

- hr 6/7
1. MR RAYNER
 2. PS/CHANCELLOR

John
 I don't think this is
 new going to be
 raised but you
 might like to show
 Michael in the course
 M.

FROM: J G COLMAN
 DATE: 6 JULY 1983

c.c. PS/Chief Secretary
 Mr Bailey
 Mr Wilding
 Mr Watson

(PWP)

PA

1. cc Personal to Mr. Selous.
2. prop. J.M.

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LONG-TERM RESOURCE ASSUMPTIONS FOR HEALTH AUTHORITIES

You told me that it was possible that when the Chancellor sees her today the Prime Minister might refer to Mr Fowler's announcement last week about long-term resource assumptions for health authorities. You asked me for a note.

2. The background was described in my submission of 27 June. I attach an extract of the relevant part of the health circular which was issued last week. If the Prime Minister raises this issue, I suggest that the main points the Chancellor might make are as follows:

a. - this is not a case of Mr Fowler making an unauthorised new commitment: it was agreed in February that he could issue the guidelines

b. - the $\frac{1}{2}\%$ real growth assumption is explicitly not a commitment that the Government will find the money. Health authorities are warned that the actual provision could be less; and because the assumption is expressed gross of income from charges there is no presumption that whatever money is provided would all come from the Government rather than patients.

c. - the assumption is expressed in real terms, despite the fact that Government expenditure is planned in cash, for good reasons:

- a 10 year assumption in cash would involve taking a view on prospects for inflation 10 years ahead. Health authorities are not equipped to do this.
- an assumption in cost terms would likewise involve forecasting relative price effects over a long forward period. Past experience shows that

it would not be prudent to make firm plans on the assumption of nil relative price effect. (This is a quite separate issue from whether the Government's own cash plans, for only 3 years ahead, should make provision for relative price effect.)

J. G. Colman

J G COLMAN