

P.0585

PRIME MINISTERPublic Expenditure: Health and Social Security

HEALTH

You might suggest that the discussion should concentrate on the main outstanding issues identified in the Annex on Health to the Home Secretary's draft MISC 62 report.

Hospital and Community Health Service (HCHS)

2. The three questions at issue under this heading are as follows:
 - a. The Secretary of State wishes to increase planned expenditure to compensate for the effects of 1981-82 price increases above cash limit factors (cost: £41 million in 1982-83, £44 million in 1983-84, £48 million in 1984-85).
 - b. The Secretary of State proposes 1.7 per cent real growth in 1982-83. The Chief Secretary proposes no real growth (saving: £93 million, £98 million, £101 million).
 - c. The Secretary of State proposes 1 per cent real growth per annum in 1983-84 and 1984-85. The Chief Secretary proposes no real growth (saving: £86 million in 1983-84 and £182 million in 1984-85).
3. The following public commitments are relevant:
 - a. The 1979 Election Manifesto said "It is not our intention to reduce spending on the Health Service; indeed we intend to make better use of what resources are available".

b. On 8 April 1979 you said at Beeston "We shall not reduce the resources devoted to the Health Service".

c. On 27 April 1979 Mr Jenkin said at Peterborough "In their Public Expenditure White Paper published at the beginning of the year the [Labour] Government set out their spending plans for the National Health Service over the four years up to 1982-83. This provides for a modest growth in National Health Service spending. These spending plans will be at the very least maintained by a Conservative Government".

d. On 22 January 1980 you said in answer to a Parliamentary Question from the Leader of the Opposition: "Our pledge that we shall keep up expenditure on the National Health Service as we gave it in the election will be maintained".

These statements, and particularly that at 3(c), appear to commit the Government to maintaining in real terms the growth in HCBS expenditure planned by the previous Government. This would imply accepting both the Secretary of State's proposals at 2(a) and (b) above.

4. The Chief Secretary will point out that these commitments were made before the Government introduced cash planning. He may suggest that savings can be found by increasing efficiency. But the Secretary of State's proposals already assume increases in efficiency higher than the CBI have proposed for the Health Service; and he will probably argue that there is no scope to do better. To plan on unrealistic assumptions about efficiency is likely to result in a fall in standards.

5. It is unlikely that these questions can be settled outside the Cabinet without some compromise between the Chief Secretary's wish to preserve the principles of cash planning and the Secretary of State's concern about the public commitments made. So far as cash planning is concerned, the Chief Secretary is likely to be particularly keen to resist the "validation" of the 1981-82 price increases. Discussion in MISC 62 suggested that the Secretary of State might be willing to forgo that so long as he secured the 1.7 per cent volume increase in

1982-83 and some volume increase (say $\frac{1}{2}$ per cent) in 1983-84 and 1984-85, in recognition of increased demands on the HCHS (resulting, for example, from the growing proportion of old people in the population). This would involve the Chief Secretary's revising his proposals upwards by £93 million next year, about £150 million in 1983-84 and about £190 million in 1984-85.

National Health Service Pay

6. The extra provision for NHS pay (£100 million in 1982-83, £106 million in 1983-84, and £111 million in 1984-85) has been agreed to be desirable in principle, mainly because it may be necessary to avert a damaging industrial dispute with the nurses. The Chief Secretary is reserving his position until he can be sure that he does not have to make too many concessions on other items.

Road Traffic Accidents

7. MISC 62 took the view that there was no prospect of the necessary legislation being passed in this Session and there are some difficult legal issues. If this proposal does not go ahead, the Chief Secretary will have to forgo savings of £6 million in 1982-83, £93 million in 1983-84 and £101 million in 1984-85.

National Health Contribution

8. The Secretary of State may suggest that the gap between the Chief Secretary's proposals and his own should be closed by increasing the National Health Contribution (part of the employee's National Insurance contribution). A 0.1 per cent rise has the same effect on the PSBR as a £100 million cut in Health Service expenditure - though it does not affect public expenditure totals. But as you are aware from the Chancellor of the Exchequer's minute of 12 November any such decision would be on top of the hefty increase in National Insurance contributions which will probably be necessary next year.

SOCIAL SECURITY

9. Of the three questions at issue the most important is the Chief Secretary's

You have expressed a reservation about this and said that it is to be decided in the light of the public expenditure discussions (i.e. they can have this extra provision if we can afford it.)

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proposal that in November 1982 short term benefits not subject to an absolute pledge of price protection should be increased by 5 per cent less than prices, (saving £145 million in 1982-83, £440 million in 1983-84 and £460 million in 1984-85). The benefits concerned are:

- a. a group of "family" benefits - child benefit, one parent benefit, family income supplement, and maternity allowance;
- b. sickness and injury benefit and mobility allowances;
- c. supplementary allowances;
- d. unemployment benefit.

10. You will want to explore the political implications of explicitly reducing the real value of these benefits. In particular:

- a. Would it be necessary to announce decisions on these benefits at about the same time as a decision to increase employee contributions?
- b. Could the Government's critics successfully argue that decisions to reduce the real value of social security benefits were inconsistent with past undertakings? Although the Government is not pledged to protect the real value of the benefits in question, the Chancellor of the Exchequer said in the House on 26 March 1980 "Any civilised society should provide a safety net below which a poor person's standard of living should not fall No action we take should be at the expense of the really weak and needy".

11. You may wish the Cabinet as a whole to reach a decision on this question. But if there is to be a compromise the obvious approaches are:

- a. to abate the uprating by less than 5 per cent;
- b. to abate the uprating of some but not all of these benefits. (Child benefit, ^{150.} supplementary allowances ¹⁴⁵ and unemployment benefit ⁷⁵ account for most of the expenditure at issue: respectively 35, 35 and 20 per cent of the total spent on these 'unpledged' benefits.)



12. The other two questions at issue - making good the 1980 abatement in invalidity pensions (£18 million, £54 million and £58 million) and making good in 1982 the underestimate of inflation in the 1981 uprating of non pensioner supplementary allowances (£28 million, £68 million and £71 million) can probably only be settled in the context of an agreement on the Chief Secretary's 5 per cent abatement proposal.

PLG

P L GREGSON

17 November 1981

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LONDON