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Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq  
Private Secretary  
10 Downing Street  
London  
SW1

16 January 1989

Dear Paul

**NHS REVIEW: EXPENDITURE IMPLICATIONS**

... I attach a joint note by the Chief Secretary and the Secretary of State recording the outcome of their discussions on the expenditure implications of the Review.

One point which remains to be resolved is whether the amount, £43 million, provided in the Survey for expected Review costs in 1989-90 should be spelt out in the paragraph on public expenditure implications in the White Paper. The Secretary of State for Health feels that it should, on the grounds that it is a substantial sum indicating that the Government means business, and it is in any event certain that people will ask how much money has been provided. The Chief Secretary feels that the sum should not be mentioned in the White Paper. He feels that it may be seen as inadequate in relation to expectations raised by the reforms, and that to include the sum in the public expenditure paragraph will sit oddly with the rest of the White Paper which does not include any costings in relation to individual measures. He is content for the £43 million figure to be used in response to questions.

I am copying this to the Private Secretaries to the Chancellor, the Secretaries of State for Health, Scotland, Wales and Northern Ireland, the Minister for Health, Sir Roy Griffiths, and Sir Robin Butler and Ian Whitehead (Policy Unit).

GWS  
CWS

MISS C EVANS  
Private Secretary

## PUBLIC EXPENDITURE IMPLICATIONS OF THE NHS REVIEW

Note by the Secretary of State for Health and the Chief Secretary  
to the Treasury

At the last meeting of the Ministerial Group we were asked to discuss bilaterally the line to be taken in the White Paper on the public expenditure implications of the NHS Review measures.

2 We have reached agreement on a suitable paragraph on public expenditure for the White Paper. The text we propose is shown in Annex A. We have also agreed the line to take in response to specific questions about the adequacy of provision for the costs of the Review reforms in 1989-90. This is outlined in Annex B.

3 We have agreed that we should handle the position in 1989-90 as follows. The progress in implementing the reforms will determine whether or not any extra costs in that year will exceed the provision made in the Survey for Review measures or associated expenditure. Offsetting factors to be taken into account include the scope for increased efficiency and other savings within the health budget - reflecting, for example, revised priorities; any replacement by Review-related work of other items already provided for; together with any underspending on services which may emerge during the course of the year. If in the light of these factors, a bid on the Reserve is sustained, the Chief Secretary will be prepared to consider it, but on the basis that any essential additional net provision will not be financed at the expense of patient services.

4 The Department of Health's preliminary assessment of the costs of implementing the Review measures is that there will be a rising scale of expenditure up to some £½ billion in gross terms by 1992-93. Some further items of expenditure may be identified and, as yet, there are no estimates of the offsetting savings from the improved efficiency which will result from the reforms. We have agreed that the question of the provision of any additional

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resources cannot be addressed until more detailed proposals have been put forward and scrutinised, with a full cost benefit analysis, and the extent of the resulting efficiency savings and the scope for offsetting savings from elsewhere within the health programme have been examined. This will be essential information for the 1989 Survey in the context of which decisions will be reached.

16 January 1989

## ANNEX A

## DRAFT PARAGRAPH FOR NHS REVIEW WHITE PAPER

Public expenditure

The reforms in this White Paper will enable a higher quality of patient care to be obtained from the resources which the nation is able to devote to the NHS. The provision for spending on health in the coming financial year, 1989-90, announced in the Autumn Statement, included the likely costs of preparing for the reforms and for the legislation which will give effect to them. Any extra costs should over time be offset by the improved efficiency which will stem from them. The total provision for spending on health will take account of the progress made in implementing the reforms - including the increased efficiency savings. Costs in future years will be considered in the annual public expenditure surveys.

ANNEX B

LINE TO TAKE ON PROVISION FOR COSTS OF REVIEW MEASURES IN 1989-90

1. NHS expenditure plans for 1989-90 announced in Autumn Statement anticipated the likely costs of the NHS Review reforms. [Figure of £43 million can be used if pressed.]

2. Impossible to foresee precise costs, which will depend on speed of implementation. Total level of spending will take account of progress made in implementing the reforms, including resulting savings from improved efficiency.

[If pressed]

3. If - which we do not expect at this stage - actual costs in 1989-90 turn out to be greater than anticipated, the necessary funding will be made available without detriment to patient services.