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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON
SW1

23 December 1982

A handwritten signature in blue ink that reads "Dear Margaret." The signature is written in a cursive style.

FIVE YEAR FORWARD LOOK

Your letter of 16 September to Willie Whitelaw asked Ministers in charge of Departments to send you a "forward look" of the Department's programmes for the next five years. I enclose a forward look for this Department.

I am sending a copy to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read "Norman Fowler". The signature is written in a cursive style.

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NORMAN FOWLER

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CONFIDENTIALFIVE-YEAR FORWARD LOOKI THE DEVELOPMENT OF HEALTH AND PERSONAL SOCIAL SERVICESCURRENT COMMITMENTS

1. The Government came into office with three broad objectives:
 1. to maintain spending on the National Health Service and to make better use of the resources available by simplifying and decentralising the service and cutting back bureaucracy;
 2. to encourage the growth of private provision;
 3. to improve services for the old, the sick, the handicapped and the deprived and to do more to help people to help themselves and families to look after their own and to encourage the voluntary movement and self-help groups working in partnership with the statutory services.

RESOURCES AND ORGANISATION - THE CURRENT POSITION

2. The record in this area is impressive. The main points are:
 - Health services have grown by more than 5½ per cent since 1978/79 to meet pressures; part of this has been found from efficiency savings.
 - The Service has been reorganised, cutting out two tiers of management, so that the proportion of expenditure spent on 'management' will be reduced by 10 per cent by 1985.
 - The Service has been for the first time made properly accountable through the introduction of annual Regional Reviews, chaired by Ministers, and resulting in an agreed action plan. These are followed up in each Region in District Reviews.

- A new manpower planning and control system has been introduced. Manpower targets related to service plans will have to be approved by the Department and Ministers and the national aggregate with Treasury. There will be a quarterly census of NHS manpower.
- The general arrangements for improving accountability and efficiency are now backed by Rayner scrutinies, development of performance indicators, development of audit including the use of private firms, the establishment of the Supply Council headed by a businessman to improve purchasing and more use of investment appraisal in capital projects and design advice to reduce costs, eg through energy conservation.

RESOURCES AND ORGANISATION - FUTURE WORK

3. Health services need to grow at over 1 per cent a year just to keep pace with the growing number of old people (especially the very old) and to enable the NHS to make more widely available new treatments which save lives and relieve pain and handicap (dialysis and transplants, hip operations are important examples). Not all of these demands will be met by the public sector and I look below at ways of improving the contribution of the private sector. But containment of costs will be a major issue in both sectors.

4. The top priority in the public sector will be to build on the work already done and carry through a number of new initiatives to improve accountability and efficiency.

5. The main new projects are:

- To establish the manpower management enquiry, headed by an industrialist, to help drive through the new arrangements for planning and controlling manpower and improving its efficiency.
- Carry through our proposals to require health authorities to get contractors in to provide a whole range of house-keeping services using competitive tender.

- To mount a major scrutiny of the Works organisation in the NHS and in the Department.
- Act upon the report of the review which has just been completed into under-used and surplus land and buildings, arrangements for disposal and estate management.

6. Work is needed on long term pay arrangements and handling of industrial relations generally in the National Health Service. The immediate task after the settlement of pay for 1982/83 and 1983/84 is the establishment of a review body for nurses, midwives and other professional staff. We have to consider also the arrangements for and content of the discussions promised on long term arrangements for determining pay of other staff.

7. The pay issues are directly linked with management and efficiency. Ministers will be directly involved with both. The recent appointments of a number of new Chairmen of health authorities with wide management experience will assist us with these tasks. Our assumption is that we will be able to carry through these tasks within the structures now established. Indeed the National Health Service urgently needs a period of stability to make the best use of its resources.

8. There are no immediate legislative implications and the manpower costs of the work - including the use of outside people - will be met within our administrative budget. The setting of objectives for staff involved and monitoring progress will be an important element of the Financial Management Initiative in this Department. The resource implications of the new review body for nurses and the discussions on long term arrangements for other health service staff cannot be foreseen but will be handled through the normal machinery.

ENCOURAGING THE PRIVATE SECTOR ON HEALTH CARE

9. We have made important progress. The first commitment was to loosen statutory controls and in particular to reverse the previous Government's policy of taking pay beds out of NHS hospitals. That was done in 1980. We have partially restored tax relief on private medical insurance. Hospital consultants' contracts have been made

more flexible so as to facilitate their undertaking some private work and we have encouraged health authorities to take account of private sector provision in planning their services and capital projects. Over the last three years the private sector has grown quite rapidly so that, for example, over 4 million of the population now have health insurance cover and there are about 15 private hospitals currently under construction. NHS expenditure on private health facilities is now about £30 million.

10. All this is encouraging, but we need to do more. The greatest priority is to achieve much better co-operation between the National Health Service and the private sector. I have asked Arnold Elton to chair a small Party Working Group to look at the scope for co-operation between the public and private health sectors. I shall also be discussing with health authority chairmen practical ways in which they could make wider use of non-NHS facilities. This is an area in which Ministers will be closely involved and where I want to see significant progress over the next two to three years. There are no immediate legislative or resource implications. The Inland Revenue will be looking also at the scope for further tax concessions. This would require legislation and would entail some loss of tax revenue.

THE OLD, THE SICK, CHILDREN AND THE HANDICAPPED

Personal Social Services: Voluntary and Self-help

11. It is a hard challenge to reconcile the need to restrain total local authority spending with our drive towards improved care in and by the community. Within the overall economic policy we have encouraged effective support of the old, the sick, children and the handicapped both by the statutory services and by promoting the voluntary and self-help sector:

- (i) encouragement of voluntary giving by tax reliefs;
- (ii) more direct aid to voluntary bodies: the 'opportunities for volunteering' scheme aimed at the unemployed has been successful and the voluntary bodies are seeking further aid;

(iii) emphasis on care in the community: we have stepped up by 35 per cent to £96m the value of cash transfers from the NHS for local social services projects (the 'joint finance' schemes);

(iv) we have legislated to improve the safeguards for the mentally ill; the first such legislation since 1959;

(v) we are acting in this Parliament to help strengthen community and primary care, and safeguard the elderly in residential homes (the Health and Social Services and Social Security Adjudications Bill).

LOOKING AHEAD

12. The pressures on resources will not remit, and we shall be pressed for higher standards of care. Our policy must be directed at securing these standards through a return to the idea that the supply of social care should be effectively harnessed and co-ordinated by local authority social service departments, but need not be exclusively provided through them. Their social workers' functions need to be developed accordingly. We should be able to pursue these policies without major structural changes or major legislation. There will be a place for centrally funded initiatives such as those now in train (1983/84 planned spend):

- improved primary care in cities (£3m)
- improved action on juvenile offenders (£3m)
- moving mentally handicapped children out of hospitals (£3m)
- demonstration services for elderly people suffering from mental disorder (£2m)
- 'care in the community' schemes (£6m)
- fresh voluntary projects for under-fives (£2m)
- pilot projects with drug abusers (£2m)

13. Prevention of ill-health and related social problems should receive increased attention in our programmes for Government action: immunisation rates, for example, are too low, and other countries are much better than us in this and other aspects of preventive policies.

14. We must pay special attention to the needs of children especially those without a secure family base. We should reject the Labour approach which is to provide creches for every mother who wants to go out to work. Our own policies should focus on supporting mothers who are forced to cope single-handed, by, for instance, revising the conditions of child-minding, which would require legislation in the next Parliament. Further support should be via voluntary sector, rather than state-provided facilities. Also, I expect that the House of Commons Social Services Committee will add weight to the Law Commission in seeking changes in the laws relating to parental responsibilities, and children in care. This may require us to make some carefully balanced plans for legislation.

15. A massive challenge is the growing numbers of elderly people. By year 2000, the group of 75-84 years old will be up one-quarter, from 3.1m to 3.8m; the over 85 group by over one-half from 0.5m to 0.8m; and the incidence of disablement, especially dementia, increases with age. The challenge can be met by our care in the community approach, but only if we can supplement increases in public provision with imaginative new developments. These should call on the support of industry as well as the traditional voluntary bodies. More kinds of residential projects should be tried, for the old to move out of their over-large houses into groups of individual homes rather than into a final "old people's home". We should look to the development of employer-employee funded schemes of old age care, and to more commercial support of local voluntary effort. These are issues we shall be discussing in the Family Policy Group.

II THE DEVELOPMENT OF SOCIAL SECURITY

CURRENT COMMITMENTS

16. We have an impressive record on the specific commitments and

objectives with which we came into office:-

(a) we have maintained the value of pensions in real terms, and protected the standard of living of the most needy, on supplementary benefit;

(b) we have brought unemployment benefit into tax (although the restoration of the 5 per cent abatement of it in lieu of taxation has still to be decided) and changed the repayment of tax refunds during unemployment. We have taken vigorous and highly cost-effective action against fraud and abuse. All these measures have improved incentives to work;

(c) we have brought in a statutory sick pay scheme, transferring to employers the responsibility for making payments during the first eight weeks of sickness;

(d) we have introduced a new supplementary benefits scheme;

(e) we have introduced a new housing benefit scheme to unify the separate systems of help from supplementary benefit and local authority rent and rebate schemes;

(f) we have maintained the value of child benefit at the level set in November 1980 (although we have not fully made good its loss in value from April 1979 to November 1980); we have more than maintained the value of one-parent benefit;

(g) we have continued the Christmas bonus and legislated to make it permanent;

(h) we have reorganised the social security Regional Organisation, from 12 Regions to 7, saving 1,000 Regional staff;

(i) we have reorganised social security audit and are introducing budgetary control of administrative expenses from April 1983.

In all this we have reduced public expenditure on social security by £1.5 billion; and, despite increases needed for rising unemployment, we have reduced staff numbers by 9,000 to date. We are on course for a reduction of 16,000 by April 1984.

17. This leaves outstanding as major commitments:-

(i) the phasing out of the earnings rule for retirement pensions during this Parliament, which has been precluded by financial constraints. Pressure on this point has eased, perhaps because of high unemployment. But there is provision in PESC for phasing the rule out over two years, starting in 1984/85 (£30m in 1984/85, and £132m in 1985/86). Legislation will be needed: there will eventually be a minor staff saving;

(ii) our aim to provide a coherent system of cash benefits for the disabled. We said in the manifesto this would depend on the strength of the economy; and we have not, in the event been able to make significant progress in this Parliament;

(iii) our review of the national insurance contribution and pension position of the self-employed. We have reviewed this with representatives of the self-employed as we promised, but found no agreement among them about the reforms needed. The only prospect for change seems to lie outside social security, in tax relief on the employer's element of their NI contribution, on which I am in touch with the Chancellor.

FUTURE WORK

18. We have a substantial programme of work already in hand in several Ministerial and official groups:-

Pensions

We are considering with the Treasury the future policy on:-

(a) the future development of the new pensions scheme, on which the Government Actuary recently published a report on his Quinquennial Review of the national insurance scheme;

(b) flexible retirement age, on which the Select Committee on Social Services has reported constructively.

Family support, poverty trap and work incentives

We are already studying in the Family Policy and other groups possible changes in:-

(a) provision for unemployment in the national insurance and supplementary benefit schemes (eg early retirement, higher disregards on earnings);

(b) child benefit, including the idea of a taxable second tier;

(c) family income supplement, including changes in scope, and encouragement of take-up.

A decision has still to be taken on the future of death grant, following a recent consultative document; and we are committed to reviewing again maternity benefits and maternity pay.

Benefits for the disabled

We are considering:-

(a) the industrial injuries scheme, on which we published a White Paper earlier this year;

(b) replacement of the war pensions vehicle scheme with a mobility allowance;

(c) a comprehensive survey of the extent of disability in the population, to update the "Amelia Harris Survey" of 1969 (published in 1971/2);

(d) offsetting in full state benefit against compensation which an employer may be liable to pay;

(e) simplification and rationalisation of the procedures for medical adjudication and appeals;

(f) reorganisation of the artificial limb service to instil competition between suppliers and greater response to customer needs.

Simplifying operations and making them more efficient

We shall also be pursuing vigorously during the next Parliament the Operational Strategy proposals which I published in September, to modernise our operations by extensive use of new technology. Building on the largest computer centre in Europe at our Newcastle Central Office, which handles our central recording of contributions and payment of pensions and child benefit, we look to computerise our local offices. Some 14 projects over 15 years, investing some £700m on top of the £900m we shall need to replace existing computers, should give us a return of some £2bn and 20-25,000 staff savings in DHSS and DE. The objectives are

- a better service for the public
- savings for the taxpayer
- more worthwhile jobs for the staff

Equal treatment of men and women

We shall have to make some changes in social security legislation and regulations before the end of 1984 to comply with the EC directive, so as -

- to enable women to claim supplementary benefit and FIS in their own right;
- to remove discrimination against housewives in Non-Contributory Invalidity Pension.

LOOKING AHEAD

19. Looking further ahead, we shall have to plan our strategies on:-

Further contracting-out of State provision

This principle has already been adopted successfully for substantial slices of pension and sickness provision, with public expenditure and civil service manpower savings. Could it be extended further (eg to the rest of sickness benefit)?

Disability benefits

What steps can we take, within available resources, to develop the system of benefits for the disabled so as to make it more coherent?

Further review of supplementary benefits

Will it be necessary to consider further ways of simplifying the supplementary benefit scheme, to adopt it more effectively and economically to its mass role and contain its rising manpower costs? (Well over half our local office staff are now engaged on paying out only 15 per cent of total benefit expenditure.)

Tax credits

We set this as our long-term aim in the last manifesto. The cost has risen since the 1972 scheme was devised, and any progress must await comprehensive computerisation in

the Inland Revenue and the DHSS towards the end of the decade. The objectives of the tax credits approach were

- to bring equal help to families above and below the tax threshold - this has been largely achieved by child benefit;
- to bring unemployment and sickness benefit into tax - this has been achieved for UB, and the new sick pay scheme will have the same effect for short-term sick pay;
- to supersede various forms of means-tested help by a coherent system integrating tax and benefits - a start has been made in our new housing benefit.

We shall need to consider what further progress is feasible towards these objectives.