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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

11 January 1984

The Rt Hon Norman Fowler MP  
Secretary of State for Social  
Services  
Department of Health and Social  
Security  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1

Many thanks for your letter of 2 January about spending on the Family Practitioner Service.

We shall tomorrow be discussing with the Prime Minister how to bring FPS spending under adequate financial control: I agree with you that this is crucially important, and I hope that progress will be swift, particularly on bringing in the Binder Hamlyn controls. For it is very worrying that your people's latest estimate of overspending on the FPS Vote this year is nearly double the figure they put to you in July, and higher even than the figure I then suggested as a possibly more realistic forecast. As you say, it's now too late to contemplate action to bring FPS spending back in line with the plans for this year: but we must so arrange matters that this year's history does not repeat itself next year.

I am sending a copy of this letter, with a copy of yours, to the Prime Minister.

NIGEL LAWSON



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DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

January 11 1984

Thank you for your letter of 22 December about the forecasting of expenditure on social security and family practitioner services.

I am of course as concerned as you that these substantial changes in forecasts occur: but the experience of both our departments makes it clear how difficult it is to achieve any certainty in forecasting how demand-led expenditure will turn out. We shall be talking about this again with the Prime Minister on 12 January: and I enclose copies of notes explaining the background which have already been sent to No 10 by my Permanent Secretary, and have been copied to Sir Peter Middleton. But I can respond to your comments immediately by saying that we are indeed anxious to improve our arrangements; as you know our two Departments have been working jointly on this for some time, with the Government Actuary's Department, and I can certainly undertake to let you have a report by next May.

see Flag F

But it would be rash to anticipate the degree of certainty in forecasting that your letter seems to look for, or to suppose that we can reach a state where forecasting changes can always be offset by programme changes. I could not possibly promise that: nor could I have offered more in the way of savings last time if we had known of these revised forecasts earlier. The facts are that our forecasts are affected quite significantly by minor changes in economic assumptions (for which we rely on the Treasury) and by changes in the pattern of claimant behaviour which it is extremely difficult to anticipate - we have to rely on statistics of recent trends in benefit payments, which are not necessarily a reliable indicator of what is going to occur in the future. The main difficulty occurs over the unemployed, who account for a great part of the sums at issue. We are dealing with unprecedented levels of claims for benefit from the unemployed, and the outturn of expenditure depends not only on forecasts of numbers, but to a significant degree on the split between unemployment benefit and supplementary benefit. The table on page 29 of the "Green Book" for Thursday's meeting shows how the balance between the two benefits has changed over time: past experience is a poor guide to future expenditure on these very large programmes.

Clearly we must aim for the best possible forecasts. But we shall never be able to achieve certainty. New benefits (like Housing Benefit this year) and major changes in schemes (like the change to self-certification for sickness benefit in 1982) have expenditure consequences we cannot exactly predict. A growth in take-up of disability benefits has occurred in the past two years for no apparent reason which we could have predicted. Such uncertainties are bound to occur, and we can only aim to minimise them.

I must say there are a number of points in your letter I take issue with. For instance you refer to Tony Newton's explanation of our approach to take-up of benefits on the "To-day" programme in a way that suggests you think we ought not to be concerned about take-up. We are under endless criticism over this, and could not possibly take any other public stance than the one he adopted (and I quote): "We have two aims in this field. One is to make sure that people who are not entitled to benefit do not get it - the scrounger problem you touched on at the beginning - and the other is to make sure that those who do need benefit, and should have it, do get it."

You claim that the increase in our programme before the Autumn Statement was only made because your officials insisted on it, in the interests of realism. In fact we were having to make adjustments on a rather arbitrary basis because revised Treasury economic assumptions had not been available early enough for us to do a full revision of forecasts in time for the Autumn Statement. We proposed an increase of £93 million which your officials thought was too low and raised to £223 million. We did not dissent.


The latest increase, taking that figure up to £580 million above the estimates available to us at the time of the bilaterals, was the outcome of reworking the May forecasts thoroughly in the light of the revised Treasury assumptions, which we had at the end of October, and of the latest DHSS statistics, particularly those for supplementary benefit claims which were available in mid-November. The results were notified to the Treasury in the first week of December.


As regards the family practitioner service problems which, as you say, have been less severe, we are well ahead with improvements in our forecasting methods on lines endorsed by independent accountants, Binder Hamlyn. But, as with social security, this does not eliminate the uncertainties which stem from the nature of the services and the extent to which they can be controlled. The Binder Hamlyn study examined very thoroughly what the possibilities were for additional short and long-term controls. They saw no scope for short-term controls of the kind that would make cash limits a practicable possibility, but suggested longer term measures for strengthening control. Some of these are controversial and, as you know, I shall shortly be putting proposals on them to 'H' Committee.

I have concentrated in this letter on the larger social security problem, and indicated our concern to secure real improvements from the study we are conducting with you. Since a large element in the problem is the difficulty of expenditure on the unemployed, I wonder whether you could consider a change on your side? As your officials will know, we feel disadvantage in having to work on Treasury assumptions which are not broken down into components relevant to our forecasts. For example they do not break down the figures according to duration of unemployment. It would obviously help to improve forecasts if the

Treasury assumptions could be improved in this way.

I am copying this to the Prime Minister, and the others who are attending tomorrow's meeting.

 J. Edgar Hoover

 Norman Fowler

NORMAN FOWLER



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
LONDON  
SW1

*See Nigel*

*July 2 1984*

In my letter of 18 July following your statement on public expenditure I agreed that I would look again at the spending situation on the family practitioner services in the autumn. This has taken rather longer than I had expected, not least because of issues which have arisen recently, notably the non-recovery, because of legal problems, of excess payments to pharmacists. But I now have a clear picture. The present position is reflected in our Winter Supplementaries - which you have agreed - and our proposals for Spring Supplementaries. There has of course been extensive discussion between our officials both during and since the conclusion of the PES round.

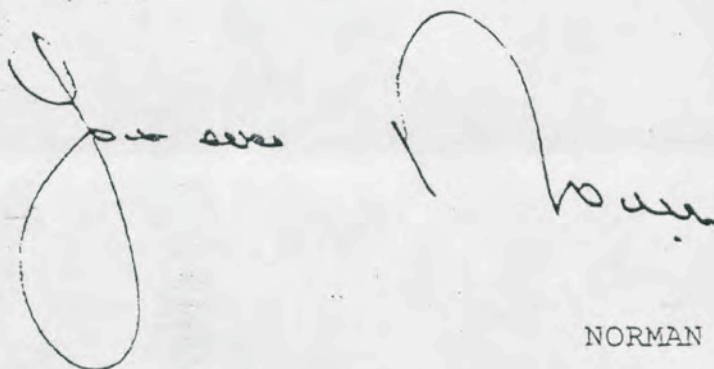
In Spring Supply we are estimating for an FPS spend this year of £170 million above the Budget Estimate. The present estimate takes account of the savings from the action on drug prices which, for England, I expected would yield £20 million by the end of the year. Allowing for a technical adjustment in relation to the DDRB award included in the July estimate, this all means that we are running ahead of the July excess by about £90 million. Together with expected overspending of some £17 million on European Community medical costs and Welfare Foods, the total additional spending on the Vote is over £100 million.

One major factor in our requirement for extra resources this year is the need to provide for the temporary loss of the excess payments to pharmacists for drugs as established by the recently completed discount enquiry. We have corresponded separately about this and about the proposed legislation to enable us to recover the excess in future years. The amount we have needed to provide against the loss this year is about £30 million. Additionally spending has increased on all four family practitioner services but especially on the pharmaceutical services. Because of the uncertainties about the effect of the action I have taken on the Pharmaceutical Price Regulation Scheme and the way the spending has moved generally, we have deemed it prudent to err on the side of caution in our estimated out-turn for that service so we hope that at the end of the day we shall have some measure of underspend against the Spring Supply figure.

I have always taken a clear line that the adjustments to the HCHS and FPS budgets were not a trade-off between the two health services but part of a wider adjustment of programmes to keep public expenditure as a whole to the planned level. Nevertheless in my letter of 18 July I said that we would need to see whether any action was called for when the later assessment of FPS spending was known. You will I think accept that the increase in spending on the non-cash limited Vote cannot be contained or reduced in-year by any action on my part except by an increase in FPS charges. The lead time into the introduction of new charges and the lag in their appearing in FPS expenditure is such that, at this point in the year we could not expect any savings even with the most urgent action to lay regulations. On the HCHS front, the action I have already taken this year in cutting back expenditure and on staff reductions are as much as health authorities and we can bear and further action is inconceivable.

We have of course taken account of the higher level of spending on the FPS and welfare food in the baseline for PES provision in the future, and in our further proposals to you for additional funding to be included in the Estimates White Paper. To the extent that you have not felt able to go along with our full proposals, we must expect in due course (on the basis of present estimates) a need for some additional provision during 1984/85.

As you will know from the action I have already taken in relation to the PPRS and the General Ophthalmic Service, and propose in relation to the Binder Hamlyn report and charges, I attach great importance to bringing the FPS into a framework of adequate financial control. Equally important for this will be the work to improve forecasting which my officials have in hand, in consultation with yours. But I must emphasise that the problems of securing this control are not capable of quick and easy answers; they will not respond to in-year fine-tuning but as you have recognised in your helpful response to the Binder Hamlyn report require a sustained programme of improved forecasting and selected controls over supply-led features of the services, on which we are about to consult when we publish Binder Hamlyn.



NORMAN FOWLER

JAN 11 1964





**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY  
 Telephone 01-407 5522 ext 6981  
 From the Permanent Secretary

Prime Minister  
 In the light of your  
 comments on DHSS expenditure you  
 may like to read the attachments to  
 this letter at the same time as the  
 Binder Hamlyn report

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TECB

29.12.

\* in box  
 DMB  
 29/12

Robin Butler Esq.,  
 No. 10 Downing Street,  
 London SW1

23 December, 1983

*John Astin*

I promised to let you have a copy of the infamous article in "PULSE"  
 (the magazine circulated free to General Practitioners, funded by its  
 advertisements) about the way in which GPs can maximise their income from  
 the NHS at the expense of the Exchequer. I attach a copy of the article  
 together with a note explaining the background to it.

I also attach notes, which you might find helpful, about the problems of  
 forecasting and controlling demand-led expenditure on our two big  
 demand-led programmes-supplementary benefit and family practitioner  
 services. I will not offer any further comment on them because  
 these will, I guess, loom large in the renewed seminar discussion which  
 the Prime Minister wishes to have on 12 January.

I am copying this letter to Robert Armstrong and Peter Middleton.

*Yours sincerely,*  
*Ken.*



# MONEY pulse



Edited by Sue Russell

## Red book use can lead to steep rise in practice cash

Dr John Gray shows that by implementing the Red Book fully GPs can dramatically increase practice income without having to depend on Government largesse.

SEVERAL YEARS ago I was baffled by a GP doyen who at a trainers' workshop euphemistically attributed his seemingly huge income to 'a full implementation of the Red Book'.



Dr John Gray: practice returns rose by 40 per cent.

I would suspect that to many principals and trainees his remark would still be relatively meaningless.

This was recently highlighted at a local workshop meeting sponsored by a pharmaceutical company when the representative suggested that the bulk purchase of their depo-steroid preparation to be dispensed on an FP 10 under section 44.13 of the Red Book was both legitimate and profitable.

The suggestion clearly fell on stony ground.

Over the last 2½ years, our practice's attempts to implement the Red Book and become more efficient have led to a radical change in philosophy and organisation.

The use of recall systems allied to an age-sex register and the ensuing paperwork have grown to such proportions that we have been forced recently to allocate one whole room to our recall clerk.

The table shown here represents the returns from the FPC for our practice at the end of the March quarter for 1981 and 1983.

It does not purport to be a strict statistical analysis nor does it represent eventual practice profits.

maternity fees reflecting a sharp drop in births locally.

Happily this trend is reversing and we should see over the next year an increase in both these elements.

This element varies seasonally (£1,700-£2,500).

3. Night visits rose by 105 per cent due to an increase in population, a disproportionate rise in the fee and a slight increase in actual work load.

4. Element for contraception rose by 61 per cent and this is the area in which I feel there is room for further improvement.

Part of the sum inevitably accrued secondarily to the cervical cytology recalls. However our surgery 'advertising' has played an important role in attracting women away from FP clinics.

### Ancillary staff and other fees go up

The allowance for related ancillary staff has been increased to £1,565 backdated to April 1. This level will apply until March 31, 1984, and represents an increase of 6.75 per cent on last year's allowance.

GPs who have been missing out on fees for life assurance reports because of the MIRAS scheme (Money Pulse, August 13) will be recompensed to some extent by the new increased fee when examinations are requested again.

For the ordinary form of life assurance report - where the proposed sum assured exceeds £2,500 - the fee goes up to £19. Personal medical attendant reports with niethal medical examination nor opinion go up to £9.50. Both fees are increased on October 1.

Fees for lectures and examinations at ambulance associations are also to go up, to £17.90

|                                   | List size     |               | Percentage |
|-----------------------------------|---------------|---------------|------------|
|                                   | 10,000        | 10,800        |            |
| 1 Capitation standard             | March 81      | March 83      |            |
| 2 65-74                           | 10,920.73     | 14,284.83     | 30.8%      |
| 3 Over 74                         | 271.56        | 342.16        | 26%        |
| 4 Supplementary                   | 240.62        | 340.99        | 41%        |
| 5 Supplementary practice allow    | 1386.78       | 1830.87       | 32%        |
| 6 Basic practice allowance        | 930           | 1135          | 22%        |
| 7 Group practice allowance        | 4725          | 5755          | 21.7%      |
| 8 Maternity                       | 825           | 1005          | 21.8%      |
| 9 Emerg/anaes fees                | 2126.25       | 3275.20       | -40%       |
| 10 Contraceptive services         | -             | 10.90         | -          |
| 11 Temporary residents            | 895.22        | 1444.28       | 61.34%     |
| 12 Night visits                   | 269.50        | 263.65        | -2.2%      |
| 13 Vaccinations and immunisations | 241.50        | 497.25        | 106%       |
| 14 Seniority                      | 579.10        | 1954.70       | 240.75%    |
| 15 Vocational training allowance  | 1335          | 1973.75       | 47%        |
| 16 Special drugs                  | -             | -             | -          |
| 17 D.M.O. reports                 | -             | 1940.11       | -          |
| <b>TOTAL</b>                      | <b>24 736</b> | <b>34 053</b> | <b>40%</b> |

Table shows that increased remuneration of four full-time GPs for the same quarter after a two-year interval can be quite dramatic in percentage terms.

5. Practice returns rose overall by some 40 per cent. By comparison the standard fees, namely supplementary practice allowance basic practice allowance and group practice allowance, all rose by approximately 22 per cent.

6. Investment: most small business cannot generate income without investment. GPs are fortunately in the happy position of receiving 70 per cent

reimbursement for ancillary staff which offsets the cost for employing a specialised recall clerk.

In addition the costs for postage, printing and so on vary between £70 and £100 for each quarter. These costs (theoretically) should be reimbursed in the practice expenses element.

In my opinion the days of enormous leaps in Review Body awards - between 1975 and

1980 - are gone. This year's increases will not in financial terms reflect the apparent percentage rise of 6 per cent. It will in fact be nearer some 3 per cent.

Next year's award will I suspect be even lower. The pressure to reduce sizes is not acceptable unless income is maintained.

John Gray is a GP in Chessington, Surrey.

### OCTOBER PRACTICE DIARY

October 1 FP1 registration  
 FP4 registration  
 FP58 registration of newborn  
 FP19 temporary resident  
 FP1001 contraception  
 FP1002 IUCD  
 FP1003 TR contraception  
 Prem 1 for practices due for rent review

All above forms to FPC

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## GPS' FEES AND ALLOWANCES 1981-1983

"PULSE" ARTICLE, 17 SEPTEMBER

1. This Note sets out some comments on, and the background to, the article in Pulse magazine of 17 September on how a GP practice increased its income by 40 per cent in cash terms over the 2 years 1981 to 1983.
2. The level of fees and allowances for GPs is set by the Review Body: the aim is to pay GPs on average the net remuneration the Government decides is due to them after consideration of the Review Body's report. The complex system of fees and allowances is set out in what is known as the "Red Book": what the article shows, in effect, is how one practice both changed its own behaviour and responded to changing demands by patients. In doing so, it increased its income by some 40 per cent - whilst the fees and allowances were set to produce an average increase of about 21 per cent: it did, of course also increase its workload.
3. The following paragraphs set out in greater detail the working of the system in general and the record of this individual practice in particular.
4. Over the two year period 1980/81 to 1982/83 GPs' fees and allowances generally were set to produce an increase of about 21 per cent. This was to cover
  - i. a 12 per cent increase in average net remuneration - 6 per cent in 1981/82 and 5.7 per cent in 1982/83
  - ii. a 20 per cent increase in average expenses estimated at about 11 per cent in 1981/82 and 9 per cent in 1982/83
  - iii. an increase of about 4 per cent to correct for past under-payments.
5. Broadly speaking all fees and allowances went up by 21 per cent except capitation fees which were increased by about 27 per cent to compensate for expected loss of income through falling average list size. (Adjustments to GPs earnings needed to take account of changes in workload are incorporated by the Review Body in the recommended average net remuneration. Fees and allowances simply aim to deliver the agreed average net remuneration. In fact the Review Body has assumed constant workload for a number of years, falling list size being deemed to be offset by increasing numbers of elderly patients, new treatments etc.)

6. The system aims to deliver the average net income to the average GP. It contains incentives in the form of item of service payments to encourage GPs to undertake particular types of treatment. It is open to any GP to try to increase his income (having regard to the needs of his patients) for example by taking on more patients (up to a maximum) or carrying out more treatments. If as a result the actual average net remuneration received by GPs as a whole exceeds the amount awarded, the Review Body will make a downward adjustment to fees and allowances in a later period and claw back the excess, making net remuneration correct in the longer term if there has been no overall increase in workload.

7. The analysis of gross payments in the last quarters of 1980/81 and 1982/83 provided by Dr Grey shows that income from

- a. the basic practice allowance, the group practice allowance and the supplementary practice allowance which are fixed allowances per GP all increased by around 21 per cent;
- b. the capitation fees increased by rather more than the 27 per cent fee increase because list size increased;
- c. seniority payments increased by more than 21 per cent probably because one partner became eligible for a higher payment because of his length of service;
- d. night visits seems to have increased by more than expected because more night visits were made in the later period (39 compared with 23 in the earlier period).

The remaining increases in income were from item of service payments; more contraceptive services were provided, more cervical smears were carried out, more vaccinations given and special drugs administered for patients requiring long term steroid treatment. The latter represents new work for the practice and accounts for 8 per cent of the 40 per cent increase.

8. When additional work is carried out by an individual or practice, as described above, the Department has no choice but to pay for it. And this of course is as it should be if the increase results in better care for the family, for example as a result of GPs responding to appeals to take part in vaccination programmes and setting up systems which ensure that women are recalled promptly when they

become due for cervical smears. The ability of individual GPs to increase their income by adjusting the pattern of work and increasing the services they offer, together with fluctuations in patient demand, makes forecasting and control of GMS expenditure extremely difficult in the short term. In the longer term as Binder Hamlyn recognise, GMS expenditure is more susceptible to control. In spite of these difficulties, control is tighter than in European insurance-based systems. Our payment to GPs are still based principally on the number of patients on the doctor's list rather than on items of service; the DDRB system gives good overall control of practitioners' earnings; and most practice expenses are reimbursed on an average basis which, as Binder Hamlyn points out, gives a powerful incentive to economy.

## FAMILY PRACTITIONER SERVICES

1. Existing constraint is dependent upon the contractual arrangements we negotiate with GPs, dentists, chemists and opticians, through negotiation of drug prices and through charges to patients. We cannot and, in Ministers' view, should not control what doctors prescribe for their patients. We have influence on the supply of doctors by tight controls on medical schools intakes, but cannot at present control the numbers of practitioners contracting for services.

### Measures to Improve Control

2. Following an independent study by consultants Binder Hamlyn (which will be published in the New Year) Ministers will be putting proposals to H Committee after Christmas to introduce the controversial legislation necessary to strengthen existing controls, notably by taking power to control the numbers of contractors.

3. Other measures to contain expenditure over the next three years include:

(a) saving of over £100 million a year on the drugs bill to result from current negotiations on the Pharmaceutical Price Regulation Scheme, on which the Minister for Health made a recent statement to Parliament;

(b) savings of approximately £20 million from privatising the dispensing of glasses to adults;

(c) proposals to save approximately £60 million a year by moving to a system of cost-related charges for NHS dentistry; Ministers have not yet decided on the timing of this controversial measure.

The measures at (b) and (c) will be contentious, as would cost-related prescriptions, and/or exemption based only on ground of financial need - though the savings could be substantial.

4. In addition, we have commissioned the management consultants Arthur Andersen to advise on improving the efficiency of Family Practitioner Committees in their administration of the FPS and on streamlining their work through computerisation. The Government has just reintroduced the legislation to make these committees independent of DHAs, and to clarify accountability between them and the Secretary of State.

#### Forecasting

5. Forecasting this expenditure is notoriously difficult because the initiative for changes in costs and the pressure for change, lies in the hands of, mainly, prescribing doctors and in the scientific development of the pharmaceutical industry world-wide.

6. Within the Department, substantial steps have already been taken to improve the statistical and financial basis for forecasting expenditure on the FPS; we are already getting some of the benefit of this and further improvements are expected next year.

7. Most recently we have, at the invitation of the Treasury, provided up-to-date estimates of likely additional requirements for expenditure on the FPS up to 1986-87, in advance of the publication of the Estimates White Paper. The additional sums which we have sought include sums for (a) additional take-up of welfare foods (outside the FPS but demand-led and directly governed by increases in social security entitlement), (b) some upward revision in the number of doctors and dentists and (c) (the largest amount) a further increase (£26 million, £73 million and £106 million) in the estimated expenditure on drugs in the FPS. This requirement is on top of figures which took account of the substantial savings on the drug bill recently announced.

8. The reasons for (c) are revealing. It reflects the latest estimates of trends in numbers of elderly and unemployed people whose prescriptions are dispensed without charge, and in the net ingredient cost of individual prescriptions (which are the clinical responsibility of the doctor). The cost is also influenced by the fact that prescriptions (exempt of charge) for the elderly are also the most expensive per item.

## SOCIAL SECURITY

### Controls

1. Social security expenditure is primarily controlled through decisions on benefit levels at the annual uprating, through the legislation which determines entitlement and through the delivery system, which pays the benefits so determined. We cannot control the number of beneficiaries and forecasts of their numbers are subject to substantial uncertainties.

### Measures to Contain Expenditure

2. Measures to contain expenditure taken under this Government have produced savings of over £2 billion. Those decided in the last PES round will account for £250 million. The Secretary of State is now conducting several in-depth reviews of those parts of the system which are most likely to repay such reviews.

### Forecasting

3. Most of the uncertainties revolve around forecasts of supplementary benefit expenditure. These are based on economic assumptions provided by the Treasury, on statistical data about past expenditure and on assumptions about people's behaviour - who will lose or gain jobs and for how long and what benefit entitlements they will take up. All three are subject to doubt. The economic assumptions are not the Treasury's most detailed forecasts of unemployment (which Treasury Ministers have been unwilling to disclose) and they tend to be fairly inaccurate. Our statistical data, particularly data about current expenditure, are available fairly late and involve estimation. The reason for this is the scale of the system we operate and its complexity: obtaining more up-to-date or more detailed data would be very expensive. This is a situation which we expect to improve substantially as our operations become more computerised under our operational strategy, and it would improve even more if Post Office counter services were mechanised, but both of these are developments for the longer term.

4. Estimating what benefit entitlement will be claimed by a



given number of unemployed people has proved difficult because experience in earlier years proved a poor guide to what would happen in the current recession.

5 This difficulty has been compounded by two others. The more important was the Civil Service dispute of 1981: as one side effect of this we lost a very substantial proportion of the basic statistical information for that year. For several months now we have been building on sand as a result of this and it is only within the last few months that reliable and up-to-date statistics have been available to provide a firmer foundation.

6 The other major source of uncertainty was the major change to the system brought about by the introduction of Housing Benefit in April. Now that figures on the new benefit system are becoming available for the first time, various of our assumptions have had to be revised.

7 These last two problems were once for all effects, and we can look for improvements in our forecasting simply because they are now behind us. We are not resting on that alone, however: our Chief Economic Adviser is chairing a joint group with Treasury and GAD to consider what all three Departments can do to improve forecasting and monitoring of social security expenditure. They have set up an expert working party to make recommendations on where improvements will be most cost effective, and to report early in the New Year. We shall be ready to take urgent action to implement recommendations of the Group as they effect DHSS; in the interim, we have already set in hand a number of small improvements in our arrangements.