Prime Minister (2)

A helpful step forward. We are taking steps to achieve X.

AT 18/10

SECRET

Treasury Chambers, Parliament Street SWIP 3AG

Steve Godber Esq
PS/Rt Hon Norman Fowler MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
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18 October 1983

Dear Steve

Following the Chief Secretary's meetings with your Secretary of State on 4 and 18 October, this letter records the agreements reached.

On the health side your Secretary of State is now prepared to carry forward to later years the 7 July cuts in return for an understanding on the financing of pay in 1984-85 and for provision of sufficient growth in health service resources to maintain standards for the growing number of old people. The following additions to the survey baseline are, therefore, agreed

1984-85	1985-86	1986-87
+5	+123	+370

As discussed, the Chief Secretary confirms that the figure appearing in the White Paper for total English health service expenditure in 1984-85 will be £13,130m. Your Secretary of State considers that the increase proposed in 1986-87 will only provide sufficient resources for the cash limited services if inflation turns out to be around 3 per cent. The Chief Secretary accepts that the figures for the final year will need to be reconsidered on both sides in subsequent reviews in the light of inflation, other economic factors and the growing demands on the health service. He understands that although your Secretary of State considers there is a strong case for a larger figure for 1986-87in this Survey (and would wish to return to this point if the cash increase for programmes as a whole were changed or decisions were taken leading to large savings on other programmes) he is reluctantly prepared to settle on this basis.

On health service pay, the Chief Secretary clearly could not give the Secretary of State an absolute commitment to fund all of any excess above 3%. But he recognises that the Secretary of State faces two particular difficulties which taken together place him in a special position. Over half of NHS staff are covered by review bodies; and he cannot hold back funds to finance any significant excess above 3% without this being obvious, so that if the major part of the excess were to be financed from existing NHS provision, it would require in-year cuts.

The Chief Secretary is willing to agree to the following assurance:

> If the pay settlements agreed by Ministers for NHS groups covered by review bodies exceed the 3% cash provision, it is agre that the excess beyond the provision should be financed by:
>
> (a) DHSS and Treasury examining whether any offsetting savings towards the excess can be found without damaging health services;
>
> (b) If there is any remaining excess beyond the agreed savings at (a), the provision should be increased by that amount from the Contingency Reserve to finance the balance.

In limiting the assurance to the review body groups, the Chief Secretary is not intending to rule out the possibility of access to the Contingency Reserve for other groups, if Ministers were to agree to pay settlements for them which could not be fully financed from offsetting savings.

On social security, your Secretary of State has agreed to provide public expenditure savings in total of £251m in 1984-85, £374m in 1985-86 and £407m in 1986-87. In addition he will take measures to reduce rate rebates by some £50m in each year (these do not count as public expenditure). The Chief Secretary has agreed to accept the bid for replacement of HNCIP and to certain additions to the baseline for demand led expenditure and administrative costs. The net effect on public expenditure, measuring from the PESC baseline, is as follows:

1984-85	1985-86	1986-87
- 60	- 50	+ 323

The Chief Secretary has asked me to thank the Secretary of State very much for his cooperation in this; he is pleased that it has been possible to close the gaps on both the health and social security sides. When Cabinet comes to discuss the results of the bilaterals there will be outstanding disagreements with a number of Ministers but the £2½ billion target will be attainable if they are prepared to agree to the savings which the Chief Secretary is seeking. He will however have to make it clear to Cabinet that, if this is not achieved, it will be necessary to consider whether further savings should be sought from other programmes.

The Social Security programme could not be excluded from this, despite the difficult measures which would need to be taken.

X The Chief Secretary understands the difficulties that your Secretary of State would face should the details of this agreement leak out before the public expenditure negotiations are complete and the Autumn Statement has been published. He willdo all in his power to ensure that this does not happen. His minute to the Prime Minister will be classified CMO.

I am copying this letter to Sir Robert Armstrong and to Robin Butler.

Yours sincerely

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JOHN GIEVE
Private Secretary