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SECRET AND PERSONAL



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10 DOWNING STREET

From the Private Secretary

13 January 1984

Dear Ken,

HEALTH AND SOCIAL SECURITY POLICY

This letter records the discussion of policies for health and social security programmes which the Prime Minister held yesterday with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary to the Treasury, Mr. Kenneth Clarke and Dr. Rhodes Boyson. Also present were Sir Geoffrey Otton, yourself, Sir Peter Middleton, Mr. Bailey, Mr. Gregson and Mr. Redwood.

Introducing the discussion, the Prime Minister said that Ministers should make a special effort to put the debate on public expenditure in a more positive light, emphasising that the Government was not seeking to cut public expenditure for its own sake but was seeking to leave more of what they earned in the hands of wage earners so that they would be better able to make provision for themselves. To an excessive extent, the system of social expenditure was mere "churning", distributing money or benefits in kind back to the groups who were financing them. The Government should aim to concentrate social expenditure more closely on those who needed it. She commended the papers to be taken at the OECD Conference in February, which showed a welcome change in attitude towards social expenditure in many industrial countries.

The Secretary of State for Social Services reported on progress made since the meeting held in September. The Griffiths Report had been published and the process of implementing it was now under way; proposals to end the monopoly of opticians on the supply of spectacles had been announced and had been well received; a new deal with the drug industry which would produce significant savings for the NHS had been announced; the inquiry into pensions had been launched and discussions on the portable pensions proposal were about to take place. He said that across the whole range of the NHS, Government would soon find itself taking on powerful vested interests - unions, hospital doctors, GPs, pharmacists, the drug industry. He wished colleagues to be aware of the extent of this.

/ Hospital and Community Health Services

SECRET AND PERSONAL

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Hospital and Community Health Services

In the hospital service, the Government's priority was to increase accountability and to control costs and manpower through implementation of the Griffiths Report. Discussions were now in train and the Government would need to counter the argument that a more business-oriented style of management was inconsistent with the ethic of patient care. The key to success was not only the appointment of the General Manager/Chief Executive at the top of the system but also of the General Managers at regional, district and unit level. The quality of Managers at regional level had been significantly improved in recent years. It was important to prevent appointment at local level of poor quality candidates who happened to be in place at the time. To stop this a "call-up" system was being operated so that newly appointed Managers at the higher level would have a say in who was appointed at lower levels. It was agreed that in appointing the Chief Executive both head-hunters and advertisement would be used. A submission was being put to the Prime Minister on the way selection from the candidates should be made.

The Secretary of State for Social Services said that a Personnel Manager with experience in industrial relations was also necessary given the size and complexity of employment in the NHS.

Cost consciousness had been created by cash limits which automatically provided an incentive to greater efficiency. In addition the Secretary of State was now asking for health authorities to submit cost improvement programmes and if these were not satisfactory the health authorities' plans would not be approved. The practice of specifying an across-the-board saving of say half a percent was insufficiently ambitious as most authorities could do better if such an objective were built into the system of management. Finally, Rayner scrutinies would continue to be undertaken.

It was noted that the NHS spent approximately £1b on cleaning, catering and laundry so that even modest savings in these areas could produce significant improvements in patient care. Districts were putting forward proposals for more contracting out but progress was slow.

The Prime Minister suggested that specific targets could be set to clear the backlog of minor surgery cases. A move to more day hospitals would help in this respect.

Mr. Clarke raised the problem which new medical breakthroughs presented for the Government. Instead of receiving credit for a medical advance, the Government was criticised for failing to make available the new treatments sufficiently fast to the patients who could benefit. It was vital to generate resources from better management which would enable these new treatments to be more widely provided.

Family Practitioner Services

The Prime Minister said she was disappointed that the Binder Hamlyn Report had concluded that the FPS could not be subject to a cash limit. The Secretary of State for Social Services said that

/ he and the Chancellor

he and the Chancellor accepted the Binder Hamlyn arguments on this.

Both agreed that it was wrong to see the FPS merely as demand led and that a lot could be done to control the basic factors leading to the growth of expenditure. These included control over the number of contractors, the retirement age, the number of overseas doctors and eventually the output of the medical schools. The Government would have to publish the report and in doing so indicate its attitude. This was to be discussed shortly in H Committee. There would be a fierce controversy and it would be important for the Government to mobilise sympathetic opinion among doctors.

The Chancellor said he agreed with the steps which were being proposed on the FPS but felt that a longer term review on the whole basis of remuneration for contractor professions was needed. It was agreed that this would be done jointly by officials of the two Departments. It was suggested that eventually a salaried service might be introduced though it was noted that this had not been successful with teachers.

The immediate difficulty with pharmacists was noted and it was agreed that legislation should be added to the Bill currently before Parliament.

Drugs

The Secretary of State for Social Services said that, following the recent negotiations, significant savings had been achieved, £60m rising to £100m. In addition, efforts were being made to change doctors' prescribing habits. The Chancellor acknowledged the improvements that had been made but felt that the PPRS needed to be fundamentally reviewed. A joint study by the two Departments was agreed. The importance of changing doctors' prescribing habits was noted as well as the fact that an excessive proportion of drugs prescribed were ultimately wasted. Cost related prescription charges, though more expensive to administer, could help in this respect. The question of parallel imports of drugs was being studied though it was noted that efforts to reduce payments to pharmacists to reflect the lower price of imported drugs might not succeed in saving public funds if pharmacists merely switched back to UK drugs. There were also important questions of quality control to be considered.

Charges

BT | The Chancellor noted that charges now financed less than half the proportion of the FPS than was the case in the 1950's and '60's. Charges had an important role in controlling costs; at present the Government could only control supply which always put it in the position of appearing to deny resources to the Health Service. It was noted, however, that the Government was committed for this Parliament by a number of important pledges. The aim should be to enter the next Election with a much freer hand. It was agreed that the two Departments would look further at charging policy.

Role of the Private Sector

The Prime Minister was anxious to see a greater role for the private sector which was consistent with the philosophy of encouraging people to make greater provision for themselves. It was also noted

/ that the private sector

2 | that the private sector was frequently a source of new ideas from which the NHS could benefit. The Secretary of State for Social Services said he was encouraging the private and public sectors to develop co-operation. There were a number of examples of this already but their scope was limited. On the question of tax relief for contributions to private insurance schemes, the Chancellor said he had to balance this against the need to cut taxes generally. He did not feel that there was a sufficient case for giving special relief to such contributions. There was no guarantee that the "tax expenditure" involved would be offset by savings in the NHS; some net cost to the Exchequer was therefore likely. The Secretary of State for Social Services agreed though he felt there was a stronger case for helping the elderly, eg to stay in their group schemes after retirement. It was agreed that the Chancellor would consider this idea further in the context of the Budget.

Social Security

3 | The Secretary of State for Social Services said that in addition to the announcements already made he would be making further announcements on changes to the heating addition (to remove the extra payment automatically made for central heating) and on FIS (to eliminate upratings due in the currency of an award). An inter-departmental review of FIS was in progress.

In addition, a series of reviews with the Treasury was being set in train. The scope for simplifying the supplementary benefits system including its application to the unemployed and for reducing its costs was to be examined. On housing benefit the review would examine the scope for simplification and for concentrating help on those most in need. Another review would consider whether young people should have an independent right to supplementary benefit.

The factors behind the rise in expenditure on housing benefit were discussed. It was noted that expenditure was rising even before the amalgamation of the earlier schemes (which had saved about 3,000 staff). The main factors were the rise in rent and rates and the increase in the numbers receiving unemployment or supplementary benefit. Dr. Boyson said that 2.2m people would be affected by the changes recently announced though about half of these would lose less than 50p per week. No-one on supplementary benefit would lose and no pensioner with an income less than £9.75 above the basic pension would lose. One politically sensitive group was those receiving small occupational pensions of say £15 per week.

The Chancellor recognised the difficulties of forecasting expenditure on social security but he was convinced it could be significantly improved. The size of the errors seen recently discredited public expenditure control. The Secretary of State for Social Services fully shared the need to improve forecasting but pointed out a number of difficulties. His Department was dependent upon the Treasury for economic assumptions and it was especially difficult to forecast the rate at which people would transfer from one benefit to another.

/ The Treasury argued

The Treasury argued that, at a time when there were large over-runs, DHSS should exert tighter control on discretionary payments and should put less effort into advertising social security benefits. The Secretary of State for Social Services argued that his Department would be strongly criticised if it appeared that it had not made a sufficient effort to make people aware of the benefits to which they were entitled.

It was suggested that there might be merit in financing a greater proportion of social expenditure from the national insurance fund. This might start with child benefit and be extended to the NHS. The limiting case was a social security tax of the kind seen in a number of continental countries. The case for such a change was that it would make more immediate the relationship between greater benefits and the need to raise greater revenue. There would be implications for the structure of national insurance contributions. One possibility would be to abolish the upper earnings limit and make corresponding adjustments in the higher rates of income tax. It was agreed that the two Departments would consider the case for extending the scope of the national insurance fund.

As with the record of the meeting in September, 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 this meeting. I would also be grateful if arrangements could be made for this letter to be shown to your Ministers, their Principal Private Secretaries and those who attended the meeting, but no further.

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

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



10 DOWNING STREET

Andrew -

I have been in touch with Sir Kenneth Stowe's office about FLS Charges - page 3 of your letter of 13/1/84 refers.

HMSS say that they see the review of FLS Charges & policy as a very long term undertaking - certainly not this year.

Content for us not to continue to pursue them for a reply?

Cameron

31/1/84.

I agree this is a long term exercise

AD 31/1