

PRIME MINISTER

E(A): NHS ALLOCATION

You reacted to the proposal to abolish the NHS allocation by describing it as a "shifty device". In my view it is the existence of the device that is shifty. I believe that the right course is to abolish it and that the timing for this is good.

- (i) The presentation need not be difficult. While the NHS was being reviewed it made sense to retain the NHS allocation as there was a possibility that arrangements would be agreed which built on it in some way. We can now say that the review has been completed and a decision taken for the NHS to be funded entirely from taxation and (to a limited extent) charges. As a result the NHS allocation has no further role and now is therefore the right time to wind it up.
- (ii) To retain the NHS allocation is to put book-keeping above real money in the real world. The only genuine alternative is to put up NICs. To maintain a fiction about the way the NHS is funded, and one which is no longer needed, at the cost of a genuine rise in NICs and hence employer costs would be a mistake.
- (iii) A National Insurance fund shorn of oddities like the NHS allocation would make the contributory principle for pensions even clearer.

If you do decide to accept the abolition of the NHS allocation there will be no need for it to be taken on the E(A) agenda.

(ANDREW TURNBULL)

22 November 1989

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