

PO-CH/NL/0401

PART A

Part A.

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Begins: 10/3/88
Ends: 27/5/88



PO -CH /NL/0401



PART A

Chancellor's (Lawson) Papers:

REFORM OF THE DEPARTMENT
OF HEALTH AND SOCIAL
SECURITY

DD's: 25 Years

15/12/95

PO -CH /NL/0401

PART A



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

X SWS Central go.
I wd prefer Y out, too;
but, as indicated.
m

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1

CHIEF SECRETARY	
REC.	10 MAR 1988
ACTION:	Mr Saunders
COPIES TO:	① Sir P. Middleton
	Mr Angus, Mr Phillips
	Miss Pearson,
	Mr Parsonage Mr Call

10 March 1988

Dear Paul,

CENTRAL COUNCIL SPEECH 18 MARCH

I attach for information, as it relates to the NHS Review, a copy of the draft speech my Secretary of State proposes to make at the Central Council Meeting in Buxton on 18 March.

I am copying this letter to Miss Rutter in the Chief Secretary's Office.

Ch/ Looks very much a 1st draft.
Some good points pages 7-9

But - a reappearance of the odd
"owe it all to Labour" thought (pp 3-5)
dangerous, not v. convincing anyway.

- and X on p 6 also not quite the public line
(review about finding more money)

Yours sincerely,

Geoffrey Podger

G J F PODGER
Private Secretary

mpw

10/3

CENTRAL COUNCIL SPEECH

FIRST DRAFT

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Something quite remarkable has happened this winter. [For the first time in its forty year history] the political debate on the National Health Service has moved onto new ground. This is very good news for the NHS and everyone who uses it.

The new shape of the debate rests on two seminal shifts in attitude:

2. First, there is now a widespread acceptance of the possibility, indeed the necessity, of genuine change in the NHS. It has always been part of the genius of the British people to adapt their institutions to changing times. But, almost alone among the great post-war institutions of Britain, the NHS has resisted this necessary adaptation. The well-deserved affection and esteem in which the country holds the NHS has served to insulate it from the evolutionary changes all human institutions must make if they are to continue to be relevant and useful.

Now, quite suddenly, almost everyone is advocating change. The review of the Health Service the Government is presently conducting has been widely welcomed. Ideas and full scale submissions are flooding in, from professional health workers and lay people alike, many of them very radical indeed. The

enthusiasm for the review is itself evidence of a profound shift in attitudes. Equally remarkable is the eagerness with which people in the health field have seized upon the changing climate of opinion to take action already, even in advance of any recommendations the review might make.

I will give just three examples of this here, although there are many more:

1. The Income Generation Unit in my Department, set up to encourage and facilitate revenue raising by hospitals and health districts, has been impressed at the energy with which innovative proposals are being pursued all over the country.
2. The Performance Indicators, which for the first time ever, actually measure what is happening in an individual health district, are already being used as powerful management tools to improve performance.
3. Competitive Tendering, formerly thought an alien imposition is now fully accepted as a way to reduce costs and improve efficiency.

The second shift in public attitudes toward health and health care has equally important implications for the NHS. It is the growing recognition that a policy which aims at improving a nation's health must encompass much more than simply spending

taxpayers money.

X | It is partly our fault that this crucial shift in attitude has been so long in coming. For too long we Conservatives have let the Socialists set the agenda in the health debate. It is a Socialist view that reduces all human affairs to how much the Government is spending on them. In the health debate the question to ask is not "How much money are we spending?" It is "How much health are we getting?"

Of course funding is important to the provision of health care, and as you all know, spending on the health service is at a record level, but money is not the whole health story. Slowly people are coming to realise how much impact they themselves have on their own health and well-being: that what they eat and how they live, whether they smoke too much or drink too much, exercise too little, or drive too fast, all are likely to have more effect in the long term on their health than anything the Doctors can do.

This growing sophistication in thinking on health extends to a better understanding of the escalating demands on the NHS and why they are linked to its success: How increasing life expectancy results in more elderly people who need more health care. How new techniques like heart surgery and transplants are wonderful but very expensive. How people's expectations rise when they learn about hip replacements and cataract

operations.

You can see why I said these were seminal shifts in public attitudes, and why I believe they have such important implications for policy.

It is fascinating to speculate on how and why the change occurred. Of course it has been building for some time, in particular the deeper understanding of personal responsibility for health. But what about acceptance of the need for change in the NHS?

There certainly was no such acceptance at the time of the election last June. There was not very much at the time of the Conference in October. What happened between then and now? It has been suggested that what happened was that the Labour Party, routed on all other fronts, trounced for the third election in a row, desperate for an issue on which they could score points, decided to mount an orchestrated attack on the National Health Service.

As I am not privy to Labour Party policy sessions, I cannot say if this is true. What I can say, as can all of you, is that the media, who know that for human drama few issues rival health, published and broadcast during the four months, November to February, health stories at an ever-rising rate and decibel level. Anyone who lived through that time can testify to the avidness with which every possible negative aspect of the NHS

was hunted down and publicised. In [Birmingham] in those months [150?] babies had successful operations. Did we read those stories? No - we were told of the one sad case where a baby died. Did we read of the [xxxxx] hip replacements done in those four months? The [xxxx] heart operations? The [xxxxx] kidney transplants? No, we did not.

If this harsh focus on bad news was inspired, as some contend, by the Labour Party, it is very tempting to see it as a spectacular own goal. Because the result of intensifying public concern about the NHS has been to gain this long-sought, but previously unattainable, acceptance of the need for change.

X
X/

Building on this acceptance, the Government is now embarked on an in-depth review of the possibilities for reform of the NHS. We are looking at any and every constructive idea to provide a sound and reliable health care system into the next century.

I want to emphasise that the fundamental principle of the Health Service is not in question in this review: the principle that access to medical care should not be dependent on the ability to pay. Our concern is how to put that principle into practice in the vastly changed circumstances of modern life.

Naturally at this stage I cannot tell you what proposals are

likely to be put forward when the review is completed. What I can tell you is the issues we are considering and the direction the review is taking.

X In the letters and submissions we are receiving, funding naturally figures prominently. ^{This is why} And obviously an important part of the review is concerned with how ^{best} to increase ^{over time} the resources available for health care. However, a surprising number of the people who have written - doctors, nurses, patients, district managers, Health Authority Chairmen, speaking from their own experience, like the people in the debate this morning - are saying "The problem isn't (only) money - it's how the money is being used."

DHSS suggest
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Having said that, of course, a great variety of remedies are then proposed. Those of you with memories going back before 1974(?) will be interested to know that Matron still has a sizeable fan club. Besides bringing back Matron, a huge range of ideas are being put forward suggesting how to improve the NHS. Reading through them, it is possible to identify four key factors which help explain why - despite the massively increased expenditure, and the remarkable achievements of the Service itself, there is such dissatisfaction ^{with} in the NHS.

The first one is that although the NHS actually costs the average family over £31 per week, it is seen as "costless" by

both the people who work in it and the people who use it. Because payment for the service is never mentioned, nor discussed, nor itemised many people are unaware or unconcerned about what it actually costs, and this has important implications for their use of it. Let me illustrate: In the visits I have made to hospitals over the past months I have been repeatedly faced with the frustration of doctors, nurses and hospital staff who have been "stood up" by their patients. Operations are scheduled, particularly day operations, and the patients simply do not turn up. They do not even call to say they are not coming. The cost - in terms of time and money, lengthened waiting lists, and lowered morale - of this situation is enormous.

A perception that the service is "costless" has other effects as well. On leaving the operating theatre with its "no-show" patients, I usually visit a hospital's accident and emergency ward. There they have a contrasting problem: people who arrive and present the highly skilled emergency ward staff with health problems such as a sore throat or ingrowing toenail, ^{problems which} ~~These are~~ ^{rightly belong in a GP's surgery, not an emergency ward.} ~~actual examples which have been given to me. Others are~~ ~~xxxxxxx, xxxxxxx, and xxxxxxx.~~ Is this a proper use of acute hospitals? Would it happen if people did not perceive of them as "costless"?

If the public for the most part see the NHS as "costless," it is also true that for the most part its activities are uncosted. And this is another factor causing problems. We have made good

[But how will this be interpreted - charging for acc + emergency visits?]

progress in the general area of knowing where the money goes in the NHS, but at the moment, the professionals who perform an operation or advise on treatment still have no real idea what that operation or treatment actually costs. With the best will in the world, it is difficult to make good use of resources if you do not know what resources are being used. Until we have solid and accurate data on costs we will not be able to make much progress on better use of resources, and good ideas such as an "internal market" in health provision - which is hospitals buying and selling from and to each other - are not even possible. The Performance Indicators I mentioned earlier together with the Resource Management Initiative are steps already being taken to identify costs. Doctors in particular say they welcome knowledge which will give them more control over their own work. ?

The third factor identified as a source of difficulty is the fact the Health Service is, and always has been, producer dominated. This means that because of the structure of the Service, the only voice heard is the producers' voice. And because all the money for the Service comes from the Government, that voice is inevitably full of woe. Unlike private enterprise which attracts customers and funds by saying "look how well we are doing"; an organisation wholly dependent on public money attracts funds by saying "look how badly we are doing." Enoch Powell as Health Minister many years ago said, "One of the most striking features of the National Health Service is the continual, deafening chorus of complaint which rises day and

night from every part of it." In these circumstances is it any wonder they say their morale is low? If you and I did nothing but concentrate on our faults and weaknesses to the total exclusion of our strengths and achievements, we would feel pretty low too. And so would anyone dependent on our work.

There is another problem inevitable in a producer-dominated organisation: that is, in the absence of any proper market, there is no effective way for the consumer's voice to be heard. And without that, it is not possible for the Health Service to be as responsive to consumer needs and wishes as it should be. ✓

There is some evidence of increased consumer awareness in the NHS. Much more is needed. Some Health Authorities are actively trying to find out how their services are seen by patients and how well they meet what is required, but not enough. Some are using survey methods of one kind or another to learn more about consumer satisfaction or dissatisfaction, but so far only a few. We must find a better way to let the consumer's voice be heard in the Health Service.

The fourth factor correspondents are telling us is a problem is the fact the NHS is a monopoly supplier. Competition has demonstrated time and time again its power to increase efficiency, broaden consumer choice, control costs, and improve quality. It is now time to harness this power to benefit the

Health Service.

In addition to the arguments for competition, there are important arguments to re-deploy against monopolies. One that is particularly relevant to the Health Service, is that because monopolies restrict choice, they stifle constructive criticism and therefore inhibit change. People without choice hesitate to criticise the only supplier. And we have to remember that the NHS is a virtual monopoly supplier of jobs as well as health care. In these circumstances it is much easier to criticise the Government for underfunding rather than focus on ways the Service could improve itself.

CONCLUSION

These are some of the issues we are addressing in the Health Service review. There are others. With all of them we are proceeding in the way you expect your Government to proceed; which is to quietly and calmly:

- listen to everyone who has a contribution to make, but never surrender to vested interests.
- recognise the crucial importance of the issue, but refuse to be bounced by media hysteria or bitter opposition attacks.
- understand that policy on a single issue must always be seen in the context of what is best for the nation as a whole.
- and after serious thought bring forward policies that work.

We have done this with signal success on economic policy, on employment, on trade union reform, on wider ownership, on defence. And we will do it for the NHS.

This is the year the NHS turns forty. In human terms it is the time when youthful plans and ideals should turn into the solid achievements of maturity. Whether they do or not depends entirely on the skill and intelligence with which problems are met and obstacles overcome.

We are determined that the early promise of the Health Service will be fulfilled. The vision that gave birth to the NHS forty years ago -- which is that medical care must not depend on a person's ability to pay - is still its guiding principle and will remain so as long as this Government is in office. But to make such a principle work in practice requires a unique blend of compassion and competence. In Britain only the Conservative Party has that blend. We are the only party that has proved we can produce the prosperity which alone can pay for a modern health service. We are the party that has given the country sound, stable government and a strong and growing economy. And we are the party that will make the National Health Service - again - the envy of the world.

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FROM: MISS M P WALLACE

DATE: 11 March 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Saunders
Mr Parsonage
Mr Call

HEALTH: SPEECH BY MR MOORE ON 18 MARCH

The Chancellor has seen Mr Moore's draft speech, circulated under Geoffrey Podger's letter of 10 March. He has two comments:

- (i) first, on page 5 second paragraph, we ought to press for deletion of the "own goal" ^{thought} - by deleting the first sentence, and the word "because" ^{at} the beginning of the second sentence.
- (ii) Secondly, on page 6, second paragraph, the Chancellor would ideally like the second sentence deleted: if DHSS resist, then it should be amended to read "...concerned with how best to increase over time the resources available for health care".


MOIRA WALLACE

CONFIDENTIAL

Papers psc

CHIEF SECRETARY

Prup

FROM: R B SAUNDERS

DATE: 14 March 1988

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Parsonage
Mr Griffiths
Mr Call**HEALTH: SPEECH BY MR MOORE ON 18 MARCH**

1. We have a few further comments on the draft speech attached to Mr Podger's letter of 10 March.

a. Page 2 - the reference to competitive tendering is true for England. But in Scotland, it is still regarded as "an alien imposition", with very little progress so far and the unions having recently gone on strike about it.

b. There needs to be a reference somewhere to keeping costs down as one of the objectives of the Review. This might come best as a new sentence at the end of the second paragraph on page 6, as follows.

"And one of the main themes of the Review is how resources can be used more efficiently, without health care costs rocketing out of control as has happened in some other countries."

As a consequential, the first sentence of the following paragraph would then read "A great variety of remedies are being proposed".

c. Page 8, line 10 - it is probably going too far to say that an internal market is "not even possible" without solid and accurate cost data. As we have said before, markets generate information. The DHSS emphasis on the need for comprehensive costings before we introduce market mechanisms is a device for postponing reform. I would soften this to read "are more difficult to introduce comprehensively".

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d. DM would like to delete the reference to Defence on page 11. There has been no Defence Review, and this is of course a point of great sensitivity to MOD.

e. The reference to the NHS in the last sentence of all might be taken as prejudging the Review. It might be better if it read "... the party that will give Britain a health care system that is once again the envy of the world".

2. As to priorities, clearly the Chancellor's point on page 6 is the most important one. Of the above points, I would put most emphasis on b. - the need to work in a reference to cost control.



R B SAUNDERS

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cc:
 Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Miss Peirson
 Mr Saunders
 Mr Parsonage
 Mr Griffiths
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

G J F Podger Esq
 Private Secretary to the
 Secretary of State for Social Services
 Department of Health and Social Security
 Richmond House
 79 Whitehall
 London
 SW1A 2NS

th
 14 March 1988

Dear Mr Podger,

CENTRAL COUNCIL SPEECH - 18 MARCH

Thank you for sending us a copy of your Secretary of State's draft speech. The Chief Secretary has various comments, which the Chancellor has seen and endorsed, as follows.

- (i) **Page 2.** The reference to competitive tendering is true for England. But it should be noted that in Scotland it is still regarded as "an alien imposition" with very little progress made so far and unions having recently gone on strike about it.
- (ii) **Page 5, second paragraph.** Delete the first sentence and "Because" at the beginning of the second sentence.
- (iii) **Page 6, second paragraph.** Delete second sentence. Add at the end of the paragraph:

"And one of the main themes of the Review is how resources can be used more efficiently, without health care costs rocketing out of control as has happened in some other countries."

The following paragraph would then start: "A great variety of remedies are being proposed."

- (iv) **Page 8, line 10**

Change "are not even possible" to "are more difficult to introduce comprehensively".

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- (v) Delete the reference to Defence in the penultimate paragraph.
- (vi) **Last page.** Amend final sentence to read "... the party that will give Britain a health care system that is once again the envy of the world."

I should be very grateful if you would let me know if you have any difficulties with any of these comments.

We will shortly be letting you see the text of the Chief Secretary's post-Budget comments on the NHS.

I am copying this letter to Paul Gray.

Yours



ZOE EVEREST-PHILLIPS
Assistant Private Secretary



mp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

Miss Z T S Everest-Phillips
Assistant Private Secretary to the
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CHIEF SECRETARY	
REC.	15 MAR 1988
ACTION	<i>Mr Saunders</i>
COPIES TO	<i>Mr P. Middleton</i>
	<i>Mr Hanson, Mr Phillips</i>
	<i>Miss Persons</i>
	<i>Mr Personage</i>

2

Mr Call

14 March 1988

Dear Zoe,

CENTRAL COUNCIL SPEECH - 18 MARCH

Many thanks for your letter of 14 March enclosing the Chief Secretary's comments on this speech, as also endorsed by the Chancellor of the Exchequer.

My Secretary of State will be taking all but three of the points in the form proposed. The three points are as follows. The amendment to page 6 second paragraph will be included with the minor change of starting the sentence 'This is why' rather than 'And'. The amendment to page 8, line 10 will be made with 'effectively' substituted for 'comprehensively'. The only substantive change to the Chief Secretary's proposals lies in page 5 second paragraph where, as my Secretary of State has discussed with the Chief Secretary, Number 10 have suggested the original text be amplified to refer to quotations from Mr Frank Field MP in the Catholic Herald. The revised text will read:

"If this harsh focus on bad news was inspired, as some contend, by the Labour Party, it is very tempting to see it as a spectacular own goal. Indeed, no lesser figure than Labour's Frank Field has admitted - and I quote "Mrs Thatcher has managed to turn the tables on the Labour Party over the NHS.....[the Opposition] has allowed the Prime Minister to begin determining the next stage of the debate." The result of intensifying public concern about the NHS has been to gain this long sought, but precisely unattainable, acceptance of the need for change.

E.R.

I should be grateful to know by first thing tomorrow (Wednesday) morning if the Chief Secretary wished to press for any further changes. I am copying this letter to Paul Gray at No 10.

*Yours sincerely,
Geoffrey Podger*

G J F PODGER
Private Secretary

21/3/88

The Up & Comers

Negotiators

HealthCare Compare's Dr. Robert Becker used to treat patients for allergies. Now he treats employers for sky-high medical bills.

Now about that appendectomy, Doctor

By Ruth Simon

FOR FUN, Dr. Robert Becker collects fountain pens, rare coins and mounted sharks from his fishing trips. For profit, he collects sizable savings on corporate employees' health care costs. Becker's

staff of doctors call physicians and ask if they really need to hospitalize a patient six days for, say, routine gallbladder surgery. Aren't three days enough? Okay, four, but that's it. "I like jousting at windmills," says Becker.

Becker's company, HealthCare

Compare Corp. of Downers Grove, Ill., is now one of the largest players in the burgeoning business of "utilization review." In this business, doctors' and hospitals' prospective treatment plans are scrutinized on behalf of customers—usually corporations or health insurance carriers—by people who know how to spot excessive medical services and hospital stays. "We try to manage costs a dollar at a time," explains HealthCare Compare President James Smith, a former Texas Instruments marketer who joined the company in 1984. "We don't believe there's one big easy remedy out there."

With health care costs and medical insurance premiums still on the rise and threatening to soar, such dollar pinching is urgently needed. "Our concern is that we're starting to enter one of those spirals of 15% to 30% price increases," frets Randall Berg, director of compensation and benefits for Libbey Owens Ford, which will pay HCC about \$24 per employee (\$192,000 all told) this year to review its employees' medical care. Also among HCC's 11,000 clients are Mutual of Omaha and General American Life Insurance, which market HCC's services to their customers, and largely self-insured corporations such as McDonald's and Control Data.

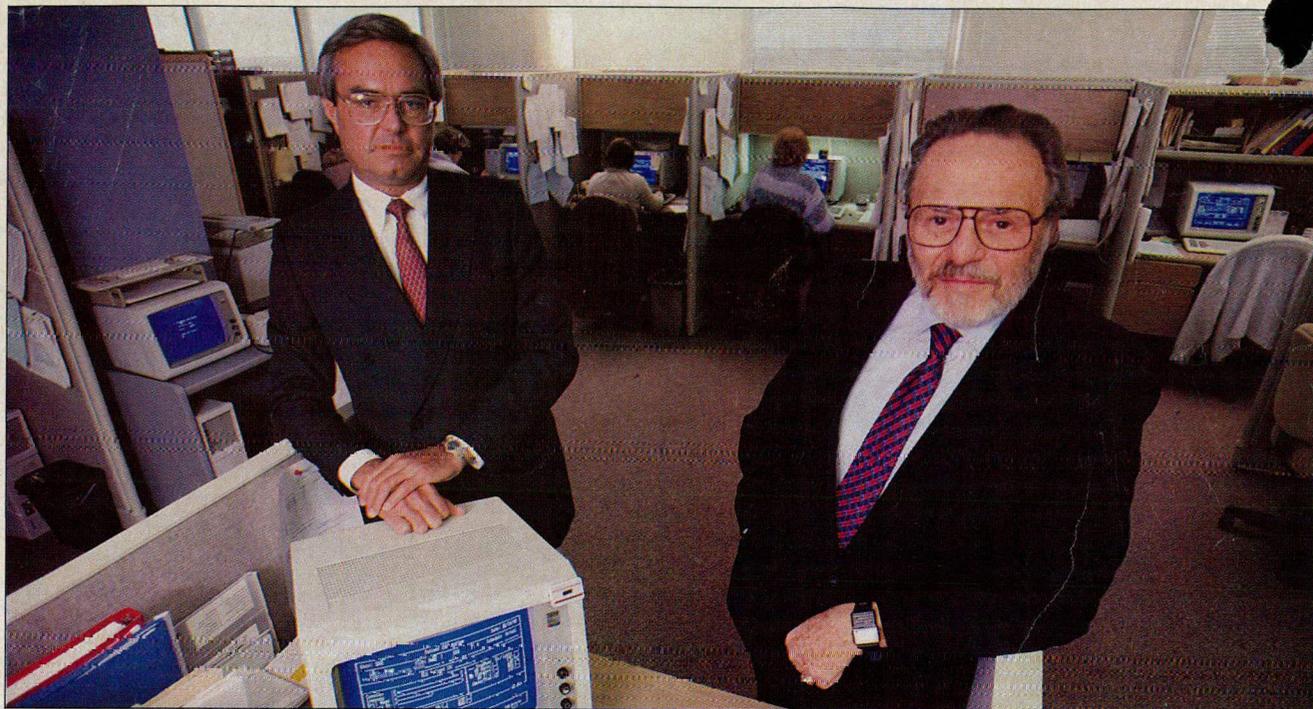
WHEN COMPROMISE IS OUT OF THE QUESTION



Handwritten notes in red ink: "Done", "PSE created by CSI & release of app. m."



For the name of the Peterbilt dealer nearest you call: 1-800-447-4700



HealthCare Compare's James Smith and Dr. Robert Becker
"We try to manage costs a dollar at a time."

Richard Derk

Under HCC's basic review program, employees contemplating hospitalization for, say, a gallbladder operation must call HCC's toll-free number a few days before being hospitalized (or, in the case of emergencies, within two days of being admitted). One of HCC's 200-plus reviewers—all trained nurses—takes down basic patient information, creating a computerized chart used to determine whether the proposed treatment—six days of hospitalization for that gallbladder operation—falls within national standards. If it does, the treatment is approved.

And if the proposed treatment exceeds the HCC norm? Then the case is bounced to one of the company's 15 staff physicians for review. If the physician decides that six days' hospitalization for the gallbladder operation is too much, he calls up the patient's physician and, doctor-to-doctor, tries to negotiate the proposed treatment down to three or four days. If the physician refuses to negotiate, the patient may wind up paying a bigger chunk of the bill.

Becker says HCC refers 40% of its cases to its physician-reviewers, far more than competitors do. And that, says Dr. Alan Korn, the director of HCC's medical department, is an important edge. "A doctor will never be accountable to insurance clerks and will occasionally be accountable to nurses," says Korn, "but he will almost always be accountable to peers."

Becker, 65, spent 26 years treating

allergies. In the early Seventies, he set up the Foundation for Medical Care in Joliet, Ill., which provides medical peer reviews for Medicare and Medicaid. In 1982 he decided the time had come to sell peer review to corporations. "There was," he recalls, "greater [medical] cost shifting to the private sector, which created a greater need for cost management."

To start HealthCare Compare, Becker raised \$850,000 by selling his medical practice, mortgaging his house and cashing in his pension plan. Still undercapitalized, he turned to his best friend, Ronald Galowich, a lawyer who now manages the real estate holdings of Chicago's wealthy Pritzker family. Galowich put up some money and persuaded the Pritzkers, Indianapolis shopping center developer Melvin Simon and other well-heeled friends to put up \$2 million for 61% of HCC. Galowich also brought in Jim Smith, a strong operations executive, as HCC's president. For his trouble, Galowich today owns 6.2% of the company's 4.2 million shares outstanding; Becker owns 12.5% and the Pritzkers 24%. HCC went public in May at \$11 a share. After sinking to 7 $\frac{3}{8}$ in October, the stock, 65% owned by insiders, recovered to a recent 15.

Clearly this is a good business. In fiscal 1987 (ended last Aug. 31) HealthCare Compare Corp. earned \$1.2 million, or 37 cents per share, on revenues of \$11.6 million, more than

double its results in fiscal 1986. For fiscal 1988, Vivian Wohl of Robertson, Colman & Stephens expects the company to earn \$2.5 million on revenues of \$27 million.

These results may be attracting some potentially tough competitors—health insurance companies, including the very carriers using HCC, who might bring the utilization review business in-house. "It could be a potential thrust for us," agrees Alana Cox, manager of cost containment for General American, a big insurance company now buying HCC's services.

But Becker and his HCC colleagues figure they can handle the competition. The company is bringing out new products like reviews of outpatient surgery and chiropractic and dental work. It also intends to use its data on doctor and hospital practices to set up preferred provider organizations (PPOs), which negotiate reduced fees for medical care. In February Becker announced plans to acquire Affordable Health Care Concepts, a Sacramento-based data supplier and PPO organizer, in a stock deal valued at \$13.5 million.

"We're now helping to control the use of units of care," explains Smith. "The next step is to go to hospitals or groups of doctors on behalf of our clients and negotiate prices."

With the country now spending around \$500 billion a year on health care, there is no end of fat to be pared away by companies like this one. ■

Ch/ re X, I'll bet they were...

FROM: R C M SATCHWELL

DATE: 24 March 1988

PS/CHIEF SECRETARY

cc PS/Chancellor ✓
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Saunders

What is the effect of Jones's Hammer? - 24/3

DHSS MINISTERS' EVIDENCE TO THE SOCIAL SERVICES COMMITTEE, 23 MARCH

1. I attended yesterday's meeting of the Social Services Committee, at which Mr Moore and Mr Newton were giving evidence on NHS funding.

2. Three main topics were discussed; the supposed "cumulative under-funding" in the past, future financing (and in particular the NHS Review), and the role of the NHS Management Board. In the hour and three-quarters available, the time taken up by each was of the order 60:30:10.

3. On past under-funding, Mr Moore stressed the importance of distinguishing between the growth in activity (outputs) and the growth in resources (inputs). In saying that today's resource needs were simply those of five years ago adjusted for changes in demography, medical technology, costs (pay and other) and income generation, the Committee had ignored the very large gains in efficiency which had taken place. However, when pressed about the measurability of these efficiency gains, and the extent to which they were used in the bilateral discussions with the Treasury in the Survey, ("if you say there is no under-funding problem, Secretary of State, doesn't that send signals to the Treasury?"). Mr Moore became hopelessly muddled, eventually falling back on the line that although it was a simple question, "there is no simple answer".

4. The Committee then tried to pin him down about funding of the Review Body awards, and the uncertainties that caused for DHAs in their short-term planning. Mr Field quoted a passage from the

Chief Secretary's evidence to the TCSC meeting on 3 February in which he said, in response to a question about offsetting savings from within departmental programmes;

"if we were to seek cross - departmental savings, it would destroy one thing that seems to me generally to be rather important for each individual programme in the Government's budget, and that is the consistency in-year for managers of knowing what resources are available so that they are able to plan satisfactorily within those resources".

Mr Field prayed that in aid in arguing for a prior commitment to fund in full the Review Body awards. But Mr Newton said that the way to reduce the uncertainty was to change the Review Body timetable, which the Government were doing.

5. On the NHS Review, the Committee were concerned mainly with its scope (will it include the Griffiths report on community care, will charging be covered?); and the mechanics (who are the Ministers and civil servants involved, who's in the lead?). Mr Moore played a dead bat on all this, saying only that the Review would be "wide-ranging and fundamental" and quoting his recent speech in which he said that the principle that access to care should not be related to ability to pay would be retained.

6. On the role of the NHS Management Board, the Committee wondered why Mr Griffiths had recommended that RHA Chairmen report direct to the Secretary of State and not to the Board. Surely this was different from what would happen at Sainsbury's? Mr Newton made the reasonable point that the NHS is not like Sainsbury's; in particular, the accountability of Ministers to Parliament was a crucial difference.

7. Two other small points. The Committee accept that they ignored in their first report the additional £75 million given to the NHS in December. There was also a final reference to the "health index" as a measure of effectiveness. The Committee said they were very keen on this idea and looked forward to seeing Mr Moore's proposals.

on whose part,
I wonder?

8. Overall, rather an uninspired performance by Mr Moore. Mr Newton was a lot better, but he had less chance to speak. Nothing really controversial was said and the large Press gathering were generally disappointed, as you will see from the commentaries this morning (attached, the Times didn't mention it).

R. Satchwell.

R C M SATCHWELL

→
arbit
off

NHS funds allegation disputed by Moore

By Alan Pike,
Social Affairs Correspondent

SUGGESTIONS that the National Health Service had been underfunded during the 1980s were based on an illusion, Mr John Moore, Social Services Secretary, told MPs yesterday.

Mr Moore, appearing before the Commons Social Services Committee which earlier this month produced a report concluding that the NHS had suffered a cumulative funding shortfall of £1.89bn since 1980-81, disputed the basis on which the committee had reached its conclusion.

He said additional efficiency in the service had to be taken into account. It was starting on the wrong basis to assume that the efficiency of existing resources could not be improved.

There was no statistical evidence or financial data to indicate that there had been cumulative underfunding. The so-called funding gap had been filled by productivity and improved efficiency within the system, and the committee had failed to take account of the degree to which growth had been carried forward by resources secured in the past.

Mr Moore repeatedly declined to give members of the committee details of the wide-ranging review of the health service being conducted by the Government.

Later, during a debate in the Lords, Lord Skelmersdale, a junior DHSS minister, gave what was widely regarded as a hint of extra resources eventually becoming available for the NHS.

He said the fact that no extra resources had been allocated in the Budget "does not mean that the Government won't make any additional resources available in the next financial year."

DTI cuts cost of campaign breakfasts

By Peter Riddell,
Political Editor

THE COST of Government-sponsored breakfasts appears to be going down.

Following the row earlier this month over the estimated cost of £330-£400 per head for the breakfast meetings promoting the Action for Cities campaign, the Department of Trade and Industry announced last night that

Rifkind puts onus on unions

BY TOM LYNCH

MR MALCOLM RIFKIND, the Scottish Secretary, signalled in the Commons yesterday that it was now up to the trade unions to convince Ford Motor Company that a deal to reverse the company's decision to scrap its proposed 1,000-job high-technology plant in Dundee could be made to stick.

At Question Time, he welcomed yesterday's "somewhat belated" decision by the TUC general council to endorse the single-union deal between the company and the Amalgamated Engineering Union. He did not rule out a personal appeal to Ford, but indicated that this was unlikely unless the TGWU transport union accepted the TUC's decision.

Pressed by Labour MPs to "drop everything" and accompany Mr Gavin Laird, the AEU general secretary, on his mission to Detroit to plead for the plant, Mr Rifkind said: "I have to consider whether, and in what way, Ford could be asked to reconsider its decision."

He was prepared to make representations to Ford "if and when I believed that such representations were appropriate and had

some prospect of producing the desired result."

It was later learned that Mr Rifkind had met Mr Laird for about half an hour before his departure for the US.

In the Commons, he insisted that, as one of those who had helped persuade Ford to site the plant in Dundee in the first place, he had as much interest as anyone in saving the project. However, the TGWU had obstructed progress and he had to know whether Mr Ron Todd, its general secretary, would endorse the TUC position. The union had not changed its position "in any significant way."

Mr Donald Dewar, the shadow Scottish Secretary, said it was "the height of irresponsibility" for Mr Rifkind to give the impression that he did not accept Mr Laird's view that TUC endorsement of the single-union deal was "a breakthrough."

He told the minister: "It is tantamount to encouraging Ford to look and bar the door we ought to want to see open." He recalled a Ford statement that a key condition for the plant had been a single-union deal independent of the current national agreement



Malcolm Rifkind, Scottish Secretary, with TUC general council members.

a condition the TUC seemed to fulfil.

Mr Dewar called on Mr Rifkind to "make it clear you are with me and everyone else in Scotland in urging the need to reconsider the reinstatement of the Dundee project. It is clear that in the Government's view the essential conditions have been met and the

Cuts in top tax rate defended

By Our Political Editor

THE CUTS in the top rates of income tax in the Budget should prove to be irreversible, Mr Norman Lamont, the Financial Secretary to the Treasury, claimed last night.

Addressing a Hampshire businessmen's group, Mr Lamont offered a strong defence of the Budget against charges of unfairness.

He said that in its criticisms of the Budget Labour had ignored the fact the married man on five times average earnings would pay nearly 10 times as much in tax as a similar person on average earnings.

"We have always had a sharply progressive tax system: the rich should pay more in tax than the poor and they will, of course, continue to do so."

But what makes no sense by any standard is for marginal tax rates for top earners to be set at levels that do not raise revenue.

He suggested that in a few years time "people

Labour left-wingers social ownership deal

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

LABOUR'S National Executive Committee yesterday overwhelmingly endorsed an amended statement of aims and values which commits the party to extending "social ownership" but acknowledges the role of the market in the provision of many goods and services.

The statement has been subjected to some revisions, after some senior party figures expressed earlier reservations. But the amended version at once drew criticism from members of the party's left wing, who claimed the leadership was planning to abandon the party's Clause Four commitment to maintaining common ownership of the means of production, distribution and exchange.

Mr Dennis Skinner, the MP for Bolsover and a member of the NEC, said that, despite assurances to the contrary, he believed the intention was that the new statement would supplant Clause Four. He said the leadership had decided "to drop the red flag and adopt the red rose."

Mr Neil Kinnock

Other left-wingers on the committee attempted to push through amendments to the document which the NEC adopted by 40 votes to four and will go to the party's annual conference in the autumn for approval.

Mr Tony Benn, the MP for Chesterfield, unsuccessfully called on the executive to endorse public ownership of "commanding heights" of the economy.

Mr Ken Livingstone, the MP for Brent East, put forward amendments, including one for the acquisition of "decisive sectors" of the economy. His views on excluding markets from a role in the economy were dismissed by Mr Benn as "colour supplement socialism" and all the amendments were heavily defeated.

The document re-states Labour's view that the application of market principles to some sectors of the economy — such as health care, education and social security — were "immoral as well as irrational."



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that any... act with... ntury by... e TGWU... and if Mr... s general... dopt the

views of his Dagenham stewards that would make a real contribution.

"On the question of a new approach I would have to use my best judgment as to whether, and in what way, Ford could be asked to reconsider their decision. The TUC, somewhat belatedly, has now endorsed the single-union agreement reached with Ford and that has to be welcomed."

Present knowledge suggested that the TGWU position — the main obstacle to progress — was unchanged in any significant way. "If that is now going to be altered, we must wait to hear whether or not Mr Todd and his colleagues are prepared to endorse the view of the TUC."

"If Labour MPs are concerned about this matter then one contribution that could be made would be for Neil Kinnock to give his support to the views now adopted by the TUC and the Government."

Mr Rikind later blamed the "extraordinary primitive attitudes to be found within the trade union movement" for causing totally unnecessary damage. But Mr Dewar retorted: "Ford said last week

the key condition was the single union deal with the proviso that the new plant would be outside the current national agreements, and the TUC vote today does give them that.

"Will you clarify your position and make it clear that you will join with me in urging the company to reconsider and reinstate the Dundee project, making it clear that in the Government's view the conditions have been met and the plant should be built?"

The minister said he had given Mr Gavin Laird, the general secretary of the engineering union, more public support than had Labour. "I have already welcomed the decision taken by the TUC and only wish it was taken some time in the past five months."

"I am astounded that even today you have not made representations to Ron Todd to give his full support to the TUC."

Mr David Steel, the joint leader of the SLD — renamed Democrats — said earlier he had had unofficial contact with the Ford US management and had received no indication that they were prepared to change their position.

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what opportunities lie ahead for the merged party.

Labour will make the running on the social security changes, because it is an issue made for it. In the post-budget argument about the distribution of wealth, Labour will be able to present a

Sketch



Andrew Grantham
Rawnsley

JOHN Moore, the Social Services Secretary, who for months has been suffering an acute case of hostile publicity, was ordered to see the specialists.

The social services select committee were to give their expert diagnosis on the minister's condition.

"You'll have difficulty getting in," advised a colleague on the way up the committee corridor to room number 20. We knew it was bad, but this seemed terrible. Now, the colleague seemed to be suggesting, the minister could no longer receive visitors. We prepared for the worst.

Fortunately, the colleague was referring only to the demand for seats, such is public interest in the case.

In the public half of the room were representatives of leading medical organisations. Gathered in a horseshoe around the minister was the committee, including its chairman, the Labour MP for Birkenhead, Frank Field, a widely-respected specialist on health matters; the Tory MP for Eastleigh, Sir David Price, who in his distinguished career has been employed by companies as a consultant; and a Labour GP, Dr Lewis Moonie.

The committee had made its point: this was evidently the best place in Westminster to be if you were going to have a heart attack. Certainly, a better place than most hospitals to judge by their recent reports of the condition of the National Health Service.

The Ulster Unionist member for Belfast South, the Reverend Martin Smyth, was also in attendance in the event of the worst of outcomes.

But could all this accumulated expertise cure Mr Moore? He had already rejected its prescription: more money for the NHS.

It was a difficult case. The Secretary of State sat before them, his voice a little weak, his suntan faded, his Roman good looks spoiled by the agony of his condition. The impression was of a slightly tatty six-month-old copy of the colour supplement profiles in which he used so often to appear, which had since been wrapped around fish and chips.

It became clear that Mr Moore's condition was worse than we had been led to believe. Against the advice of thousands of doctors and nurses, he still could not accept that there was anything wrong.

He talked about anything else but his condition: "bed throughput," "the efficiency trap," and its even uglier jargon sister "the reverse efficiency trap". On and on he went in a deluge of technicalities, obfuscations, and other escapers from the linguistic funny farm.

There was a reference to something called "increased patient activity," which could, you supposed, be a boast that the Government had increased jogging on the wards or press-ups in the operating theatres.

The committee grew frustrated. "With all due respect," complained Sir David in an intervention about as respectful as Tory knights are to wilful footmen.

Dr Moonie complained that it was "like punching a bag of cotton wool".

How terrible that reality could be was, by coincidence, being discussed downstairs by the House of Lords in its own debate on the condition of the NHS.

The Bishop of Guilford related a particularly unfortunate experience as an emergency admission to a London teaching hospital. "They were," he said, "unable to provide me with a pair of pyjamas even though I was in a mixed ward."

As if things aren't bad enough already, now Mr Moore has taken to defrocking bishops.

NEC adopts Kinnock's view of what Labour stands for

Patrick Wintour

LABOUR'S national executive yesterday overwhelmingly accepted an amended version of the party leadership's Statement of Aims and Values. It continues to accept a role for

ket has been well toned down".

Mr Livingstone also took solace in Mr Kinnock's proposal to print Clause 4 of the party constitution with the document.

Nevertheless, Mr Livingstone issued a statement saying that unless the document was substantially amended...

NOT @ G.;



Ch/ You might like to look at attached draft of Mr Newton's speech to Adam Smith Institute tomorrow (only just received in this office). Same irritating stuff about health index at paras 12 and 13. DTSS argue that this goes no further than they have before, and I fear we could not get this excised without a major (last-minute) row. But perhaps worth following up in writing in a few days' time, setting out our



objections and asking that
Miss Mins shd not continue
associating his idea with
the work of the Review?

mgw

13. To attract
staff & v. attract
of his own kind
I hope you
to give to
for the
can receive
H.S.M.

cc Miss Perrin
Mr Saunders.

6/f Mon.



C8T
To see
Jill
25/3

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister for Health

Paul Gray Esq
Private Secretary
10 Downing Street
London SW1

25 March 1988

Dear Paul,

I enclose a draft of the Minister for Health's speech when he speaks at the Adam Smith Institute's seminar on "New Ideas in Health Policy" next Tuesday.

A copy goes also to Jill Rutter in the Chief Secretary's office.

Yours sincerely,
Miss Harper

MISS J M HARPER
Private Secretary

Enc.

SPEECH BY MS(H) TO ADAM SMITH INSTITUTE: 29 MARCH 1988

"THE HEALTH SERVICE UNDER REVIEW"

1. The title of today's seminar is as apt as its timing. It was, I believe, arranged some months ago before we announced our intention to undertake a wide-ranging review of the National Health Service. I must therefore congratulate the organisers on their prescience.

2. The announcement of the Government's review does not however make my task in addressing you any easier. I must stress at the outset - to no-one's surprise, I would expect - that I shall not be using this opportunity to speculate about what might emerge from our work. Indeed, you would be right to be concerned if I were to give the impression that we had reached conclusions. We have not. The issues involved, as today's agenda testifies, are complex ones. We are proceeding as quickly as we can and we shall bring forward proposals in due course. But we shall only make proposals when we have given them very full consideration and, in the meantime, we will take careful note of the views that are put to us.

3. I should therefore like to welcome your seminar as an important contribution to the debate. To my regret, ^{my} diary, will not allow me to listen to the other speakers but I shall be studying your conclusions carefully. I am of course aware of the Institute's discussion paper, "The Health of Nations" - a well chosen title, if I may say so - in which you set out a number of interesting ideas. I am sure many others will be heard today.

WHY A REVIEW?

4. In setting the scene for today's discussion, I would like to step back a little from the current debate and reflect briefly on how we reached our present position. It is a truism to say that the health service's current problems are the product of its success. But there is no doubt that success

itself generates more demand and that many of the problems we discuss are the reflection of what the founders of the NHS would have seen as astonishing achievements.

5. The fact that the Government's review comes at around the time of the fortieth anniversary of the National Health Service has already been commented upon. The coincidence is an appropriate one. Those forty years have been years of enormous change, and it is entirely right - just as it was with social security - to take a fresh look at this part of the welfare state against the background of a very different world from the one in which it began.

6. The facts and figures speak for themselves. In real terms, we are now spending five times what we did in 1949 on the NHS. During the same period the number of hospital doctors and dentists has quadrupled. But it is perhaps the availability of new and better treatments - and the effect this has had on the nation's health - that is the most startling change of all.

When the NHS started, organ transplantation had not begun. Now we have more patients with successful kidney transplants than any other country in Europe: nearly 1,500 operations were carried out last year.

A less "glamorous" operation - but one of enormous benefit to more and more people - is hip replacements. As a result of improved anaesthetic and operating procedures, these are now available to people in their seventies and eighties. In 1967 some 5,000 hip replacements were done each year: by 1985 the figure was 37,600.

At the other end of the age range, improved monitoring procedures and preventative medicine means that some 3,000 babies are now living who would not have survived ten years ago.

7. All of these dramatic improvements have been made possible by great

advances in skill and technology, and by the skill and dedication of the people working in the health service backed up by an considerable increase in resources. Under this Government alone, the proportion of our gross domestic product devoted to the total of health care services has increased from 5.3% in 1979 to 6.2% in 1986.

But the dilemma facing all of us concerned with health care is that demand is continuing to rise as a result of increasing public expectations, wider ranges of treatment, advances in medical knowledge and the needs of an ageing population.

8. The Government therefore judged that the time was right for a wide-ranging review of the health service, concentrating on the acute hospital services where the greatest pressures exist, but also examining the relationship with the primary care and community care services. We are not wanting change for change's sake but we want to establish what it is we do best - and what we might do better.

AN INTERNATIONAL PROBLEM

9. What needs to be registered very firmly is that the problems and pressures which are so widely reported are not in any way unique to this country. A discussion with any of my counterparts in other Western countries quickly dispels that notion. Virtually every Western industrialised country is examining the way in which health care is delivered and financed and some, as Mr Timmins' excellent series of articles in The Independent recently showed, are looking to the UK to see what they can learn from us. Many have already taken measures to reduce costs. In West Germany a new Health Expenditure Law, to be adopted later this year will, I understand, relieve the statutory insurance scheme of responsibility to provide expensive dental work and medicines, pharmaceutical placebos and inessential hospital treatment. You will not be surprised to learn that this has invoked some adverse criticism in the press! The Norwegian Government has also been considering its problems in financing a wholly socialised and tax-funded system. The

recommendations from a Government committee include contributions from patients to hospital care, increased payments for doctor's appointments, and increases in charges for medicines. What the Norwegian Parliament will approve remains to be seen; but here we have an example of an advanced western country, deeply committed to the Welfare principle, finding itself of necessity taking a hard look at the current realities of health care provision.

Te

10. Let me give you two further examples. (French social security system which includes health care, is understood to be facing serious financial problems. A recent report commissioned by the French Government proposes that the basic state health insurance should cover only "high risks" while "lower risks" would be covered by private medical insurance run by friendly societies or insurance companies. Such proposals would I suspect be regarded by many people in the UK as highly radical.

11. The Dutch health care service which is also part of the social security system is also facing similar problems. A recent report commissioned by the Dutch Government proposes that a two - tier system be introduced. This would consist of compulsory basic insurance covering about 85% of the total cost of health care together with voluntary additional insurance covering the remaining 15%. Both schemes would be run by private insurance companies.

HEALTH INDICATORS

12. Making comparisons with other countries' health care systems is a difficult science. It is therefore important to look at how much health care the system delivers as well as its structure and funding. John Moore recently drew attention to a lack of information about health outcomes in this country. His point was that the debate should not be solely about how much we are spending, but about how much health we are getting; in other words, the value for money we are achieving in terms of quantity and quality of services. He recognised that many factors - some of them hard to pin-point - can affect a

person's health. He illustrated the point by noting the apparently paradoxical examples of Greece, which spends the lowest percentage of its GDP on ^{publ} health care and yet has ^{virtually} the highest male life expectancy, alongside Eire, which spends the highest proportion on health care and yet has the lowest male life expectancy.

13. John Moore went on to suggest that we needed a portfolio of health indicators - a 'health index' as he called it - which would assist us in measuring a range of aspects of the nation's health and to set long term policy goals. Such indicators might cover not just acute services, but prevention and positive health care promotion, which must be important elements in any long-term policy. The preparatory work to establishing such an index is already underway in the Department.

OBJECTIVES OF REVIEW

14. I spoke earlier of the complexity of the problems that we and other countries are grappling with. Indeed, it is rare for two commentators to agree on exactly what the problem is, let alone agree on a solution. For this reason, we do not want to confine our thinking within a narrow terms of reference.

15. In bringing forward proposals, we will however want to keep in view a series of broad objectives. A key consideration will, as I have said, be the need to retain the strengths of the existing system. This is particularly important when considering arguments of comprehensiveness. We are determined to continue to ensure that no-one is denied treatment because of low income and that the needs of "vulnerable" groups - the long-term sick and the very elderly - will be met.

16. It will be essential to consider ways of improving still further the efficiency of health care delivery. This embraces a wide spectrum including clinical efficiency, resource management, income generation and the better use

of assets, including land disposals. A number of initiatives are already underway but we shall understandably need to build on them. The development of performance indicators has also shown that considerable variation still exists between health authorities. We must ask ourselves, therefore, what more we can do to raise the general level of performance to that of the best - and then go on improving.

17. One way to do this may be to give customers more choice, that is to say a better knowledge of the system and the choices available to them. Better informed GPs may be one key to this. One of our main objectives must be to widen consumer choice to the greatest possible extent.

18. Another way of increasing total health care resources may be to encourage further co-operation with the private sector. We hear a good deal of the UK's place in the European league table of health expenditure. What the critics fail to point out is the relatively small contribution that the private sector makes in this country to the total expenditure on health care.

19. One of the encouraging features of the current debate has been the very constructive discussions that have taken place around the themes I have outlined. I particularly welcome seminars of this kind which allow for an informed and rational debate. I wish you well and look forward to studying your conclusions.



MP

FROM: MOIRA WALLACE

DATE: 28 March 1988

PS/CHIEF SECRETARY

cc Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Saunders
Mr Satchwell

**DHSS MINISTERS' EVIDENCE TO THE SOCIAL SERVICES COMMITTEE,
23 MARCH**

The Chancellor has seen Mr Satchwell's minute of 24 March, recording last week's meeting of the Social Services Committee, at which DHSS Ministers appeared. He has noted that the subject of Mr Moore's "health index" came up. The Chancellor has asked what Treasury officials are doing to render this sort of thing harmless.

mpw.
MOIRA WALLACE

Rp.



FROM: MISS M P WALLACE

DATE: 29 March 1988

MR SAUNDERS

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr H Phillips
Miss Peirson
Mr Parsonage
Mr Griffiths
Mr Call

MR NEWTON'S SPEECH TO ADAM SMITH INSTITUTE

We spoke yesterday about the further references to a "health index" in Mr Newton's draft speech. I subsequently spoke to Jenny Harper in Mr Newton's office, pointing out that similar references in Mr Moore's earlier speech to the BMA had not been agreed with the Treasury, and that we did not welcome the further publicity being given to this idea by DHSS Ministers, especially where they implied that this was part of the Review's work. She agreed to pass these points on to Mr Newton, and we left it there.

2. The Chancellor has now seen Mr Newton's draft speech. He agrees that there would be no point in a last-minute argument about the drafting with DHSS, but he thinks that to avoid recurrence in future, it might be worth our setting out our objections in writing and asking that DHSS Ministers should not continue to associate this idea with the work of the Review. I should be grateful if you could provide an appropriate draft.

3. Still on Mr Newton's speech, the Chancellor also noted the paragraphs on "the international problem". He has commented that some of this material is very interesting, and does not yet seem to have been injected into the review. He thinks it ought to be.

A handwritten signature in cursive script, appearing to read "M.P. Wallace".

MOIRA WALLACE

30/3/88.

THE CHANGES TO SOCIAL SECURITY

This year the country will spend about £48,000 million on Social Security. This money comes from the taxpayer and from national insurance contributions. The April reforms mainly affect the benefits paid to those who have little or no money to live on. They will have no effect on what the country spends on Social Security, which tends to rise each year.

The changes

Income Support replaces Supplementary Benefit. This is for people who cannot support themselves in work and costs £8,000 million a year.

Housing Benefit rules are to be changed. This benefit costs the taxpayer about £5,000 million a year, and helps people to pay their rates and rent.

Family Credit replaces Family Income Supplement as the way of helping those who have families, have a job but low pay. The new benefit will cost over £400 million, twice the cost of Family Income Supplement.

The Social Fund replaces single payments to people on benefit for unusually big expenses, like buying furniture. The Social Fund will have a budget of about £200 million for this purpose.

Why make changes?

- **To make things simpler.** Income Support will be much easier to understand than Supplementary Benefit. People will have a better idea of what they qualify for. Our staff will find it easier too. That means fewer mistakes and faster service. All three benefits will now have largely the same rules for working out a person's income and savings.
- **To be fairer.** People on benefit have been able to claim large sums for furniture and other unusually big items, which they did not have to repay. People not on benefit had to find money for that sort of thing themselves, even though they might be scarcely any better off. In future many of the payments for one-off expenses will be loaned to people on benefit, and will have to be repaid. Also everyone will now have to pay at least a small part of their rates bill.
- **To help people to be independent.** The change from Family Income Supplement to Family Credit means that very few families in future will find themselves better off on the dole than in work. Nor will people in work lose more from a pay rise than they gain because of what they lose in benefit.

What does it mean for people?

- The taxpayer will spend much the same on these benefits as before. These are not cuts.
- Some will find themselves better off. Some whose money from Income Support would be less than they get now on Supplementary Benefit, will have their Income Support topped up so that they receive the same amount after April as before.

- Some people will get less in one benefit and may get more in another. Taking the benefits together, nearly 9 out of 10 people on benefit in April will receive no less money or will receive more money than now.
- There are particular increases in benefit for most families with children, most single parents and most sick and disabled people.

Income Support

Under the Supplementary Benefit scheme, the basic amount could be increased by additions for individual circumstances e.g. for extra heating, heavy laundry costs, or a special diet. There were over 20 of these additions, which needed us to ask very detailed personal questions. It was this part of the system which made it particularly hard to understand, and which confused both the public and the staff.

Income Support does away with the additions. On top of the basic rate, people will be paid premiums depending on which "group" or "groups" they fall into. There will be premiums for pensioners, the sick and disabled, the severely disabled, families, single parents and, of course, additions for children. The premiums are for the extra costs which the various groups face, and by and large they make up for the additions which those people could get under Supplementary Benefit. Families on Income Support will still get free milk for children under 5 and free school meals. About 800,000 children will go on receiving free school meals.

Social Fund

This will be there to help people, normally those on Income Support, with their unusual expenses like furniture. For some people in vulnerable groups these will be grants and will not have to be paid back. For example, a mentally handicapped person returning to the community from a care home, could receive a grant to set up house. Other people will receive loans. There will be £60 million for grants and over £140 million for loans in the first year.

People who receive loans will normally pay them back through deductions from their benefit. They will in effect be budgeting for large items in the same way as people not on benefit have to. In this way the Social Fund will be fairer. In any case, four-fifths of single payments were claimed by only one tenth of the people on benefit and that did not seem fair either.

Family Credit

This new benefit is for working families, with children, who do not earn a lot. It replaces Family Income Supplement and will be paid to over twice as many families (470,000 compared with 200,000). It will cost twice as much: £420 million, compared to £200 million.

Very few working families in future will find that they would be better off out of work and receiving Income Support. It makes it more worthwhile for people to get a job or stay in a job. It is more worthwhile too to earn more by working more or getting a rise or being promoted. If you were on Housing Benefit under the old system more pay could mean less take-home money, once you had paid tax and National Insurance, and received less in Family Income Supplement. Now if you earn more, less benefit will never make you worse off.

Families receiving the new Family Credit will not get free welfare milk or free school meals. But, to make up for that, for each child they will receive an extra £2.55 **every** week (not just in term time).

That sum more than pays for the milk they lose, and covers the average price of school meals spread over the whole year. The government thinks it better for families in work to receive cash than benefits in kind, so as to put them on the same footing as other working families who earn more.

Housing Benefit

This helps with rent and rates. It goes to one household in every three.

Although it is designed to help those in need, until now we have paid it to people even if they have large savings on which they could draw, rather than turning to the taxpayer. This seems wrong. Also Housing Benefit paid the whole rates bill for someone on Supplementary Benefit, so they had no need to think about what local government was costing. In future everyone will pay at least a fifth of their rates, and to help make paying rates easier for those in most need an extra amount has been included in the Income Support rates. Even after the changes, six million households will receive Housing Benefit and that is more than in 1979.

Capital rules

Until now different benefits had different rules for how much savings you could have before losing benefit. Now for the main three benefits, Income Support, Family Credit and Housing Benefit the rules are the same and easy to understand. For Income Support it means that it is easier now to qualify. Any savings below £3,000 are ignored. Any savings above £6,000 disqualify you from benefit. In between the two, we assume that you receive £1 a week in income for every £250 that you have above £3,000.

INCOME SUPPORT AND DISABLED PEOPLE

Replacing Supplementary Benefit

Supplementary Benefit replaced National Assistance as the benefit for people unable to support themselves in work. It now costs the taxpayer about £8,000 million a year. It is a non-contributory benefit, that is it is paid for from taxes not National Insurance and anyone who has little in savings and little or no income can qualify. Now - from April 1988 - Supplementary Benefit will be replaced by "Income Support". The new benefit is directed broadly to the same needs and the same people, and will cost more.

Why the change?

To make the benefit simpler to understand

Under Supplementary Benefit there are various basic amounts, and then additions for different needs. There are over 20 of these additions for such things as extra heating, heavy laundry costs, extra baths, and special diets. So many possible variations make the system difficult to understand and to run. Many additions can only be paid after personal and detailed questioning. The additions are to be abolished. Under Income Support people will receive a basic amount and on top of that an extra "premium" depending on which simple "group" or "groups" they belong to. There will be premiums for pensioners, the disabled, the severely disabled, families and single parents, and people can receive more than one premium. Most people will know straight away which group they are in, and so what money they qualify for.

To give a better service to the public

Our local office staff will also find the benefit easier to understand. This should mean that it will be easier to work out what a person should receive without mistakes, and payments can be made more quickly. As premiums will be given automatically, claimants can be sure they are receiving the full amount they are entitled to without having to understand complicated rules and claim separately for additions to their benefit.

To direct money to people with special needs

Extra help will be given to those groups who have special needs, such as pensioners, the long term sick, the disabled and people with children. Those people who qualify for the disability premium will be allowed to earn £15 a week without losing benefit.

How it works

Income Support will provide for:

- personal allowances for normal day-to-day living expenses based on the person's age and whether a person lives alone or as one of a couple;
- premiums based on whether the person has family responsibilities, and on needs arising out of old age, sickness or disability;
- payments for children, with rates based on their ages;

- certain housing costs not met by Housing Benefit such as mortgage interest.

The premiums specifically for sick and disabled people will be as follows.

Disability premium:

- | | |
|---|--------|
| This will be paid to a single claimant who is receiving a long term incapacity benefit or disablement benefit, or who is blind, or has been incapable of work for 28 weeks; | £13.05 |
| and to couples where one of them is receiving a long-term incapacity benefit or a disablement benefit, or is blind, or has been incapable of work for 28 weeks. | £18.60 |

Higher pensioner premium:

- | | |
|---|--------|
| This will be paid to single claimants over 80 years or those over 60 years who qualify for the disability premium; | £13.05 |
| and to couples where one or both is over 80 years, or over 60 years and they qualify for the disability premium. | £18.60 |

Severe disability premium:

- | | |
|--|--------|
| This will be paid to a single claimant living alone, who receives Attendance Allowance, and has no one who is receiving Invalid Care Allowance caring for him or her; | £24.75 |
| and to couples living alone where both of them receive Attendance Allowance, and Invalid Care Allowance is in payment to someone who cares for only one of them; | £24.75 |
| and to couples living alone where both of them receive Attendance Allowance, and Invalid Care Allowance is not paid to anyone who looks after them. | £49.50 |

Disabled child premium:

- | | |
|---|-------|
| ● This is paid for a child or young person who has Attendance Allowance or Mobility Allowance for them or who is blind. | £6.15 |
|---|-------|

What it costs

- An extra £60 million will go to 270,000 sick and disabled people who are under the age of 60 through the disability premium
- An additional £8 million will be spent on the severe disability premium. 7,000 people (2,600 of them under 60) will qualify.
- In 1988/89 up to £5 million will be paid through the Independent Living Trust to severely disabled people who need help to live an independent life.

Effect of change

- On average, sick and disabled claimants who are under 60 years will receive an extra £4.80 per week even allowing for inflation.
- Overall 85 per cent of sick and disabled claimants will gain or be unaffected by the change.
- The minority of people who would qualify for less in Income Support than they get in Supplementary Benefit will have their Income Support made up to what they receive now. This is called transitional protection.
- The very small number of disabled people who now receive high amounts of addition to their Supplementary Benefit to help them pay for assistance in the home, will have their Income Support made up to present level of benefit and then increased each year, to keep pace with rising prices.

Severely Disabled People

There is a very small number of severely disabled people who are capable of independent living but need considerable help to do so and who up to now could receive large sums in "domestic assistance addition" to Supplementary Benefit. If they are new claimants after April, those very large extra payments will not be available under Income Support. The government is providing £5 million to enable a Trust Fund to be set up, with the help of the Disablement Income Group to meet the special needs of this group of people.

The long-term position of severely disabled people, and the premium structure for other disabled people will be considered in the light of the report of Sir Roy Griffiths on care in the community and of the results of the Office of Population Censuses and Surveys (OPCS) survey of disability.

The Government's Record

- Overall spending on benefits for long-term sick and disabled people now amounts to £6³/₄ billion a year. This is an increase, allowing for inflation, of over 80 per cent (or £3 billion) since 1978-79. About £2,250 million is because of an increase in the numbers of people getting benefit; and about £750 million is because of increases in the average amounts of benefit paid.
- Supplementary Benefit scale rates have increased by more than inflation since 1978.
- The qualifying period for the higher long-term rate of Supplementary Benefit was cut from two years to one for those under pension age. This is worth an extra £8.25 a week for single householders and £12.50 for couples. Thirty-four thousand sick and disabled people have been getting this extra help a year earlier compared with the rules which operated under the last Government.
- For sick and disabled people on Supplementary Benefit, the increased scale rates and changes in the rules on the long-term rate added over £50 million to the value of state support. The real increase is worth, on average, £220 a year - over £5 a week.

- More sick and disabled people received additions to Supplementary Benefit for special needs. The proportion rose from less than two-fifths in 1978 to two-thirds now. Nearly 90,000 sick and disabled people benefited as a result, at a cost of about £16 million. The average value of these additions to sick and disabled people who get them has increased, after allowing for inflation, by nearly £1.50 a week; over £75 a year.

Although under Income Support these additions are abolished, they are replaced by the premiums for the sick and disabled, which will give more money to these groups in future. The extra money for these groups in Income Support comes on top of steady increases which occurred under Supplementary Benefit.

FAMILIES WITH CHILDREN

What will the Reforms do for families with Children?

From 11 April 1988 Family Income Supplement will be replaced by Family Credit. This is the benefit which is paid to people who work and who have children and whose pay is low. From April anyone who has dependent children and who works for at least 24 hours a week can claim. Families who do not work or who work for less than 24 hours a week may be entitled to Income Support which replaces Supplementary Benefit from 11 April.

Main Aims of the Reforms

Give more money to families who need it most

Family Credit which replaces Family Income Supplement will be more generous. It will give extra money to 470,000 working families instead of to only 200,000 who now get Family Income Supplement. Working families include single parents.

Families with children on Income Support will automatically qualify for a special addition to their weekly benefit called a family premium. This will be £6.15 per week. Single parents will get another premium of £3.70 per week on top of the family premium. Any family on Income Support that has disabled children will get an extra family premium for each child that is disabled. On top of the premiums, they will receive an amount for each child which varies according to age.

To provide better incentives to work

More people in low paid jobs will be able to qualify for Family Credit. Even people who did not get Family Income Supplement because their wages were too high may qualify for Family Credit. As examples, a married couple with two young children with take-home pay of £90 a week could get around £17 per week in Family Credit. A lone parent with one child and net earnings of £70 per week could get around £25 per week in Family Credit.

Couples on Income Support where one of them has been unemployed for 2 years or more will be able to earn £15 before their Income Support is reduced.

Single parents on Income Support will be able to earn £15 before Income Support is reduced, without having to wait 2 years.

To tackle the Poverty Trap and the Unemployment Trap

The **poverty trap** is where people are worse off when they earn more, because they lose more in tax, National Insurance and reduced need for benefit than they gain from the rise in their earnings. From April, Family Credit and Housing Benefit [help with rent and rates] will be worked out from take-home pay - which is the amount of earnings after tax and contributions have been taken off and not from gross pay. People will no longer be worse off when their earnings go up because their benefits go down so much.

The **unemployment trap** is where people are better off when they are out of work. From April most people will be better off working even if their earnings are low. This is because the rules for Housing Benefit have been changed so that

from April people with the same amount of income will qualify for the same amount of money from Housing Benefit, whether their income is made up from benefit or from earnings. Also because Family Credit will be more generous than Family Income Supplement.

Free School Meals and Free Milk

People on Income Support will carry on getting free school meals and free milk for small children. People on Family Credit will get weekly cash help instead through Family Credit. They will get the cash all year through not just during the school term and about 100,000 more children will benefit compared to those receiving free school meals until now (including those children who got them through local authority schemes).

Expectant Mothers

They will have more choice about when to stop work when they are expecting a baby. Statutory Maternity Pay will become a benefit mainly for women who have been in work fairly recently. Also:

- women who are widowed when they are pregnant will be able to qualify for Statutory Maternity Pay as well as widow's benefits
- maternity payments for mothers on Income Support and Family Credit families will be bigger (£85 from April) than maternity grant (£25).

Widows

Widows' Benefits will be changed to give more money to widows with children and to older women:

- a tax-free lump sum of £1,000 will be paid immediately to all widows whose husbands have paid enough contributions and who qualify for the weekly allowance which is paid now for 6 months.
- in addition, widowed mothers and widows aged 45 and over will get a weekly benefit from the date of their widowhood.
- widows without children who are now able to get a pension at the age of 40 and the highest rate of pension at age 50 and above will, in future, get the lower rate pension at 45 and the highest rate at 55 and above. This change is because women often are able to carry on working or return to a job later in life than they used to.

Costs and Numbers

After rent, mortgage interest and local authority rates have been paid, people with children getting Income Support and Family Credit will have extra weekly help which comes to £200 million annually. This is much more than the £120 million which would have been needed to increase Child Benefit by 30p. This would, in any case, mainly have helped better-off families and would not have helped Income Support and Family Credit families at all, because those benefits depend on a person's income and are adjusted to take account of Child Benefit being paid.

Gainers

Families with children are clear gainers from the reforms. 1,240,000 families with children will get more money and 320,000 will have no less money than under the old system.

In April, nine out of ten families getting income-related benefits will gain or have just as much money as before.

SOCIAL FUND

What is the Social Fund?

The Social Fund is a scheme to help people with exceptional expenses which are difficult to meet from regular incomes. Those who qualify are usually people receiving Income Support - the new benefit which replaces Supplementary Benefit in April 1988. Social Fund payments for maternity needs and funeral costs were introduced last April. The rules for these are set out in regulations. From April 1988, the Social Fund will also provide grants (which do not have to be paid back) or loans (which must be paid back) to help with other exceptional expenses, such as furniture. We will not set out in rules who can receive money and for what. DHSS officers will use their judgement so as to make payments to the people in most need. This system replaces the old "single payments".

Why abolish Single Payments?

The single payment scheme did not direct the taxpayer's money to those who needed it most. In particular:

- it was no longer a system of exceptional payments: in 1949 exceptional needs payments were made at the rate of one for every ten people on benefit; by 1979 this had become one for every three;
- since 1980 the cost was doubling every two years (even allowing for inflation). This was out of all proportion to the increase in the number of people on benefit (less than a two-thirds increase between 1979 and 1985);
- single payments were unfairly distributed - four-fifths of the money went to fewer than one in ten claimants in 1983;
- a scheme which in 1985 cost only one twentieth of Supplementary Benefit spending accounted for nearly **half** of all Supplementary Benefit decisions and **half** of all appeal hearings;
- it was unfair to people in work on low pay who had to budget for such things even though they had not much more money than people on benefit. They saw those on benefit sometimes receiving very large sums, paid for out of their taxes;
- the system was open to abuse - before the changes to the regulations in 1986 one local office serving 21,000 claimants received 4,000 claims for bedding within a few weeks and 2,500 claims for furniture within four days;
- the system was not flexible. The rules listed the things for which you could get a grant, and if you needed money for something not mentioned in the rules, you did not get anything.

What will the Social Fund do?

There will be six types of payments from the Social Fund.

Payments set out in regulations.

These payments are for things specified in rules. The local office of the DHSS decides whether you are entitled or not. You can appeal against the decision. There is no limit on what a local office can spend on these payments in a year.

- **Maternity payments.** A flat rate £80 (£85 from April 1988) for each baby expected, born or adopted, for people on Income Support or Family Credit (which replaces Family Income Supplement from April 1988). They replace the old maternity grant which was £25.
- **Funeral payments.** Payments for essential funeral expenses incurred by people receiving Income Support, Family Credit or Housing Benefit who are responsible for a funeral. They replace the old death grant which was £30.
- **Exceptionally Cold Weather Payments.** From the winter of 1988/89 these will replace the existing single payments scheme for Exceptionally Cold Weather. Entitlement to these grants will be set out in regulations, and they will not count against local office budgets. The details have yet to be announced.

Payments at the Discretion of Local Officers.

The amount that a local office can spend on these payments will be limited by a yearly budget.

- **Budgeting loans.** Interest free loans to help people who have been on Income Support for 6 months or more to spread the cost of unusual expenses which may be difficult to meet from weekly benefit. Money advice will be available to those with particular money difficulties.
- **Crisis loans.** Interest free loans to assist people whether or not on benefit who cannot meet their short-term needs in an emergency or a disaster. Payments will generally be for a specific item or for immediate living expenses for a short period not normally exceeding 14 days.

Both types of loan will normally be repaid by deductions from Income Support or other benefits. There will be standard and maximum amounts that can be deducted and the amount of any loan will depend on how much the person is able to repay.

- **Community care grants.** These do not have to be repaid. Vulnerable groups, such as the elderly, the disabled, the chronically sick, the mentally ill and mentally handicapped who are on Income Support and need help to move back into the community after a period in an institution or in a home or to remain in the community will be given highest priority. Grants may sometimes be made to ease exceptional pressures on families, for example to help a "battered wife" move out, and for certain travel expenses, for example to travel to a hospital or funeral.

How it works

Applications for payments will be decided on by specially trained Social Fund officers. In making decisions they must follow the law, and they will have guidance from the Secretary of State. The local office manager will have set out

what sort of needs he thinks are most important locally. But ultimately the officers must use their own judgement and discretion.

Review of decisions

In most other Social Security benefits, the rules say in what circumstances people are entitled. Local officers apply the rules. People who are turned down can appeal to a tribunal if they do not agree, and the tribunal decides if they were wrongly refused. But that sort of appeals system cannot work if the money is paid or not paid on the judgement of a Social Fund officer and based on whether the need was a priority compared to other needs. Reviews will therefore be handled in the first place by the local office, and applicants will be given the chance to put their case personally to the Social Fund officer. Applicants who are still not satisfied will then have the right to apply for a further review by an independent Social Fund inspector who will be based away from the local office. The inspector will be able to see all the papers and will be able to call for more information. He will have the power to back the Social Fund officer's decision, to send it back to the Social Fund officer to be decided again, or to change the decision. This second level of review will ensure that decisions are properly taken, and are reasonable in the circumstances of the case.

Budgets

The Social Fund will have a budget in 1988/89 of £203 million - £60 million for community care grants, £141 million for loans and £2 million to be held as a central reserve. This is similar to the level of single payment expenditure in 1987-88. (In the ten months from April 1987 to February 1988, spending was £168 million). Research carried out on our behalf by the Social Policy Research Unit at York University showed that the wide differences in the levels of past single payment spending between different offices could not be fully explained by differences in need. Social Fund budgets were therefore allocated to local offices according to a formula which took **some** account of our best available measure of need, that is, the number of people on benefit at each local office but **the main consideration is still** how much was paid out in the past in single payments.

That is why in 1988/89 there will be large differences in the amount of money allocated to local offices, measured in terms of money per head of people on benefit. In North Eastern region, on average, offices will receive £42 per head of caseload, while offices in London South region will receive on average £31. This compares with a figure for Scotland of £67, and within that there will be further variation with a number of Glasgow offices receiving over £100 per head of people on benefit.

Social Fund officers are expected to keep within their local office budget, and to manage that budget so as to meet the highest priority needs whenever they arise in the course of the year. Monthly profiles will help them plan spending. There are contingency arrangements at national level to meet unforeseeable needs, e.g. a local flood leading to extra need for crisis loans; but these will be for very exceptional circumstances.

Repaying loans

There are three main reasons for making **loans** from the Social Fund. First, because one of the main reasons for April's Social Security reforms is to give

people a sum of money to manage for themselves. This will be achieved through Income Support which will be simpler than Supplementary Benefit and will provide additional help for certain groups, especially families, through additions to their benefit called premiums. Second, because it is only fair that people on Income Support should budget for things just as other people have to, a fair number of whom are living on the same money as, or not much more than people on Income Support, and third, because the same amount of money can be used to help more people.

There will be limits to the size of the weekly repayments according to what the person can afford, and limits to the period over which the loan is repaid. These conditions are designed to ensure that the level of repayment is not too high and does not go on for too long. Re-scheduling of loan repayments will also be possible if a person's circumstances change and money advice will be on offer to those with serious money problems. The arrangements for repayment are flexible enough to allow for most loans to be awarded if the need is of high priority. We shall not be looking at creditworthiness in the commercial sense.

Further information

The Social Fund manual, which contains the Secretary of State's directions and guidance is available from HMSO as a printed publication. In addition we are issuing free leaflets and posters giving information which people thinking of applying to the Social Fund will be likely to find useful.

HOUSING BENEFIT

What is Housing Benefit?

Housing Benefit is help with rent and rates. It is unlike most benefits which give set amounts of money to everyone in a certain group (for example, people over 65 and families with children). There is no set amount of Housing Benefit. The amount you get depends on how much rent and rates you pay and how much income you have. The higher your rent and rates and the lower your income the more likely you are to qualify. Housing Benefit is paid out by local authorities, but mainly paid for by the taxpayer. It costs the taxpayer over £5,000 million.

Why make changes?

To provide a simpler system for people to understand and for local authorities to run.

Until now there have been two routes to getting Housing Benefit. You can qualify for Housing Benefit by being a householder on Supplementary Benefit, and this normally allows you 100% help with rent and rates. If you are on low income, but not on Supplementary Benefit, the local authority will carry out its own income test. Total income before tax is compared with a "needs allowance". If your income equals that "needs allowance" you normally get 60% help with rent and rates. If it is above, or below, complicated "tapers" operate either to increase or reduce the help you get. From April there will be just one income test for everyone and a simpler "taper" system.

To remove inequity and provide better incentives to work.

Until now, because the income tests were different, you could end up worse off (after paying for housing) in a low paid job than if you were on Supplementary Benefit. We are now providing that everyone with similar incomes, whether or not they are on Income Support, will get the same level of help. For people on Income Support, or with similar incomes, that will be 100% help with rent and 80% help with rates. A simpler (but steeper) taper system operates to reduce help as income rises. Furthermore, as the income test will be based on income after paying tax and National Insurance ("net" income not "gross" income), everyone will see a cash gain for every pound extra they earn.

To make people more aware of what local government costs.

Until now, 3 million people have paid no rates. We think that everyone should be aware of the cost of local services. So now the maximum amount of rate rebate will be 80% in all cases. But to protect the poorest we have included in Income Support rates a sum to cover the average amount of the remaining 20% that those on benefit will have to pay from April. The levels of Housing Benefit and Family Credit will also be higher. Councils whose rates are very high will in future be affecting every householder in the area; and people on benefit living in areas where the council keeps the rates low, will have more added to their benefit than they actually have to pay in rates.

To control the growth in spending and numbers on benefit.

Housing Benefit costs over £5 billion per year and is paid to 1 in 3 households. Every two households are supporting not only themselves but also subsidising the third. There has been a rapid rise in both the spending and in the numbers on benefit since 1979. So a key part of these reforms is to direct the benefit more accurately to those in need. The reforms will save £650m - much of which is made up for by increases in other benefits - and reduce the number of households on Housing Benefit from about 7 million to about 6 million. But we have still been able to give more help to many poorer claimants and many paying high rents. The new system also gives greater protection against future rises in rent and rates.

To encourage efficient administration by local authorities

We are changing the subsidy arrangements by which central government pays back local authorities for their benefit and administration costs. Councils will still get a fair level of support for costs reasonably incurred but we are giving them firm incentives to control costs and improve efficiency.

Other important changes

The "capital" rule

We are changing the way we treat savings ("capital") in Housing Benefit. Until now, when deciding how much Housing Benefit to pay, we have taken account of any interest or other income from capital, but we have ignored the capital itself, whereas in Supplementary Benefit a capital "cut-off" applied at £3,000 and no-one with more capital than that could get it. There will now be just one capital rule for Housing Benefit, Income Support and Family Credit. With savings above £6,000, people will not qualify for benefit at all. Between £3,000 and £6,000 we shall assume that for each extra £250, the person has an income of £1 per week so if a person has £3,500, we shall assume an income of £2 per week (i.e. in this example a 3% return). Capital under £3,000 will be ignored, as will all actual income from capital. This is more generous than at present both for those on Income Support and for those with small amounts of capital, but those with higher amounts, particularly those with more than £6,000, may lose entitlement to Housing Benefit.

It is an important principle of benefits designed for people in need that people should use their own money before turning to the taxpayer for help. The capital limit in Housing Benefit will avoid two absurd situations. Firstly it is difficult to explain to tax payers on low incomes, who may not have any savings, why they should subsidise others with more than £6,000 in the bank. Secondly, it avoids the present situation where people with many thousands of pounds in current accounts, not earning interest, can get benefit.

It is important, however, to emphasise that we do not expect people to use up all their savings before becoming entitled to benefit. The £6,000 "cut-off" is also the "switch-on". People are no longer excluded because of their capital once their savings dip below £6,000 providing that the money is spent reasonably.

Furthermore, these rules apply only to cash or investments that can fairly readily be turned into cash. No account is taken of the value of a person's own home or

personal possessions like paintings or furniture. We also ignore the surrender value of life insurance policies and allow a 10% selling costs allowance when calculating the value of investments. Any scheme designed to help those with low incomes has to strike a balance between meeting the needs of those with little money and recognising the efforts of those who have saved for the future. The government has no wish to discourage thrift, and we believe that overall these rules strike a better balance than the current system.

Facts and figures

Costs and Numbers

The current cost of Housing Benefit is £5,200 million (1987-88). The reforms save £650 million (including £80 million from the capital rule and over £400 million from the minimum 20% rates contribution). But **extra** spending on other income-related benefits comes to £640 million, including compensation in the Income Support levels for the average of 20% of rates.

The current numbers of households on Housing Benefit is £7 million (including 4 million pensioners). That is 1 in 3 households. The reforms will reduce it to about 6 million.

Gainers/Losers

The vast majority of people on income-related benefits will either gain or get the same amount of cash as before as a result of the reforms as a whole. Nearly 90% are in that position. Taking Housing Benefit alone it is true that those who will receive less after the reforms outnumber those who will receive more. But of those who will receive less, many gain from the other changes in Family Credit or Income Support. Many who will receive less in Housing Benefit lose small amounts: e.g. seven out of ten lose less than £2 per week.

Some of the 1 million people who lose Housing Benefit entirely get only small amounts now. There are large losses (over £5 per week) for about 1/2 million but this includes people with capital over £6,000 and working families who gain from Family Credit.

PENSION REFORMS

Objectives

- To encourage the spread of occupational and personal pensions building on the government's policies of promoting wider ownership by the public; to give people more choice as to how to provide for their retirement; to enable more people to live comfortably and independently after they have ceased to work.

The background to change

The earnings-related part of the state pension scheme (SERPS), began in 1978. SERPS, paid with basic retirement pensions, cost about £290 million in 1987/88. In its present form it would cost about £4 billion a year by the turn of the century and £25 billion by 2033, costs which would have to be borne by a smaller proportion of national insurance contributors. That is why we decided to make some changes to SERPS, which will take effect from the turn of the century.

Employees can "contract out" of SERPS in favour of an occupational pension scheme. If they do so, they receive a rebate from the DHSS so that in effect they pay a lower rate of national insurance contributions, and the occupational pension scheme takes on the responsibility for guaranteeing them an earnings-related pension in retirement. Lower inflation and the steady development of occupational pensions have contributed to considerable increases in pensioners' incomes. Our aim is to offer more people the chance to contract out of SERPS if they wish to.

The Social Security Act 1986

- Gives everyone the choice between either staying fully in SERPS or an employer's scheme; taking a contracted-out Personal Pension (PP) which will attract a contribution from DHSS equivalent to the National Insurance contracted-out rebate. The Occupational Pensions Board (OPB) will be responsible for deciding which schemes can contract-out;
- Provides people with a wide range of PPs to choose from: banks, building societies, unit trust and friendly societies will join insurers in offering pensions. PPs with any of these providers will be safeguarded by a comprehensive framework of investor protection;
- Enables employers to set up contracted-out occupational pension schemes on a money purchase basis (known as COMP schemes) by making minimum payments to the scheme instead of having to make the open-ended promise of a salary-related pension. The minimum payment will be the equivalent of the contracted-out rebate, enabling employers to set up schemes at no net cost to themselves;
- Obliges the government to make a special incentive payment of an extra 2 per cent of relevant earnings until 1993 to new employers contracting-out schemes, and to people who leave SERPS to take a PP;

- Gives everyone with a PP or in an employer's scheme to right to boost their pension by making extra contributions with full tax relief up to Inland Revenue limits;
- Ensures that widowers of women who take a personal or occupational pension which is contracted-out of SERPS, will get a pension.

Time for Main Changes

6 April 1988: Reforms affecting occupational schemes, chiefly:

- the right for any employee to opt out of the employer's scheme;
- the introduction of money purchase contracting-out for employers' schemes.

1 July 1988: the introduction of contracted-out Personal Pensions.

Key Points

- The basic state retirement pension is not affected by the reform changes.
- On average, state pension accounts for only half of pensioners' net incomes. Pensioners' average total net incomes grew twice as fast as for the population as a whole between 1979 and 1985.
- The reforms will mean a major increase in the number of people with a pension of their own.
- For the first time, everyone will have the right to a personal pension which can be used in place of SERPS.
- To increase occupational pension coverage the Government has made it easier for employers to set up occupational pension schemes.
- Employees will have the right to leave or not to join their employer's scheme, and to transfer the rights that they have built up between occupational and personal pensions.
- New types of scheme will be attractive to small employers and will open the way to industry-wide schemes.

*Thank you
for
improvement*

*Ch/ A'had version, as sent
to Mr Moore*

THE SOCIAL SECURITY REFORMS

*mpw
30/3*

On 11 April, the new system of Social Security will come into operation.

- * Income Support will replace Supplementary Benefit. The Social Fund will replace single payments.
- * Family Credit will replace Family Income Supplement.
- * Housing Benefit rules are changed.

Why did the old system need reforming?

- * Complexity. The old system was too complex. Frequently, neither claimants nor staff could understand it.
- * Work Incentive. For many people on unemployment benefit, it was not worth looking for a job.
- * Unfairness. The system was unfair to people on low incomes in work, compared with those out of work.
- * Abuse. There was widespread abuse of the single payments system. Help with single payments was not fairly distributed.

In what ways is the new system better?

- * Better Targetted. Directs the most help to those most in need, particularly low income families with children and the disabled.
- * Simplicity and Fairness. The new system will be easier to understand and operate. It will be fair between people in need in and out of work.
- * Unemployment and Poverty Traps. We have dealt with the worst aspects of the traps. In future no-one will lose more in tax and reduced benefits than they gain in higher earnings.
- * Personal Pensions. It offers a new freedom to choose a personal pension, with a generous contracted out allowance.

The Social Fund

The Social Fund will make Community Care grants and will also replace the existing system of single payments. Under the new system:-

- * There will still be some grants - for community care on a discretionary basis.
- * There will also be grants for funeral and maternity expenses, not subject to cash limits.
- * Crisis loans and loans for items like cookers will be interest free.
- * Loans from the Social Fund will be available within a budgetary limit. This limit will be about the same as the total sum of money spent on single payments last year.
- * There will be more flexibility to meet special needs under the discretionary Social Fund system than under the old regulatory system.

Housing Benefit

Under the new rules for Housing Benefit:-

- * There will be no benefit for people with free capital of more than £6,000.
- * The £6,000 free capital limit will in future also apply to Income Support applicants - twice the £3,000 limit at present applicable to Supplementary Benefit.
- * People in work and out of work will be treated on the same basis.
- * There will be a reduction in the number of households eligible for Housing Benefit from 7 million to 6 million - still about 1 household in 3, and higher than in 1979.
- * Under the new rules for Housing Benefit expenditure will be nearly £5 billion compared with less than £1½ billion in 1979.

The Government's Social Security Record

- * One pound in every three of Government spending goes on social security, more than twice as much as that spent on any other programme. The taxpayer has to find nearly £1,000 million a week, equivalent to about £50 a week per household.
- * Social security spending is up by more than a third since this Government came in, over and above inflation. In 1988-89 alone, spending on social security will increase by £2,000 million compared with 1987-88.
- * Expenditure on the disabled is up 80 per cent in real terms since 1979.
- * Pensioners average income is up 20 per cent in real terms since 1979. There are 900,000 more pensioners than in 1979 and their State pensions have been more than protected against inflation.

Transitional Protection

- * No-one on Income Support will receive less cash than they received in Supplementary Benefit. Most will receive more. Those who do not have higher entitlements will have full cash protection. This special protection will cost an extra £200 million in 1988-89.

Conclusion

Major reforms are never easy or painless, but the difficulties cannot be allowed to preserve an unsatisfactory system for ever. Government has had the courage to tackle the real and fundamental problems with the old structure and to produce a benefits system which is simpler, better targetted on priority groups and one which enhances rather than obstructs individual responsibility and choice. This is the right approach.

APPENDIX I

Gainers from the Reform1. Families with Children

(i) 450,000 working families with children are expected to get **Family Credit** (200,000 now get **Family Income Supplement**). Extra £220 million being spent.

(ii) Two out of three families on **Family Credit** will be better off than now, or unaffected, even after inflation.

(iii) Families with net incomes (including benefits) under £75 a week virtually all gain.

ExamplesIncrease in net weekly spending power

(a) Married couple, one earner, 2 children (13 and 16) £13,000 mortgage. Average rates. Gross earnings £150.

£12.75

(b) Same couple, but paying average Local Authority rent, with gross earnings of £100.

£ 6.20

2. Disabled People

(i) Extra £70 million being spent, compared with old system, on sick and disabled (under 60) on income support.

(ii) Sick and disabled under 60 will gain on average £4.80 a week.

(iii) Severely disabled living on their own will get **Severe Disability Premium** - £24.75 a week - instead of domestic assistance now averaging £6.35.

(iv) Very severely disabled - special £5 million fund set up with **Disablement Income Group** to help those who would otherwise lose large amounts from reforms.

ExamplesIncrease in net weekly spending power

(a) Single woman aged 26. Gets severe disability allowance and heating addition. Non-householder.

£13.27

(b) Single man disabled over 1 year, living alone in rented accommodation. Gets attendance allowance and additions for heating and diet.

£21.40



[Handwritten initials]

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 March 1988

Rod Clark, Esq
PS/Secretary of State for
Social Services
Richmond House
79 Whitehall
London SW1

*Shill no sign
that intermal cc
have been done
E confirm*

Dear Rod,

As I mentioned to you, sometime ago the Chancellor commissioned briefing on the social security reforms for Treasury Ministers' use. Officials have now produced the enclosed brief, and have reworked it to include some of the extra material circulated with your letter of 29 March. The Chancellor thinks the final product reads rather well, and feels that it would be well worth circulating to all Ministers. However, he feels this would come more appropriately from your office than from here. If your Secretary of State agrees, there would clearly be advantage in sending this round as soon as possible tomorrow.

Yours,

Moir

MOIRA WALLACE
Private Secretary

THE SOCIAL SECURITY REFORMS

On 11 April, the new system of Social Security will come into operation.

- * Income Support will replace Supplementary Benefit. The Social Fund will replace single payments.
- * Family Credit will replace Family Income Supplement.
- * Housing Benefit rules are changed.

Why did the old system need reforming?

- * Complexity. The old system was too complex. Frequently, neither claimants nor staff could understand it.
- * Work Incentive. For many people on unemployment benefit, it was not worth looking for a job.
- * Unfairness. The system was unfair to people on low incomes in work, compared with those out of work.
- * Abuse. There was widespread abuse of the single payments system. Help with single payments was not fairly distributed.

In what ways is the new system better?

- * Better Targetted. Directs the most help to those most in need, particularly low income families with children and the disabled.
- * Simplicity and Fairness. The new system will be easier to understand and operate. It will be fair between people in need in and out of work.
- * Unemployment and Poverty Traps. We have dealt with the worst aspects of the traps. In future no-one will lose more in tax and reduced benefits than they gain in higher earnings.
- * Personal Pensions. It offers a new freedom to choose a personal pension, with a generous contracted out allowance.

The Social Fund

The Social Fund will make Community Care grants and will also replace the existing system of single payments. Under the new system:-

- * There will still be some grants - for community care on a discretionary basis.
- * There will also be grants for funeral and maternity expenses, not subject to cash limits.
- * Crisis loans and loans for items like cookers will be interest free.
- * Loans from the Social Fund will be available within a budgetary limit. This limit will be about the same as the total sum of money spent on single payments last year.
- * There will be more flexibility to meet special needs under the discretionary Social Fund system than under the old regulatory system.

Housing Benefit

Under the new rules for Housing Benefit:-

- * There will be no benefit for people with free capital of more than £6,000.
- * The £6,000 free capital limit will in future also apply to Income Support applicants - twice the £3,000 limit at present applicable to Supplementary Benefit.
- * People in work and out of work will be treated on the same basis.
- * There will be a reduction in the number of households eligible for Housing Benefit from 7 million to 6 million - still about 1 household in 3, and higher than in 1979.
- * Under the new rules for Housing Benefit expenditure will be nearly £5 billion compared with less than £1½ billion in 1979.

The Government's Social Security Record

- * One pound in every three of Government spending goes on social security, more than twice as much as that spent on any other programme. The taxpayer has to find nearly £1,000 million a week, equivalent to about £50 a week per household.
- * Social security spending is up by more than a third since this Government came in, over and above inflation. In 1988-89 alone, spending on social security will increase by £2,000 million compared with 1987-88.
- * Expenditure on the disabled is up 80 per cent in real terms since 1979.
- * Pensioners average income is up 20 per cent in real terms since 1979. There are 900,000 more pensioners than in 1979 and their State pensions have been more than protected against inflation.

Transitional Protection

- * No-one on Income Support will receive less cash than they received in Supplementary Benefit. Most will receive more. Those who do not have higher entitlements will have full cash protection. This special protection will cost an extra £200 million in 1988-89.

Conclusion

Major reforms are never easy or painless, but the difficulties cannot be allowed to preserve an unsatisfactory system for ever. Government has had the courage to tackle the real and fundamental problems with the old structure and to produce a benefits system which is simpler, better targetted on priority groups and one which enhances rather than obstructs individual responsibility and choice. This is the right approach.

APPENDIX I

Gainers from the Reform1. Families with Children

- (i) 450,000 working families with children are expected to get Family Credit (200,000 now get Family Income Supplement). Extra £220 million being spent.
- (ii) Two out of three families on Family Credit will be better off than now, or unaffected, even after inflation.
- (iii) Families with net incomes (including benefits) under £75 a week virtually all gain.

<u>Examples</u>	<u>Increase in net weekly spending power</u>
(a) Married couple, one earner, 2 children (13 and 16) £13,000 mortgage. Average rates. Gross earnings £150.	£12.75
(b) Same couple, but paying average Local Authority rent, with gross earnings of £100.	£ 6.20

2. Disabled People

- (i) Extra £70 million being spent, compared with old system, on sick and disabled (under 60) on income support.
- (ii) Sick and disabled under 60 will gain on average £4.80 a week.
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(a) Single woman aged 26. Gets severe disability allowance and heating addition. Non-householder.	£13.27
(b) Single man disabled over 1 year, living alone in rented accommodation. Gets attendance allowance and additions for heating and diet.	£21.40



mpw

CH/EXCHEQUER	
REC.	31 MAR 1988 ✓ 31/3
ATTN	CST FST PMG EST
COPIES TO	MR MONTYRE
	MR CROPPER
	MR TYRRE
	MR CALL

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

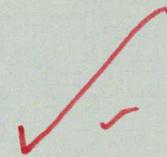
Telephone 01-210 3000

From the Secretary of State for Social Services

Moira Wallace
Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

*Ch/ If I were DHSS I would not
reveal that I had benefited
from HMT help! They have
disimproved our brief a bit. I'm
afraid - see esp. the 31 March 1988
new opening bull-point on the social
fund!*

mpw 31/3



Dear Moira

BRIEFING ON THE SOCIAL SECURITY REFORMS

Thank you for your letter of 30 March. My Secretary of State thought that it might indeed be useful to Government colleagues to have the attached note on the Social Security Reforms. This combines Treasury briefing which you kindly provided with material I circulated on 29 March.

I am copying this to the private secretaries of the Prime Minister and all Ministers in charge of departments. I would be grateful if they could in turn circulate the additional copies to other private offices in their respective departments.

Yours sincerely

Rod Clark

ROD CLARK
Private Secretary

THE SOCIAL SECURITY REFORMS

In April, the new system of Social Security will come into operation.

- * Income Support will replace Supplementary Benefit. The Social Fund will replace single payments.
- * Family Credit will replace Family Income Supplement.
- * Housing Benefit rules are changed.
- * All three income-related benefits will be more closely aligned.

Why did the old system need reforming?

- * Complexity. The old system was too complex. It was difficult for claimants and staff to understand.
- * Work Incentive. The rules penalised greater effort, especially by families in low paid jobs.
- * Unfairness. The system was unfair to people on low incomes in work, compared with those out of work. Even for those on benefit, help with single payments was not fairly distributed.

In what ways is the new system better?

- * Better Targetted. Directs more help to those most in need, particularly low income families with children and the disabled.
- * Simplicity and Fairness. The new system will be easier to understand and operate. It will be fair between people in need in and out of work.
- * Unemployment and Poverty Traps. We have tackled the worst aspects of the traps. In future higher earnings will no longer leave people worse off after benefit adjustments.
- * Personal Pensions. It offers a new freedom to choose a personal pension, with a generous contracted out allowance.

The Social Fund

The Social Fund will make grants for community and and loans to help with budgetting and to meet crises. It replaces the existing system of single payments. Under the new system:-

- * The grants and loans will be made at the discretion of the social fund officers.
- * Grants will be specifically to support community care.

- * Crisis loans and loans for items like cookers will be interest free.
- * Loans and Community Care Grants from the Social Fund will be available within a budgetary limit. This limit will be about the same as the total sum of money spent on single payments last year, (87/88).
- * Decisions will be able to be reviewed by independent Social Fund Inspectors.
- * There will be more flexibility to meet special needs under the discretionary Social Fund system than under the old regulatory system.
- * Existing social fund grants for funeral and maternity expenses will continue to be paid under regulations and not subject to cash limits.

Housing Benefit

Under the new rules for Housing Benefit:-

- * People in work and out of work will normally be treated on the same basis.
- * There will be no benefit for people with capital of more than £6,000.
- * The £6,000 capital limit will in future also apply to Income Support applicants - twice the £3,000 limit at present applicable to Supplementary Benefit.
- * There will be a reduction in the number of households eligible for Housing Benefit from 7 million to 6 million - still nearly 1 household in 3, and higher than in 1979.
- * Under the new rules for Housing Benefit expenditure will still be nearly £5 billion compared with less than £1¹/₂ billion in 1979.

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- * Social security spending is up by more than a third since this Government came in, over and above inflation. In 1988-89 alone, spending on social security will increase by £2,000 million compared with 1987-88.
- * Expenditure on the disabled is up 80 per cent in real terms since 1979.
- * Pensioners average income is up 20 per cent in real terms since 1979. There are 900,000 more pensioners than in 1979 and their State pensions have been more than protected against inflation.

Transitional Protection

- * Most on Income Support will receive more than they received in **Supplementary Benefit** before April. Virtually all those who do not have higher entitlements will have full cash protection. This special protection will cost an extra £200 million in 1988-89.

Conclusion

Major reforms are never easy or painless, but the difficulties cannot be allowed to preserve an unsatisfactory system forever. The Government has had the courage to tackle the real and fundamental problems with the old structure and to produce a benefits system which is simpler, better targetted on priority groups and one which enhances rather than obstructs individual responsibility and choice. This is the right approach.

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i. 450,000 working families with children are expected to get Family Credit (200,000 now get Family Income Supplement). Over £200 million extra being spent.

ii. Two out of three families on Family Credit will be better off than now, or unaffected, even after inflation.

iii. Families with net incomes (including benefits) under £75 a week virtually all gain.

iv. Extra £100m extra spent on non-working families on Income Support.

<u>Examples</u>	<u>Increase in net weekly spending power</u>
a. Married couple, one earner, 2 children (13 and 16) £13,000 mortgage. Average LA rates. Gross earnings £150.	£12.75
b. Same couple, but paying average Local Authority rent and rates, with gross earnings of £110.	£ 6.20

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iv. Very severely disabled - special £5 million fund set up with Disablement Income Group to help them live independently in the community.

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a. Single woman aged 26. Gets severe disability allowance and heating addition. Non-householder.	£13.27
b. Single man disabled over 1 year, living alone in rented accommodation. Gets attendance allowance and additions for heating and diet.	£21.37

CONFIDENTIAL

BT
 FROM: MISS M E PEIRSON
 DATE: 8 April 1988

CHIEF SECRETARY

cc Chancellor
 Paymaster General
 Mr Anson
 Mr Phillips
 Mr C Kelly
 Mr Turnbull
 Mr Gieve
 Mr Saunders
 Mr A M White
 Mr Griffiths
 Mr Call

Ch/ This seems extremely odd, esp paras 7 and 8, where it is assumed that we give money before the review concludes, but not after.

CST has not yet opined - but you may like to have this

ADDITIONAL PROVISION FOR THE NHS IN 1988/89

1. Mr Moore will be writing to you very shortly to recommend that, when the decisions on the Nurses' and Doctors' Pay Review Body awards are announced, an extra £200 million should be provided for the Hospital and Community Health Service in 1988/89 over and above funding of the pay awards. This bid for additional resources has been a gleam in DHSS's eyes for some time and was foreshadowed in Mr Kemp's note to you of 18 February. If corresponding increases were conceded to the territories, the total would be over £240 million.

2. The bid of £200 million is based on the results of a survey (by Mr I Mills of the NHS Management Board) of health authorities' plans for this financial year. Without the additional money DHSS believe that there will be:-

- i) service cuts (of around £55 million);
- ii) an increase in the overall shortfall between revenue and expenditure (of around £65 million, ignoring surpluses of nearly £20 million in some authorities "which will probably be spent on maintenance") which will be funded by further delaying payments to creditors from an average of 45 days to an average of 52 days, "close to responsible limits";
- iii) cuts in maintenance budgets (of around £60 million); and
- iv) other temporary expedients such as freezing posts (of around £20 million).

3. Not all the health authorities have yet responded, so the figures could change a little before Mr Moore writes. Also, part of these figures (around £25m in total) represents a grossing-up by Mr Mills of the actual returns for possible further contingencies: in particular, the actual return on service cuts is only £40 million.

4. We do not consider that anything approaching £200 million is required. Any additional funding should be no more than is necessary to avoid the planned service reductions identified - around £40-55 million. Moreover, it is questionable whether even that is required, since there are already resources within the existing provision which could be used as a cushion: the survey of authorities shows that the RAWP-gaining regions are planning around £45 million of discretionary service developments, as well as generating surpluses.

5. One issue is therefore how far to press the idea of redistributing these resources to prevent the service cuts foreseen in the RAWP-losing regions - ie to slow down the RAWP process. Such a redistribution (which could be effected via the distribution of the nurses' and doctors' pay money) could substantially solve the problem. DHSS argue that it would cause an outcry to redistribute any of the money already allocated; but it is hardly too late (it would only be about one month into the financial year) for a change of only around ½% (£55 m) of the total. But such an approach could lose the Government the credit for fully funding the pay award.

6. One point to bear in mind is that the uncertainty over the costing of the nurses' regrading, referred to in Mr Griffiths' submission of 24 March, applies even more to the distribution of the pay award money among the health authorities. Individual HAS are very likely to get either more or less than they need in 1988/89 to regrade their nurses. If they get more, and are among the RAWP - losers, that could solve the problem of service cuts. Even if they get less, though, it will be open to them to go slow on the regrading, to reduce the cost in 1988/89, which could again solve the problem not only of pay but also of service cuts.

7. Besides the amount - if any - of additional funding, you will also wish to consider the timing of the provision. DHSS argue

that it is best to announce all the additional funding for health authorities at the end of April, making it clear that there would be no further drip-feeds during the year. If that could be made credible, and held to, there would certainly be some merit in it.

We believe that there will be no further requirement for pay money during the year: the bill for the Non-Review-Body awards (ancillaries etc) is not likely to exceed the $\frac{1}{2}$ CIPs provision of £75 million (it has been significantly less in earlier years but is likely to be close to it this year) and DHSS seem to accept that that is where the money should come from.

8. However, providing more money for non-pay pressures so early in the financial year would seem to contradict all the Government's recent statements about the massive increase in provision for the NHS in 1988/89. If, as DHSS imply, the Government were to suggest that it had re-examined the income and expenditure accounts of the NHS and concluded that more money was needed, that would have disadvantages:-

a) it would concede to the Government's critics that they were right all along;

b) the money given would look small in relation to the likely level of funding for the Review Body pay awards (let alone to total NHS funding).

9. That presentational problem could be overcome to some extent, though, by announcing instead that the money (£50 m, or whatever) was an increase in one of the special initiatives (such as AIDS) or, explicitly, for RAWP relief. The increase would then seem reasonably impressive; and if some further general increase became irresistible later in the year, the Government would not be in the position of making two adjustments of the same kind.

Conclusion

10. No decisions are required until we have received the letter from Mr Moore but you may wish to discuss the issues with us and with the Chancellor.



MISS M E PEIRSON

not even after Review concludes?

indeed, and to pre-empt results of Review too?



R/4
BF
19/4

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
Whitehall
LONDON
SW1P 3AG

SECRETARY	
REC	12 APR 1988
10	Mr Sanders
	Cx, Mr Huson,
	Mr Phillips
	Mr Turnbull
	Miss Penson, McCall

// April 1988

Don John

I am writing to follow up the discussions which our officials have been having about the prospective financial situation and associated implications for services facing health authorities in 1988-89. It would be helpful if Tony Newton and I could have an early discussion of this with you before all our attentions are distracted by the arrival of the Review Body reports.

As you know Management Board members have now virtually completed a most rigorous appraisal of health authorities' plans for 1988-89. The results of that appraisal have been shared very fully with your own officials as well as with Ministers here. I hope therefore we can proceed with a reasonable degree of shared confidence as to the facts. I would stress particularly that in our judgement the appraisal we have received has minimised the dangers of being misled by shroud-waving on the one hand or of complacency on the other.

The question arises what should we, as a Government, do now that we have this appraisal. We have been experiencing a momentary lull in pressure as public opinion appears to have come to terms with the fact that we are not going to make any additional funds available in advance of an announcement on Review Body funding. But that pressure has only been relieved for a few weeks until we announce our decision on additional resources which is bound then to be closely scrutinised. Indeed most observers and many of our Parliamentary colleagues now openly take the view that full funding of Review Body awards is the minimum. But doing no more than that is not in my view going to be politically defensible, given the prospect of service reductions and further substantial deteriorations in creditor balances and the maintenance of hospitals, as will happen when authorities turn what are presently for the most part provisional plans into definite decisions. We should lose immediately whatever political credit we receive by our decision on Review Body funding.

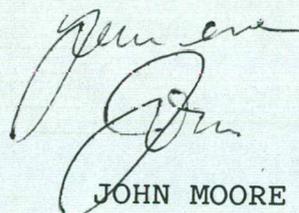
My view is that the right course is to accept that an additional sum needs to be made available in 1988-89 and future years to enable all health authorities to balance their income and expenditure without recourse to any of the expedients which are presently being planned. I am aware that your officials have raised the possibility of redistribution of resources between authorities, at the expense of those which still have sufficient for some service development. I agree that any additional resources would have to be targetted where they were needed, but any decisions which could be represented as taking resources away from a Region or District would create wholly disproportionate political problems from those whose expectations were being disappointed or whose financial prudence could be seen to be working against their own interests.

We also have to reach a judgement about the level of additional resources that would be seen as an appropriate response to the widespread concern on this issue. We have succeeded to a substantial extent in discrediting the wilder notions as to the level of extra spending that may be needed, but in my view a sum of £200 million is required. Once we commit ourselves to a figure we shall need to be able to defend it convincingly for the rest of the year; we are all persuaded of the undesirability of continual drip-feeding. We shall be on stronger ground to defend a figure if we are able to say that it has been determined in the light of a thorough appraisal of authorities' plans.

I have considered carefully how this fits in with our work on the NHS review. If it were achievable it would be helpful for any extra funds to be deployed in the context of review changes; there will be a time when we have to look at the overall financial position as part of our review proposals. But we have not reached that stage yet, and I am clear that we cannot defer the immediate funding issues until we have done so. This is another reason why, in presenting any decision to make available more funds, it would be best to explain that it arises from the further detailed appraisal that the NHSMB have now made of the current financial position.

We must also have in mind the link with the Nurses Review Body recommendations. There is obvious advantage in a single announcement of additional resources for the health authorities of which Review Body funding would be the major part. The link goes, however, beyond this. The Review Body's report, particularly as regards geographical pay and the costing of the new clinical grading structure is of considerable importance to our ability to recruit and retain staff in the coming year as well as in the longer term. It is essential to tackle both elements in a single package.

At this stage I am not copying this letter to anyone. But at some point before we engage colleagues generally we shall have to cover the interests of the other Health Departments.



JOHN MOORE

John pay...

FROM: MARK CALL
DATE: 12 APRIL 1988

CHANCELLOR

I agree. What did I say (see X)? See attached

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Tyrie

with Mary! with Peter!

SOCIAL SECURITY REFORMS: CAPITAL RULE

Michael Portillo called me yesterday regarding the £6,000 capital limit for entitlement to benefit. In the light of the coverage in the Independent on Tory Backbench feeling on this issue, he stressed the need for a united front on the level of the limit. In his view it was an important element of the Social Security reforms that capital and income were treated identically for all benefits, and so the same £6,000 limit should apply to all benefits. It would lead to loss of face for the Government if Housing Benefit had to be treated differently. He was thus concerned that Treasury Ministers had given the impression that there might be some flexibility on the figure. In particular he said that Tristan Garel-Jones had told him that the Treasury was sympathetic to increasing the limit. Further, he was concerned that your evidence to the Select Committee had given the impression of flexibility.

X

2. In conclusion, he believed in this difficult presentational period, it was essential that no hint be given, or allowed to be read into Ministers' remarks, that the figure might be revised.

3. I said that I was not aware that Treasury Ministers had given any impression that this might be reviewed, and referred to the Chief Secretary's robust defence of the Social Security reforms in Edinburgh, and your forthcoming speech in Exeter.

Mark Call

81 MARK CALL

Mr Roger Douglas, the Labour Finance Minister in New Zealand, is planning to bring the top rate in New Zealand this October down to 33 per cent.

334. As matters now stand, apart from Switzerland the rest of Europe has higher rates?

(Mr Lawson) Yes, I am very pleased that we ^{now} have the best income tax structure in the whole of Europe.

335. Presumably the rich are pleased as well. Because of the time I have only a couple more questions. What would you say, Chancellor, to those who say that the rich have gained (and I have given you illustrations) yet from next month a pensioner, no matter on whatever limited income that person may be) will get no housing benefit whatsoever if that pensioner has lifetime savings of over £6,000?

(Mr Lawson) I do not think this has got much to do with the Budget, but I think it is perfectly fair that somebody who has £6,000 or more of free capital - free capital ----

336. Including redundancy payments.

(Mr Lawson) ---- should not be in receipt of housing benefit. What we have set out to do with the social security reforms which are coming into force very shortly, is to target ^{(not merely} ~~to simplify, although we have very considerably simplified the benefit system which was a terrible mess for the people who sought to claim benefits - it was terribly complicated)~~ the help more closely on where the need is greatest. That is the principle behind the changes. It is difficult to see that those who have free capital of £6,000 and above are the neediest people in our society.

337. Does that go with the wish of successive Governments - including your own - that people should save?

(Mr Lawson) There is certainly a conflict there, but

that is inevitable. I think we have drawn ^{the} a line in the right place, but it is something which will have to be reviewed annually in the Public Expenditure Round along with all the other elements in public expenditure.

338. Because of time I have said my questions will be few. Finally, are you at all disappointed that in every opinion poll since your budget there has been a decisive rejection of the tax changes, particularly the reduction to 40 percent? Does that in any way disappoint you?

(Mr Lawson) The opinion polls show a lot of things. They show, for example, that more than 60 per cent approve of the reduction in the basic rate. / I am not sure whether that means that you will support the reduction in the basic rate, Mr Winnick, or not - we will see. / As I explained, my Budget was designed to benefit the British economy and the British people over the medium-term. It was not designed for the purpose of securing a response in the opinion polls in the Sunday following the budget.

339. Or, indeed, any other Sunday. Thank you very much.

~~(Mr Lawson) Or, indeed, any other Sunday.~~

Miss Quinn

340. Perhaps I could just take up one point which you made in answer to Mr Winnick, concerning New Zealand and, I think, Australia. Is it not the case that although top rates were certainly brought down in those countries they went much further in abolishing tax breaks and, also, increasing benefits considerably for the poor, including, of course, they do have a system of a minimum wage as well?

(Mr Lawson) I do not think that they went further than we did in getting rid of tax breaks. They do have a different social security system but I would not say that they went any further than

FROM: H PHILLIPS

DATE: 18 April 1988

CHANCELLOR

-2nd

Chy content to write as suggested?

OK

19/4

cc Chief Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Miss Peirson
Mr Parsonage
Mr Griffiths
Mr Call

MR MOORE'S HEALTH INDEX

Miss Wallace's note of 29 March to Mr Saunders reporting your reaction to Mr Newton's speech to the Adam Smith Institute, asked for a draft letter which you could consider sending to Mr Moore setting out our objections to the idea of a health index and of linking it with work on the NHS Review. An earlier minute to the Chief Secretary's office had asked what Treasury officials were doing about the Health Index.

2. A draft letter to Mr Moore is attached.

3. I should record that, in the light of your views, I discussed the Health Index with Mr Partridge, the Permanent Secretary on the Health side of the DHSS. I told him we had three concerns: the way in which the idea was being publicised by DHSS Ministers, and linked with the Review; the fact that we did not know what the Health Index was, nor was it explained in those speeches; and that if it turned out to be no more than a set of volume measurements we would be bound to oppose it as simply a device for driving up demands for more public expenditure. The position at the end of a fairly wide ranging conversation was that

(a) very little work had been done in the DHSS to work out what was really meant by the Health Index;

(b) DHSS Ministers had wanted to throw the idea into public discussion to try to divert attention from debate on current inputs to healthcare;

(c) DHSS officials felt the need for a mix of indicators which would underpin longer term policy discussion on health; and

(d) they were going to set up a small inter-disciplinary group in the DHSS to try to sort out what a Health Index might be.

4. In the light of this I said that we would be grateful if DHSS Ministers could go in for a period of silence on the subject and if the Treasury could be involved in their departmental work. I said that I expected that you might wish to write to Mr Moore after your return from Washington.

HP.

HAYDEN PHILLIPS

DRAFT LETTER FROM THE CHANCELLOR TO:-

The Rt Hon John Moore MP
Secretary of State for Social Services

*pl type
final for
Ch to
send.*

HEALTH INDEX

As you know, I have been concerned about the references in recent speeches by you and Tony Newton to the development of a "health index" and, in particular, the implication that this is connected with the current Health Review.

Better quantitative information on output and performance can of course help cost-effective management of the resources devoted to health care. However, there is an obvious danger that a health index could just generate demands for more public expenditure in this field, particularly if it was used to set unrealistic targets. In your speech to the BMA Council, for example, you referred to the index's having a value in helping to set long-term policy goals for health care. I know that you acknowledged that the factors making up the index would have to be affordable. But these goals might be prohibitively expensive to achieve or large sums of money wasted in pursuit of unattainable objectives. Even if we set no explicit goals, there would still be the risk that the index would be used by pressure groups to argue that we were not spending enough to ensure an acceptable standard of health for the nation.

Before proceeding further we therefore need to examine carefully the potential value of a health index and have a much clearer idea of what it would seek to measure, how it would be constructed and how it would be used. We should not, for example, under-estimate the difficulties of establishing an index on a sound technical base. We would clearly not want to produce anything incapable of standing up to close critical scrutiny. I understand that your officials are shortly to begin a feasibility study and I hope that the Treasury will be fully involved in this work. In the meantime

(nothing further was said about it until the work has been completed),
I think it would be best if ~~we did not continue to associate the~~
~~development of a health index with our current Review.~~ ~~was added~~

I am sending a copy of this letter to the Prime Minister

CONFIDENTIALBANK OF ENGLAND
LONDON EC2R 8AH

19 April 1988

A C S Allan Esq
Private Secretary to the Chancellor
11 Downing Street
London
SW1

Ch
Very much in line with you
thanks
Y.M.
AA

Dear Alex,

TOKYO STOCK EXCHANGE

Before leaving for Tokyo, Sir Geoffrey Littler spoke to Eddie George about Lord Young's letter to the Chancellor of 18 April. He suggested that, rather than responding formally at this stage, it might be more helpful if we were to brief you bilaterally on how we see the position.

First, as regards the procedure, our understanding from the beginning, ie when it was agreed last October that we should invite Nomura and Daiwa to apply for gemm status ahead of the TSE's decision on foreign membership, has been that no decision on whether or not to allow Nomura and Daiwa to begin operations as gemms would be taken until after the bilaterals in Tokyo. At the very least, therefore, the line proposed by Lord Young is premature.

As far as the substance of the matter is concerned, we would, of course, comply with an instruction from the Chancellor not to allow the gemm operations to proceed. But we seriously question whether it would be wise, or in the interests of the British

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financial community at large, to adopt such a high-profile, confrontational, stance on this particular issue. The reality is that Nomura and Daiwa have never been especially enthusiastic about gemm status, approaching it rather as a necessary element in their range of products as a full-service international securities operation. They are very well aware that the gemms collectively make persistent losses on the business and they themselves would expect to do so for some period. While, therefore, they would be inconvenienced by what Lord Young proposes, having already partially geared themselves up to begin operations, it would not be critical to them. Certainly, there can be no assurance that, even if they were in a position to do so, they would feel that engineering a side entrance to the TSE for BZW would be a price worth paying for gemm status. Indeed, this appears to us to be unlikely. The position that we could find ourselves in, therefore, is that we might provide them with a relatively painless excuse for continuing to exclude BZW from the TSE and they would be likely to insist that we eventually give way first.

We equally question the realism of Lord Young's further proposition that we could confront the Japanese on the matter of gemm status while, at the same time, allow progress for our own firms in other areas in Japan or progress for Japanese firms in other areas in this country. In the latter case, we would be in the position of appearing willing to contemplate giving the Japanese the things in which they have a greater interest (and although Lord Young is not specific we presume that he would have in mind such possibilities as licences for the regional banks) while withholding the permission to which the Japanese attach a lower priority. This would not seem to us to be a particularly compelling negotiating stance.

Of course, we must wait until Sir Geoffrey and Anthony Loehnis report on the outcome of their discussions, but our present view would be that we would do well to avoid a definitive locking of horns on any specific issue, but rather - as the Japanese are inclined to do - to slow down administratively the progress on outstanding issues across the board until we achieve progress on

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the particular matter of most concern to us. This would involve allowing the gemm operations to begin as, in effect, a response to the four TSE memberships which the Japanese did provide last year, but dragging our feet in the other fields that have been raised with us.

The Governor would, I know, welcome an opportunity to discuss all of this with the Chancellor when Sir Geoffrey is back.

Yours

John

J R E Footman
Private Secretary
to the Governor



mj

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

21 April 1988

The Rt Hon John Moore MP
Secretary of State for Social Services
Department of Health and Social Security
Richmond House
79 Whitehall
London SW1

cc: PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Saunders
Mr H Phillips
Miss Peirson
Mr Parsonage
Mr Griffiths
Mr Call

John Moore

HEALTH INDEX

As you know, I have been concerned about the references in recent speeches by you and Tony Newton to the development of a "health index", and, in particular, the implication that this is connected with the current Health Review.

Better quantitative information on output and performance can of course help cost-effective management of the resources devoted to health care. However, there is an obvious danger that a health index could just generate demands for more public expenditure in this field, particularly if it was used to set unrealistic targets. In your speech to the BMA Council, for example, you referred to the index's having a value in helping to set long-term policy goals for health care. I know that you acknowledged that the factors making up the index would have to be affordable. But these goals might be prohibitively expensive to achieve or large sums of money wasted in pursuit of unattainable objectives. Even if we set no explicit goals, there would still be the risk that the index would be used by pressure groups to argue that we were not spending enough to ensure an acceptable standard of health for the nation.

Before proceeding further we therefore need to examine carefully the potential value of a health index and have a much clearer idea of what it would seek to measure, how it would be constructed and how it would be used. We should not, for example, under-estimate the difficulties of establishing an index on a sound technical base. We would clearly not want to produce anything incapable of standing up to close critical scrutiny. I understand that your officials are shortly to begin a feasibility study and I hope that the Treasury will be fully involved in this work. In the meantime I think it would be best if nothing further were said about it until



the work has been completed, and certainly nothing to associate the development of a health index with out current Review.

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

A handwritten signature in black ink, appearing to read "Nigel Lawson". The signature is written in a cursive style with a large loop at the end of the first name.

NIGEL LAWSON

mmp



Ch

Merging Class II & III

NICs

This is slow-moving.
 DTSS are due to send a
 paper to Tory officials soon.
 Report to Ministers in "early
 Autumn". ^{One} ~~main~~ problem is
 going to Revenue line that
 they could not run a
 combined class II + III until
 early 1990s.

Do you want earlier
 progress report?
 Think. ^{No need.}
 AA

SPARE

CCMHT



CCMHT

PG
HSE
LG

HOUSE OF COMMONS

LONDON SW1A 0AA

Lucy...
28/4/88

The Office of the
Leader of The Opposition

28 April 1988

Dear Prime Minister,

The changes in social security introduced earlier this month involved a cut of £640 million in housing benefits. I asked you today, in the wake of the additional £100 million you have reluctantly conceded in order to relieve hardship, who is going to lose from that remaining cut of £540 million?

You did not answer.

Given that there is still that outstanding loss of £540 million on Housing Benefit expenditure can you tell me what proportion of that £540 million will be found from those people who have capital over £8,000 and what proportion from the much larger number of losers who have no capital assets but who have still lost housing benefits from already low incomes.

Can you tell me, in addition, which people in our society will be losing, what amounts will they be losing, and within what range will their losses occur?

How many young people under 25 and over 25 will be losing? How many widows, pensioners, single parent families, and families in work earning less than £100 a week? How many numbers in these groups will lose between £1 and £2; between £2 and £5; over £5 per week.

You must have such figures because otherwise you would not have been able to cost the £100 million you have now made available and your Secretary of State could not have said with such precision that 300,000 people would be helped. Of this 300,000, can you tell me which people will gain, in which income groups, and by how much they will benefit?

-2-

Can you also tell me how many extra staff are being engaged to deal with the work resulting from this week's further alteration and -- more important -- when the losers can expect to receive their retrospective payments and adjustments of their losses to a limit of £2.50.

Finally, could you therefore please clarify the position over which groups will have their losses limited to £2.50 a week. For those who are already claiming before the start of the new scheme, will their loss be limited to £2.50 on last year's rent payments, or the new levels which start in April? If the latter, how will claimants who draw benefit for the first time this month be treated? Will their loss in housing benefit be limited to £2.50 a week?

In view of the confusion in the DHSS and elsewhere that has been compounded by the manner in which the latest changes have been introduced and the administrative implications they carry, I would be grateful if you could provide detailed information quickly.

Yours sincerely,
Nat Kennock

*A good pizza,
with 1 command.*

Set the hospitals free

CARING for people's health is the biggest single business in every rich country—and everywhere it is in trouble. In most countries the worry is that spending is out of control. In Britain, where the government both finances and supplies the bulk of health care through the National Health Service, the grumblers say the spending is too mean.

Margaret Thatcher's third-term government has therefore begun a review of the NHS—reluctantly, because any changes in its much-loved mess would probably take effect just before the next general election. So the government will need to build carefully on the service's two perceived strengths. People see it as fair, because getting treatment does not depend on being rich. And the NHS's tight control of costs (including pay) makes it relatively cheap to run.

These advantages should be kept. But the NHS also has many weaknesses. Patients get little information and less choice about who treats them or how. They are kept hanging about, and too many of the staff who eventually treat them are arrogant or indifferent. They get plenty of costly treatment, not much advice on how to stay healthy. The structure of the NHS is rigid and over-centralised. Hospital managers in Newcastle and Guildford have to pay physiotherapists and lab assistants the same rates, even though in Newcastle they could get them for less. Health visitors in places as different as Barrow and Bournemouth are supposed to follow priorities laid down in Whitehall. Above all, incentives for more efficient treatment are either lacking or perverse. Some teaching hospitals find that it pays them to keep patients away.

If cash alone could cure

So far the British debate has concentrated on cash and methods of financing, with the left clamouring for more public and the right for more private money. Both are wrong. No good will come of throwing more of either sort of money into Britain's health service until governments have decided how to throw more efficiency-breeding competition into it. Since hospitals account for over 60% of the cost of the NHS, it is there that change and competition should begin.

Britain's hospitals are financed and run by district health authorities; staffed by consultants (senior doctors) who account to managers neither for their clinical decisions nor for their pay; and often filled with patients who could be looked after better and more cheaply elsewhere. A consultant's patients are referred by general practitioners who may have played rigger with him at medical school, but know nothing of how good at his job he now is. A first-class hospital pulls in



patients from other districts without getting extra cash to pay for them. A consultant who works hard to cut a waiting list for plastic hips may have to stop when his budget runs out.

Such nonsenses would best be cured by separating the running of hospitals from their financing. Health authorities should become purchasing and financing agents on behalf of patients and the general practitioners who refer them. Hospitals would be set free to compete with each other for patient referrals. Those that treat more applicants would get

more cash from the taxpayer. Costs would be subject to maximum rates for clinical treatments, like American diagnosis-related groups, and the hospitals that underbid these would benefit by getting more patients. To maintain quality and improve choice, all hospitals would have to publish information (currently hushed up) on rates of death or surgical mistakes. Their paymasters in the health authorities would monitor the cost and quality of treatment in each.

No central rules are needed on what form of independence would suit each hospital. Some might be privatised; others could be bought and run by their own staff; still others could become trusts or charities. They would fix their own pay-rates and raise their own capital outside the Treasury's iron public-sector borrowing rules, bringing into the health service some much-needed investment. They would put out to competitive tender both non-clinical services, like cleaning, and clinical support services, like pathology testing. If they did not attract enough patients, their management and staff would have to change—or they might close.

Doubters will seize on this last point to argue against floating off Britain's hospitals. Yet hospitals are closed every week, usually on the whim of strategic planners. Much better to use a market test—albeit an imperfect one—to decide. The doubters will also say that managers are not strong enough or bright enough to run independent hospitals. If so, hospitals that wanted to thrive would soon recruit managers who were. These tougher new managers would force hospital doctors to accept many of the things they currently resist in the name of clinical freedom: short-term contracts, performance-related pay, peer review and medical audit.

Such a reform would increase the responsibilities of general practitioners. To keep them up to scratch, their contracts should also be short-term—and made with the health authorities that finance hospital care, instead of (as at present) with independent family-practitioner committees. Like the hospitals, GPs would compete to attract patients, who in turn would be freer to switch. Health authorities would monitor

GPs, keeping a wary eye on the zeal with which they prescribe drugs and refer patients to hospital, and making sure that they offer good preventive medicine. Some limit might be needed on the freedom of GPs to refer patients to whichever hospital they liked: if so, the health authority could give them lists of "preferred providers" who met cost and quality standards.

Getting the NHS's structure right would make it easier to decide on sensible financing. The case for relying largely on revenue from general taxes remains strong. That kind of finance is fair, predictable, cheap to collect and avoids the shortcomings of coverage and selectivity that weaken so many insurance systems. Earmarked taxes, from which people could partly opt out, are a bad idea. Once earmarking was allowed, other taxpayers would plead to opt out for education, or social security, or defence. Opting out could lead to health care that was blatantly two-tier: more wizard gadgetry for the rich, even longer queues for the rest. The same goes for tax relief for private health insurance.

If taxation remains the main source of health finance, governments cannot escape responsibility for deciding how much should be spent. More competition will improve the choice and quality of health care—so people will want more of it. That is why extra public spending will eventually be inescapable, bringing the amount that Britain spends on health (about 6% of its GDP) perhaps one percentage point closer to the average for the rest of Europe (9%). But hospitals should also be encouraged to raise extra money themselves—eg, by allowing patients to buy non-clinical extras like privacy or better meals; or by lotteries or shops in hospitals.

The scope for experiment is huge, and the timing is just about perfect. The NHS will be 40 on July 5th. Its mid-life crisis has come, right on cue, but it need not be followed by a steady decline. For a few years in the early 1990s the extra pressure that an aging population is putting on the health service will ease, so doctors and administrators will have a breathing space in which to change their ways. Mrs Thatcher should give them their chance, by setting the hospitals free.

America's friendly invaders

A country with a trade deficit should thank its lucky stars that foreigners want to invest there

AFTER decades of buying up the rest of the world, America faces an invasion of foreign investors clutching fistfuls of devalued dollars. Each week another piece of its economy is sold abroad. The process fuels and is fuelled by a new and, to many Americans, sinister burst of takeover business on Wall Street. The predator of the moment is Britain's Beazer, which is fighting for control of Koppers, a big American supplier of building materials. Shearson Lehman, the investment banking scion of American Express, traitorously advised and co-financed the redcoat. The citizens of Pittsburgh, Koppers' home town, were so incensed by this that hundreds of them ritually destroyed their American Express cards.

Canada's Mr Robert Campeau has acquired Federated Department Stores, and thus Bloomingdale's. (On average, by the way, every Canadian now owns a square foot of Manhattan.) Britain's Marks and Spencer has bought that most American of American menswear chains, Brooks Brothers. Japan's Bridgestone has swallowed Firestone Tire and Rubber. For each of these headline-making deals there have been hundreds of others amounting to more of the same thing—foreigners buying not just America's paper assets, but its factories, laboratories, office buildings and brand names as well. By making it necessary for the dollar to fall so far, President Reagan's economic policy has, in effect, put the American economy up for sale. The selection is tempting, the prices unrepeatable; but the sales staff exude little charm.

Like less heavily indebted countries to the south—Brazil, Mexico and Argentina—America should welcome an inflow of foreign investment as a way of consuming beyond its means while averting, all being well, the crunching recession it would otherwise endure. But, like those southern debtors, it does not know a good deal when it sees one. The Pittsburgh card-

party has a particular resonance. How apt for Americans to destroy the little green card with which they have done so nicely around the world for so long.

The gathering wave of economic xenophobia looks oddly timed. The chances that America will enact no new trade law this year—much the best outcome for believers in liberal trade—have improved from slim to fair. Congress has just sent the president a bill that he has promised to veto (see page 39). If he keeps his promise, Congress will, with luck, lack the inclination or the votes to overrule him. But suppose a trade bill—the present one, or a version altered to satisfy Mr Reagan—becomes law after all. It will be far less trade-restricting than earlier versions. Mr Richard Gephardt's procrustean "solutions" to the trade problem failed to win him the Democratic Party's presidential nomination. After years of trying to pass a really damaging trade law, it seems that the protectionists in Congress will settle for inflicting minor injuries.

The new economic nationalism

Why are tempers rising over trade in capital when, in the related matter of trade in goods, the pendulum has swung away from Mr Gephardt's extremism? One plausible reason is that, for trade in goods, the pro-market lobby is beginning to shout down the protectionist one. America is in the middle of an export boom, so the last thing its industries want right now is a trade war from which they would have so much to lose. Many American companies producing for their home market need imported raw materials and components to prosper. Last year's sanctions against Japanese chip-makers backfired instructively on the American computer manufacturers they were supposed to help. The growth of world trade and the spread of the multinational company (a trend designed and





Minister of State

Ch
More GSS
code-ups (compute
programming again)
- 3 MAY 1988

Department of Employment
Caxton House Tothill Street, London SW1H 9NF
Telephone Direct Line 01-213 5805
Switchboard 01-213 3000

Rp

cc. Mr Sedgwick, Mr RIG Allen,
Mr Cropper, Mr Tyrie,

Ans. (hand) →
Covr → so
big in SW
have to
split → R
No time call.

The Rt Hon Norman Lamont MP
Financial Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

FINANCIAL SECRETARY	
REC.	- 3 MAY 1988
ACTION	Ms S.G. Price
COPIES TO	PPS, CST, PMG EST, Sir P Middleton, Mr Anson, Sir T. Burns, Mr Scholar, Mr Culpin, Miss Peison,

3 May 1988

Dear Financial Secretary

REVISIONS TO 1986 FAMILY EXPENDITURE SURVEY RESULTS

I am writing to inform you that as a result of a computer program error, the published results of the 1986 Family Expenditure Survey (FES) are incorrect. The estimates of average household expenditure have been overstated by some £6.92 per week, and whereas it was previously estimated that average expenditure had increased in 1986 by 13.9% on the previous year, the revised results show that the increase was 9.6%. A detailed explanation of the nature and effects of the error are given in the attached note.

Our principal use of the FES is to provide expenditure weights for the Retail Prices Index and it can be categorically stated that these have not been affected. Furthermore, the error was detected in time for the Central Statistical Office to be provided with revised data, to be taken into account for the background estimates for the Budget. Since then it has been necessary to undertake full revision of the 1986 data and to assess the extent of the error on the results published in the 1986 annual report and the data tapes provided to other government departments. Regrettably, this work has revealed that the scale of the necessary revisions to the 1986 FES Report is widespread.

It is proposed to announce the error formally in the next issue of Employment Gazette to be published on Thursday 5 May, together with revised summary statistics for 1986. This will be followed by an article in the June Gazette providing more detailed information and corrected results from the 1986 FES Report will be printed, for release early in July.

Counting
did not
H W
then?

We have also arranged for a written PQ to be tabled today for answer on Wednesday 4 May.

I am copying this letter to Nicholas Scott, William Waldegrave, Angela Rumbold, Peter Morrison, David Mitchell and Jack Hibbert, head of the Government Statistical Service.

Yours sincerely

Robert Ledson

PP

JOHN COPE

(approved by the Minister
and signed in his absence)

Error in the 1986 Family Expenditure Survey results

Background

1. The Family Expenditure Survey (FES) is a sample survey of some 7,200 households in which details of the income and expenditure of members of the households are collected. The information is collected by means of a questionnaire, which is filled in by an interviewer in face to face discussion; in addition detailed expenditure data is compiled by each member of the household recording their daily expenditure over a two week period in a personal diary.

2. The survey is carried out throughout the year and results are produced on a quarterly basis and for the year as a whole. The results are published in the following way:

a) Quarterly results relating to broad aggregates appear in statistical tables in the Employment Gazette, usually about 9 months after the end of each quarter. For 1986 the pattern was slightly different because a new computer processing system was being introduced. As a consequence results were delayed and appeared some 12 months after the relevant date. We are, however, looking for a considerable speeding up as a result of the new system.

b) An annual article is published in the Gazette - for 1986 results the article appeared in December 1987. This provides more detailed information and a commentary on the data.

c) An annual report - comprising tables and charts but no commentary - which provides detailed analyses of the results. The report for 1986 was published on 30 December 1987.

3. Results are also made available to major users within Whitehall by providing them with a copy of the computer tape thereby enabling them to carry out their own analyses. In addition a copy of the data tape is sent to the data archive run by the Economics and Social Research Council (ESRC), primarily to enable access to be provided to the academic world.

Nature of the error

4. The computer processing arrangements have recently been completely overhauled to provide a more efficient and flexible operation. The system was checked to ensure that it was working correctly and it was introduced live for the first time to process the 1986 FES data. Although the system was only recently rewritten, it is not possible to avoid the need for making some changes to it. One such change was made in January 1987, and in doing so a necessary part of the earlier program instruction was omitted. Certain expenditure data are collected which are not included in household expenditure - business expenditure on meals out is one example. Also expenditure paid for by credit was collected in two ways and steps were needed to avoid double counting. In the original program, there was a marker against such items so that they were not included in the total household expenditure. The amendment to the program omitted the marker and as a result the total household expenditure was overstated.

Scale of the problem

5. The published - and incorrect - results showed that in 1986 average household expenditure was £185-02 an increase of 13.9% on the previous year; the corrected data show that average expenditure was £178-10, 9.6% more than the previous year. The error therefore led to an overstatement of £6-92 in average expenditure.

6. The error affected many components of expenditure to a greater or lesser extent. As a result 28 tables and charts out of 37 contained in the annual report require amendment.

7. In addition, since the report was published it was found that one return was coded to an incorrect income group. The data base has been amended for this - the change only amounted to an increase of 2p (0.01%) in average household income. The cost of going back to the earlier income data would be considerable and would delay the availability of results. It is therefore proposed to revise - albeit in a very minor way - the income detail shown in the published report.

Effect on users

8. The error was first discovered in late February. Priority was then given to ensure that the weights used in the RPI were not affected. It can categorically be stated that the weights for the 1987 RPI (the first to use 1986 FES results) were not affected. This is because the 1987 RPI weights

only use provisional FES results for the first half of 1986 as well as final second half of 1985 results and the error was made after these data were compiled. For 1988 RPI weights the error was discovered in time and the weights were based on the corrected FES expenditure data.

9. Because the FES data is fed to the CSO for incorporation into the estimates of consumers' expenditure, officials there (and hence the Treasury) were told of the error and provided an indication of the magnitudes involved. This allowed the error to be taken into account when the GDP estimates were compiled as background to the Budget.

10. Other Whitehall users who received copies of the 1986 FES tape include DHSS, DoE and DES. They are mainly concerned with income results and are thus not affected by the error. However officials have been told of the position.

11. Outside Whitehall, readers of the Gazette and those who have purchased the annual report, or who have used it via access through a library, will have used incorrect data. The most detailed use of the data, however, occurs via the ESRC and no copy of the 1986 FES tape has yet been sent there.

12. The steps taken have to some extent, limited the impact of the error on users but some will undoubtedly have been inconvenienced by it. However, the impact is far less than that of the recent RPI error and no one's receipt of income will have been affected.

Corrective action

13. The faulty program has been identified and the error in it has been eliminated. Operationally, the FES system is now working as it should.

14. Computer Branch and Statistics Division are now embarking upon a detailed investigation into the way in which changes are made to computer systems in order to ensure that problems of the sort described above do not occur again. A report of this investigation will be sent to senior management in the department.

15. In order to correct the information already in the public domain it is proposed that:

- a) the May Gazette - published on 5th of the month - should include an insert along the lines of Annex A, describing the size of the problem and the action being taken to remedy it
- b) also in the May Gazette revised 1986 FES data will appear in the published statistical tables
- c) an article providing more explanation and more detailed results should appear in the June Gazette
- d) the annual 1986 report on the FES should be reprinted using the corrected data and provided free of charge to those who have already purchased a copy of the original report. This is appropriate because of the widespread effect of the error on the tables in the report. The costs involved - some £10,000 - will be accommodated within existing budgets.

Statistics Division

25 April 1988

REVISIONS TO 1986 FAMILY EXPENDITURE SURVEY RESULTS

The results of the 1986 Family Expenditure Survey have been revised following the discovery of a fault in one of the computer programs, the effect of which was to over-estimate expenditure.

The revisions reduce the estimate of average household expenditure in 1986 to £178.10 per week, compared to a published figure of £185.02. Average household expenditure is now estimated to have risen by 9.6% between 1985 and 1986 (compared to the previous estimate of 13.9%). The revisions affect all categories of expenditure but the largest changes are in "transport and vehicles" and "services". Revised 1986 figures for the main components of expenditure are published in tables 7.1 - 7.3 of Labour Market Data on pages () of this issue. More details of the revised data will be provided in an article which will appear in next month's edition of Employment Gazette.

Because of the widespread nature of the revisions, corrected results from the 1986 Family Expenditure Survey will be made available in early July, free of charge to those customers who purchased a copy of the original report.

Further information on these arrangements and revised figures will be available on request from Statistics A6, Department of Employment, Caxton House, Tothill Street, London SW1 9NF.

CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 6 May 1988

CHIEF SECRETARY

cc

- Chancellor
- Sir P Middleton
- Mr Anson
- Mr Phillips
- Miss Peirson
- Mr Turnbull
- Mr Ramsden
- Mr Call

with Annexes
A & B of DHSS
paper only

DISABILITY BENEFITS

A v. clean submission on a v. complex subject. Needles for, that is with DHSS have an equally high propensity to leak. The work needs to be done in more on our own proposals. 2.1 855 quotes from Annex A to the paper.

As you know, DHSS have been conducting an internal review of disability benefits in advance of the publication later this year of the OPCS survey of the disabled and their financial circumstances. They have now submitted an interim report and had a first discussion with their junior Ministers; a copy is attached. It is essentially a DHSS paper. Though it reflects some Treasury comments, we are not committed to any particular proposals. In any case, it is a paper identifying options rather than making recommendations. The main points are covered in this submission, and you may just wish to glance at the paper itself.

2. No action is necessary at this stage. We are putting this to you now because you may be interested in how the review is shaping up, and you may like to discuss with us some of the issues it raises. You may also want to be aware of how DHSS are likely to want to handle this issue in relation to the Survey.

Overview

3. Expenditure on disability benefits is now running at about £5½ billion a year. It accounts for about 12 per cent of the social security programme (a bit more than child benefit). Growth has been rapid - 80 per cent in real terms since 1979, mainly due to increased take-up. Annex A to the report summarises the various benefits. Annex B gives some expenditure projections.

4. Annex B shows that the projections for 2000-1 published in the 1985 Green Paper (Reform of Social Security) are already being

overtaken. The DHSS "base case" for 2000-1 points to an increase of one third in real terms by 2000-1. But, on recent form, this looks low. Their "growth case", which assumes growth in expenditure a little below current trends, points to a doubling in real terms and may be nearer the mark. (Neither scenario assumes any increase in the real value of disability benefits over the period: the growth comes entirely from higher take-up and higher entitlements).

5. The most striking increase over the period, under either scenario, is in the Additional Pension (AP), the earnings-related part of the main contributory benefit, Invalidity Benefit (IVB). Expenditure is expected to rise three or four fold in real terms to over £1 billion in 1985-86 prices, as entitlements build up. Substantial increases in expenditure on IVB itself, Attendance Allowance, and Mobility Allowance are also projected.

6. So, on current policies and with no real rise in the value of benefits, we are faced with the probability of a further large real increase in spending over the next 10-12 years, on top of the increase we have already seen since 1979. This is the background against which we will have to judge DHSS' proposals for change.

OPCS Survey

7. This is another important piece of the background. DHSS have now received the first volume of results. This shows that there are around 6 million adults in Great Britain with a disability. On the face of it, this is a remarkably high figure, corresponding to about 15 per cent of the adult population. But it seems that a very broad definition of disability was used in the survey. For example, over one million have been assigned to the least severe category; this includes, for example, people who cannot walk more than 400 yards without stopping or being in severe discomfort, and those who cannot tie up shoe-laces. Over 4 million of the total are over 60.

8. There is therefore no sense in which the survey is reporting the position of people who ought to be getting disability benefits

Why -
wasn't
this a
DHSS
commissioned
survey?

What proportion
is there of
all over-60s?

(this number is currently about 1½ million, including those on Income Support who get disability premia). But, when the report is published, the headline figure of 6 million may well provoke comment that there are more disabled in the community than previously thought and that the government should be doing more to help them. As you know, the pressure groups will be looking for a positive government response to the survey.

Scope of the Report

9. The report is primarily concerned with the Income Maintenance benefits, Invalidity Benefit (IVB) and Severe Disablement Allowance (SDA), and the Industrial Injuries scheme. Together, these are responsible for about two thirds of the total spend. The report also considers the scope for contracting out of IVB. The Extra Costs benefits (Mobility Allowance and Attendance Allowance) and Invalid Care Allowance will be the subject of a later report when more information has come in from the OPCS survey. However, DHSS recognise the need to bring these elements together. Their feeling is that OPCS will identify a good deal of unmet need which will have to be relieved by additional expenditure on the Extra Costs benefits. They see the guid pro quo as measures to restrain the growth of Income Maintenance benefits.

10. The report also considers how the review might be taken forward, once the work on Extra Costs has been done.

Income Maintenance: Options

11. At present, there is a contributory benefit - IVB - costing nearly £3 billion and a non-contributory benefit - SDA - costing £¼ billion. Both are payable with additions for dependants. IVB also has a SERPs-like additional component (Additional Pension - AP) and an Invalidity Allowance (IVA) which is extra compensation to people who lose earning power at a relatively early age. The paper examines three main options for reform:

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1. Abolition of IVB and SDA, with the disabled relying on Income Support (with the possibility of increasing the disability premia attached to Income Support).
2. Replacement of IVB and SDA with a single new flat rate benefit.
3. Retention of IVB and SDA, but at less cost.

12. In costing Options 1 and 2, DHSS have assumed only limited transitional protection for existing claimants. Those over 55 would have their entitlements frozen. Those under 55 would lose their (frozen) entitlements after 3 years. In other words, cash losses for those under 55 would merely be deferred for 3 years. Understandably, in view of recent events, Messrs Scotts and Portillo have asked their officials to re-cost on the basis of more permanent protection. This means that the long term savings estimates for Options 1 and 2 referred to here would be significantly reduced.

13. Option 1 would fit with our objective of targeting on financial need and achieve large savings (£100 million in 1990-91 and £2,400 million by 2000-1). But it would destroy one of the contributory benefits and, even with transitional protection, it might be hard to defend. There would be some very large losers among new claimants, up to £100 per week in some cases. The biggest losers would be people with working partners or some other significant source of income, such as occupational pensions, who would be entitled to IVB at present.

14. DHSS have costed Option 2 on the basis of the existing IVB rate - £41.15 for singles and £65.90 for couples, plus additions for dependants. This would produce savings of around £1 billion by 2000-1. These savings would come from the sweeping away of and IVA, including accrued entitlements. But assuming transitional protection, there would be a public expenditure cost in the short term of perhaps £100 million in 1990-91. The new benefit would be contributory for those aged 25 and over; those under 25 without a sufficient contribution record would also get

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it. Thus non-contributors who become disabled over 25 would have to rely on Income Support (these are largely married women now entitled to SDA).

15. Option 3 is really a set of various possibilities for reforming the existing benefits with a view to cutting the cost. The main ones are:

a. Extend Sickness Benefit from six months to a year, thus delaying the point at which IVB and SDA become payable. The basic rates of Sickness Benefit are £10-15 below IVB, and there are no additions for dependent children. This would produce savings of roughly £70 million a year at an early stage, even with transitional protection (ie those sick on the date of implementation would get IVB and SDA after 6 months, as before.)

b(i) Tax Invalidity Benefit This has been the government's declared intention for some time. This would be consistent with our treatment of unemployment benefit and retirement pensions. It would bring in about £250 million in extra tax yield if applied to all existing as well as new claimants. If existing claimants were exempted, this yield would take much longer to achieve. The Revenue would face higher operational costs (they have not been consulted so far in the review but have resisted the proposal previously).

b(ii) Stop IVB at retirement age. At present, people can continue to claim IVB (non-taxable) for 5 years after the minimum retirement age before switching to retirement pensions (taxable). Stopping this would yield around £50 million in extra tax, though this would only be achieved after 5 years if those already past retirement age were exempt.

c(i) Abolish Additional Pension and Invalidity Allowance. DHSS assume that existing claimants would have their entitlements maintained and uprated. On this basis, savings would be small initially (£40 million) but would rise to

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£1 billion by 2000-1. If we also protected accrued rights (earned by NI contributions up to the point of change), initial savings would be negligible and the long term savings would be £400 million.

c(ii) Reduce Additional Pension This could be done by putting a cap on new claims, for example at the level of AP for average earnings at the time of the change. (Existing claimants could keep their entitlement to avoid cash losers.) Initially savings would be small but would build up to £400 million by 2000-1. Another option would be to cut the rate at which AP entitlement accrues, along the lines of what was done on SERPs. Halving it would save £200 million by 2000-1.

c(iii) Cut IVB and increase IVA. IVA is offset against AP. So the effect of cutting IVB and increasing IVA would be to increase the extent to which IVA could offset AP. DHSS have costed this assuming a reduction in IVB to the same level as SDA (ie from £41.15 to £24.75 for a single person) with IVA being increased by an equivalent amount. On this basis, with transitional protection, savings would reach £300 million by 2000-1.

16. Option 1 (abolition) would no doubt attract fierce criticism and does not look a realistic possibility; I gather Messrs Scott and Portillo have given it short shrift. Option 2 (new flat rate benefit) would end the different treatment given to NI contributors (who now get IVB) and non-contributors who have not had a chance to work (they get the much lower SDA and have their income topped up by Income Support). But the extra costs of this option in the short term make it unattractive. And these costs would be larger than DHSS have estimated if we had to preserve accrued entitlements to AP and IVA.

17. So I suspect that the answer is likely to lie somewhere in Option 3. AP seems to me the single element which is most in need of tackling and which may also be easiest to tackle. Current entitlements are relatively low, averaging £20 a week with a maximum of £35. But, as explained earlier, expenditure is set to

explode as entitlements build up: average entitlement will be up to £27 and the maximum to £47 as soon as 1990. Just as we have taken action to curb the long term cost of SERPs, there is a strong case for dealing with AP. It is, after all, effectively a SERP paid before retirement. Exactly how we might go about this would be for further discussion. Option 3(c) iii looks contrived. Option 3(c)(i) may be ambitious, but if we had full transitional protection and protection of accrued rights, we would avoid cash losers and we would avoid trampling on the contributory principle. The basic IVB would remain intact, but we would be giving some stimulus to private provision.

18. In Option 3, it would be possible to combine (a), (b)(i), (b)(ii), and one of the (c) variants.

Contracting Out

19. DHSS have put forward two possibilities for encouraging contracting out:

Method X would extend the existing system of contracting out of SERPs to cover people who have to retire early on health grounds. In exchange for an extra NIC rebate (0.4 per cent), those who are contracted out of SERPs would give up their right to the AP, the earnings-related component of IVB. (Clearly, this becomes redundant if we decide to get rid of AP.)

Method Y would be a separate contracting out system for ill-health cover, including long term sickness. There would be a separate NIC rebate (1.1 per cent) which could be exchanged for giving up not only the AP but also the basic IVB. People who had not contracted out of SERPs would be able to contract out for this purpose.

20. DHSS have produced rough estimates of the savings from these options. But they make no allowance for the likelihood that those contracting out would be less likely to claim IVB/AP than those contracted in. On this basis and assuming an extra NIC rebate of

0.4 per cent, DHSS estimate an initial loss of NIC income of £350 million from Method X. Most of this would be deadweight, since nearly all occupational pension schemes already have provision for ill-health retirement. Benefit savings are put at £150 million by 2000-1. While DHSS would expect benefit savings ultimately to exceed the cost of the rebate, the short and medium outlook would be for a substantial PSBR cost. There is a similar picture for Method Y, though the rebate would be much larger (1.1 per cent, to reflect the loss of basic IVB as well as AP). As a result, the loss of NIC income would be £1 billion initially, against savings of perhaps £400 million in benefits by 2000-1.

21. The reason why benefit savings build up slowly is that entitlements earned before the start of the new scheme would have to be honoured. The NIC rebate, on the other hand, would be fully effective from the outset.

22. Even if DHSS refine their figures, the PSBR effect of either of their options is likely to remain significantly negative in the short and medium term. In any event, whether these options are worth taking further will depend partly on the outcome of discussions about contracting out for health care. I understand that DHSS Ministers have asked for more work to be done on Method Y - the separate rebate scheme.

Industrial Injuries Scheme

23. In your letter to Mr Scott of 30 November, you have already put down a marker against the preference which is given to those injured at work. You called it a "relic of the past".

24. The scheme now costs about £½ billion a year. Over £200 million goes on Disablement Benefit, which is compensation for the disability itself. Another £200 million is paid in Reduced Earnings Allowance which compensates for loss of earnings. A further £60 million goes in Industrial Death Benefit to widows of those killed at work.

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25. The key problem is that Disablement Benefit is paid on top of any earnings or other benefits which the claimant may have. The rate (up to £67.20) depends entirely on the degree of disability. This gives those injured at work a big advantage over those disabled in other ways.

26. DHSS have come up with four options for reform. They have assumed the same limited transitional protection arrangements as for the Income Maintenance options, so here too the longer term savings estimates are likely to be on the high side.

- a. Abolition. DHSS estimate savings of £270 million by 2000-1 (£30 million initially). 800 staff would also be saved. Future claimants would have to rely on IVB and SDA (and perhaps Attendance Allowance) and would be £40-£100 worse off, unless they or their employers were to take out insurance. (The very big losers among future claimants would be the most severely disabled who currently get a high rate of Disablement Benefit, plus extra such as Constant Attendance Allowance).
- b. Replacement with compulsory compensation scheme, for loss of earnings only, run by employers. This would achieve similar savings to (a). It would have the merit of making employers responsible for the costs of compensation arising in their own firms, which is arguably where they ought to fall. But if, as DHSS estimate, the annual insurance premiums were around £300 million, employers would be certain to resist strongly and, if we persisted, argue for a NIC rebate which would be expensive.
- c. Replacement with compensation scheme, for loss of earnings only, run by State. Savings would arise from not paying compensation to disabled who suffer no loss of earnings. DHSS estimate savings of £100 million a year by 2000-1.

- d. Modifications to current scheme. The main changes discussed by DHSS would be the offsetting of Reduced Earnings Allowance against IVB and the raising of the disability threshold from 14% to 30%. Together, these might produce £90 million of savings by 2000-1.

27. Option (a) would maximise savings and do most to stimulate (voluntary) private provision. It would have logic on its side in removing the industrial preference. But it would be sure to encounter strong opposition. (b) would be hard to push through - the DTI might well object even before the proposal could be made to employers. (c) - like (b) - would tackle one of the main flaws in the current scheme, namely that it compensates people who suffer no loss of earnings as a result of disability. (d) would have the merit of making the existing scheme better targetted on the more severely disabled and on the less well off.

Relationship with Public Expenditure Survey

28. As a general matter, it may suit us to have proposals from the disability review taken in the Survey. And two particular issues raised in the last Survey are carried over to this year:

- i. Extension of Mobility Allowance to the over-75s.
- ii. Offsetting occupational pensions over £35 a week against IVB.

(i) will have to be settled in this Survey, because DHSS want to include it in their Bill to be introduced in the Autumn. This in turn is necessary because, otherwise, existing claimants would start to lose their entitlement as they reached the age of 75 in late 1989. (ii) is one of the savings options we tabled last year. You agreed with Mr Moore that it should be looked at again this year, on the basis of further work by officials.

29. DHSS see Mob A as a goody they can announce in the Autumn, perhaps to offset difficult measures they might also have to include in the Bill. As you know, the short term cost is small

(£3 million in 1990-91) but it could be much more in the longer term as increasing numbers of over-75s qualify (perhaps £100 million in cash terms by 2000-1). The prospects for offsetting this extra cost by acting on Mob A itself (eg freezing the rate) must be slim, though we must obviously see what we can get. But we may do better to use the Mob A extension as an argument for savings on the Income Maintenance benefits.

30. As for (ii), DHSS see offsetting occupational pensions against IVB as contrary to one of their main objectives in the disability review, namely to encourage private provision. If they continue to take this line, this gives us a good reason for insisting that the alternatives thrown up by the review (eg AP) must be brought within the Survey discussion.

Handling

31. I understand DHSS are likely to want to take proposals to colleagues in September/October so that they would be in a position to respond to the publication of the first two OPCS volumes (on the number of disabled and their financial circumstances) which would be ready by October. (The first volume could go out in June, but DHSS want to hold it up until the Autumn, when they hope to have something to say.) They see this consultation process with colleagues as outside the 1988 Survey; any expenditure consequences would be addressed in the 1989 Survey. Nothing would be done in the 1988-89 Bill except Mob A.

(Can they -
want the
world know
it exists?)

32. There are clearly big risks for the Treasury if the DHSS were allowed to adopt this approach. If the decisions were taken outside this year's Survey, we might have to accept the Mob A extension (and possibly other increases on Extra Costs benefits) without getting the longer terms savings commitments on the Income Maintenance benefits. The other danger is that, if we do not get any savings measures into the 1988-89 Bill, there might be no suitable opportunity later in the Parliament. But dealing with the review in the Survey does not help on this point if the Bill has to be introduced in November. It is unlikely that decisions

reached at the end of the Survey would be in time for the necessary legislative provisions to be ready in November.

Conclusions

33. There are some large and complex issues here. You are likely to want more detailed briefing and also to see what Mr Moore proposes before making up your mind on any of them. But you may like to consider the following conclusions on both substance and handling:

- a. In looking for savings, we are likely to be inhibited by the contributory principle (which probably means keeping IVB and protecting accrued rights) and the need to avoid cash losers among existing claimants.
- b. The most promising savings targets are the AP and the Industrial Injuries scheme.
- c. We should defer judgment on the prospects for contracting out until the NHS debate is clearer and we have the further work from DHSS.
- d. We need to consider whether Mr Moore should be persuaded to put forward his proposals, affecting both Income Maintenance and Extra Costs benefits, in this year's Survey. If he wants to be in a position to announce decisions in October, in response to the OPCS survey publication, there is a good case for trying to get the discussion into the Survey context, even if some of the issues are longer term. Otherwise, there is a risk that the response will consist entirely of expenditure increases (Mob A etc) and that an opportunity to secure longer term savings commitments will have been lost.
- e. To show we mean business in the 1988 Survey, you could table as savings options some proposals on AP and Industrial Injuries, perhaps when you send your Agenda

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letter to Mr Moore in July, though there may be an argument for doing this earlier (see below). The deal might be Mob A (with perhaps something else on Extra Cost benefits and an increase in the disability premia in Income Support) in exchange for abolition of AP and/or Industrial Injuries.

- f. As matters stand, there is unlikely to be enough time to get decisions (except on Mob A) in time for inclusion in the next Session's Social Security Bill. We need to consider, therefore, whether we should press for decisions to be taken sooner so that they could be reflected in the next Bill (and implemented in 1990). Or whether it would be feasible to wait for a Bill in 1989-90, with implementation in 1991. A key factor here is whether DHSS have to put out a consultation document or White Paper. If they did, and it embraced all the proposed changes, early legislative action would be ruled out. But we might be able to confine consultation to certain areas, such as contracting out (should we decide that is desirable).

Jm

J P MCINTYRE

CURRENT INCAPACITY AND DISABILITY BENEFITS

BENEFIT/COMPONENT	INTENDED FOR	PROVIDES FOR	STATUS *	RATE pw £	NOS PAID COST pa	PROBLEMS AND CRITICISMS
<u>Invalidity Benefit</u> <u>IVB</u> (a) invalidity pension (b) dependants' additions (c) additional pension (AP) (d) invalidity allowance (IVA)	Long-term sick and disabled ex-workers (after 28 weeks' sickness) Compensation for loss of earnings Compensation for long-term financial effects of early loss of earnings power	Income maintenance Income maintenance Income maintenance	C	41.15 24.75 adult 8.40 child up to 34.75 (earnings-related) depending on age at onset of disability 40 8.65 40-50 5.50 50 2.75	915000 £2612m	1. Linking rule - brings in people with a series of short-term illnesses. 2. Higher than UB - disincentive to sign on, particularly if older. 3. Untaxed - disincentive to claim RP at minimum pension age. 4. May be generous assessment of incapacity by GPs, especially for older patients or in areas of high unemployment. 5. Strictness of incapacity rules - disincentive to take part-time or low paid work. 6. Cliff edge loss of benefit - discourages attempts to work above TEL.
(a) <u>Severe Disablement allowance</u> (SDA) (b) dependants' additions	People who are incapable of work (80% disabled if claiming after age 20) and do not qualify for IVB because they have never worked or have not worked enough to build up a contribution record	Income maintenance	N	24.75 14.80 adult 8.40 child	245000 £260m	1. Considerable numbers of passported (mainly by Mob A, AA) over-20s would not pass 80% test of disability. 2. Availability of married women without recent work record is dubious. 3. Untaxed - disincentive to claim RP at minimum pension age. 4. 50% of claimants receive IS so SDA of little use; other recipients have other income so there may be no real need. 5. 80% test expensive to administer, and contentious. 6. Cliff edge loss of benefit - discourages attempts to work above TEL.
(a) <u>Invalid Care Allowance</u> (ICA) (b) dependants' additions	People who care for a person receiving AA, instead of working	Income maintenance	N,T	24.75 14.80 adult 8.40 child	80000 £191m	1. Like SDA, goes to people who do not gain (because they are on IS) or who arguably do not need it because they have other income. 2. Paid to many married women who would not be in work if they were not carers. 3. Does not accommodate flexible patterns of care (eg more than one carer).

*Status: C = contributory, N = non-contributory, T = taxable (none of the basic benefits are means-tested)

BENEFIT/COMPONENT	INTENDED FOR	PROVIDES FOR	STATUS *	RATE pw £	NOS PAID COST pa	PROBLEMS AND CRITICISMS
4. Industrial Injuries Benefits (a) disablement benefit (Dis Ben) (b) reduced earnings allowance (REA) (c) constant attendance allowance (CAA) (d) exceptionally severe disablement allowance (ESDA)	<p>People injured at work or suffering from certain industrial diseases</p> <p>Compensation for loss of earnings</p> <p>Those who are 100% disabled and need constant care and attention</p> <p>Those on two top rates of CAA, with permanent need for care</p>	<p>Compensation</p> <p>Income maintenance</p> <p>Extra costs</p> <p>Extra costs</p>	C	<p>up to 67.20 (depending on degree of disablement - from 14% to 100%)</p> <p>up to 26.88 (depending on loss of earnings - but must be degree of disablement - from 1%)</p> <p>4 rates from 13.45 to 53.80</p> <p>26.90</p>	185000 £425m	<ol style="list-style-type: none"> 1. Cliff edge effect - no entitlement for under 14% disability, 15-19% paid at 20% rate. 2. Provides benefit even if earnings loss is not substantial. 3. REA set so low 90% of II claimants receive it. 4. REA gives full compensation if low earnings before disability, but higher losses get a proportionally smaller amount. 5. Costly to administer, particularly for some occupational diseases.
5. Attendance Allowance (AA)	<p>People who need constant care and attention</p>	<p>Extra costs</p>	N	<p>32.95 (for care day <u>and</u> night)</p> <p>22.00 (for care day <u>or</u> night)</p>	60000 £776m	<ol style="list-style-type: none"> 1. Is inadequate for very high levels of need for care. 2. 6 months qualifying condition disadvantages the terminally sick or those with fluctuating conditions. 3. May be generous assessment of disability by adjudicators. 4. Open to exaggeration of disabilities by claimant. 5. Cliff edge for those just failing to qualify. 6. Pressure to extend to children under 2.
Mobility Allowance (Mob A)	<p>People unable, or virtually unable, to walk</p>	<p>Extra costs</p>	N	23.05	450000 £507m	<ol style="list-style-type: none"> 1. Excludes blind etc who <u>can</u> walk but have severe mobility problems because of their disabilities. 2. Adjudication process is laborious. 3. May be generous assessment of disability by adjudicators. 4. Open to exaggeration of disabilities by claimants. 5. Pressure to extend to the elderly.

* Status: C = contributory, N = non-contributory, T = taxable (none of the basic benefits are means-tested)

NOTES

Table 1

1. Table 1 compares 3 projections of expenditure on disability benefits to 200/01 (at 1985/86 prices) compared with outturn in 1985/86 and the latest PES figures for 1990/91, assuming current benefit policies. Each of the projections assumes uprating in line with prices.

2. Projection A is based on figures contained in the Green Paper "Reform of Social Security" (Cmnd 9517, June 1985). This projection is no longer sustainable as it has already been overtaken by the actual increase in expenditure since 1984/85.

3. Projection B incorporates the latest information about actual loads. It uses new GAD assumptions for invalidity benefit which show a more rapid growth than previous projections up to the mid 1990s but then level off. Growth in the numbers claiming mobility and attendance allowance also levels off then. Real expenditure on other benefits remains constant at about current levels. Most growth beyond 1990/91 is caused by IVB, especially the earnings-related component.

3. Projection C, prepared by EAO, assumes that expenditure on each disability benefit will continue to grow at a proportionate rate close to that expected for 1984/85-1990/91. This projection suggests that total spending could be more than twice its present level in real terms if current trends continue. (This "growth" projection shows slower growth than shown in the Public Expenditure White Paper - this is because the high levels of growth of recent years are not expected to continue in the longer term).

Table 2

Table 2 provides projections of the numbers of beneficiaries that underlie the projections of benefit expenditure in Table 1.

Charts 1 & 2

Chart 1 illustrates these projections of total expenditure on all

PROJECTIONS OF EXPENDITURE ON DISABILITY BENEFITS

1. Attached are two tables and two charts:

Table 1: projections of disability benefit expenditure to 2000-01.

Table 2: projections of numbers of beneficiaries

Chart 1: projections of expenditure on all disability benefits

Chart 2: projections of expenditure on basic invalidity benefit only

2. Some notes are appended to the tables.

disability benefits, excluding income support premiums. Chart 2 shows only basic IVB (ie excluding the earnings related component). Real expenditure on IVB is one third higher than now in 2000/01 for projection B, and for C the real increase is two thirds higher.

Reliability

The uncertainties underlying these types of projections are illustrated by the differences between each of the three shown. However the rates of growth in expenditure on most disability benefits have continued to outstrip previous expectations and legislative changes can also have a knock-on effect. A recent example is the extension of invalid care allowance to married women and its impact on claims for attendance allowance.

TABLE 1

PROJECTIONS OF DISABILITY BENEFIT: EXPENDITURE TO 2000-2001

£ billion, 1985-86 prices

	Outturn 85-86	PES plan* 90-91	Projections for 2000-2001		
			A: Green Paper (1) (Reform of Social Security)	B: Base case	C: Growth case
Invalidity Benefit					
- Basic	2.22	2.77	2.22	3.25	3.81
- Additional Pension	0.13	0.43	0.82	1.17	1.37 (2)
Industrial Injury Benefits	0.41	0.39	0.35	0.36	0.36
Attendance Allowance	0.69	0.99	0.95	1.30	1.52
Severe Disablement Allowance	0.27	0.28	0.35	0.28	0.32
Mobility Allowance	0.42	0.69	0.70	0.81	1.81
Invalid Care Allowance	0.01	0.15	-	0.20	0.23
TOTAL	4.15	5.70	5.39	7.37	9.42
Percent per annum real growth from 85-86	-	6.5 %	1.8 %	3.9 %	5.6 %

* February 1988

(1) prices uprating, 10% unemployment

(2) Additional Pension projected expenditure 2025-2026 £2.25bn.

TABLE 2

PROJECTIONS OF DISABILITY BENEFITS

NUMBERS OF BENEFICIARIES Thousands

	Outturn 85-86	PES plan 90-91	Projections for 2000-2001		
			A: Green Paper (Reform of Social Security)	B: Base case	C: Growth case
Invalidity benefit	865	1120	800	1310	1540
Industrial Injury Benefits	185	215	200	200	200
Attendance Allowance	555	790	700	1040	1215
Severe Disablement Allowance	245	265	300	265	305
Mobility Allowance	395	620	600	730	1625
Invalid Care Allowance	10	115	-	155	175

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BF 24/5

FROM: MOIRA WALLACE
DATE: 10 MAY 1988

PS/CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Ramsden
Mr CallDISABILITY BENEFITS

The Chancellor has seen Mr McIntyre's minute of 6 May, which he found a very clear submission on a very complex subject. He has commented that this will clearly require very sensitive handling, and we will have to consider carefully how and when we make our own proposals.

2. On one point of detail, the Chancellor has noted that over 4 million of the total 6 million "disabled" in the OPCS Survey are over 60: he would be interested to know what proportion this represents of all over-60's.

A handwritten signature in cursive script, appearing to read 'mpw'.

MOIRA WALLACE

FROM: J P MCINTYRE
DATE: 13 May 1988

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips o.r.
Miss Peirson
Mr Turnbull
Mr Ramsden
Mr Call

DISABILITY BENEFITS

You noted (Miss Wallace's minute of 10 May) that 4 million of the people identified in the OPCS Survey as disabled were over 60 and asked what proportion this represents of all over-60's. The answer is one third.

Jm

J P MCINTYRE

*I think that (fact)
open work that (revised)
eyes for people's
open OPCS definition
'disabled'. The total rate
out over-60-year-olds is
3% of disabled in the state
The people normally understood
the term is mainly under
the umbrella.*



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

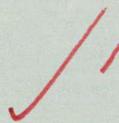
Telephone 01-210 3000

From the Secretary of State for Social Services

CH/EXCHEQUER	
REC.	16 MAY 1988 ✓
ACTION	MR PHILLIPS
COPIES TO	CST PMG SIR P. MIDDLETON SIRT. BUNN MR ANSON MR SANDERS MISS PETERSON MR PARSONAGE MR GRIFFITHS MR CULL

SECRET

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 LONDON
 SW1A 3AG



1. Alex
 2. pmp

16 May 1988

Dear Nigel,

HEALTH INDEX

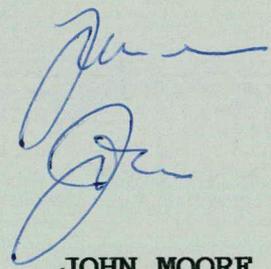
Thank you for your letter of 21 April about our work on the development of a health index.

The basis of the health index would be a portfolio of health indicators. My Chief Medical Officer is at present carrying out a feasibility study of how these might best be established, which will come to me shortly. It would clearly help me in assessing the outcome of this in relation to our overall policy objectives for your officials to be involved. So I welcome your suggestion that they should be.

Assuming that we are able to establish a firm technical base for measuring the nation's health, my clear view is that we should use that measure. For any Secretary of State for Social Services, and indeed any Government, to exercise effective stewardship, they have to be in a position to assess the nation's health and so be better able to take an informed view of the priorities for action in health and related fields. Of course, we must not do so in such a way as to generate pressure for expenditure that is unjustified. But we are bound in any event to have to reach difficult decisions on priorities, knowing that resources are finite. That is why I have been careful, as you say, to emphasise the realities of resource constraint.

It would not be practicable to remain silent on this issue until we have completed the technical assessment. I will need to deal with it, for example, in my evidence to the Social Services Committee. But I will continue to refer to it in a way which makes it quite clear that neither I nor the Government at large will be committed to the use of a health index based on a portfolio of indicators until we are satisfied it is a practical proposition. The work on this, incidentally, pre-dated the NHS Review and what I have said has not associated it in any way with the Review.

I am copying this letter to the Prime Minister.



JOHN MOORE

(though see X flag behind)



A handwritten signature in black ink, appearing to be "MP" or similar initials.

FROM: MISS M P WALLACE

DATE: 17 May 1988

MR McINTYRE

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Ramsden
Mr Call

DISABILITY BENEFITS

The Chancellor was grateful for your minute of 13 May.

2. He has commented that the fact that one-third of all over-60s would qualify as "disabled" according to the OPCS would open most people's eyes to the eccentricity of their definition.

A handwritten signature in black ink, appearing to be "Moira Wallace".

MOIRA WALLACE

CONFIDENTIAL



FROM: JILL RUTTER

DATE: 20 May 1988

MR MCINTYRE

CC:
 PS/Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Miss Peirson
 Mr Turnbull
 Mr Ramsden
 Mr Call

DISABILITY BENEFITS

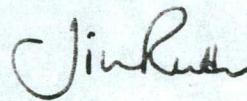
The Chief Secretary discussed with you and Mr Phillips your minute of 6 May on disability benefits.

2 You said that DHSS Ministers were still considering proposals and timing. The background was that on unchanged policies disability spending was set to grow enormously between now and the end of the century. That was without any change in the real value of benefits. DHSS were tied to the principle of a "nil cost package" - though interpretation of nil cost against the background of a high rising trend of expenditure might differ. The OPCS studies would be printed in a series of volumes - the first would be available in June though DHSS did not wish to publish it then. They wanted to hold publication until the second volume was available in October. A further volume on the needs of disabled children would appear next year. DHSS's current plan was to respond in October and start consultations with a view to legislate in 1989-90. You took the view that since there would have to be some sweeteners on the disabled - in particular the extension of mobility allowance to the over 75s in the 1988-89 Social Security Bill there was a case for tackling the less attractive elements of a package then too. You also thought that the Government would be under pressure to increase the disability premia and perhaps find extra money on extra costs. The Social Security Bill might be somewhat depleted and the items requiring legislation could be added.

CONFIDENTIAL

3 The particular runners you saw were action on the additional pension and on industrial injuries. The Chief Secretary said he saw considerable difficulties in seeking to present a package in October as a response to the OPCS Survey. The logical way of proceeding was surely to look at the 3 volumes together, consider priorities and switches and what could be done outside the provision of State benefits in order to give the impression of moving forward across the broad range of fronts. That need not rule out the short-term measures - a decision on Mob (A) had to be made in any case given the ageing of client group, and the change you are proposing on the additional pension could be justified as a normal survey decision, to complete the analogy with the restriction of the longer-term SERPS costs. He preferred to raise those issues with DHSS in the Public Expenditure Survey in the normal way. He did not see the presentational advantage of linking them with ^{the} OPCS Survey.

The Chief Secretary said that nonetheless it was difficult to take decisions in a vacuum: what we needed were a list of the short-term measures - both good and bad and their cost. We also needed to know what DHSS were proposing. The Government would need to create an atmosphere which was conducive to change by identifying areas where increasing expenditure was inevitable and highlighting those areas where current expenditure was unjustifiable.



JILL RUTTER
Private Secretary



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Parliamentary Under Secretary of State for Health

REC.	25 MAY 1988
ACTION	Mr Reenders
COPIES TO	Ex Sir K Underleten Mr Busson, Mr Phillips Miss Pearson, Mr Griffiths Mr Call

24 MAY 1988
~~OST~~

20 MAY 88

*Special advisors
Foster & Harris
per*

Mr Murdo MacLean
Private Secretary to the Chief Whip
House of Commons

Dear Mr MacLean

2

REVIEW BODY FOR NURSING STAFF, MIDWIVES, HEALTH VISITORS AND PROFESSIONS ALLIED TO MEDICINE (NPRB): MEMBERSHIP

You have previously suggested candidates for appointment to this review body, and I am sure Ministers would be glad to have your comments again this year.

Details of the NPRB's remit and membership are at Annex A. Appointments are made by the Prime Minister on the advice of GB Health Ministers. The normal term of office is four years and appointments are unpaid, apart from expenses.

The terms of three members - Mrs Harold, Mrs Hughes and Mr Hills - ended at the completion of this year's review. The new review body timetable makes it desirable for these appointments (which may include re-appointments) to be made by the end of July.

Officials gather that Sir James would like Mrs Hughes to be re-appointed and she would be willing to continue to serve but that Mrs Harold does not wish to be considered for re-appointment and Mr Hills does not expect to be re-appointed. A relatively generous pool of suitable names would therefore, be welcome.

There are no formal criteria for appointments, but you may find the following considerations relevant. In general, NPRB must have:-

- a. intellectual calibre to group and probe the major policy issues and the map of detail coming before them;
- b. time to read, attend regularly, and make an active contribution;
- c. status to keep the confidence of the profession.

The overall balance of membership is also important. The Prime Minister has previously encouraged Departments to seek younger candidates and two if not three women. There is a need to be watchful for potential clashes of interest, there should not be a member from another health profession nor

E.R.

should there be a trade union representative. Any potential Parliamentary candidate would be expected to stand down from NPRB membership before contesting an election. By custom at least one member has been a Scots resident (currently Mr Hills) and one member has been a Welsh resident (currently Professor Thomason).

It would be very helpful to have your views within the next three weeks. Copies of this letter and enclosure go to [Private Secretaries HM Treasury/Welsh Office/Scottish Home and Health Department/Secretary to the Cabinet].

Yours sincerely

Amie Grafton

PP MARY GRAFTON
Private Secretary

APPOINTMENTS IN CONFIDENCE

REVIEW BODY FOR NURSING STAFF, MIDWIVES, HEALTH VISITORS AND PROFESSIONS ALLIED TO MEDICINE (NPRB)

Remit

The NPRB was appointed with the remit of advising the Prime Minister on the remuneration of:

- i. nursing staff, midwives and health visitors employed in the NHS;
- ii. physiotherapists, radiographers, remedial gymnasts, occupational therapists, orthoptists, chiropodists, dietitians and related grades employed in the NHS.

<u>Membership</u>	<u>First Term Began</u>	<u>Current Appointment</u>
1. Sir James Cleminson (56) Chairman. Chairman, British Overseas Trade Board. Former Chairman, Rechett and Coleman and President of CBI.	1986	"to the end of the 1989 review"
2. Sir John Herbecq (65) Deputy Chairman. Second Permanent Secretary, Civil Service Dept until 1981. Church Commissioner	1983	"to the end of the 1990 review" (Deputy Chairmanship to the end of the 1989 review)
3. Miss Beryl Cooper QC (66) Recorder of Crown Court. Founder Member Bow Group. Member, Executive Committee of Society of Conservative Lawyers. Member, Criminal Injuries Compensation Board.	1983	"to the end of the 1990 review"
4. Mrs Suzette Harold (47) Chairman, MGC Mackenzie Computer Company Director, Davy Computer Ltd. Former Conservative Councillor and Parliamentary Candidate.	1983	"to the end of the 1988 review"
5. Mr Graham Hills (60) Principal and Vice-Chancellor, Strathclyde University. President, International Society of Electro-chemistry. Council Member RSC.	1983	"to the end of the 1988 review"

- | | | |
|---|------|--|
| 6. Mrs Jenifer Hughes (60)
Group Industrial Relations
Director MacMillian Publications.
Non-Executive Director, Prison
Board. Member Armed Forces Review
Body. | 1983 | "for another 3 years from
April 1985" |
| 7. Mr Ian Phillips (62)
Engineer. Chairman, West Group
International PLC. Ex-Chairman,
CBI Regional Council. | 1988 | "to the end of the 1990
review" |
| 8. Professor George Thomason (60)
Lately Professor of Industrial
Relations, University College
Cardiff. Member, Doctors' and
Dentists' Review Body. | 1983 | "to the end of the 1991
review" |

Born in Scotland in 1947. Happily married.

FULL NAME:- **JACQUI LAIT**
HOME ADDRESS:- 392 Shakespeare Tower
Barbican,
London EC2Y 8DR
PHONE:- 01-588 5745/0923

EDUCATION:-

Wyke Grammar School
Strathclyde University
BA Business Administration

OCCUPATION:-

Created and runs her own Westminster and European Parliamentary Consultancy. Until April 1984, Parliamentary Adviser to the Chemical Industries Association for four years. For seven years government information service in Scottish Office, Privy Council Office and Department of Employment, specialising in legislation. Prior to that, experience in international television news and public relations. Member of Lloyds.



POLITICAL EXPERIENCE:-

1987 General Election - Direction Field Presentation of the Prime Minister's Tour. Runner up on a number of selections for the 1987 General Election including Wimbledon, Birmingham Hall Green, Hexham, Harrow West and Boothferry. Tyne Bridge by-election candidate December, 1985. Candidate for Strathclyde West in 1984 European elections. Have been a party worker since 1966, beginning as Secretary and Vice-Chairman of University Conservative Association. Was Personal Assistant to Baroness Hornsby-Smith, DBE, in Chislehurst in 1970 General Election and, in 1974, was heavily involved as fiancée and wife of a candidate.

POLITICAL OFFICES:-

Honorary Vice-President of Strathclyde West Conservative Euro Council. European Union of Women - Vice-Chairman 1985-1987, their Press Attache from 1980 to date, leader of the Mass Media Commission 1980-1986, and 1989 European Election Co-ordinator. From January 1987 to the General Election was NHS Campaign Co-ordinator appointed by the Deputy Chairman of the Party the Hon. Peter Morrison. Elected to Conservative Women's National Committee 1985, and to their Finance & General Purposes Committee 1986 to date, rapporteur to their Working Party on the Warnock Report on Human Fertilisation and Embryology. Member National Union Executive Committee. Chairman - City of London Conservatives. Member of Greater London Conservative Women's Area Committee 1985/6. Editor of "Seizing our Opportunities - a woman's guide to public life." Editor of a column in Conservative Newline 1982-4. Political Officer, Political Advisory Group for Europe 1977-83; extensive travelling in France and Germany establishing political twinning links with centre and centre right political parties. Member - Foreign Affairs Forum, Conservative Group for Europe.

NON-POLITICAL INTERESTS:-

Governor of St Martin-in-the-Fields Almshouse Charity and of Archbishop Tenison's Grammar School Foundation. Member of Consumers in the European Community. Member of the City and East London Family Practitioner Committee. Fund raiser for Grainger Grammar School, Newcastle-upon-Tyne. Journalist and broadcaster.

SPECIALISED KNOWLEDGE:-

Europe, industry and commerce especially the chemical industry, the legislative process, the reform of personal taxation, the media especially developments in new technology, energy efficiency and health matters.

OUTSIDE INTERESTS INCLUDE:-

- Tennis, walking, swimming, theatre and tapestry.
- Food and wine especially buying wine in France.
- Member of the National Trust.
- Member of the Central Appeals Committee of the Arthritis and Rheumatism Council for Research.
- Member of the Hansard Society and the Institute of Fiscal Studies.

August 1987

publication?

ad address?

TEXTLINE * * * 22ND JAN 1983.

THE HOME SECRETARY HAS APPOINTED MRS JANE FINLAY JP AS FULL-TIME DEPUTY CHAIRMAN OF THE EQUAL OPPORTUNITIES COMMISSION FROM 1 JANUARY 1983 UNTIL THE END OF THE YEAR. MRS FINLAY HAD PREVIOUSLY HELD THIS APPOINTMENT ON A FULL-TIME BASIS.

The Home Secretary has recently made two new appointments as part-time Commissioners. Mr Robin J Skelton and Ms Muriel Turner have accepted his invitation to serve until the end of December, 1984. Mr Skelton is a partner in a firm of Manchester solicitors, and Ms Turner is Assistant General Secretary of the Association of Scientific, Technical and Management Staffs.

In addition he has re-appointed Mr Michael Fuller and Mrs Marie Patterson as part-time Commission members until the end of December 1983.

The Equal Opportunities Commission was established in 1975. Its current membership is Baroness Lockwood of Dewsbury (chairman), Mrs Jane Finlay (Deputy Chairman), Professor Angela Bowey, Mrs Rosemary Brown, Mrs Lucille Campey, Mr James Dunlop, Mr Michael Fuller, Mrs Teresa Marsland, Mrs Marie Patterson, Dr Ann Robinson, Miss Diana Rookledge, Mr Robin Skelton, Miss Margaret Sproat and Ms Muriel Turner.

The Home Secretary announced on 21 December 1982 the appointment of Baroness Platt of Writtle to succeed Baroness Lockwood as chairman of the Commission on 1 May 1983.

SOURCES
PR 21/1/83

TEXTLINE * * * 5TH DEC 1983.

MRS ROSEMARY BROWN HAS BEEN APPOINTED DIRECTOR OF BUSINESS DEVELOPMENT AT C AND K CONSULTING GROUP. (NO ABSTRACT).

SOURCES
FT 5/12/83 P19

TEXTLINE * * * 24TH APR 1987.

MRS ROSEMARY BROWN HAS BEEN APPOINTED A NON-EXECUTIVE DIRECTOR OF POINTON YORK (PENSIONS AND INVESTMENT). A MEMBER OF THE POINTON YORK GROUP. (C) THE FINANCIAL TIMES LIMITED 1987. (NO ABSTRACT)

SOURCES
FT 24/4/87 P15

SI 14/4/87

TEXTLINE * * * 19TH OCT 1986.

"THE GOOD RETIREMENT GUIDE", WRITTEN BY ROSEMARY BROWN, HAS BEEN PUBLISHED BY DUCKWORTH. IT COVERS MANY ASPECTS OF RETIREMENT, INCLUDING PENSIONS, TAXATION, INVESTMENT OF LUMP SUMS AND FINDING VOLUNTARY OR PAID WORK. (NO ABSTRACT)

SOURCES
SE 19/10/86 P24 ST 19/10/86 P86

TEXTLINE * * * 3RD SEP 1982.

THE HOME SECRETARY HAS APPOINTED MRS ROSEMARY BROWN AS A PART-TIME MEMBER OF THE EQUAL OPPORTUNITIES COMMISSION UNTIL THE END OF DECEMBER 1984. MRS BROWN IS A JOURNALIST. (NO ABSTRACT)

SOURCES
PR 2/9/82



BF 27/5

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

BF 7/6 to W

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	26 MAY 1988
ACTION	MR PHILLIPS
COPIES TO	C. STONE
	SIR P. MIDDLETON
	SIR T. BURNS
	MR ANSON
	MR SAUNDERS
	MISS PEARSON
MR PARSONAGE	
MR GRIFFITHS	
MR MCALL	

May 1988

We are obliged to make a formal response to the Social Services Committee's first and second reports on Resourcing the NHS. My officials have discussed the draft with yours, who have I understand asked that I let you see the text. I enclose a copy.

You will be aware from my letter of 16 May to the Chancellor that I have included a reference to work on the "health index"; this is a helpful illustration of one way in which the Government is addressing the issue of looking at the effectiveness of health care, and so enables us to make a more positive response to the Committee's fourth recommendation, as a counterbalance to our effective dismissal of the other three. But you will see that the reference in the draft (paragraph 13) follows the line set out in my letter to the Chancellor.

I would be grateful for early agreement to the draft.

JOHN MOORE

Government Response to the First and Second Reports from the Social Services Committee, 1987-88 Session.

Presented to Parliament by the Secretary of State for Social Services
by Command of Her Majesty [May]

Introduction

This memorandum gives the Government's observations on the Committee's two reports on Resourcing the NHS. Part I of the memorandum comments on the general issues raised. Part II contains responses to the individual recommendations contained in the Committee's First Report.

Part I

Resources for 1988-89

1. The Committee has expressed the view that health authorities should receive additional resources for 1988-89 in respect of the costs, above the provision for general inflation, of implementation of agreed Review Body recommendations and Whitley settlements, as well as an additional £1 billion, spread over two years for certain stated objectives. Since the Committee reported, the Government has announced that an additional £538 million is being made available to the hospital and community health services to meet the full costs of implementing the recommendations of the Review Bodies on the pay of doctors and nurses and the professions allied to medicine. Authorities will be expected to continue to augment the resources provided by central Government by implementation of cost improvement plans, other efficiency improvements, new income generation schemes, and sales of

surplus land. This will provide the financial basis for health authorities to meet service priorities and deliver services within a planned framework.

The issue of cumulative underfunding.

2. The Committee have set out their view that there has been a cumulative underfunding of health authorities over a period of years. Table A of their First Report, based in the main on figures supplied to the Committee by the Kings Fund Institute, is the basis of a claim that between 1980-81 and 1986-87 there had been a cumulative underfunding of £1.496 billion which it was estimated would increase to almost £1.9 billion by the end of 1987-88.

3. The Government does not accept this analysis or a number of the detailed assumptions made. The analysis assumes that, with the single, though important, exception of cash-releasing cost improvements, health authorities had no capacity during the period in question to reduce costs of patient treatment. There is however very clear evidence that by such means better management of inpatient activity including reduction of the time that beds remain empty, and by increasing the proportion of patients treated on a day care basis, hospitals have been able to reduce costs per patient treated, over and above specific savings attributable to cash-releasing cost improvements. By this means health authorities have been able to increase their output in a way which concentration on the costs of inputs does not measure. The evidence in question was drawn to the Committee's attention in the Department's written evidence (Part Two, paragraphs 6-10, notably table 5, which showed trends in unit costs in the acute sector) and in examination of officials (Minutes of Evidence: 17 February 1988, Q.

197-500) and, since publication of these two reports by Ministers (Minutes of Evidence: 23 March 1988, Q. 557-571).

4. The Government therefore cannot endorse the Committee's conclusions about cumulative underfunding since they fail to take into account the non-cash releasing cost improvements that have already taken place. The Government does however welcome the Committee's recognition that its previous calculations (Fourth Report, Session 1985-86: Table D and Figure 1) overstated the cost of demographic change, and that cash-releasing cost improvements enhance the spending power of health authorities.

Information on closures

5. The Committee has expressed the view that the Department should routinely collect information about closures of services arising from shortage of finance. Departmental officials undertook to consider whether there would be a case for collecting such information and, since publication of the two reports a note on this has been supplied to the Committee. The Government's view is as set out in that note. DHSS Ministers and the NHS Management Board need to have information to enable them to judge what is happening to the delivery of services at health authority level, and will continue to take appropriate steps to obtain it; but it is not practicable to collect information on closures or reductions in terms that would readily identify those attributable to financial difficulties, as distinct from other considerations.

PART II

Recommendation 1.

We recommend that the Government, in order to enable authorities to plan their budgets for the whole of the coming year, rather than make or plan cuts now in anticipation of underfunding of pay awards later in the year, commits itself to fund fully all NHS pay awards in 1988-89, to which it has agreed.

[6] The Government recognises the difficulties that can arise for health authorities in not knowing what pay increases they will have to meet in year. In this respect the pay of groups covered by Review Bodies is particularly significant since it currently account for 66 per cent of the total paybill and 49 per cent of total net revenue spending by authorities. To minimise the period of uncertainty this year, decisions on the pay of these groups were made as soon as possible after the Review Bodies' reports had been received and the Government announced on 21 April that it had accepted in full and was meeting the full cost of the awards. For the future it has been decided that from 1989 onwards the timetable for the Review Body reports will be brought forward so that decisions on their implementation and funding can be announced well before authorities finalise their budgets.

[7] The Government is not persuaded that it should have given, for 1988-89, or should give for future years, advance commitments about specific additional funding for pay awards, however agreed. In the case of the Whitley Councils, such a step would create a wholly unrealistic framework for their negotiations. In the case of the Review Body groups, the implication is that the only alternative to

Full funding is to curtail the recommended awards. The Government's view is that, in both cases, the right course is to consider both the level of funding and the level of pay within the context of resources and priorities as a whole.

Recommendation 2

We recommend that the Government review the overall allocations to health authorities in the light of a commitment to fund pay agreements, and calculate the extent to which the resources so far allocated will enable services to rise by 2 per cent in 1988-89. If it appears that on the DHSS's best estimate of NHS specific price inflation in 1988-89, that 2 per cent target will not be reached, we recommend that the allocation for that year be increased to cover the costs of 2 per cent service development (taking into account planned cost improvement programmes).

[8] The Government does not accept the basis upon which the Committee's recommendation is based. The Government does not agree that a given level of growth in services can be achieved only by an equivalent growth in the purchasing power of health authorities (including cash-releasing cost improvements). Account has also to be taken of the achievements of health authorities in improving efficiency by other means (para 4 of Part I above refers), and of their capacity for continued improvements.

[9] At this stage it is not possible to speculate meaningfully on the level of NHS specific price inflation in 1988-89. The Government's

early decision on funding of the Review Body awards means that health authorities are relieved of a major degree of uncertainty about the costs which they will have to meet in 1988-89. Nevertheless they have to accept a degree of continuing uncertainty in respect of the eventual level of Whitley settlements and of non-pay inflation, and their plans should accordingly include a degree of flexibility.

Recommendation 3

We recommend that the shortfall of £95 million in funding of pay and price inflation in 1987-88 acknowledged to us by DHSS be made good forthwith. In addition we recommend that DHSS make available over the next two years a separate and additional sum, which should not be less than one billion pounds, recognising that we have identified an apparent shortfall of £1.896 billion. This sum should be allocated to specifically identified and costed priority developments, including information technology and putting right the maintenance backlog, replacing essential fabric and equipment and developing identified service priorities for care in the community. It is not only RAWP gainers, but also DHAs which are RAWP losers, which will require these additional funds. Taken together, and they are a package, we believe our recommendations represent, at a time when the economy is buoyant, a realistic programme which will bring the NHS back up to scratch and restore the morale of its staff - who represent the most fundamental and essential resource of the NHS.

[10] The Committee have now acknowledged (Minutes of Evidence: 23 March 1988, question 556) that their recommendation for an additional £95 million in respect of pay and price inflation was based on a

misinterpretation. For the record, the Committee were told by officials that the calculation of £95 million represented the amount by which the cost of pay and price increases in 1987-88 was at that time estimated to have exceeded the cost increases which had been allowed for in setting health authority cash limits, taking into account the addition (of £262 million) which had been made for the cost of Review Body awards. That calculation (which has since been revised upwards in the light of information about actual price increases in 1987-88(a)) did not take into account, contrary to the Committee's interpretation, the £75 million addition to health authority allocations announced by the Minister for Health on 16 December. The Government understands therefore that the Committee now accepts that in large measure that element of this recommendation has been met.

[11] The Committee recommends additionally an injection of £1 billion spread over two years for identified and costed priority developments. The Government has now announced its intention to fund fully the Pay Review Body recommendations in 1988-89. Health authorities are encouraged to augment their resources, by more ambitious cost improvement programmes, income generation schemes and land sales. Provision for 1989-90 will be considered in the forthcoming Public Expenditure Survey and announced in the Autumn Statement in the normal way; no commitment can be given as to the outcome, though the Government will take into consideration the specific areas for spending identified by the Committee.

(a) provisional outturn figures now show that HCCHS current expenditure increased by 1.6% between 1986/87 and 1987/88 after allowing for HCCHS pay and price increases.

(12] The Government reiterates the views contained in the earlier responses to the first report expressed by the Secretary of State for Social Services and the Prime Minister (Appendices to the Committee's Second Report) about the adequacy of the evidence on which the Committee had rested its recommended level of additional resources and its suggestions about the purposes to which they should be put. The Committee have said (Second Report, paragraph 5) that the only respect in which their recommendation was arbitrary was that it was less than the £1.896 billion shortfall. The Government has made clear that it does not accept the basis on which the £1.896 billion was calculated, and consequently sees no greater reason than before to endorse the Committee's conclusion. The Government will therefore continue the established practice of determining the resources required for the National Health Service within the framework for public expenditure as a whole.

Recommendation ~~A~~

1. We recommend that urgent attention is paid to the development of improved measurement of the effectiveness of the NHS, a process to which the DHSS and all the groups working within the NHS should contribute, since the existence of such measurements would represent the most effective guarantee against recurrent funding and other crises.

[13] The Government has already made clear that it welcomes the recommendations of the Committee for improved measurement of the effectiveness of the National Health Service, and that this recommendation is wholly consistent with the thrust of the review of the National Health Service which is currently being undertaken.

Miss Wallace

Apparently the Chancellor has asked about Gordon Brown's figures. I attach two relevant notes; if the Chancellor needs more, please let me know.

Chris Riley.

27/5

Ch/ As these pps show, the short answer is - we don't know. Shall I commission any more work?
No further work
Thank you
27/5

16/25
From: C D FORD
Date: 25 May 1988

file: general briefing

MR HUTSON

cc: (without
attachments)
Mr Riley
Mr Towers
Mr Portes

Mr Williams (DHSS)

EFFECTS OF BUDGET AND SOCIAL SECURITY CHANGES

You asked for briefing on Mr Gordon Brown's claim that "more than 7.5 million households will be worse off under Budget and social security changes".

2. The first point to make is that Mr Brown is really talking only about the social security changes (together with the non-indexation of child benefit). Fewer than 1000 households "lost" as a result of the Budget (owing to the abolition of the minor personal allowances). The vast majority of tax payers gained: the income tax changes lead to a tax reduction of nearly £5 per week for a married man on average male earnings.

3. With regard to the social security changes I do not think we can do more than repeat the points already made. I attach detailed briefing prepared by Mr Portes together with notes for the second reading debate. The key points are:

- i) DHSS figures show that 88 per cent of claimants (7.3 million out of 8.3 million) are either better off or no worse off in cash terms.
- ii) total benefit expenditure is up by 43 per cent in real terms between 1978/79 and 1987/88.

4. As my note to Mr Heywood points out, it is difficult for us to analyse Mr Brown's figures without knowing more about the model and assumptions he is using. Even if one ignores transitional effects and allows for inflation DHSS figures suggest 3.7 million losers. To increase this total Mr Brown may have

- i) included single payments (possibly averaging them over all claimants)
- ii) included "losers" arising from the freezing of child benefit
- iii) included people who face high rate bills (and are only receiving assistance on the basis of average rates).
- iv) quoted figures for cumulative changes since 1986 (ie included August 1986 single payment changes) rather than for the recent reform.

5. Points to make are contained in the attached notes. The most important are:

- As far as we can tell,
- i). Labour figures ignore the effect of transitional protection (worth £200 million) and include single payments. Yet 85 per cent of single payments went to less than 15 per cent of claimants. Single payments grew five fold in five years.
 - ii) DHSS figures provide best guide to effect on claimant's weekly cash benefits.
 - iii) Wrong to consider Child Benefit as a means of assistance for low income families. Those on income support gain very little from raising Child Benefit. Decided to concentrate help on poorest rather than increasing benefit for rich as well as poor.

6. The Secretary of State for social services has recently been in correspondence with Ms Fran Bennett of the Social Security Consortium (the likely source of at least some of Mr Brown's figures). He pointed out that once transitional protection is taken into account, the effect of the reforms on the weekly income of those most in need is broadly neutral. Including the changes to housing benefit, income related expenditure on weekly incomes is around £100 million higher than if the previous system had continued.

7. This latter figure excludes the non-indexation of child benefit and the replacement of single payments by the social fund. A balance sheet prepared by Mr Portes comparing DHSS and social security consortium figures is attached.

8. We would recommend concentrating on the increased spending on benefits since 1979 and the improved targeting arising from the social security reforms rather than attempting to trade detailed statistics about the number of losers. The Government has said that 88 per cent either gain or are unaffected in cash terms - there appears to be little advantage in seeking to dissect someone else's figures.

Chris Ford

CHRIS FORD

116/1
Mr. C. Ford

Brown wields Treasury data to highlight poverty divide

John Carvel

THE poorest 25 per cent of the population have been net losers from the combined effects of the Budget and benefit changes, according to figures published yesterday by Mr Gordon Brown, shadow chief secretary to the Treasury.

They have lost more than £600 million between them while the top 5 per cent have gained about £2.5 billion, he claimed.

The figures are based on data from the Treasury and show that more than one million households are losing more than £3 a week as a result of the Budget-benefits package and 7.6 million households will see their living standards fall.

Millions more face a fall in

living standards because of Government-induced price rises in basic utilities and services, including electricity and water.

The figures suggest that 5.1 million would lose, and another 2.5 million would stay in the same position. Another 6 million families would find that tax cuts of up to £2 a week would be wiped out by the price rises.

Mr Brown said that the analysis provided hard evidence of the government's clear and direct responsibility for the growing gap between rich and poor. "In view of Mrs Thatcher's claims to the Church of Scotland about the morality of her policy, I am sending this survey to Church leaders so that they can judge for themselves the sincerity of her comments," he said.

THE INDEPENDENT

Survey reveals wealth gap

CHURCH LEADERS will be sent a survey by an Opposition spokesman showing that the gulf between rich and poor has widened under Margaret Thatcher's administration, despite her defence of the morality of Conservatism at the weekend, Colin Brown writes.

Figures produced by Gordon Brown, the Shadow Chief Secretary to the Treasury, show that one million families and households were losing more than £3 a week as a result of the Budget and social security changes.

The computer analysis shows that 7.6 million households would see their living standards fall.

It also reveals that 150,000 families have gained more than £100 a week and 50,000 families have gained more than £200 a week from the changes.

Mr Brown said: "This new computerised analysis provides hard evidence of the Government's clear and direct responsibility for the growing gap between rich and poor. Never this century has the gulf between top and bottom widened so much and so quickly.

"Mrs Thatcher's Christianity should be judged not by pious words but her actions, which have consigned thousands more to poverty even after her housing

benefit concessions." He added: "In view of Mrs Thatcher's claims to the Church of Scotland about the morality of her policy, I am sending this survey to church leaders so they can judge for themselves the sincerity of her comments."

The figures show that 6.3 million families could gain up to £2 a week from the combined changes, but Mr Brown pointed out that inflation could wipe out the gains, after price rises of 11 per cent for electricity, 10 per cent for water, 12 for rates, 9 per cent council rents, 8.3 per cent for prescriptions, 6 per cent for gas and about 10 per cent for bus and rail fares.

Over 7.5m households worse off, says Labor

MORE THAN 7.5m households will be worse off under Budget and social security changes, says Mr Gordon Brown, Labour Treasury spokesman, said yesterday.

Mr Brown told the House of Commons standing committee considering the Finance Bill that Britain lagged behind many other countries in the fairness of its tax system.

The committee was debating Labour amendments to the bill which would raise personal allowances by between £100 and £500.

Mr Brown described the March Budget as "the most unfair and unjust" of this century. He argued that tax benefits for the very rich should have instead been used to take more poor families out of paying tax at all.

Mr Brown said Britain had lower thresholds than many other countries - meaning many low-income households paid too much. In addition Britain's 25 per cent basic rate of tax was much higher than in countries such as Italy and the US.

Labour has also suggested amendments to the Finance Bill which would put a ceiling on tax allowances. This, it says, would close loopholes whereby somebody earning £1m a year could avoid paying any tax.

Mr Brown said: "In this Budget, as in everything else the Government is doing, some have benefited very much more than others."

Mr John Major, Chief Secretary to the Treasury, in reply said he was "brass-necked cheek" if Labour to complain about basic tax rates, given its record in the past.

He said that even before the Budget, personal allowances were 22 per cent higher in real terms than in 1978-79. In 1988 they would be 25 per cent higher.

Mr Major said the March Budget had taken 750,000 people out of the tax net.

Mr Major added that compared with other countries tax thresholds in Britain were about average but he admitted that the 25 per cent basic rate was still higher than average of states within the Organisation for Economic Co-operation and Development.

That is why the Government had cut basic tax rates and now had a target tax rate of 20p in the pound.

FROM: J D PORTES
Date: 28 April 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Mr McIntyre
Mr Ramsden
Miss Simpson
Mr Macpherson
Mr Scotter
Mr Ford

NUMBER OF PEOPLE LIVING IN POVERTY

Further to Miss Simpson's note of 27 April, I attach briefing on Gordon Brown's charge that 18 million people are 'on low incomes'.

J D PORTES

[X and Y don't belong
in an unclassified
briefing note!]

BACKGROUND NOTE

It is not clear where Mr Brown's figure of 18 million comes from. He states that the DHSS published a figure of 16 million, to which he says 2 million must be added because of the social security reforms. The 16 million is probably taken from the Low Income Family Statistics (LIFS). The latest published (using Family Expenditure Survey data from 1983) show about 16.4 million individuals living in households with income less than 140 per cent of the Supplementary Benefit (SB) scale rates. The next set of LIFS, with data from 1985, has been prepared and will be published shortly. They will show a fall in the figure above to 15.4 million. Nevertheless, DHSS Ministers may well decide to delay publication until after the May local elections. DHSS have already announced changes to the LIFS which will shift towards concentrating on absolute rather than relative measures of income.

2. The figure of 140 per cent of SB level as a 'poverty line' has never been accepted by this or any other Government (although they have continued to publish figures on this basis), though it has a measure of acceptance in academic circles as a rough estimate of the level below which it is difficult to 'participate in society'.

3. It is possible but I think unlikely that Mr Brown may be taking his figure from a DHSS estimate, provided to Brandon Rhys Williams, of the number of people in families in receipt of income-related benefits. DHSS say that this figure is more like 14 than 16 million, and in any case Brown refers specifically to those on low incomes.

4. Neither we nor DHSS know the origin of Brown's figures that there are 2 million extra people on low incomes because of social security cuts. Cuts made since 1983, and the latest reforms, will primarily have affected people already included in the 16 million figure. Moreover insofar as changes have reduced the real value of SB (like the 50p/£1 off the Income Support (IS) rates agreed in 1987 PES) these will tend to reduce the number of households with income less than 140 per cent of SB.

5. There is little to be gained in trading figures. It is not much of a bull point to correct Mr Brown's figure of 18 million on low incomes to 15.4 million. Hence, even if the LIFS are published during the Finance Bill Committee Stage, we assume you would not wish to draw attention to them. The briefing therefore concentrates on attacking the idea of relative rather than absolute standards of living, and bringing out the gains in take-home pay for those on low incomes since 1979.

18 million people on low incomes - line to take

Not clear where 18 million figure comes from - likely to involve double counting. Figure of 2 million extra people on low incomes as result of social security cuts is nonsense.

Points to make

- What matters is absolute not relative standards of living. Level of SB/IS is adequate to relieve poverty.
- Ridiculous to use multiple of SB/IS as measure of low income because means number of families on low incomes is apparently increased if Government increases income-related benefits.
- Also ridiculous to use number of families in receipt of income-related benefits as measure of number on low incomes - for example this number will rise as a result of generous new Family Credit.
- Much of post-1979 increase in numbers categorised as having 'low incomes' due to improvements in value of SB.
- Those on low incomes are better off in absolute terms - which is what matters e.g. a family on half average earnings (married couple, one earner, two children) has had real increase in take-home pay of 21.5 per cent since 1978-79. Under Labour the increase was 4.2 per cent.
- Many of those with incomes below 140 per cent of SB/IS will be in work and hence will gain from tax cuts.

Ian Souter 4981.

PPS 12/2

GORDON BROWN INTERVIEW ON RADIO 4 WORLD AT 1 24/5/88

SOCIAL SECURITY CHANGES

A note on their figures, commissioned from Chris Riley.

Interveiw: Today the labour Treasury spokesman Gordon Brown has released the results of a computer survey he's been doing into the effects of the recent Budget and the latest changes in social security legislation, the combined effect of which, Mr Brown told me, was to leave more than 7 million families worse off. I asked him for more details.

Gordon Brown: What we have done using the information that is available to the Treasury, is look at the impact of both the Budget and the social security changes after taking into account the housing benefit concessions, on all the families and households including pensioners in this country, and what we find is that 7½ million households are worse off as a result of the impact of social security changes and that another 6 million households will almost certainly be worse off once the price rises for electricity, water, rail and train fares and of course rent and rate rises work their way through. So what we've found is that a small number of people at the top have gained about £200 a week each out of the Budget but a large number of people at the bottom are now worse off. Now this is in stark contrast to Mrs Thatcher's view of society as expressed over the weekend, she said the spiritual dimension consists in deciding what to do with ones money. When the Government had the choice in these Budget and social security changes it is now quite clear that they chose to benefit those at the very top who are a very small number of people and those at the very bottom have lost far more than even we contemplated when we first attacked these social security changes.

Interveiw: There is another figure though among yours today of another 11 million who will gain up to £3 a week, that's a considerable number of gainers to isn't it.

Gordon Brown: But we reckon that 6 million out of these 11 million people will almost certainly find themselves worse off after the impact of the price rises that we now find working their way through in electricity and gas. For example, electricity price rises are 11% way above inflation, water 10%, rates and rent are going up by 10 to 11% and of course we've had the new charges like

prescription charges rising and new Health Service charges.

Interveiw: Now what Mrs Thatcher was talking about in part in her Scottish speech was the creation of wealth and surely the present situation shows that wealth is being created even if it may not be fast enough for the Labour Party.

Gordon Brown: Now most of the money that was available to the Government, additional money available to the Government and they were choosing how to use it in the Budget and social security changes, came from both privatisation receipts and from North Sea oil revenues. Our question to the Prime Minister is that if you are serious about long term sustainable rises in living standards for all the British population, then you've got to have policies that combine economic efficiency and industrial success with social justice. Now we don't actually believe that the policies being pursued at the moment are going to guarantee our long term success as a nation because we are not investing in training and education and research. But what is certainly true is that there is no element of social justice that forms the basis of these policies. Mrs Thatcher's religious convictions on Christianity must be judged on her actions as a Prime Minister and we find that at the top small numbers of people have done extremely well, at the bottom there are 7½ million people, and a lot of these are pensioners, who are now having to scrimp and save to meet the bills that are now coming into their households.

Interveiw: But do you think that to a certain extent that Mrs Thatcher's policy of getting people to reduce their dependence on the state is working and that the numbers of dependants are actually falling.

Gordon Brown: There are less people registered as unemployed but at the same time there are nearly 5 million people having to claim supplementary benefit which is a very substantial rise in the numbers that there were in 1979 and these are the direct result of Government economic and social policies.

*mp*

FROM: MISS M P WALLACE

DATE: 26 May 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary *
PS/Paymaster General *
PS/Economic Secretary *
Sir P Middleton
Mr Anson
Mr Saunders
Mr Cropper *
Mr Tyrie *
Mr Call

* with Ms Grafton's letter of
23 May

**REVIEW BODY FOR NURSING STAFF, MIDWIVES, HEALTH VISITORS AND
PROFESSIONS ALLIED TO MEDICINE: MEMBERSHIP**

... The Chancellor has seen the DHSS letter of 23 May (attached for those who have not seen it) inviting suggestions for candidates for the vacant places on the Review Body. The Chancellor thinks it would be helpful if Ministers/Advisers could think of some suitable names.

mpw.

MOIRA WALLACE



FROM: JILL RUTTER

DATE: 27 May 1988

APS/CHANCELLOR

CC:
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Saunders
 Mr Cropper
 Mr Tyrie
 Mr Call

**REVIEW BODY FOR NURSING STAFF, MIDWIVES, HEALTH VISITORS AND
 PROFESSIONS ALLIED TO MEDICINE: MEMBERSHIP**

The Chief Secretary has seen your minute of 26 May asking for the suggested names following Mrs Currie's Private Secretary's letter to Murdo MacLean.

2 The Chief Secretary has 3 suggestions, in order of preference:

- ✓ (i) Audrey Stenner PhD, who is headmistress of Buckden Primary School in Sir Anthony Grant's constituency. The Chief Secretary says that Dr Stenner is admirable in every way - tough, independent and markedly younger than many of the present members of the Review Body.
- ✓ (ii) Mrs Janet Cohen - an ex DTI civil servant now a director of Charterhouse Bank (who appeared on Question Time with the Chief Secretary, has also written a novel etc etc).
- ✓ (iii) The Hon John Fellowes, who is a large-scale farmer in the Chief Secretary's constituency, and heavily involved with the NFU.

3 The Chief Secretary would no doubt be delighted to expand on the merits of these various candidates should the Chancellor wish.

JILL RUTTER

Private Secretary