiveness; this is being given increased emphasis in the studies sponsored by my Department. Guidance was issued to health authorities in June last year on option appraisal for medical and scientific equipment, as a further step in ensuring that cost-effectiveness is taken fully into account in local management decisions on purchasing.

In my view, the need for management to be as fully informed as possible about the effectiveness (and cost-effectiveness) of new medical technology will become even more important with the separation of buyer and provider functions. Buyer authorities may well have to choose between competing providers, one of whom offers a more expensive service using the latest technology. The buyer will need to decide which offers the best deal for patients.

I have therefore asked my officials to take steps to ensure that NHS managers (in both buyer and provider authorities) are kept fully informed of the results of HTA conducted elsewhere (including overseas). For this, it would be important to accompany such information on these evaluations with critical reviews of their thoroughness. One possibility might be to commission the Kings' Fund to do this work.

I have also asked my officials to look again at whether the somewhat selective approach we have taken so far on sponsoring full-scale HTAs is still valid, particularly given the changed climate which results from the NHS Review. It may well be that, as your letter implies, a larger effort here would be cost-effective, even given the constraints of skill shortages and so on. Such work might usefully be broadened to encompass costly existing technologies which have not been evaluated, new technologies which, while not involving expensive equipment, had large expenditure implications (eg because of the number of potential "customers"), and drugs with major expenditure implications.

My officials will keep yours in touch with progress in this area.

Yours ever,
K.

KENNETH CLARKE

When the increase in benefit rates takes effect on 10 April, the vast majority of Income Support claimants will receive a full increase. However, those who are still receiving transitional protection before 10 April will experience only a partial increase in total benefit entitlement as a result of the erosion of the protection. In some cases, because of a continuing entitlement to transitional protection beyond April, there will be no overall increase in entitlement at all. <u>But they will not lose in cash terms.</u>

Local DSS offices will be notifying claimants of these changes as April draws nearer. Some claimants will, understandably, be disappointed when they hear the news and that is why I thought it would be helpful to write to you about the situation before April.

But it is vital to keep this issue in perspective. 90 per cent of income support recipients will receive either a full or partial increase on 10 April. A proportion of these are pensioners, but even then, 87 per cent of pensioners on Income Support or 98 per cent of all pensioners will receive a full or partial increase, and of course those people on Income Support facing rent increases in April will have their increases covered by Housing Benefit.

Finally, let me remind you of the new and enhanced premiums for poorer and disabled pensioners which I announced last November. 2.6 million individual pensioners will benefit from this new scheme; some, who will carry over their entitlement to transitional protection beyond April will not receive an increase on 10 April but the vast majority (90 per cent) will receive the full benefit of the special premiums payable in October - a cash increase of £2.50 per week for singles, £3.50 for couples and this will have no effect on any transitional protection still in payment.

I do hope this clarifies the situation but do not hesitate to contact Nick Scott, Peter Lloyd or myself if you have any queries on this issue.

JOHN MOORE

The Rt. Hon. John Moore M.P.

Jonathan

HOUSE OF COMMONS
LONDON SW1A 0AA

PSR Could SS ask this. Why. MoH has stated all along. It looks to me a little, since I am not @ all sure that X (see also our own) is true. Is it?

16 February 1989

Dear Colleague,

INCOME SUPPORT TRANSITIONAL PROTECTION

I am writing to let you have an early and clear explanation of the way transitional protection will be affected by this April's uprating of benefits so that you are in a position to answer constituents' queries, should they arise.

As you know, last April saw the most extensive reform of the Social Security system for forty years; reform was urgently needed because the system had become too complex and it was unfair. When we introduced the new system, we recognised that, although many people would gain under the new rules, some people would be entitled to a lower level of benefit income as a result of the changes. It was an inevitable consequence of such extensive reform that some people would experience a decrease in entitlement, particularly when one of the objectives of the reforms was to rid the system of anomalies and make it easier for people to understand and administer.

X1 However, we also undertook to ensure that <u>no one would lose out in cash terms</u> at the point of change. For this reason we introduced transitional protection so that people would not experience a drop in benefit income when the reforms were introduced. In all, some 1.1 million are expected to be in receipt of transitional protection at the point of this year's uprating.

We made it clear from the outset that transitional protection would be reduced as individuals' financial circumstances improved and some 300,000 have already ceased to be eligible for this because their incomes have gone up. But we also made it clear that it is in the nature of transitional protection that it will eventually be eroded by increases in the rates of benefit announced each year. By continuing our present arrangements, the number of people receiving transitional protection in 1990 will be negligible.

INCOME SUPPORT TRANSITIONAL PROTECTION: APRIL 1988 UPRATING

	Nos on IS (000s)	Full Increase (000s)	Partial Increase (000s)	No Increase (000s)	
Pensioners 80+	440	282	128	30	
60-79	1230	875	165	190	
	1670	1157	293	220	(13%)
Sick/Disabled	220	200	10	10	(4.5%)
Lone Parents	590	440	120	30	(5%)
Couples with Children	510	490	20	*	
Others (eg single, couples without children)	1440	1030	170	240	
	4430	3317	613	500	

* negligible

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

17 February 1989

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
LONDON SW1A 2NS

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Parsonage
Mr Saunders
Mr Griffiths
Mr Call
J M SUSSEX

Dear Ken

HEALTH TECHNOLOGY ASSESSMENT

Thank you for your letter of 15 February which I found most encouraging. I look forward to hearing the outcome of the work your officials are now undertaking, both to ensure dissemination of the results of cost effectiveness studies of health technology to NHS managers, and to consider how the scope of such studies can be broadened most usefully.

Yours

Nigel

NIGEL LAWSON

CONFIDENTIAL

R Satchwel 5.17.02.89

Thanks

FROM: R C M SATCHWELL

DATE: 17 February 1989

MR FRANCIS

cc: PS/Chancellor
PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Culpin
Mr Peretz
Miss Peirson
Mr Gilhooly
Mr Ilett
Mr McIntyre
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Lewis - IR
PS/IR

NICs AND EQUITIES

The Financial Secretary was grateful for your minute of 10 February, which he discussed with you and others.

The Financial Secretary agrees with the Chancellor that the regulations should be widened beyond just unit trusts to include equities and other securities as well. But he would not wish to try to do so if it would either require DSS primary legislation or proved difficult (and hence time-consuming) to draft; in that event it would be preferable to tackle unit trusts now and leave the wider issues until later. You therefore agreed to consult DSS officials informally on the mechanics and report back.

R.C.M.S.

R C M SATCHWELL
Private Secretary

chex.ps/jmt/57 RESTRICTED

bf. 23/2

FROM: J M G TAYLOR
DATE: 20 February 1989

3/3

MR McINTYRE

cc PS/Chief Secretary
Mr Anson
Mr Phillips
Miss Peirson

INCOME SUPPORT TRANSITIONAL PROTECTION

... The Social Security Secretary has circulated the enclosed letter to all Conservative members.

2. The Chancellor would be grateful for advice on it. He has commented that it worries him a little, since he is not at all sure that it is true that the Government undertook to ensure that no one would lose out in cash terms at the point of change. Is it?

J M G TAYLOR

The Rt. Hon. John Moore M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

16 February 1989

Dear Colleague,

INCOME SUPPORT TRANSITIONAL PROTECTION

I am writing to let you have an early and clear explanation of the way transitional protection will be affected by this April's uprating of benefits so that you are in a position to answer constituents' queries, should they arise.

As you know, last April saw the most extensive reform of the Social Security system for forty years; reform was urgently needed because the system had become too complex and it was unfair. When we introduced the new system, we recognised that, although many people would gain under the new rules, some people would be entitled to a lower level of benefit income as a result of the changes. It was an inevitable consequence of such extensive reform that some people would experience a decrease in entitlement, particularly when one of the objectives of the reforms was to rid the system of anomalies and make it easier for people to understand and administer.

However, we also undertook to ensure that no one would lose out in cash terms at the point of change. For this reason we introduced transitional protection so that people would not experience a drop in benefit income when the reforms were introduced. In all, some 1.1 million are expected to be in receipt of transitional protection at the point of this year's uprating.

We made it clear from the outset that transitional protection would be reduced as individuals' financial circumstances improved and some 300,000 have already ceased to be eligible for this because their incomes have gone up. But we also made it clear that it is in the nature of transitional protection that it will eventually be eroded by increases in the rates of benefit announced each year. By continuing our present arrangements, the number of people receiving transitional protection in 1990 will be negligible.

When the increase in benefit rates takes effect on 10 April, the vast majority of Income Support claimants will receive a full increase. However, those who are still receiving transitional protection before 10 April will experience only a partial increase in total benefit entitlement as a result of the erosion of the protection. In some cases, because of a continuing entitlement to transitional protection beyond April, there will be no overall increase in entitlement at all. <u>But they will not lose in cash terms.</u>

Local DSS offices will be notifying claimants of these changes as April draws nearer. Some claimants will, understandably, be disappointed when they hear the news and that is why I thought it would be helpful to write to you about the situation before April.

But it is vital to keep this issue in perspective. 90 per cent of income support recipients will receive either a full or partial increase on 10 April. A proportion of these are pensioners, but even then, 87 per cent of pensioners on Income Support or 98 per cent of all pensioners will receive a full or partial increase, and of course those people on Income Support facing rent increases in April will have their increases covered by Housing Benefit.

Finally, let me remind you of the new and enhanced premiums for poorer and disabled pensioners which I announced last November. 2.6 million individual pensioners will benefit from this new scheme; some, who will carry over their entitlement to transitional protection beyond April will not receive an increase on 10 April but the vast majority (90 per cent) will receive the full benefit of the special premiums payable in October - a cash increase of £2.50 per week for singles, £3.50 for couples and this will have no effect on any transitional protection still in payment.

I do hope this clarifies the situation but do not hesitate to contact Nick Scott, Peter Lloyd or myself if you have any queries on this issue.

Yours ever
John

JOHN MOORE

INCOME SUPPORT TRANSITIONAL PROTECTION: APRIL 1988 UPRATING

	Nos on IS (000s)	Full Increase (000s)	Partial Increase (000s)	No Increase (000s)	
Pensioners 80+	440	282	128	30	
60-79	1230	875	165	190	
	1670	1157	293	220	(13%)
Sick/Disabled	220	200	10	10	(4.5%)
Lone Parents	590	440	120	30	(5%)
Couples with Children	510	490	20	*	
Others (eg single, couples without children)	1440	1030	170	240	
	4430	3317	613	500	

* negligible

CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 22 February 1989

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Sir T Burns
Mr Byatt
Mr Scholar
Mr Culpin
Miss Peirson
Mr Spackman
Mr Burr
Mr Matthews
Mr Meyrick
Mr Francis
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Kuczys (IR)

We must certainly stand & help Mr Moore to shape his proposal in a way that will enable us to give him & our full support.

PENSION AGE

You are meeting Mr Moore tomorrow (23 February) who wants to tell you about his proposals for moving towards an equal state pension age.

2. DSS officials have already been in touch with us on this (see my minute to the Chancellor of 31 January; copy attached for you only). They say Mr Moore would like to minute the PM soon to seek her agreement in principle to equality at 65 and to preparation of a Green Paper for publication in the Autumn. Legislation would follow "in the early 1990s", perhaps after the election.

3. Mr Moore wants to take the initiative to avoid being driven by developments in the Community (the Commission produced a draft Directive last year); to take advantage of increased awareness that fewer young people will be joining the labour market, which may provide a more receptive climate for the idea that women should work longer; and to remove uncertainty for occupational schemes.

4. DSS officials have shown us a draft of the minute Mr Moore might send the PM (a draft not yet shown to Mr Moore). The

costings (not so far discussed with us) suggest ultimate savings of £2 billion a year (today's prices) in public expenditure. There would be a long transitional period. One possibility would be for women aged 40 or more at the point of change not to be affected ie to be able to retire on full pension at 60 as now. It is clear from the draft that a good deal more work would need to be done to analyse the expenditure and wider economic effects before any Green Paper could be ready.

Line to take

5. The main object of the meeting is for Mr Moore to explain his views. There is no need, at this stage, to commit yourself to supporting him on the detail of his proposals or the handling. You and the Chancellor would no doubt like an opportunity to comment on Mr Moore's draft minute. You may also want time to think further about whether the timetable and handling Mr Moore has in mind are appropriate, given the sensitivity of the issue. However, Mr Moore will, I think, expect some broad encouragement from Treasury Ministers given the long term public expenditure savings and the fact that you asked Mr Moore in the last Survey to bring forward proposals with this objective.

J P MCINTYRE

cst.ps/17ce14.2/mins

CONFIDENTIAL

FROM: MISS C EVANS
DATE: 23 February 1989

PS/CHANCELLOR

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

CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT

The Chief Secretary shares the Chancellor's view that there might be presentational advantages in putting on a statutory basis the compensation in family credit for a child benefit freeze.

2. On the other hand the Chief Secretary is concerned that, although for the majority of families the level of child credits is adequate and defensible, the Opposition would, in debate, have an opportunity to produce hard cases and press for higher expenditure.

3. Accordingly, the Chief Secretary feels that the best course would be to consider this with DSS in the context of the Survey, when we might offer it as a sweetener to help with the presentation of a child benefit freeze this year.

C Evans

MISS C EVANS
Private Secretary

chex.md/jmt/57 CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 24 February 1989

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Sir T Burns
Mr Byatt
Mr Scholar
Mr Culpin
Miss Peirson
Mr McIntyre
Mr Spackman
Mr Burr
Mr Matthews
Mr Meyrick
Mr Francis
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Kuczys IR

PENSION AGE

The Chancellor has seen Mr McIntyre's note of 22 February.

2. He has commented that we must certainly try and help Mr Moore to shape his proposal in a way which will enable us to give him and it our full support.

J M G TAYLOR

chex.ul/jt.ph/42 CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 24 FEBRUARY 1989

PS/CHIEF SECRETARY

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

CHILD BENEFIT/FAMILY CREDIT/INCOME SUPPORT

The Chancellor has seen your minute of 23 February.

2. He is content with the Chief Secretary's conclusion that we should consider this with DSS in the in the context of the Survey, when we might offer it as a sweetener to help with the presentation of a child benefit freeze this year.

J M G TAYLOR

Doesn't answer the qn. My question did not contain the words in sq brackets (see X), because Mr Moore's assertion was similarly unqualified. That was the point: it concerned the possibility of HB losses that arose re IS incl.

JM 1/3

FROM: M A BOLTON
DATE: 1 MARCH 1989

1. MR MCINTYRE ✓

2. CHANCELLOR

cc PS/Chief Secretary
Mr Anson
Mr Phillips o/r
Mrs Lomax
Miss Peirson
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

INCOME SUPPORT: TRANSITIONAL PROTECTION

You asked for advice on the letter of 16 February circulated by the Secretary of State for Social Security to all Conservative members. In particular, you asked whether it was the case that no-one [on Income Support] lost in cash terms as a result of the reforms X

2. The information given by the Secretary of State is correct. Transitional Protection was provided at the point of change so that no-one received less Income Support in cash terms than Supplementary Benefit, its predecessor.

3. There is, however, one point worth adding. A consequence of the April 1988 reforms was that while Income Support recipients had their rents paid in full through Housing Benefit, they were expected to meet 20 per cent of their domestic rates. A sum was included in the IS rates to compensate for this: £2.30 for couples, £1.30 for singles over 25 and £1.15 for singles under 25. For a small number of people in the last category, this compensation was insufficient to prevent an overall loss in cash terms, taking account of their rates contribution. However the amount of benefit they received was not less in cash terms.

4. A very small number of people (about 1,000) who had qualified for Supplementary Benefit did not qualify for Income Support. However, people in this group were eligible to apply for transitional protection, and so did not lose in cash terms.

Michael Bolton

M A BOLTON

FROM MISS C H MANKELOW
DATE 1 MARCH 1989

MR GRIFFITHS
PS/CHANCELLOR

CC MR SAUNDERS

LETTER FROM DR J ROBINSON

The Unit of Warwick Nursing Policy Studies Centre have sent the Chancellor a copy of their report "Griffiths and the nurses". This sets out the conclusions of a study of the management of nursing and the provision of nursing advice following the Griffiths enquiry. The subject matter is too detailed to be of interest to us, but a short acknowledgement would be appropriate.

I attach a draft private secretary reply.

C.H. Mankelow

MISS C H MANKELOW

Mike

pls ask Miss Mankelow to let me see the report itself. Was this an MCU case?

DIS

pls type

JANE

DR ~~J~~ L ROBINSON
NURSING POLICY STUDIES CENTRE
UNIVERSITY OF WARWICK
COVENTRY
CV4 7AL

~~1~~ MARCH 1989

The Chancellor has asked me to thank you for sending him a copy of ~~the~~ your third report, "Griffiths and the nurses: a national survey of CNAs," which has been passed to our officials responsible for NHS expenditure. They will get in touch with you direct if they have any comments.

DIS

ASST PRIVATE SECRETARY

COPIES; PS/CST
Sir PM
Sir TB
Mr Anson
Mr Phillips
Mrs Lomax
Miss Pearson
Mr Saunders
Mr Griffiths Miss Mankelow Mr Call

FROM: D I SPARKES

DATE: 6 March 1989

MR BOLTON

cc PS/Chief Secretary
Mr Anson
Mr Phillips o/r
Mrs Lomax
Mr McIntyre
Miss Peirson
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

INCOME SUPPORT: TRANSITIONAL PROTECTION

The Chancellor was grateful for your minute of 1 March concerning the Secretary of State for Social Security's letter to Conservative members.

2. The Chancellor notes that Mr Moore's statement that the Government undertook to ensure that no-one would lose out in cash terms was unqualified; it did not relate, as your minute suggests, solely to those on income support. The Chancellor would be grateful if you would tell him whether there were any cash losers at all from the changes, in particular among HB recipients just above the IS level.

D.I.S.

DUNCAN SPARKES

chex.ps/ds/57

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

7 March 1989

Dr Jane Robinson
Nursing Policy Studies Centre
University of Warwick
COVENTRY CV4 7AL

PWP

Dear Dr Robinson,

The Chancellor has asked me to thank you for sending him a copy of your third report "Griffiths and the nurses: a national survey of CNAs", which has been passed to our officials responsible for NHS expenditure. They will get in touch with you direct if they have any comments.

Yours sincerely,

Duncan Sparkes

DUNCAN SPARKES
Assistant Private Secretary

Inland Revenue

Personal Tax Division
Somerset House

FROM: M EVERSHED
EXT: 7764
DATE: 13 MARCH 1989

1. MR MASSINGALE ey 13/3.

2. PS/FINANCIAL SECRETARY

Need to make it clear that there is no such thing as a 'workplace nurseries tax'. It is just normal tax, payable where the remuneration is in cash or kind. NL

WORKPLACE NURSERIES

1. The Workplace Nurseries Campaign is launching today a report - "Workplace Nurseries - Who Cares?" They are issuing a press release, a handout on the tax position and a report on the current provision of workplace childcare. Copies are attached.

2. The Campaign is singling out the tax treatment of workplace nurseries as a major obstacle to the setting up of employer based day care. But their report does not fully back this up. It concedes:-

(a) That there has been some progress in the provision of childcare facilities by employers - though not as rapid as the campaign would wish - and this progress is expected to continue.

---

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mrs Chaplin
Mr Tyrie
Mr Call
Miss Hay

Mr Lewis o/r
Mr Mace
Mr Massingale
Mr Elmer
Mr Wardle
PS/IR

(b) That there are other obstacles to nursery provision, notably cost, finding premises and an underlying reluctance arising from traditional attitudes on childcare and the role of women.

(c) That there are already significant tax reliefs available to employers. (All day to day costs are allowable against CT, equipment is generally allowable as 'plant and machinery' and some employers can get industrial building allowances.)

(d) That employers do not themselves cite tax as a fundamental obstacle: "no UK employer was willing to go on record that it was the tax which was holding back their own development of workplace nurseries".

3. One of the features to come out of the report is just how expensive workplace nursery places can be; quite typically the cost of providing a place might be £3,000 per annum. But the report does not recognise the very real benefit of a subsidised nursery place compared with an employee having to make his or her own arrangements - or draw attention to the financial advantage which would remain after tax in most cases.

4. Several of the examples quoted in the report appear to involve very low paid staff. But the report does not suggest that one answer for employers is to pay higher wages if they wish to attract mothers who will need to face childcare costs. Nor does the report give much emphasis to the £8,500 threshold for taxing benefits in kind. Many employees would not have to pay tax on subsidised nursery provision.

5. Finally the report contains a number of inaccuracies which may be picked up in the press. Most notably the report appears to say that the taxable benefit of a nursery place is the whole cost to the employer. This is not the case. As with most other benefits, contributions from the employee

reduce the taxable benefit pound for pound. Their press release also says "it is the employee who has to pick up the tax bill". Again, this is not the case. An employer is free to settle the employee's tax bill if he or she so wishes - although in accordance with the normal rules the payment would have to be grossed up to account for the tax due on the settlement of the employee's liability, if the employer wished to ensure that there was no tax at all for the employee to pay.

6. In addition to pressing for abolition of the tax charge on workplace nursery places, the report concludes by proposing:-

(i) broadening the tax reliefs available to employers;

(ii) increased funding for local authority social service departments to provide advice and monitor standards;

(iii) a comprehensive expansion of public childcare provision.

7. The existing tax reliefs for employers are part of those available generally on revenue costs, plant and machinery and buildings and allowed in computing taxable profits. Additional reliefs specifically for workplace nurseries would run counter to the general thrust of the 1984 business tax reforms.

8. But the main thrust of demands on Treasury Ministers is likely to remain the question of the tax treatment of employees' benefits.

M.E.

M EVERSHED

WORKPLACE
nurseries

news release

CONTACT : Penny Craig (W) 582 7199
Delyth Morgan (H) 800 0872

EMBARGO : 00.00am 13th March 1989

EMPLOYERS AND CHILDCARE CAMPAIGNERS CALL ON CHANCELLOR TO ABOLISH WORKPLACE NURSERIES TAX

On Monday 13th of March in one of Britain's newest workplace nurseries the Workplace Nurseries Campaign launched its latest report "Workplace Nurseries - Who Cares?".

The report documents the hesitancy with which employers are embracing the new childcare responsibilities placed on them by Government. It highlights the barriers faced by those employers keen to provide workplace child care. In particular, it singles out the Tax on workplace nurseries as a major obstacle to the setting up of employer-based day care.

/over

Room 205, Southbank House, Black Prince Road, London SE1 7SJ
Tel. 582 7199 587 1546

Penny Craig, author of the report said: "The tax is ludicrous and illogical. How can the Government call for more workplace nurseries because Britain desperately needs women at work and persist in taxing them as a perk? With the declining number of day care places for underfives, working parents need all the help they can get - they don't need an extra tax bill."

At the launch the Workplace Nurseries Campaign were by joined by Midland Bank plc and market research company, RDS, in calling for the abolition of the tax on workplace nurseries. Midland Bank's Equal Opportunities Director, Anne Watts, outlined her opposition to the tax and Wendy Mitchell, RDS Director and working mother said: "We set up our workplace nursery with two objectives in mind. One, was to enable us to retain staff we valued, both at executive and non-executive level and two, as part of a wider initiative to help increase the number of childcare places available. The tax is working against this and is in danger of defeating our objectives."

/over

NOTES TO EDITORS

1 The Launch of the report will take place at a press conference held on 13th March at 3.00pm. The venue is RDS, 359 City Rd, London EC1V 1LR.

2 There will be the opportunity to vist the RDS Workplace Nursery between 2.30 and 3.00pm before the press conference. There will be ample opportunity for photographs then.

3 Workplace Nurseries Campaign was set up in 1984 to campaign against the taxation of parents who use employer subsidised childcare. Since then a sister organisation Workplace Nurseries Ltd has been formed and now represents the only organisation collecting infomation on workplace nursery provision.

4 RDS is a market research company whose workplace nursery is the most recent to open in the private sector.

5 Midland Bank are currently working on a project to set up 300 workplace nurseries across the UK.

A TAXING SITUATION

Since 1985 parents with children in employer-subsidised nurseries have been liable to pay tax on the amount of subsidy paid by the employer towards the child's nursery place.

■ CHILDCARE – A PERK!

The reason for this is the tax is that the Government deems the amount paid by the employer towards the nursery place as a benefit in kind and ensures that tax is paid on such benefits. So the Government treats workplace nurseries as a perk and a status symbol like a company car.

■ A BARRIER TO WORK

Our Campaign has always believed that it is unfair and irrational to treat childcare in this way. The lack of adequate childcare facilities in this country has perpetuated discrimination against parents, and women in particular, in employment. Therefore, the lack of childcare is a barrier to equal participation in the job market. Surely, it cannot be in the interests of Government, employers or employees for these barriers to continue? Whilst the Government continues to refuse to recognise the need for comprehensive childcare facilities, it is unfair to penalise parents whose employers are willing to help with childcare.

■ SOME EXCEPTIONS – SO WHY NOT CHILDCARE?

Some exceptions to these taxation rules have always been made for such socially desirable welfare provisions such as pensions, canteens, and ramps for the wheelchair-bound. Very recently, the Treasury announced a plan to allow the payment of some non-taxable benefit by employers to help with the increased accommodation costs of employees moving from the North to the South. What can be more socially desirable than ensuring our children are adequately cared for in well-funded nurseries?

■ A BENEFIT TO WHOM?

What makes the "Toddler Tax" even more absurd is that it flies in the face of what a number of enlightened employers want to see. Many employers recognise that the lack of childcare facilities in this country does affect the availability and flexibility of the workforce in a detrimental manner. They want to help with childcare because it will help them attract more suitably qualified staff and ensure that the considerable resources they invest in recruiting and training employees is not wasted. So childcare facilities at work benefit the employer and yet it is the employee who has to pick up the tax bill.

■ SO WHAT IS THE TODDLER TAX?

The Inland Revenue sees workplace nurseries as a benefit in kind. So any subsidy that the employer contributes on behalf of their employee, towards a place in a nursery, is treated as additional income to the employee and the employee is taxed on this new earnings total.

■ WHO IS AFFECTED?

These rules supposedly only affect the higher paid, but this includes any worker earning £8,500 after the employers contribution is added to the income. So a parent earning £6,500 a year whose employer contributed £2,000 towards a nursery place, will be liable to pay the tax.

"YOU'D BE POTTY TO CLOSE WORKPLACE NURSERIES"

WORKPLACE NURSERIES CAMPAIGN

A BRIEFING ON THE NURSERIES TAX

■ **HOW IS IT COLLECTED?**

Once the employer has declared the childcare subsidy on a form P11D then the salary of the employees affected will be altered accordingly and the tax deducted at source. If there is any back tax due then the tax office will calculate this and issue a demand for payment of this sum.

■ **BUT WOULDN'T IT BE UNFAIR IF SOME PARENTS RECEIVED A SUBSIDY?**

It is certainly unfair that childcare facilities in this country are so inadequate the many parents are unable to work unless they can find and afford other methods of childcare. Should parents have to pay extra tax if an employer is keen to help with childcare? Surely, in the absence of any real commitment to funding an expansion of under fives facilities in this country, the more employers help with childcare the better and fairer it is?

■ **DOESN'T THE TAX HARM WOMEN'S CAREERS?**

YES. The tax means less help with childcare which means fewer parents are able to work, which means a loss of skilled workers, which means a waste of valuable resources spent in training and recruitment.

■ **DOES THE TAX RESTRICT CHOICE?**

YES AGAIN. Many parents are forced to choose between starting a family and ending a career and losing a wage. Also there are many lower income families and single parents who have no choice, they have to work and they often have to rely on ad hoc childcare arrangements.

■ **SO WHAT IS THE REAL EFFECT?**

The tax means the employees who could benefit from a subsidised workplace nursery place face an additional tax bill on top of the charges that they will pay anyway to the nursery. This means that the nursery is priced out of the range many employees who have to try to make other childcare arrangements or leave their job.

Where parents have to work CHILDREN SUFFER because of the lack of decent childcare.

PARENTS SUFFER because they often have to choose between starting a family and ending a career, or trying with little support to combine the two.

EMPLOYERS SUFFER because they lose trained members of staff who are willing to work and who the employer wants to work but who it would seem the Government would rather did not.

The COMMUNITY SUFFERS because the tax is preventing many workplace nurseries from opening and these nurseries would add to the childcare facilities in this country without any direct cost to the Government.

■ **BUT THE INLAND REVENUE MUST GAIN?**

Actually, NO. Instead of continuing to gain income tax from employees, many parents have to give up work and thus stop paying taxes and in some cases start receiving state benefits. So the government actually loses more money by insisting that subsidised childcare is a perk in this way.

The Workplace Nurseries Campaign works to abolish the tax and improve the prospects for work-based childcare. Our sister organisation, Workplace Nurseries Ltd provides information and advice on establishing and running workplace nurseries. If you want further information about our work or would like to join our efforts to abolish the tax, contact Workplace Nurseries, Southbank House, Black Prince Road, London SE1 7SJ. ☎ 01-582 7199.

WORKPLACE NURSERIES CAMPAIGN

WORKPLACE NURSERIES - WHO CARES ?

A report on the current provision of workplace childcare

MARCH 1989

Produced by Penny Craig and Delyth Morgan

Southbank House, Black Prince
Road, London SE1 7SJ. ☎ 01-582
7199

CONTENTS

WORKPLACE NURSERIES - WHO CARES?

(1) Introduction

Every day the office of Workplace Nurseries Campaign rings to the sound of the many calls we receive from employers, parents and trades unions wanting to know what they can do about childcare provision. Our post-bag brings in yet another batch of requests for our information guides and, frequently, letters from mothers and expectant mothers who have suddenly discovered that there is nowhere they can leave their children whilst they go out to work.

Why should this be? The answer is simple. The UK is one of the worst providers of underfives care in Europe. Only 1% of underfives have places in local authority day nurseries and for those seeking alternative provision, their options are severely limited and often totally non-existent.

Childcare & Employment

This shortage of good quality and affordable day care has a direct impact on women's employment opportunities in particular. Only 28% of mothers with underfives go out to work, and the majority of these are in part-time employment. In Denmark, where state childcare provision exists for 44% of 3-4 year olds, and the government funds nurseries even when they are within workplaces, 75% of women with underfives go out to work. In France and Belgium 50% of mothers with underfives go out work. In Europe as a whole, mothers of underfives work an average of 30 hours a week whereas in the UK most work under 20 hours a week.

Workplace nurseries are not a new phenonemon. During the Second World War these types of nurseries were quite commonplace. But they disappeared, in some cases almost overnight, once the war was over and women found their services as paid members of the labour force were no longer required.

There are approximately 100 workplace nurseries in the UK at the moment, with the majority in the public sector, i.e. NHS hospitals, local authorities, and colleges (where staff as well as students may have places). In their book "New Mothers At Work", Julia Brannen and Peter Moss state that there are probably no more than 2,000-3,000 underfives places provided by workplace nurseries, which means that the average workplace nursery caters for around 25 children. *

Now there is renewed interest in the idea of workplace childcare. As labour and skills shortages bite deeper into all sectors of employment, employers are having to look at how they can counter this. Encouraging more women back to work is a crucial part of this. And along with this is a growing recognition that if you want to encourage more women to remain or come back into the workforce you need to tackle the issue of childcare provision.

The Government too are concerned about the effects on the economy of a depleted workforce. Ministers have been calling on employers to take urgent action to encourage more women back into the workforce and, as part of this, have recommended that employers set up workplace nurseries.

(2) EMPLOYERS RESPONSE

Local Authority Employers

Our experience shows that whilst employers in all sectors seem interested in the idea of workplace nurseries, it is the public sector, particularly the local authority councils, who are really embracing the idea and setting them up.

In part, this may be due to the fact that they have more experience of what nursery provision entails and also, that they may have better access to suitable premises. But another factor which may be of greater significance is their commitment to equal opportunities. For many councils, their workplace nurseries represent more than just a recruitment tool, essential though that is, but are also representative of the council's stand on equal opportunities.

New Workplace Nurseries

Since 1986, ten local authorities have opened their own workplace nurseries. Six of these were opened during 1988 and the latest one to open is Brighton Borough Council's workplace nursery which opened on the 6th March 1989. At least another five councils have agreed to set up workplace nurseries during the next 18 months, with Edinburgh District Council due to open its nursery in May 1989.

Childcare Allowances

Some councils, such as Southampton, Cambridge and Harlow, do not offer staff nursery facilities but they do pay childcare allowances. The problem with allowances, apart from the fact that parents have to pay tax on these too and both the parent and employer have to pay NI contributions, is that they do not actually increase the amount of provision available.

In one council's report, recommending the payment of allowances to its staff, the report states that there are "No public or private child care nurseries available during the normal working day for working parents locally". The report then goes on to say under the heading "Advantages to Employees" that "employees could choose appropriate child care for their own needs - childminding, nursery, nanny". It is a little difficult to see how parents will be able to use their allowance to pay for a nursery if none actually exist!

However, childcare allowances are a step in the right direction and at least show some level of commitment to the idea that an employer should be prepared to accept part of the cost of childcare provision.

Health Service Nurseries

Although many hospitals do not make any provision at all for employees' children, there are probably more workplace nurseries to be found in this sector than anywhere else. The reason is obvious. As a large employer of female labour, Health Authorities have had to implement measures to ensure adequate supplies of staff. Now, when nurses are leaving the profession at the rate of 30,000 a year, the need to establish nurseries is even more pressing.

Within the past few months we have heard from two hospitals which have opened their own workplace nurseries. The first one is Runwell hospital in Essex which has opened a 30 place nursery, open from 7am to 9pm. Jacquie Hooper, Coordinator of the nursery wrote that:

"The Nursery is being opened for two reasons. Firstly, to encourage the nursing staff to continue or return to their careers with the knowledge that their children are well cared for as the hospital has between 40-50 nurse vacancies. Secondly, to enable people in the community to return to work with the same benefits."

The second one is at the Fairmile hospital in Oxfordshire. The nursery is open from 6.45am to 8.15pm **seven** days a week in order to cover shifts. Ruth Wilkinson, Matron of the nursery wrote that:

"The reasoning behind the nursery was recruitment as the wards were full of pregnant mums who were nurses and getting replacements or retaining staff was becoming increasingly difficult."

Private Sector Employers

Media and Government interest in workplace childcare is running at an all time high just now, with the result that a myth seems to have grown that employers across the country are busily establishing workplace nurseries. Unfortunately, this is just not true.

There are probably less than 20 companies across the whole country providing childcare facilities for their employees. It is difficult to be more precise because there are no official statistics available on the actual numbers of workplace nurseries and where they are.

Currently, those providing childcare, whether it be in their own nursery or places in a shared nursery, include both the manufacturing and service sectors. At least 4 textile manufacturers have their own workplace nurseries, as do 2 assurance companies. Media companies are also amongst those subscribing to workplace nurseries, along with a private health care company and a major British charity.

Generally, things are moving but moving slowly, given the apparent urgency behind Government exhortations to employers to get on and do something. Employers are thinking more seriously about this issue and we will undoubtedly see more nurseries opening within this sector, but it is fair to say that there is still quite a degree of hesitancy.

There are exceptions of course. Midland Bank plc is the most well known, with its proposal to open up to 300 workplace nurseries in the next few years. Strangely enough, at present it does not seem that their competitors are thinking of following suit. But we believe that this situation must change. The Financial services sector relies heavily upon female labour. When a bank like Midland is able to offer childcare facilities, they are bound to be a much more attractive proposition to work for than one which does not.

Other recent developments include an announcement from Royal UK, a subsidiary of the Royal Insurance Group, that they will be setting up at least 2 workplace nurseries in the near future and we hear Thomas Cook plc are waiting for the go-ahead on plans to establish a 40-50 place workplace nursery at their headquarters in Peterborough.

(3) PROBLEMS ENCOUNTERED BY EMPLOYERS

We believe that despite apparent reticence on behalf of some employers to take the plunge and set up childcare, there is a lot of genuine interest. Below we look at what are the main practical obstacles which seem to be causing difficulty for employers, but apart from these there does seem to be a deeper underlying reluctance among some which has probably more to do with traditional ideas and attitudes about childcare and the role of women than it does with more practical considerations.

Tax

Whilst employers are not taxed on any childcare facility or subsidy they provide - and as mentioned further on in this report, there are opportunities for employers to offset nursery costs against tax - they can be affected by the tax burden which falls on their employees who use the nursery facilities. This is because parents who use employer subsidised childcare facilities, including those in receipt of childcare allowances, are liable to pay increased levels of tax.

The employer's contribution is regarded by the Inland Revenue as a benefit in kind, or perk. Staff who have company cars also have to pay extra tax for the same reason but the Inland Revenue have adopted a more flexible response to the taxation of company cars so that company car users only pay tax on the **net value of the benefit** rather than on the full cost of provision. Parents who use workplace nurseries pay tax at the full rate on the whole of the employer's subsidy to their child's nursery place.

Who pays it?

The tax is supposedly only meant to affect those parents on "higher earnings" i.e. those on £8,500 and above. But in fact, parents can start paying additional tax when they actually earn much less than £8,500. The reason for this is that the employer's contribution is **added** to the parents income when a tax assessment is made. The employer's subsidy could be as much as £3,000 a year or more and if this is added to the income of a parent who earns over £5,500 it obviously brings them into the taxable benefit net.

Most parents already pay a substantial contribution to their child's nursery place - usually about a third of the full cost of a place - out of taxed income. (The average fee paid by parents using workplace nurseries is equivalent to charges they would pay for childcare elsewhere, if it was available.) Making them pay extra tax can make a workplace nursery prohibitively expensive for some parents. This is particularly true for anyone on a low income whose subsidy is likely to be that much higher.

One single parent mother who works fulltime for Leicester City Council and uses the council's workplace nursery has monthly outgoings of: £62.00 nursery fees, £50.00 "nursery tax", £140.00 mortgage, £23.00 rates - which even with the addition of £32.00 a month in Family Credit leaves her with well under £40.00 a week to feed and clothe herself and her 4 year old child, let alone pay any other bills.

Even parents earning more than this can be hard hit by the tax, especially if they need nursery care for more than one child. Quite often we receive letters from mothers who would like a second child but, having had enormous difficulties finding adequate childcare for the first one, are extremely worried how they would manage if they had a second:

"I would like another child but I simply cannot afford to give up work or pay to have two children looked after" wrote one mother recently.

She was fortunate that she had managed to find any provision at all for her first child and sadly, she is not alone in expressing such concerns. Another mother wrote to us from Devon to say that whilst she would like to have a second child, she did not know how she and her husband, who are both nurses, would manage:

"I have approached a nannies organisation, but at £5 per hour, that is out of the question with our low wages. We only just manage now with mortgage etc. It is difficult as we work 12 hour shifts, leaving at 7am and returning 8pm. At the moment we work opposites - so our marriage suffers."

Would this couple's situation be much improved if they had a workplace nursery and then found they had to pay large sums of tax? It seems unlikely.

A recent report by Incomes Data Services, "Maternity Leave & Childcare", January 1989, states the following:

"The effect of taxation on childcare provisions can be seen in the following examples. In one local authority someone earning £11,934 p.a. would pay £828 p.a. for the nursery place and would be charged £1,200 p.a. in tax. Even if no charge were to be made for a place, an employee earning £5,475 p.a. would pay an additional £1,409 p.a. in tax."

Among those opposed to the tax are the Institute of Personnel Management who recently wrote to Norman Fowler MP, Secretary of State for Employment, urging him to remove the "taxation penalty" on workplace nurseries. The IPM argued that workplace nurseries are:

"not **benefits** in any sense of conferring an advantage on recipients, rather they are **facilities** which remove an impediment to the employment prospects of certain groups in the community."

Whilst no UK employer was willing to go on record that it was the tax which was holding back their own development of workplace nurseries (presumably because in some cases, they would feel under pressure to take action if the Chancellor reversed the position), there is genuine concern amongst many employers when they first become aware that the tax exists. The reaction of most is astonishment. They cannot grasp how on the one hand the Government is exerting all its influence to encourage them to set up nurseries and on the other is taxing parents if they use them.

Cost

Undoubtedly another reason for the seeming reluctance of employers to go ahead with nursery provision is the cost. Good quality childcare is not cheap. An average 24 place workplace nursery which also takes under twos, can easily cost over £100,000 a year in running costs. Most of these costs are for staff as childcare is labour intensive - ratios are usually 1:3 for under 2s and 1:5 for over 2s. There are workplace nurseries operating which do not have costs of this magnitude but usually it is because they do not offer places to under twos or threes, and sometimes, unfortunately, it is because they do not have the desirable numbers of staff or are paying low salary rates to the nursery staff.

Standards

Like other organisations concerned with developing high quality care, the Workplace Nurseries Campaign believes that those who care for our children should be properly trained and qualified and should receive proper remuneration for what is a highly demanding job.

Employers who fail to recognise this can actually end up doing themselves a disservice as nursery staff will not stay where conditions are poor and rates of pay inadequate.

An Investment

But we do understand that as the issue of employer assistance with childcare is a relatively new idea to most employers, it can come as something as a shock to see how expensive it can be. However, when training of individual staff can run into thousands of pounds, we believe that establishing a nursery makes a great deal of economic sense for employers concerned about losing staff and recruitment.

The London & Manchester Assurance Group plc, estimate that their nursery, based at their headquarters in Exeter, costs them the equivalent of one week's external training per parent per year. It is increasingly acting as a real incentive in the recruitment stakes which is important in an area of skills shortages.

Midland Bank have estimated that recruitment costs run at around £8,000-£10,000 for each member of staff, and with staff leaving the organisation at around 1,000 a year they feel they can more than justify the outlay on nursery provision as a method of countering this.

Finding Premises

Some employers have said finding suitable accommodation for a nursery poses real problems. They may not have any available space for a nursery within their own premises and perhaps cannot find alternative sites.

It would be wrong to minimise the difficulties employers can have in this area, and whilst we try to offer the best advice we can on converting existing premises, looking at the idea of portakabin type accommodation etc, there can still be genuine problems in this area.

However, closer co-operation between employers and between employers and local authorities may be one answer. Employers could share premises, as they do at Kingsway Children's Centre and Fleet Street Nursery.

(4) GOVERNMENT RESPONSE

And if employers are to be encouraged to set up their own childcare facilities, what, if anything, is the Government doing to help them with this?

Not a great deal it seems. There appear to be no new Gcvernment plans afoot to assist employers, apart from urging them to get on with it.

Neither have the calls to employers been matched by any agreement or initiative from Government itself to increase the level of childcare provision.

Tax Incentives?

Currently, most manufacturing companies can offset the construction costs of a nursery against tax (Capital Allowances Act 1968) at a rate of 4% a year over 25 years providing the building remains as a nursery and does not change use. Up until 1984, it was possible for such firms to claim a first year allowance of 75% of the costs of construction but that allowance has now gone and they can only claim 4% a year over 25 years.

Also, employers in Enterprise Zones, irrespective of the nature of their business, are able to write off 100% tax against the costs of construction.

As far as running costs are concerned, these can generally be written off against income as they are incurred (Corporation tax), and plant and equipment costs can be written off at around 25% a year.

These are all measures which have been available for some time but experience shows that they are insufficient as incentives to encourage substantial numbers of employers to establish workplace nurseries. The trouble with tax incentives like those mentioned above, is that they have gone down as the rate of tax has fallen.

Government Childcare Initiatives?

It is true that only recently the Government gave the go-ahead to Civil Service departments to set up their own workplace nurseries, but they will have to meet the costs of doing this out of existing budgets and it is difficult to see how many will be able to work within these constraints. The favoured option at the moment of most Civil Service departments, is to go for holiday playschemes, or childcare referral schemes.

Whilst these schemes are welcome, they are obviously of limited value. Like flexible hours and career breaks schemes etc, they are an important part of any good equal opportunities programme but by themselves they cannot hope to solve the childcare crisis.

Neither can workplace nurseries, but as part of an overall expansion of childcare, they have a vital part to play. With an acute shortage of childcare provision, being rapidly matched by an acute skills shortage, it is surely time for the Government to take more assertive action.

(5) CONCLUSION

If the Government is serious in wanting to see more workplace childcare and more women encouraged back to work it must take the initiative.

* The workplace nurseries tax should be immediately abolished

Consideration should be given to broadening the tax concessions currently available to employers so that they can set up workplace nurseries

* The Government should ensure that good quality is the hallmark of all childcare provision, including workplace childcare. Funds should be increased to local authority Social Service departments so that they can advise employers on how to offer the best provision and so that they can monitor standards. At the moment, many of these departments just do not have the resources to deal with even the present level of enquiries.

* The Government should commence a comprehensive expansion of childcare provision for both under and over fives. It is highly unsatisfactory that as we head towards the 1990s the UK still remains amongst the bottom of the European league for childcare provision. This means adopting a new approach to childcare, one which recognises that it is not feasible or reasonable to expect employers alone to combat the shortage of provision. Neither is it reasonable or even effective to assume that childcare problems can be sorted out by groups of individual women getting together across the country in an effort to help one another with childcare. Our children are our future. They deserve the best that we can offer them.

References: "New Mothers At Work", Julia Brannen & Peter Moss, Unwin, 1988, £5.95
"Maternity Leave & Childcare", Incomes Data Services, Jan. 1989, available on subscription from IDS, 193 St. John Street, London EC1

This follows Mr Bolton's earlier submission (1 March) dealing with IS claimants. As Mr Bolton says here, we understand Mr Moore considered whether to cover HB as well in his letter to MPs but decided against. JM 15/3.

Thanks.

FROM: M A BOLTON
DATE: 15 MARCH 1989

1. MR MCINTYRE
2. CHANCELLOR

cc Chief Secretary
Mr Anson
Mr Phillips
Mrs Lomax
Miss Peirson
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

INCOME SUPPORT: TRANSITIONAL PROTECTION

You asked for further comment on the letter of 16 February circulated by the Secretary of State for Social Security to all Conservative members. Specifically, you asked whether there had been any cash losers at all from the 1988 Social Security reforms. The answer to this is yes.

2. One of the main aims of the reforms was to improve the targeting of benefits, in particular giving more help to families with children. To this end, there was a reallocation of resources from Housing Benefit to Income Support and Family Credit. As a result, DSS estimated that about 1 million HB claimants would have their total benefit reduced in cash terms, all of them with incomes above the Income Support level. This estimate was published in October 1987, in advance of implementation.

3. The public reaction to these losses led to the concessions of May 1988. In order to prevent vulnerable groups from suffering large cash losses, transitional protection was introduced for those such as pensioners, lone parents, etc, who would have lost more than £2.50 per week. The capital limit for HB was also raised from £6,000 to £8,000. Unlike transitional protection in Income Support, which had always been planned in order to prevent cash losses in this group, these measures were introduced after the new system had come into operation, in order to reduce the number of large losers from the reforms.

Ch/ I understand Mr Moore's letter was drafted by a special adviser who did not clear it properly with officials. Hence the ambiguities. Do you wish to write or is it now too late? DJS 15

Now too late, I judge; but worth [illegible] letter from Moore, [illegible] [illegible] private office, [illegible] [illegible]

4. There are currently 300,000 claimants of Housing Benefit Transitional Protection. For most of these, the amount of TP they receive will be eroded by £2 per week from April, so that they will not enjoy a full, if any, benefit uprating. This was agreed in the Survey and announced at the time of the Uprating Statement (27 October). It is, perhaps, unfortunate that Mr Moore's letter did not cover Housing Benefit as well as Income Support, as members may be just as likely to receive representations from constituents on this subject following the annual uprating in April. And although Mr Moore's letter is headed "INCOME SUPPORT TRANSITIONAL PROTECTION", many of his comments are couched in very general terms, so that members may mistakenly believe that they refer to Housing Benefit as well.

5. We understand that Mr Moore considered referring to HB in his letter but decided against, on the grounds that (a) explanation of the IS position was the priority; (b) he does not expect many representations on HB; and (c) he feels that drawing further attention to HB might only stir up more problems on that front.

6. If you are still concerned on HB aspects, I attach a draft letter to the Secretary of State, drawing his attention to this problem.

Michael Bolton

M A BOLTON

DRAFT LETTER TO THE SECRETARY OF STATE FOR SOCIAL SECURITY

INCOME SUPPORT: TRANSITIONAL PROTECTION

Thank you for your letter of 16 February, which was circulated to all Conservative members.

Much of what you said will be useful in dealing with constituents' queries. However, I think it would have been helpful if you had also covered the position of Housing Benefit claimants on transitional protection. I should have thought that members are as likely to receive representations from this group as from those on Income Support. I am also concerned that some members may misinterpret comments in your letter on the effects of the reforms as referring to all claimants, rather than only those on Income Support.

If you agree that clarification of these points is necessary, perhaps you would consider circulating to members a further short note on the subject.

NIGEL LAWSON

chex.ps/ds/33 **RESTRICTED**

FROM: D I SPARKES

DATE: 16 March 1989

MR M A BOLTON

pwp

cc PS/Chief Secretary
Mr Anson
Mr Phillips
Mrs Lomax
Miss Peirson
Mr McIntyre
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

INCOME SUPPORT: TRANSITIONAL PROTECTION

The Chancellor was grateful for your minute of 15 March clarifying the position of losers under the 1988 Social Security reforms. He agreed with your conclusions but feels that it is now probably too late to write to Mr Moore in the manner you suggest. He has, however, asked me to have a word with Mr Moore's Private Office to ask them to be more careful in future.

D.S.

DUNCAN SPARKES

CONFIDENTIAL

FROM: C SPEEDY
DATE: 17 MARCH 1989

1. MR MCINTYRE

2. CHANCELLOR

JM 17/3

Note @ r.

Ch/ Is it really so awful to show the NICs rate rising slightly? As with the Green Paper on Long Term Trends in Public Expenditure, wasn't part of the purpose to shock spending Ministers?

Which option?

@15

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Phillips
Mr Scholar
Mr Culpin
Miss Peirson
Mr Riley
Mr Gilhooly
Mr Matthews
Mr Mowl
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

SOCIAL SERVICES COMMITTEE: PROJECTION OF BENEFITS AND NICS

The social services committee will be taking evidence from DSS after Easter for the committee's 1989 public expenditure inquiry. The committee has asked for updated versions of tables provided in the 1985 Social Security Green Paper (Cmnd 9519)*. These tables show projected spending on social security in 1995-96 and 2005-6 and projected spending on pensions to 2033-34. The committee have asked that this information is accompanied by figures for the projected class 1 national insurance contribution rate needed to fund these expenditures.

* attached.

2. As this information may be politically sensitive this submission seeks your agreement to the basis on which to release the information. DSS officials are similarly clearing the information with Mr Moore.

Expenditure Projections

3. Tables 1 to 3 in the annex show GAD's latest projections of social security expenditure in the same form and using the same assumptions as in Cmnd 9519 with the exception of the unemployment rates. The unemployment rates take account of changes in the definition of the workforce and allowing for this are broadly equivalent to the rates used in the Green Paper.

4. The projections show a 14% real increase in social security spending by 2005-6 if benefits are uprated in line with prices and

unemployment falls to 5%. This is mainly due to the assumed rise in the number of claimants. If benefits were uprated in line with earnings (which are assumed as in Cmnd 9519 to grow 1½% faster than prices) there is of course a larger real terms increases in benefit expenditure (41%).

5. Of itself these expenditure projections should not give rise to much difficulty. However, the possible implications for NICS present more of a problem.

Projected contribution rates

6. It would be most straightforward to publish projected contribution rates using earnings and other assumptions for 1989-90 consistent with those published last December in GAD's report on the annual Contribution Re-Rating Order and a long term 1½% growth in real earnings as used in the 1985 Green Paper. This would show contribution rates as follows:

Table 1

	1995-96		2005-06	
Unemployment rate	5%	8.5%	5%	8.5%
Total required contribution rate %				
Prices upratings	17.7	19.0	17.7	19.1
Earnings upratings	18.9	20.4	21.0	22.7

7. These contribution rates are those which go to the NIF itself that is they exclude the NHS allocation. They compare with the main contribution rate in 1989-90 (both before and after the Budget reforms come into force in October) on this basis of 17.5%. The table shows that considerable increases in the NIC rate would be needed on an earnings basis. This is unsurprising and could be dismissed because it is policy to uprate only in line with prices. But the table also suggests that at current unemployment rates (6.8%) a slight increase in contributions might be required to finance benefits uprated by prices.

8. One option (option 1) would be to present these figures to the committee and counter any suggestion that rates might have to rise by pointing to the uncertainty involved, the rather conservative earnings assumption used and the possibility of drawing down the balance in the fund.

9. Another possibility (option 2) is to present the figures on different assumptions. Instead of the published earnings assumption~~s~~ for 1989-90 (7½%), figures consistent with the budget forecast of earnings growth in 1989-90 (9.3%) could be used. This would give projected contribution results as follows

Table 2

	1995-96		2005-06	
Unemployment rate	5%	8.5%	5%	8.5%
Total required contribution rate %				
Prices upratings	17.2	18.4	17.2	18.5
Earnings upratings	18.4	19.8	20.4	22.0

10. The higher earnings base for the projection cuts the prices uprating contribution rates by about ½% and on a 5% unemployment assumption suggests a slight cut in rates. At current unemployment rates the required contribution rate would be close to the current rate of 17.5%. The disadvantage of this option is that it might lead to publication of the Budget forecast for earnings growth in 1989-90. DSS would not offer this in giving the projection, but if the Committee asked directly it would be difficult to avoid giving them the assumption.

11. The other assumption that might be changed is the long run growth in real earnings of 1.5% (option 3). This is perhaps somewhat conservative and it could be raised to 2%. Combined with the published assumption for earnings in 1989-90 this gives the following projected contribution rates.

Table 3

	1995-96		2005-06	
Unemployment rate	5%	8.5%	5%	8.5%
Total required contribution rate %				
Prices upratings	17.2	18.5	16.5	17.8
Earnings upratings	18.9	20.3	20.7	22.3

12. These figures also suggest that, assuming 5% unemployment and prices upratings the required NIC rate would have to rise only

slightly if at all. The difficulty with this option is that of justifying a change in the long run earnings assumption.

13. A final option (option 4) would be to combine both changes ie to use the Budget forecast for earnings in 1989-90 and 2% real growth in earnings thereafter. This gives the following result.

Table 4

	1995-96		2005-06	
Unemployment rate	5%	8.5%	5%	8.5%
Total required contribution rate %				
Prices upratings	16.7	18.0	16.0	17.2
Earnings upratings	18.3	19.7	20.4	21.6

14. This again suggests that the present contribution rate would be adequate on 5% of current levels of unemployment. This is perhaps the most reasonable projection and has assumptions similar to the projections of the national insurance fund you saw in the run up to the Budget which suggested the fund could probably absorb the Budget measures.

Recommendation

15. Having just announced NIC reductions in the Budget, you may feel that the overriding priority in presenting these projections is to avoid any embarrassing suggestion that NICS will have to be increased again in the medium to long term. Against this criterion the best option is Option 4 which projects (assuming benefits uprated by prices) a total NIC rate of 16.7% to 18.0% in 1995-96 and 16.0% to 17.2% in 2005-06. This compares with a main contribution rate of 17.5% now.

16. If, however, you felt that the implied increase in NICS in Option 1 was small enough not to cause embarrassment, this would be better from other points of view. It would avoid the risk of DSS having to give the Budget earnings assumption to the Committee, and we could stick to the long run assumption for earnings growth assumed in the Green Paper (1½%) rather than using 2% which might provoke Committee questioning. If the higher implied NIC rate were raised, DSS could point to the small size of the increase against the large degree of uncertainty in the projections, the low earnings assumption, and the possibility of drawing on the large NIF balance.

X

1~~5~~7. We would be grateful for your views.

C Speedy

C SPEEDY

The main worry abt showing an surplus with the NIC rate ~~the current rate~~ is not so much the reduction for employers in the 1989 Budget, as its bearing on the abolition of the Tsy supplement. However, despite that, I think we can live with Option 1, given all the uncertainties mentioned, but agree the it will, of course, imply that the 5% unemployment rate we assume is low, which it is; but I assume the finances are affected far more by changes in the real earnings growth assumption than they are by changes in the unemployment assumption.

NL

Annex

Table 1. Projected public expenditure on social security 1995-96 & 2005-06

£ billion (1989-90 prices)

	Prices Uprating		Earnings Uprating	
Projected Expenditure	Unemployment		Unemployment	
	5%	8.5%	5%	8.5%
1995-96	51	55	56	60
2005-06	58	63	72	78

Table 2. Main elements of projected public expenditure on social securit 1995-96 and 2005-06

(a) Prices uprating

£ billion (1989-90 prices)

	1995-96	2005-06
Retirement pension & income support to pensioners	24	29
Child benefits	5	5

	Unemployment rate		Unemployment rate	
	5%	8.5%	5%	8.5%
Unemployment benefit & income support to the unemployed	4	5	4	5
Other benefits	18	20	21	24
Total	51	55	58	63

(b) Earnings uprating

£ billion (1989-90 prices)

	1995-96	2005-06
Retirement pension & income support to pensioners	26	35
Child benefits	5	7

	Unemployment rate		Unemployment rate	
	5%	8.5%	5%	8.5%
Unemployment benefit & income support to the unemployed	4	6	4	7
Other benefits	20	22	26	30
Total	56	60	72	78

Table 3. Projected expenditure on national insurance retirement pensions to 2033-34

£ billion (1989-90 prices)

(i) Prices uprating	1995-96	2005-06	2023-24	2033-34
	(Estimated)			
Basic RP	20.4	21.0	25.6	28.5
Additional Component	2.3	6.5	14.1	18.2
Total	22.7	27.5	39.7	46.7

(ii) Earnings uprating	1995-96	2005-06	2023-24	2033-34
	(Estimated)			
Basic RP	22.3	26.6	42.5	54.9
Additional Component	2.3	6.5	14.1	18.2
Total	24.6	33.1	56.6	73.1

FROM: D I SPARKES
DATE: 20 March 1989

MR SPEEDY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Phillips
Mr Scholar
Mr Culpin
Miss Peirson
Mr Riley
Mr McIntyre
Mr Gilhooly
Mr Matthews
Mr Mowl
Mr Francis
Mrs Chaplin
Mr Tyrie
Mr Call

PWP

SOCIAL SERVICES COMMITTEE: PROJECTION OF BENEFITS AND NICS

The Chancellor was grateful for your submission of 17 March concerning the request by Social Services Committee for projected Class 1 National Insurance Contribution rates needed to fund Social Security expenditure in the future.

2. The Chancellor commented that the main worry about showing an implied rise in the NIC rate is not so much the contrast with the reduction for employees in the 1989 Budget, as its bearing on the abolition of the Treasury Supplement. However, despite that, the Chancellor believes that we could live with your option 1, provided DSS point out ~~that~~ how small the implied increase is when compared to the large degree of uncertainty in the projections, the low earnings assumption and the possibility of drawing on the

large NIF balance. It will, of course, be argued in reply that the 5% unemployment rate is absurdly low, which indeed it is; but the Chancellor assumes that the figures are affected far more by changes in the real earnings growth assumption than they are by changes in the unemployment assumption.

D.S.

DUNCAN SPARKES

chex.md/jmt/15 **RESTRICTED**

FROM: J M G TAYLOR
DATE: 20 March 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mrs Chaplin
Mr Tyrie
Mr Call
Miss Hay

Mr Lewis IR
Mr Mace IR
Mr Massingale IR
Mr Evershed IR

WORKPLACE NURSERIES

The Chancellor has seen Mr Evershed's note of 13 March.

2. He has commented that we need to make clear that there is no such thing as a "workplace nurseries tax". It is just income tax, payable whether remuneration is in cash or kind.

J M G TAYLOR

RG 2603p

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~~ Security

PMP

CH/EXCHEQUER

REC. 22 MAR 1989

CST

TO

Rt Hon John Wakeham MP
Lord President of the Council
and Leader of the House of Commons

22 March 1989

Ch/ For info.
Mr Moore does not repeat his ambiguous "no losers" claim.
DIS

Dear John.

I wrote to all Government Colleagues on 16 February about next month's Social Security annual benefit uprating and its impact on Income Support transitional protection. The area of concern is that not all social security beneficiaries will get an increase.

I realise that this is a specialised and highly complex area of Government policy but it may well become increasingly contentious as the annual uprating and local elections draw nearer. You may therefore welcome this further explanation. You will be aware that social security as a whole is expected to amount for 31 per cent of planned public expenditure in 1989-90; a total benefit expenditure of over £48 billion. Income Support - including the Autumn improvements for poorer pensioners, will account for nearly £8 billion of this sum. One of the major aims of our reforms of the income related benefits last April was to ensure that this considerable slice of social security expenditure goes to these groups of beneficiaries identified as the most vulnerable. We achieved this through the new premium structure which targets help on disabled people, families with children and pensioners.

The new scheme is based upon clear cut objective criteria, and is a ready vehicle for channelling further extra funds to the poorest in our community. We have already used this route to provide for improvements for older and disabled pensioners this Autumn.

The old Supplementary Benefit system was a nightmare of complexity, for staff and claimants alike. Entitlement was based upon such personal minutiae as the number of baths people took each week and why. And over the years the considerations on which the old system of piecemeal individual additions had grown up had become out of date.

Income Support has both simplified and modernised the help now available. It has also provided a sound basis for the alignment of the other income related benefits, Housing Benefit and Family Credit. And service to the public has improved; the time taken to process claims, and the error rate in the assessment of entitlement have both fallen. the alleged shortcomings of Income Support transitional protection must therefore be viewed in the context of these major improvements.

E.R.

Necessarily, such a major reform of the system resulted in some claimants having a lower entitlement under the new scheme than they had under the old. To prevent these people experiencing a sudden drop in benefit income, we introduced transitional protection at the point of reform. A sum was added to the new rate of benefit to bring it up to its former level. Those paying rates also received an extra mount to compensate for the minimum 20 per cent contribution. We estimate that around 1.4 million claimants (just under 1/3) were awarded transitional protection in April 1988.

Transitional protection (except in a very few exceptional circumstances) reduces as new entitlement catches up with old, whether because of changes in circumstances throughout the year or benefit upratings. Thus claimants with transitional protection immediately before this April's annual benefit uprating will receive either no increase or a reduced one. We now estimate that around 1.2 million claimants will be in this position.

There are important reasons for reducing transitional protection in this way. Firstly there is the question of resources. As I have already made clear, our aim is to target help on those identified as having the greatest need. Transitional protection is expected to cost some £200 million in its first year. By its nature it is poorly targetted since it reflects the inequities of the old scheme. Those with transitional protection are those who tended to do best out of Supplementary Benefit. To continue to pay protection indefinitely therefore would not be a justified use of resources.

Secondly, there is the question of fairness. Claimants with protection are necessarily better off than those in similar circumstances who claimed after the start of the new scheme and so do not have access to protection. It would be quite wrong to perpetuate this inequality between different groups of claimants.

It is important to keep the question of transitional protection in proportion. The majority of Income Support claimants <u>will</u> gain at uprating: we estimate that 73 per cent, nearly 3 1/4 million, will receive their full increase, and that around 610,000 (14 per cent) will receive a partial increase. This should leave only about 600,000 (less than 14 per cent) whose benefit income will stay the same. If we single out pensioners, an estimated 1.16 million (nearly 70 per cent) should receive a full increase and 290,000 (17 per cent) a partial one. We expect only 220,000 to stand still. This number represents some 13 per cent of Income Support pensioners, but only <u>2 per cent</u> of <u>all</u> pensioners in Great Britain. Thus 98 per cent, the very great majority of pensioners, will gain. The same is true if we compare the tiny minority of other Income Support recipients getting transitional protection with the overall numbers getting other social security benefits. More details of the impact of protection on the various groups are shown in the attached table.

RG 2604p

INCOME SUPPORT TRANSITIONAL PROTECTION - APRIL 1989 UPRATING (000s)

	(a) Number on IS	(b) With TP in April 1988 Number	% of (a)	(c) Full (1) Increase at Uprating Number	% of Total	(d) Partial (2) Increase at Uprating Number	% of Total	(e) No (3) Increase at Uprating Number	% of Total
Pensioners:- 80+	440	200	45%	270	61%	130	30%	40	9%
60 to 79	1230	450	37%	890	72%	160	13%	180	15%
All Pensioners	1670	650	39%	1160	69%	290	17%	220	13%
Sick and Disabled	220	30	14%	190	86%	10	5%	20	9%
Lone Parents	590	190	32%	430	73%	120	20%	40	7%
Couples with Children	510	30	6%	480	94%	20	4%	10	2%
Others	1440	520	36%	970	67%	170	12%	300	21%
All claimants	4430(4)	1420	32%	3230	73%	610	14%	600(5)	14%

NOTES

(1) No transitional protection in payment before the uprating.

(2) Protection in payment before uprating fully eroded by uprating.

(3) Protection still in payment after the uprating.

(4) Estimates at October '88 based on 1986 ASE adjusted for live load trends. Later statistics are not available, for TP categories. 1986 live load estimates are therefore used for consistency with TP estimates.

(5) Figures do not sum owing to rounding.

E.R.

These figures vary slightly from those provided in my letter of 16 February. These estimates were created at an early stage and provided for a wide margin of possible variation. As more work has been done on the available statistical information it has been possible to narrow the margin of variation and provide tighter estimates, but these too may be liable to change as more up to date statistical information becomes available. Following the uprating in 1990 we estimate that fewer than 200,000 claimants will still need transitional protection.

I hope you will find the information useful, both in countering criticism of this essential Government policy and in dealing with enquiries. Please do not hesitate to contact me if you have any questions about this issue.

I am copying this to the Prime Minister and all other Cabinet Colleagues, and to Sir Robin Butler.

John ever
John

JOHN MOORE

The Rt. Hon. John Moore M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

23 March 1989

Dear Robert,

It is now almost a year since we introduced the social security reforms. This was the most radical overhaul of the system in forty years and generated considerable interest.

Just twelve months on the reforms are settling in very well indeed and are already achieving the objectives we set when we decided to make the changes.

I thought, therefore, that this would be an opportune time to let you have an overview of what has been happening in the social security system as a whole since last April so that you are in a position to answer any queries that may arise on this subject.

Yours ever
John

JOHN MOORE

Flanagan 02.30.3.89

FINANCIAL SECRETARY TO THE TREASURY

PMP

FROM: S J FLANAGAN
DATE: 30 March 1989

MR EVERSHED - IR

cc 2 PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Lewis IR
Mr Massingale IR
Mr Evershed IR

~~PPP~~

Jonathan OR

WORKPLACE NURSERIES

The Financial Secretary was grateful for your minute of 13 March. He agrees with the Chancellor (Mr Taylor's note of 20 March) that the main point which has to be got across is that the benefit of workplace nurseries is just subject to income tax, like anything else, and not to any special "toddler tax" (as today's Independent has it).

Steve Flanagan

S J FLANAGAN
Private Secretary

Conservative Central Office
32 Smith Square Westminster SW1P 3HH
Tel. 01-222 9000 Telex 8814563

From:
THE CHAIRMAN OF THE PARTY
The Rt. Hon. Peter Brooke MP

PWP

PB/AM

31st March 1989

Dear Colleague,

<u>CRD Brief - The Social Security Reforms - One Year On [SS(89)12]</u>

You will recently have received a letter from John Moore addressed to someone other than yourself.

It is very unfair on John who went to considerable personal trouble to address and sign the letters. It was the product of a misunderstanding in the rush before the Recess and, regardless of the origin of the misunderstanding, I take responsibility.

I do apologise, and not least to John. But the briefing remains entirely sound, you should retain it, and I hope you will be able to put it to good use.

Yours ever

Peter