



PRIME MINISTER

## PUBLIC EXPENDITURE

As you will have seen from my letter to John Major of 2 July, I inherited from my predecessor a number of commitments to produce cash savings over the PES period. The means of delivering these savings were either not agreed or subject to agreements with colleagues that might not be forthcoming. I attach a list of these commitments.

*will request if required.*

As I have told John Major, I accept all of the commitments in the terms in which they were made; but a number of difficult decisions will be needed if I am to meet them. The first commitment, arising from the 1985 PES to achieve savings of £75 million from 1988/89 from changes to exemptions from prescription charges, has always been subject to the agreement of colleagues, but I do not believe that they will endorse proposals to impose prescription charges on the elderly. I am corresponding with John Major on this.

*Non do l.*

To meet my commitments to the remainder, I am seeking to make proposals which in my view are politically right and which fit within our philosophical framework. But this is not easy and all of the alternatives are in one way or another unpalatable. I thought you should be aware of what I am proposing.

On health there was an assumption that the review of primary health care would lead to a saving. In fact, as the consultations on the Government's Discussion Document showed, there is a need to invest more resources in some parts of the primary care services. What is more, Norman Fowler agreed with the Treasury in the last PES round that he would find £80 million in 1988/89 from the sale of

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the loan portfolio of the General Practice Finance Corporation. I believe it to be right to sell the loans but this requires the agreement of the general practitioners. Hence we will have to be responsive to meeting legitimate needs in primary health care if we are to achieve the savings due.

Against that background, I have been looking at various ways of reordering the priorities in the primary care field. I have had to discard a number of options as inconsistent with our policies, but I do believe that the improvements in the dental health of the nation have been such that we should now reduce the burden on the State of providing General Dental Services, and I propose to increase the income from dental charges by about £70 million by introducing a charge for dental examination and by increasing the charges for treatment. The poor, children and other exempted categories would continue to receive free advice and treatment. I also believe that it would be right to discontinue free sight tests for all on the NHS. Those who are entitled to NHS vouchers for their spectacles should continue to receive free sight tests, but I propose that others should now pay for sight testing privately. This would yield a further £70 million.

By these means I would be able to deliver the £53 million a year which Norman Fowler agreed to save from the Primary Care Review and I will be able to inject the additional resources where they are needed in the primary care field.

Obviously the presentation of this will need very great care but the changes I propose to make will be much easier to defend if we are able to demonstrate that they are effectively a redistribution of resources into primary care services of higher priority. That would indeed be the case: the reason I did not make a PES bid for the improvements in primary care that the consultation exercise showed to be needed was that I felt it right to achieve improvements by a re-targeting of existing resources.

*Who are entitled to NHS vouchers*

On social security I intend to meet the unspecified savings in 1988/89 and a contribution to those in the subsequent two years by increased fraud effort, extending the period of voluntary unemployment disqualification, tightening the contribution conditions for unemployment, sickness and invalidity benefit and abolishing the 25p addition for the over-80s - totals of £92 million, £111 million and £126 million over the three years. I shall not uprate child benefit in April 1988. But I have yet to decide upon the savings measures to secure the balance of the savings in 1989/90.

I believe that this is the right way forward. But before I discuss it with my territorial colleagues, I should like to know that you are content.

I am looking forward to our meeting later this month when I shall be outlining to you my longer term plans.

I am, of course, copying this minute to John Major.

// July 1987

J M

## SAVINGS COMMITMENTS

	£m		
	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
<u>Health &amp; Personal Social Services</u>			
<u>Family Practitioner Services</u>			
1. PES 1985: Savings from changes to exemptions from prescription charges	75	75	75
2. PES 1986:			
a. Savings from review of primary health care	-	53	53
b. 50% of the proceeds of the sale of the loan portfolio of the General Practice Finance Corporation	40	-	-
c. Unspecified savings	<u>12</u>	<u>-</u>	<u>-</u>
	<u>127</u>	<u>128</u>	<u>128</u>
<u>Social Security</u>			
3. PES 1985: Child benefit not to be uprated in April 1988	140	145	150
4. PES 1986: Unspecified	<u>100</u>	<u>250</u>	<u>250</u>
	<u>240</u>	<u>395</u>	<u>400</u>