



SECRET AND PERSONAL

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 From the Secretary of
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Dear Norman.

9th May 1990

PUBLIC EXPENDITURE AND THE NHS REVIEW

file with BP

Thank you for your letter of 3 May asking me to consider postponing the NHS reforms from April next until 1993. We are to discuss this on 14 May with the Prime Minister but it may be helpful if I set out some points now.

I do not think the postponement you seek is either necessary or, even remotely, a practicable option. Our review of the NHS and the decisions we so clearly made and announced about its implementation represent one of our most important initiatives as a Government during this Parliament. They are now integral to our approach to health service effectiveness. In the last 18 months we have made enormous progress in preparing the NHS for the reforms and in dispelling a good deal of the ill-informed criticism that was first made of them in Parliament and elsewhere; and we are now within sight of the successful completion of proceedings on this session's legislation.

Announcing postponement - partial or complete - against this background would be a dramatic retreat. Economic commentators would surely see in it a policy reversal so fundamental as to imply even greater problems of economic policy than those with which you are understandably pre-occupied. From the NHS perspective I am confident that there would be wide-spread demoralisation among those who support the reforms and a rejuvenation of opposition from the BMA, Royal Colleges and others. We would face accusations over the remainder of the Parliament that we had lost conviction in our own reforms and were letting the service simply drift.

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It is increasingly clear that many interests within the service itself are responding enthusiastically and responsibly to the opportunities we intend them to have. Because we have always known that the purchaser - provider contracting system would be a difficult change we have done a great deal of pilot and trial work with Regions and Districts and have already invested a good deal in the new equipment and new skills that we need. The best DHAs are now well advanced with their plans and have shown that the system can work and will lead to improved services. Duncan Nichol and the NHS Management Executive are now concentrating their efforts to ensure that all DHAs can move to securing services by contract from 1 April next. It is important to understand that in most cases the first series of contracts will be framed in broad terms and simply replicate existing patient and financial flows. We are stressing this point in all our advice and will aim to minimise initial turbulence whilst requiring some improvement in the quality of service, for example, reductions in waiting times. We were always aware, when reaching decisions during our review, that no change of this kind could be without transitional risk. But we are doing everything possible to ensure that the risks are kept to a minimum.

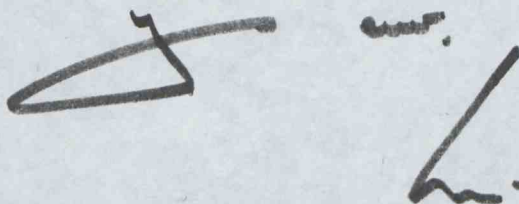
The technical treatment of the interest charges on NHS Trust capital debt is entirely a Treasury matter. It is as unwelcome to me as evidently to you that the expenditure classification conventions oblige me to bid on the public expenditure planning total in order to finance interest payments to the Exchequer which cannot, apparently, be offset against my programme or the planning total. The financial flows involved are entirely circular. They have no implications whatsoever for the Government's calls on national economic resources; and they are absolutely neutral in terms of the fiscal balance. Accordingly, they pose no threat whatever to the objective of a tight fiscal policy.

The creation of Trusts is one of the key parts of our reforms. There are some 80 first wave candidates, but I shall approve Trust status only where I am satisfied that there is enthusiasm combined with sensible and effective plans which will improve services and value for money. There are very good prospects of bringing some 40-60 Trusts to fruition by April 1991 and I could not contemplate an arbitrary reduction in their number simply on account of the technical treatment in Government accounts of their debt interest. I should, however, be very ready to consider with you during the Survey whether there are ways of easing the effects of this treatment on both your and my Survey arithmetic. There is already an issue between our officials about the right rate of return on debt interest. A lower rate than the 6% your officials are urging would of course reduce the total of debt interest. And we might consider whether there are any possibilities of timing or handling which could prevent the problem from complicating the Autumn Statement totals.

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More generally, on public expenditure, I am well seized of the difficult position we are in. As you know, there are a number of severe pressures on my programme, and two of my key baselines - hospital and community health services current and capital - at the moment imply a real terms cut in resources between 1990-91 and 1991-92. I have not yet considered fully my position for the Survey, but you can be sure that I will avoid bidding except where I judge it essential.

I am copying this letter to the Prime Minister and John Major.



KENNETH CLARKE

