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National Health Services on
Health + Social Security Expenditure
Aug '83.



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From the Principal Private Secretary

16 September 1983

This letter records the conclusions of the discussion of longer-term policies for DHSS programmes which the Prime Minister held today with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary to the Treasury, Mr. Kenneth Clarke and Mr. Rhodes Boyson, Sir Robert Armstrong, Mr. Middleton, Sir Geoffrey Otten, Mr. Bailey, Mr. Mount and you were also present. The Prime Minister was extremely grateful to you, and those who helped you, for the annotated and working agendas which presented such a large and complex series of issues in a form which was both manageable and stimulating.

National Health Service

The meeting agreed that the scope for deriving additional funds for improved treatment through increased efficiency and reduced administration in the Health Service should be vigorously pursued. This was more likely to be achieved by improvements in management structure, and the energetic use of cash and manpower controls and performance indicators, than by wholesale changes in the structure of the Health Service, for example by converting it into an independent corporation. It should not be automatically assumed that advances in medical science led to more expensive treatment: maximum advantage should be taken of advances which offered the prospect of reducing costs, particularly in preventive medicine.

Public support for the drive for greater efficiency in the Health Service should be enlisted by making clear how much individual taxpayers contributed towards it: if people were asked whether more money should be spent on the Health Service their answer was invariably affirmative, but the question whether they were willing to pay more for the Service tended to evoke a different answer. Attention should be given to this aspect in publishing the Griffiths management review. The Prime Minister asked the Secretary of State to explore with the Chancellor of the Exchequer a scheme (a) identifying separately on pay slips individual contributions to the Health Service; and (b) giving tax relief to private health insurance premia on the same basis as for life insurance, coupled with a provision for giving partial relief from the Health Service contribution to those who

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undertook to provide for their own health costs through private insurance for a number of years. The Prime Minister emphasised that she wanted only a high-level and carefully restricted examination of the pros and cons of such a scheme, without reference to experts for practical elaboration of the details at this stage. The Chancellor of the Exchequer pointed out that, as in the housing sector where discounts on the sales of council houses had been combined with increased rents, there was a strong case for increasing, as quickly as was consistent with the Government's pledges, the extent and scale of health service charges which had fallen substantially over the years in real terms.

In discussion of the family practitioner services, it was agreed that numbers of GPs should be tightly controlled: there was reason to believe that growth in numbers had led to lower productivity rather than better service. Action also needed to be taken to reduce the drugs bill by both pursuing the action being taken on profits and reducing incentives for doctors to over-prescribe. The Binder Hamlyn report would provide a basis for action in the general area of the family practitioner service; and the ground should be carefully prepared with public opinion. The Secretary of State said that he would also wish to act on the Office of Fair Trading's Report on optical services despite the opposition of Mrs. Jill Knight and the profession. The Prime Minister agreed that a Conservative Government should tackle vested interests and monopolies in this and other areas.

The meeting recognised that a particular problem was presented by the increasing proportion of the very old in the population. The aim should be to reduce the number of the elderly in long-stay hospitals and to build up community and family care. There was also scope for encouraging the provision of sheltered housing for private sale. The opportunities presented by preventive medicine for ensuring that elderly people remained independent for as long as possible should be pursued.

Social Security

(a) State pensions scheme

It was agreed that your Secretary of State's proposal to set up a study, led by himself and including experts drawn from the pensions industry as well as officials of the Departments concerned, should be pursued. One question would be the affordability of the earnings-related pension scheme. The link with prices rather than earnings reduced the prospective burden of the scheme but the calculation was sensitive to the economic assumptions incorporated in it and the possibility could not be ruled out that a future government would restore the link with earnings. While changes in provisions of the scheme, such as abandonment of the "best 20 years" rule, could have a dramatic effect on the cost of the scheme, it could reach the point at which it was no longer a good bargain. An aspect worth exploring would be the possibility of allowing part of the basic state pension to be contracted out. There was a link with pension portability, since these affected the attractiveness of alternatives to the State scheme, and other relevant factors were the effect of switching to private provision on how funds were invested, who invested in them and how much of the income of the working population was devoted to providing for old age. The Government should resist proposals to reduce the qualifying age for pensions, but would need to consider how this aspect fitted into its general consideration of policy.

(b) Supplementary benefit

The main concern was the level of supplementary benefit in relation to income in work. The most promising way of tackling this appeared to be by restricting the eligibility of particular groups, such as teenagers whose needs were sufficiently small that even modest amounts of benefit had a substantial effect on willingness to work, and by taking action on lax administration of additional elements like housing benefits and furniture allowances by local authorities. Schemes like limiting benefit to a proportion of previous income or work-tests were ruled out on grounds of the costs of administering them. There was however scope for reducing fraud by exchanges of information between social security offices and the Inland Revenue (subject to the obligation to protect the confidentiality of information about amounts of income provided by the taxpayers to the Inland Revenue) and these should be pursued.

(c) Unemployment benefit

Abatement of uprating in unemployment benefit was offset by increased entitlement to supplementary benefit and did not appear worthwhile. Also the "wage stop" scheme had been expensive to administer in relation to its public expenditure saving and its effect on incentives. The most promising approach appeared to be to limit eligibility of the young for benefit by making unemployment no longer an option up to age 18.

(d) Other benefits

There was scope for either abolishing or not uprating peripheral benefits, such as the death grant and the fuel allowances. This should be considered in the public expenditure review.

I am copying this letter only to Sir Robert Armstrong and Alan Bailey. I should be grateful if it is not copied and if follow-up action could be initiated by specific and separate instructions rather than by circulation of this letter. Such instructions should not refer to the meeting. This letter may, of course, be shown to your Ministers, their Principal Private Secretaries and those who attended the meeting.

E. E. R. BUTLER

Sir Kenneth Stowe, K.C.B., C.V.O.