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PRIME MINISTER

MEETING WITH MR CLARKE: WEDNESDAY 18 APRIL

There are three items on the agenda for the meeting with Mr. Clarke:

- i) the cyclotron; (Sir Donald Acheson will attend for this item only);
- ii) postponing the transfer of community care to local authorities;
- iii) the Health Service review and survey bids.

i) The Cyclotron

Attached at Flag A is a separate note on the cyclotron, prepared by Andrew Turnbull.

ii) The Transfer of Community Care to Local Authorities

You proposed that consideration should be given to delaying the transfer of responsibility of community care to local authorities.

Under the present proposals local authorities will be given an enabling, rather than directly providing, role for community care. The transfer involves a shift of resources from the Department of Social Security's budget to grant support (AEF) for local authorities. The sum is relatively small (by local authority standards) at around £300-£400m in 1991-92; it builds up rapidly thereafter. But local authorities will be able to spend more than the transferred sum if they wish from the outset.

The main concerns are:

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- many local authorities have high aspirations on service levels: on taking over they will quickly boost provision and costs;
- any excess over the amount provided for through AEF will fall on the community charge and raise charges even higher;
- as noted by Policy Unit (Flag B), any transitional problems on the transfer (eg for the old and mentally ill) between health authorities and local authorities could also add to costs in the Health Service.

The local authorities are expecting the transfer to take place. Mr. Clarke's immediate reaction was that he might favour delaying the transfer. But he may now have been advised that it would be better to go ahead. The Treasury are likely to advise in a similar vein. Mr. Patten's position is unclear.

You will want to assess Mr. Clarke's reactions. The next step in practice might be to commission him, in co-operation with the Treasury and DoE, to provide a report setting out the costs and benefits of each option. That paper should ideally be considered at the next meeting of the Ministers reviewing the community charge (26 April) but may have to be delayed.

The report should provide a quick broad assessment of likely public expenditure on community care in 1991-92 - if the transfer goes ahead and if it is delayed; where those costs would fall in terms of departmental responsibility; and the amounts to be raised from the general taxpayer or the community charge payer under each approach.

iii) The Health Service Review and Survey Bids

The main bids for extra spending on the health service next year will include the following:

- i) the knock-on effects of the Health Service Review Bodies pay reports for 1990;
- ii) Service growth and inflation, eg, medical equipment costs;
- iii) compensation to health authorities for the imposition of VAT on construction;
- iv) an allowance for higher amounts than in the Survey baselines for the pay of non-Review Body employees;
- v) the introduction of the Health Service Review proposals;
- vi) other capital expenditure.

The Treasury's view is that the items in i-iv above are virtually irresistable bids. They will add around £1.5b to public spending in 1991-92. Items v-vi offer the best scope for keeping down the rising costs of the Health Service. Critical will be the pace of introduction of the health review proposals and how far capital projects can sensibly be deferred.

You will want to ask Mr. Clarke how far he can contain his bids, particularly on items v and vi. But discussion is likely to focus on the implementation of the health review. Sir <sup>David</sup> Donald Wolfson argued yesterday that there was merit in a phased introduction. He discussed this with Duncan Nichol yesterday evening.

At Flag C is a very thorough note from the Policy Unit reviewing the proposals and identifying the pros and cons of different approaches. The conclusion is that, if it were possible to develop an option based on introducing the internal market measures in three or four regions, while proceeding with self-governing hospitals and GP funding throughout the country, this might be advantageous. It would secure the co-operation of the

Royal Colleges. It could also reduce the public expenditure costs next year. And, by implementing major elements of the reform nationwide, it would retain the political momentum.

If this option is not possible managerially, the note recommends proceeding on the present timetable.

You will wish to test Mr. Clarke's reaction. If a slower implementation is proposed, the next step might be to ask for a paper setting out a new, more detailed programme.

BHP

BARRY H. POTTER

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