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Rt Hon John Major MP
 Chief Secretary to the Treasury
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

13 September 1988

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Dear John,

-off/lot

Thank you for your letter of 29 July. It is helpful to know your immediate responses to the bids in John Moore's letter of 25 May, and I have borne your points in mind in my examination of the bids which John put in. I am writing now to give my initial views as a background to our bilateral discussions on 19 September. *below*

HCHS Current

First, I accept entirely the need to give explicit consideration to the levels of activity implicit in bid Alc and to the potential for improved efficiency over and above cash released through the cost improvement programme. I have instructed my officials to share with yours the result of the work that has been carried out in the last few weeks to update the figures on which the bid was based.

So far as AIDS is concerned I am inclined to agree that we should concentrate our discussion of treatment costs on the first year, given the known difficulties of forecasting further ahead. But I should like to keep the cost of preventive measures in the frame for the whole Survey period, given the need for planning and co-ordination. I note your suggestion for confining consideration of Whitley pay similarly to the first year, but while I see the reason for the suggestion I have some difficulty with it because of the close links with the size of the cost improvement programme in future years. I should say that I do see some difficulty in maintaining past cost improvement levels, until the resource management initiative begins to pay off.

You suggested that our discussions should encompass review body pay. I should be glad to know in more detail at our meeting what you have in mind. You also suggested scoring savings from reduced employers' contributions. I am happy to examine this, but before I could enter any agreement I should want to be sure

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that we both fully understood the implications. It may be that the best way forward will be for us to commission a joint paper by our officials which we could consider at a later meeting. Finally, I have noted your other comments on bids. I suggest we discuss your observations when we meet.

HCHS Capital

I have taken note of your general concerns about the construction industry, but I do not see any reason to reduce the size of the capital programme - quite the reverse given both the substantial proportion of outdated older buildings and the degree of under-investment in equipment replacement and building maintenance. I do, however, entirely agree the importance of seeking to ensure that new investment does not lead to pressures for additional revenue spending that has not been provided for.

FPS

I am fully prepared to look carefully at the scope for further action to contain costs in the FPS. But we must consider what is practical and not anticipate policy changes which pose huge political difficulties. You have suggested that our officials undertake work on new charges. I have no objection to our officials working on this; but we are both of course aware of the constraints upon us, particularly from extant pledges. We will also have to consider commitments given by my predecessors and the political constraints when we talk of the possibility of any action in the selected list and generic prescribing fields.

You also raise the possibility of cash-limiting the FPS. I am not averse to this in principle but it would only make sense to go down this route if we were sure that cash limits would in fact hold. This would in my opinion require very important policy changes before cash limiting became a practical proposition, and I do not believe that they can all be made quickly. For example, restricting the numbers of FPS doctors and dentists would require controversial legislation.

CFS and PSS

I note your suggestions for reduced spending on welfare foods and support to voluntary organisations. Full abolition of the welfare foods programme would require compensating increases in social security benefits and could well result in a net cost to public funds. The aim of the measures to promote voluntary giving has of course been to increase the funds available to the voluntary sector, not to reduce Government support.

I should be glad to know why you think it would be right now for welfare foods and EC medical costs to be brought within the CFS cash limited Vote. I heard this argument every year when I was last in DHSS and I am not aware of any material changes which make it possible to cash limit them now.

I am afraid that I do not see why you suggest there should be reductions in CFS expenditure to offset increased spending by local authorities in relation to new legislative burdens. Personally I do not attach very much weight to the estimate of the PSS Expenditure group. In any event substantial savings - £60 million - were agreed by officials with the Associations in the PSS Expenditure Group. These are more than sufficient to offset the extra spending required.

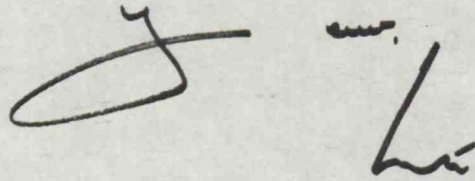
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You draw my attention to the scope for higher in year receipts to offset the bid for £21 million for local authority PSS capital expenditure in 1989-90. Our officials have agreed to an increase to £40 million which - if you agree that the net provision baseline is unaffected - should provide another £10 million in allocations. On that basis, I would be prepared to reduce my bid for 1989-90 to £11 million, to provide for PSS allocations of £79 million.

Running Costs

Our officials have met as you suggested, but have been unable to identify efficiency measures beyond those already included in the Departmental Management Plan and taken into account in the bids. However, you will be pleased to know that they have agreed that the running costs bids annexed to your letter should be reduced by £1.9: £2.0: £2.1 million to eliminate an element of double counting not earlier identified.

I am sending copies of this letter to the Prime Minister, Malcolm Rifkind, Tom King, Peter Walker and, because of the Welfare Foods proposal, to John Moore, and to Sir Robin Butler.



KENNETH CLARKE

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