

CONFIDENTIAL



Rt

ccgk

Prime Minister²

RCCG

18/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Kenneth Clarke QC MP
 Secretary of State for Health
 Department of Health
 Richmond House
 79 Whitehall
 London
 SW1A 2NS

17th October 1988

Dear Ken,

mb

1988 PUBLIC EXPENDITURE SURVEY: HEALTH

I am writing to confirm the outcome of our Survey discussions which we concluded on Friday. I attach a table which has, I understand, been agreed by our officials as accurately reflecting the changes agreed to the baseline. It takes no account of the knock-on effects of the additional money you have announced for the clinical grading review this year.

Savings in employer superannuation contributions as a result of accepting the Government Actuary's recommendations are scored with effect from 1 April 1989. You will be taking steps to arrange the publication of the report on the same day as the Autumn Statement. Our departments will need to agree an appropriate form of words for use at the time to explain what the settlement will actually mean for health authorities.

As agreed at our last bilateral, no part of the settlement will be held back from the figures announced in the Autumn Statement, although two specific bids (for internal market pilot experiments and IT for GPs) will not be made public until the conclusions of the Review are announced. You will need to take steps to inform the Prime Minister's Review Group of our conclusions here.

The table continues to show an aggregate figure for A1(b) and A1(c). I think it would be most inadvisable to show a figure in the Autumn Statement or White Paper for buying out the income and expenditure deficits, since this would be resented by those health authorities who had managed their affairs prudently and not gone

CONFIDENTIAL

into serious deficit. But you will need to make it clear to health authorities that they must henceforth bring their expenditure and income into balance.

On pay, we have agreed to make £65 million available for the cost over and above the GDP deflator of 1989 pay awards for Whitley groups, with particular emphasis on restructuring. No explicit provision has been made for the 1989 review body awards beyond the GDP deflator, but you will be maintaining the line with the Review Body and elsewhere that there will be no automatic full funding of any excess. The extent to which any excess would be met from within the agreed provision will be a matter for later decision.

Our officials have reached agreement on bid A4(d), training, on the basis that my earlier offer of 8/16/24 would be increased by £4 million in each year to pay for your proposed improvements in post-basic nurse training.

No attempt has been made to estimate AIDS treatment costs in years 2 and 3 beyond the £51 million extra provided for next year. We will need to return to this in the next Survey. All the AIDS money should be regarded as ring-fenced. If the increase in treatment costs next year turns out to be less than £51 million, the excess may be applied to prevention and other AIDS services, but not elsewhere in HCHS. Any proposal to switch this money from HCHS to AIDS services in the CFS should be cleared first with my officials, who would wish to satisfy themselves that a genuine increase in the requirement for AIDS expenditure in CFS was involved.

Provision is made in 1989-90 for expenditure on the resource management initiative in line with your revised bid. Provision has also been made in the two later years at a level which demonstrates a continuing and rising commitment to the programme. I recognise that you will wish to look again in the light of experience at what is necessary to continue the programme at the planned rate. My officials will however need to see a more detailed and specific implementation plan than is so far available.

Gross provision for HCHS capital has been increased. As you know, the Treasury had considerable reservations about the quality of the material supplied in support of your bids for equipment and maintenance expenditure. Any bids which may be submitted for these areas in the future will need to be accompanied by much better information about the state of the capital stock if they are to stand any chance of succeeding.

The CFS settlement requires savings of 3.5/6.5/8.5 through a discount on the price paid to the dairy trade for welfare milk. If the negotiations are not successful, I shall expect other savings in lieu, and I should be glad if my officials could be kept in touch with progress. We will in any case need to return to the question of welfare milk for children attending nurseries, play

CONFIDENTIAL

groups and child minders, something which we are agreed is anomalous. I may also wish to return to the possibility of bringing the whole programme within cash limits.

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

Your Ever,
John
JOHN MAJOR

1988 SURVEY: OUTCOME ON HEALTH BIDS

A1(a)	Review bodies	562/582/599
A1(b)	I&E deficits	} 450/725/1070
A1(c)	service growth	
A1(d)	Whitley pay	65/65/65
A2	RAWP	0/0/0
A3	AIDS	68/71/71
A4(a)	RMI	20/25/25
A4(b)	Post-Review pilot experiments	5/20/20
A4(c)	Consultants contracts	0/0/0
A4(d)	Training	12/20/28
A4(e)	Junior doctors	0/0/0
A4(f)	PAMs	0/0/0
A5	Targetted services	0/0/0
B1	CIPs (cumulative)	-150/300/500
C6	Superannuation (HCHS)	-237/245/252
A6(a)	RMI capital	13/30/30
A6(b)(i)	Equipment	} 150/150/150
A6(b)(ii)	Maintenance	
A7	Capital Loan Fund	} 3/3/0
A8	Cyclotron	
A9	VAT	0/0/0
B2	Land sales	-100/100/100
A10	FPS estimating	185/226/474
A11	FPS IT	5/8/8
A12	Hepatitis B vaccination	2/2/2
C6	Superannuation (FPS)	-40/42/43
A13	CFS non-cash limited	-5/-4/4
A14	CFS cash limited (net of savings)	36/25/25
A15	PSS capital	9/9/9

Net additions to baseline 1053/1270/1685