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Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
Private Secretary
10 Downing Street
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24 February 1988

Dear Paul,

CHIEF SECRETARY'S SPEECH TO THE PEWP DEBATE

I attach the final version of the Chief Secretary's speech. Paragraphs 11 to 25 deal with the NHS and changes to the Review Body dates. They reflect the helpful comments which you gave me and those from DHSS.

I am copying this letter to Geoffrey Podger and Jenny Harper at DHSS and to Bernard Ingham at No. 10.

Yours,

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JILL RUTTER
Private Secretary

CHIEF SECRETARY'S SPEECH
PUBLIC EXPENDITURE WHITE PAPER DEBATE
ON WEDNESDAY, 24 FEBRUARY

The broad lines of policy on public expenditure were announced last November in the Autumn Statement and were debated last month. That debate enabled the House to consider the trends in public expenditure and the way in which priorities had changed between programmes.

2 The Public Expenditure White paper before us today builds on that and provides a more comprehensive account of

- what Government is spending
- the service it is delivering

and its efforts to secure greater value for money.

3 What the White Paper does not provide is a new statement of policy. I suspect that was not fully understood last month when many people affected to be disappointed that it did not contain fresh expenditure plans. Frankly, it would have been extra-ordinary if it had done so only weeks after our plans were announced in the Autumn Statement.

4 The Public Finance cycle is quite clear. It begins with the Budget and the MTFS in the Spring . That sets out our taxation and borrowing policies. It continues with the Public Expenditure Survey to determine future spending plans. These are set out in broad terms in the Autumn Statement. It concludes with the Public Expenditure White Paper, followed by this debate which provides an opportunity to consider the Government's management of the taxpayers money. We are helped in this by the report from the Treasury and Civil Service Committee which makes a number of interesting observations and recommendations. The Government will respond to these as soon as possible and I shall refer to a number of them shortly.

5 It is crystal clear that the strength of the public finances has created the conditions for a sound economy, and the soundness of the economy has fed back to the public finances. The crisis so lovingly predicted by RHG Sparkbrook has failed to arrive yet again. Like Bunter's Postal Order it is forever in the post. Rising real incomes and corporate profits boost the revenue side of the account. But a growing economy brings benefits for expenditure as well. Nationalised industries are producing better results: for example, the rising profits at British Steel and increasing passenger revenues of British Rail. Falling unemployment is reducing the growth of social security spending; a buoyant economy is enabling central Government, local authorities and new towns to step up their disposals of surplus assets. These are changes few would have predicted a few years ago.

6 The lower borrowing that has resulted from these changes is reducing the costs of servicing the national debt. Debt interest has now fallen from its peak of $5\frac{1}{4}$ per cent of GDP in 1981-82 to around $4\frac{1}{4}$ per cent this year. We expect this to fall still further and this will enable us to spend more on priority programmes. Let me put this in context. If the PSBR had remained at its 1978-79 share of GDP, cumulative borrowing would by now be around £80 billion higher with increased debt servicing costs of over £8 billion a year. That would be the equivalent of an extra 7p on the standard rate of income tax just to finance the debt. None of that extra revenue would have gone on Education or Social Security or Health. It would all have gone to our creditors. That would be the result of the policies the Opposition still cling to with such hide-bound affection.

7 We are in the fortunate position that we have dumped these policies. That is why our economic performance is so strong, but it will only stay that way if we continue with the policies which got us to this point in the first place. We propose to do that.

8 In the Survey of public spending conducted last year, we added £4½ billion to the planned programme expenditure in 1988-89 and £6 billion in 1989-90 thanks to a growing economy, still reducing public spending as a proportion of national income.

9 That proportion has already fallen from 43 per cent when we took office to 42 per cent now - down over 4 per cent from its peak in 1982-83. But that has not meant cuts - because national income has risen by 19 per cent. That proportion is set to fall further - to 41 per cent by 1990-91. But that further fall does not mean "cuts" either. This is all in stark contrast with the rising share of national income absorbed each year by public spending in the 1960s and 1970s.

10 The plans contained in this White Paper show that within the constraint we have set ourselves, we have been able to strengthen priority services such as health, law and order, education, defence and inner cities.

11 In their report, the Select Committee have raised some genuine issues which need to be addressed on the health service and I shall respond to these. But let me first put the position in context. Measured in all sorts of ways, the NHS is expanding, improving and becoming more efficient, as the programme of cost improvements has clearly demonstrated.

- indicators of health show significant improvements in life expectancy in recent years and large reductions in deaths from a wide range of conditions;
- indicators of the number of treatments show large increases in patients treated, whether as in-patients, day-patients or out-patients. Since 1978 the output of the hospitals service has increased by over 20 per cent or about 2½ per cent a year;
- and treatments are now being widely offered that barely existed a decade ago.

12 Little of this would have occurred if the Government had not provided increasing resources. But

we have. Total spending on the health service has risen by 32 per cent more than inflation. It has risen too as a proportion of public spending and will continue to do so. It has risen as a proportion of national income. And gross capital spending, - cut so savagely by the Opposition when in Government - has increased by 42 per cent in real terms helped partly by rising capital receipts.

13 In the crucial HCCHS sector of the NHS, current expenditure will have increased in 1987-88 by around 10 per cent, well over twice the rate of inflation in the economy generally, and faster than any measure of rising prices in the health sector specifically. If one allows for this and also for the benefit of the cost improvement programme, "the margin available for service development" will have increased by nearly 3 per cent, comfortably ahead of even the most pessimistic estimate of demographic pressures. It rapidly becomes self evident that current difficulties faced in the health service are not simply questions of funding. And funding alone will not solve them.

14 The Government has recognised that there are important issues to be examined. We must consider whether there are other ways of delivering health care which meet people's expectations. In doing so we propose to preserve the principle that a high standard of health care must be available for all regardless of means. That principle is not at risk.

15 That is why we have set in hand a fundamental review of the management and funding of health care in this country.

16 But as well as these fundamental issues the Select Committee was particularly concerned at the uncertainty faced by Health Authorities who have to plan their budgets before the Review Body recommendations are finalised and before consequent decisions on funding are known.

17 I sympathise with this concern and with the dilemma facing Health Authorities. The Government have examined this problem to see if there is a way of resolving it without abdicating responsibility for the control of public expenditure. We are not prepared to commit ourselves in advance to accepting Review Body recommendations unreservedly or to funding resulting awards in full. Nor would any Government. Those decisions can only be made when the recommendations have been studied.

18 However, what we can and will do is remove this uncertainty for Health Authorities in the future. We have decided in future years to bring forward the time-table for the Review Body reports so that decisions can be made on them well before the beginning of the financial year. We hope Review Bodies will be able to submit their reports in time for decisions on them by the end of January or, at the latest, by mid-February.

19 This new timetable will affect the Reports of all the Review Bodies - the Nurses and Midwives Pay Review Body, the Doctors and Dentists Pay Review Body, the Armed Forces Pay Review Body and the Top Salaries Review Body. It will mean, in particular, that the outcome of salary awards will be known to health service treasurers before they finalise their budgets for the coming year. I hope and believe this will remove a great deal of uncertainty for them.

20 We cannot, at this late stage, bring this year's reports on to this timetable but we do propose to try and minimise the period of uncertainty. In particular, it would be difficult to press the Review Body for Nurses to hasten its Report because this year, as the House knows, it is considering a number of important and complex issues including a new clinical grading structure. This seeks to reward skill and responsibility and to give better pay and career prospects to those nurses who choose to stay in areas of direct patient care. This meets precisely the point that so many health service professionals have drawn attention to in recent weeks. The Review Body will also be looking at special pay differentials needed to cope with localised recruitment difficulties.

21 But, as I have said, we do want to minimise the period of uncertainty. Yesterday, my RHF the Prime Minister reminded the House that last year the Government received all the reports of the Review Bodies between 1 and 14 April and announced all decisions, on implementation and on funding, by 23 April. She stressed that if, as we expect, the Reports come in at a similar time this year, the Government will, for its part, be equally expeditious in announcing its decisions. We hope therefore to be in a position to announce decisions no later than the end of April.

22 In short, the position is:

- first, we are carrying out a fundamental review of the management and financing of health care.

- secondly, the timetable for the Review Body reports will, in future years, be brought forward so that the Government can announce its decisions before health authorities finalise their budgets;

- thirdly, we hope that this year we will be able to announce our decisions on the Review Body recommendations and the financing of them no later than the end of April;

23 Decisions on Review Body pay in the Health Service are therefore, only a matter of weeks away. As I have indicated we hope to be in a position to announce our decisions by the end of the first month of the financial year. It would be premature and unacceptable, therefore, to put into effect service reductions on the grounds of uncertainty. Moreover the three concerns of nurses, over the level of their pay, the structure of their pay and over their career prospects, are all being comprehensively and speedily addressed.

24 In the light of these assurances there is one further point I wish to add. In recent weeks only a very small minority of nurses have decided to take part in industrial action. I hope that minority will now realise that the strikes in the health service are unnecessary and damaging to the very service they purport to advance. If they continue, I believe that both public and patients will draw the conclusion that the motives of such action cannot lie in genuine concern over the health service or the pay and conditions of those who work within it.

25 But if such action does continue it will not influence the Government. We will proceed as I have

described today and I reiterate the message I first gave when the White Paper was published - there will be no public expenditure package in the Budget.

26 In their Report, the TCSC drew attention to a number of other points to which I wish briefly to refer. They recognised that the Autumn Statement is now the vehicle for announcing the main results of the Survey and that as a result, the White Paper has, to some extent, been upstaged. The Committee's suggestion that much of the material from Volume I be incorporated into the Autumn Statement is attractive and has a great deal to commend it. We will consider that very carefully and sympathetically despite the obvious technical problems that would need to be overcome.

27 The Committee also suggested that Volume II - now over 400 pages - should be sold as separate departmental booklets, as the Estimates are now. We will consider this proposal sympathetically, along with the corresponding proposals which were made by the Public Accounts Committee last year.

28 I sense that opinion is running in favour of change. The Treasury is already investigating a number of possibilities, and as soon as this work is complete we will put proposals to Parliament.

29 But if we change the way information is reported, there will be consequences for the way it is debated. One possibility, would be for the broad lines of expenditure policy to be debated as part of the Autumn Statement; for Select Committees to consider the departmental booklets and for one or more of their reports to be chosen for debate in May or June. All this will need further consideration.

30 The TCSC invited me in their report to set out the public expenditure effect of the agreement that has been reached on the future financing of the European Community.

31 This agreement concludes a far-reaching review of the Community's finances and policies. It provides effective and legally binding controls on spending, effective measures to reduce agricultural surpluses, and the preservation of the UK's abatement as agreed at Fontainebleau. And no oils and fats tax .

32 Insofar as domestic public expenditure is concerned, the agreement is likely to increase our net payments to Community institutions by some £200-300 million a year. This is compared with what would have happened with a continuation of the 1.4 per cent VAT ceiling, the assumption in the public expenditure White Paper.

Compared with the effective level of spending in 1987, which was already in excess of the 1.4 per cent VAT ceiling, the increase will be some £100-200 million a year.

33 The extra expenditure will be met entirely from the reserve and will not involve reductions in agreed domestic programmes.

34 The timing of the future financing agreement means that the 1988 Community Budget will not be adopted before the end of the current [1987-88] financial year, so the Community's emergency financing arrangements, known as provisional twelfths, will continue into 1988-89 rather than end in 1987-88 as assumed in the White Paper. This will increase our net payments to the Community in 1987-88 by about £240 million, mainly because our abatement in the first three months of 1988 is being made at the rate of the 1987 not the 1988 budget. Once the 1988 budget has been adopted, however, perhaps in May, we shall benefit from a much higher abatement, and the increased abatement will be backdated to the beginning of January. This will reduce our net payments in 1988-89 compared to the figure in the White Paper by the same amount as the increase in 1987-88, around £240 million.

35 Thus in 1988-89 itself, the effect of the future financing package on our net payments will be very broadly offset by the effect of the delay in the adoption of the 1988 budget.

PERORATION

I am acutely aware that the breadth of public expenditure is such that I have not been able to mention many important matters:

- I have not had time to mention the extra £240 million a year we have added to the plans for spending on science and technology.
- Nor the £1½ billion addition to our plans for capital expenditure in each of the next 2 years.
- Nor yet the extra £630 million we are providing for education; £270 million more after taking account of the amounts allowed for teachers' pay and academic restructuring.
- And nor the extra resources we are devoting to the inner cities - and the increased resources we are attracting into the inner cities through creating a partnership with the private sector.

I suspect that these increases will not find a place in the speech we are about to hear from the hon. Member for Dunfermline East either.

36 These public expenditure increases have only been made possible by the sound state of the public finances and the healthy state of the economy. Prudent control of public expenditure has been and will continue to be the cornerstone of the virtuous circle of improving

public finances and a strengthening economy. The complete and abject failure of the Opposition to understand these simple truths will again be in evidence today. They seem to view the hard-won progress of recent years as a kind of windfall, just as I suppose they imagine that the economic failure which toppled them was bad luck. If they don't understand, then the public do - as they have shown very clearly on three memorable occasions.

37 The Opposition will again talk of cuts where there have been increases. They will again air their obsession with pounds spent rather than outputs achieved and this despite the awful illustration of the ILEA that spends more and achieves less than any other education authority in the country.

38 Mr Speaker, all these points they will make are as familiar as they are flawed. The public are not fooled and I trust that this House will not be fooled. I beg to move.