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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
Whitehall
London SW1

29 July 1988

Dear Secretary of State

PUBLIC EXPENDITURE SURVEY 1988: HEALTH AND PERSONAL SOCIAL SERVICES

John Moore wrote to me on 25 May setting out his proposals for health and personal social services in this year's public expenditure Survey. I realise that you will be wanting to review these bids yourself, and indeed - for the reasons which I explain at greater length below - I very much hope that you will see your way to reducing them. It will be very helpful if you could let me have your considered proposals by 5 September. My office has now fixed our bilateral discussion for Monday 19 September.

As we are already some way into the Survey, I think it may still be helpful if I let you have my own reactions, in the light of the Cabinet discussion on 14 July, to the proposals which John Moore put forward. The attached table, which has been discussed between our officials, sets out his proposed increases and reductions, together with some other reductions which I would like to discuss. Colleagues agreed in Cabinet that, if we are to meet our established and agreed policy aims, we should try to stick as close as possible to the planning totals. I recognise that some increases to the health programme may be necessary, but to keep these to the minimum and fulfil the Cabinet remit I believe that substantial reductions - or offsetting savings - are required by comparison with the bids which John Moore tabled.

HCHS Current

You will wish to look in particular at the bid for service growth (A1(c) in the attached table). We need to consider both whether the implicit output targets are reasonable and what allowance to make for improved productivity over the Survey period. As you will be aware, recent years have seen substantially improved efficiency over and above the savings released by the cost improvement programmes.

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I suggest that, if you wish to pursue the bids for AIDS and for pay awards above the GDP deflator, we concentrate our discussions on 1989-90. I think the latter should cover review body as well as Whitley groups. I should say now that I see no justification for the bids for the RAWP bridging fund, for internal markets or for targeted improvements in services, in addition to a main service growth bid which should subsume them. As to training costs, I agreed to John Moore's announcement in response to Project 2000 on the explicit understanding that there would be no guarantee of further funding in this year's Survey. I see no reason to accept this bid.

Some offsets have been offered in the form of efficiency savings, but it is suggested that the cost improvement programmes should yield less than in the past. I cannot accept this, particularly since John Moore agreed at our bilateral on 25 September last year that a reducing profile of cost improvement savings was inconsistent with an increasing HCHS programme overall. I would expect to see new avenues explored here, notably the extension of competitive tendering to clinical services. I should like this also to look at the ways in which ambulance services are used.

Finally, I think it would be prudent at this stage to score the savings which would accrue if we are obliged to reduce employer contributions to the superannuation scheme as recommended in the recent report by the GAD.

<u>HCHS Capital</u>

There are two reasons why the present level of expenditure on construction is a cause for concern. As indicated in my Cabinet paper, the construction industry is stretched and running into capacity constraints, which are feeding through to construction prices. I am therefore explaining to all colleagues with significant capital programmes the need to exercise restraint in the level of public expenditure on new construction. The second, and more specific, point is that the scale of the programme in the last few years has generated current expenditure commitments which are not sustainable within the income available to health authorities. We see the result in the present imbalance in income and expenditure accounts, in respect of which John Moore submitted bid A1(b). I therefore think we need to re-examine the size of the capital programme. Any increased expenditure on maintenance, equipment replacement and on the sort of schemes at which the proposed "capital loan fund" is aimed should be accommodated within the new total.

<u>FPS</u>

I cannot accept John Moore's proposal to withdraw the increases in prescription charges provided for in the baseline. But we need to look for further savings in the programme if we are to offset the genuine estimating increases. I propose therefore that we examine the following further measures:

- increased receipts from FPS charges, to be discussed between officials before we meet

- extension of the selected list and introduction of compulsory generic prescribing

- restricting the growth in numbers of FPS doctors and dentists, and taking action to bring the cost of their expenses under control.

As you know, I think it is essential to bring FPS expenditure within cash limits. I should like our discussion to cover how we are to do this.

CFS and PSS

I was disappointed at the virtual absence of offsetting savings to the bids on this programme. I would like to suggest the following:

- abolition of the welfare food programme, or, failing that, substantial reductions through both policy measures and securing agreement of the Dairy Trades Federation to a substantial discount on the price of liquid milk

- restricting Government support to any voluntary organisation to 50%, given the measures we have taken to promote voluntary giving

Whatever we decide on welfare food, I think it would be right now for the two non-cash limited elements of the CFS programme to be brought within the cash limit for the programme as a whole.

Turning to local authority expenditure, the PSS Expenditure Group identified pressures amounting to £24m next year arising from initiatives by your department. Under the "new burdens" policy, offsetting savings are required within your central government programmes. You will also no doubt be considering the scope for higher in-year receipts to offset John Moore's bid for a £15m increase in local authority PSS capital expenditure. The point above about the construction industry applies to this bid too.

Running costs

The CFS bids include running cost increases well above the efficiency gains identified in respect of health in John Moore's draft management plan for the former combined department. I suggest that officials explore before our bilateral how the bids can be reduced and offset by further efficiency gains.

I am sending copies of this letter to the Prime Minister, Malcolm Rifkind, Tom King and Peter Walker, and to Sir Robin Butler.

Yours sincerely

Carys Evans

JOHN MAJOR

(approved by the Chief Secretary and signed in his absence) st2.150

DEPARTMENT OF HEALTH

		1988-89	1989-90	1990-91	1991-92
			£million		
I TOTAL EXPENDITURE					
Expenditure baseline		18,278**	18,559	19,445	19,931
(**includes £596m Review Body funding)					
A	Additions proposed by Mr Moore				
HCHS Current					
A1	a) Review Body consequentials		570	600	640
	b) underlying over-commitment		215	225	240
	c) service maintenance/development		340	750	1315
	d) pay above general inflation		70	130	195
	(Total)		1195	1705	2390
A2	RAWP bridging		50	50	50
A3	AIDS		105	240	370
A4	Management and Information		160	200	235
A5	Targeted Services		15	20	25
HCHS Capital					
A6	Increased Investment/IT		230	305	265
A7	Capital Loan Fund		100	150	150
A8	Cyclotron		3	3	-
A9	VAT		40	-	-
FPS					
A10	Estimating		142	182	443
A11	IT		5	8	8
A12	Service improvements		10	10	10
CFS					
A13	Non cash-limited		1	5	13
A14*	Cash limited		47	52	57
PSS					
A15	Capital		15	16	16
TOTAL			**2118**	**2946**	**4032**

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B	Reductions proposed by Mr Moore				
B1	Efficiency savings		- 125	-255	-435
B2	Increased land sales receipts		- 100	- 100	- 100
B3+	CFS savings		- 2	- 2	- 2
TOTAL			- 227	- 357	- 537
C	Reductions proposed by CST				
C1	HCHS Capital		- 100	- 150	- 250
C2	HCHS and FPS charges			to be considered	
C3	HCHS and FPS other		- 30	-35	-180
C4	CFS Welfare Food		- 80	- 93	- 95
C5*	CFS other		- 28	- 40	- 42
C6	Reduced superannuation contribution		- 312	-323	- 332

II GROSS RUNNING COSTS (percentage change on previous year in brackets).

Baseline	78.6	80.9 (2.9)	82.9 (2.5)	85.0 (2.5)
Change proposed by DHSS (A14)		10.1 (15.8)	12.3 (4.6)	14.5 (4.4)
Reductions proposed by CST (C5)		- 2	- 2	- 2

III CIVIL SERVICE MANPOWER IN GROSS RUNNING COST CONTROL

Present Plans	4,477	4,344	4,194
DHSS proposal	442	642	824
HMT proposal	- 50	- 50	- 50

+ This is a technical saving. The Department seeks additional DRC cover of £2m a year without a corresponding increase in overall expenditure; this implies a reduction in non-DRC expenditure of the same amount. A corresponding adjustment is included in A14.

* Contains an element of running costs