LETTER FROM WESTMINSTER

“Star chamber” to cut departmental spending plans

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The Cabinet's annual wrangle over public spending is reaching its critical stage, the point where ministers begin to mutter (privately) about resignation but never carry out the threat. Few of the secretaries of state in charge of the front line departments emerge unbruised. Indeed, the odd scar is worn proudly as a battle honour, a sign of political virility.

The spending targets of the government were agreed at last July's Cabinet, when ministers resolved to stick to the Chancellor's 1986-7 planning total of £139 000 million. But no sooner had the Treasury succeeded in getting its global budget satisfactorily determined than the big spending Whitehall ministries messed up the books by asking for too much money. This year the overbids are about £400 million above target. The main culprits are the Ministry of Defence, the Department of Energy, the Department of the Environment, and the Department of Health and Social Security.

For the fourth year the Treasury has failed to persuade ministers to prune their programmes sufficiently and the so called “star chamber,” headed by Viscount Whitelaw, has been set up to arbitrate. Putting the Treasury's case for the first time is the newly appointed Chief Secretary, John MacGregor. He is entrusted with keeping Nigel Lawson's financial strategy intact to allow the Chancellor substantial room for tax cuts in his budget next spring.

This year there is an unprecedentedly high contingency reserve of £6000 million built into the overall planning total, a sum that Mr Lawson wants to keep for a rainy day offering. He is not about to let his colleagues get their hands on one penny to finance their programmes. So, cuts in planned spending will have to be made. And Mr MacGregor's eye has been wandering in the direction of the NHS.

The health pay bill, especially after the increase awarded to the nurses, has alarmed the Treasury Scrooges. The government has boasted of its record in recruiting staff for the NHS. The Minister for Health, Barney Hayhoe, said at the Conservative conference in Blackpool: “Look around the hall. It holds some 4000 people. Think of it filled with nurses—filled not once or twice, but 15 times over. For they are the extra nurses recruited during our years of office.” Such words brought rounds of applause from the delegates—but screams of anguish from the Treasury.

Next year the pay threshold in the NHS will be that much higher; funds which the government claims would otherwise be spent on patient care will go to meet the bill. The government is committed to increase overall NHS funding by about 0.5% a year in real terms for the next decade, with the bulk of higher expenditure in the first three years. Other cost increases, apart from pay rises, will wipe this out and more, leaving the government exposed to the political charge of allowing the standards of care to decline.

Treasury demand for “something” from NHS

The overall funding of the NHS is not about to come under attack from the Treasury, but there are strong signs that it will demand something from the DHSS to offset the pressure for ever greater expenditure on health. That “something” is likely to include an

extended privatisation programme, perhaps a moratorium on staff recruitment and a freeze on capital projects to release cash for the day to day running of the service. The NHS will also be under pressure, as has been the case with the nationalised industries, to sell off assets such as land or underused buildings.

The Secretary of State for Social Services, Mr Norman Fowler, may bow to these “value for money” demands in order to protect his social security budget, which is coming under close scrutiny now that his review has been published. What is certain is that the DHSS spending battle will go all the way to Downing Street and a final decision by the Cabinet.

The search for economies in the NHS is, of course, nothing new as the drug companies will testify. Their profit targets, fixed under the mysterious (well, to most of us, anyway) Pharmaceutical Price Regulation Scheme, are regularly scrutinised, and Mr Hayhoe is now negotiating a new deal with the industry. In particular, he is looking to tackle the excessive profits made from the practice of transfer pricing—that is, the prices charged for goods passing between affiliate companies, usually in different countries, within the same group.

In the past two years one unnamed company has refunded £2 million to the DHSS in respect of excess transfer price profit. The DHSS has had a senior accountant from the private sector working on methods of assessing the “reasonableness” of transfer prices, and Mr Hayhoe may be about to reap the benefits of his expert knowledge.

“Rare old mess” on pharmacists' contracts

The government has landed itself in a rare old mess in its efforts to introduce a new contract for pharmacists. Two years were spent negotiating the revamped deal with the aim of producing a more “rational” spread of pharmacists, avoiding the cluster of chemists in high streets and around surgeries. It would also have meant the closure or merging of some small chemists.

The day before the contract was due to start, however, the government's legal eagles discovered that they would need new legislation to enforce it and they could not rely, as had been planned, on a parliamentary “order” put before MPs. Even worse was to follow. A handy piece of Scottish legislation happened to be going through parliament, and into it was slotted the new contract scheme for introduction north of the border at least. But their lordships, on learning of the legal cock up in England and Wales, deleted it from the Bill despite the government's protests.

Lord Ross of Marnock, a former Scottish Secretary, said that the House of Lords had originally agreed to consider the inclusion of the contract in the Law Reform Bill to fall into line with the rest of the country. He suggested that ministers introduce primary legislation to cover the whole country and try again. But as the debate progressed it became clear that the government will find it difficult to push such a Bill through the House of Lords.

If the government is facing an alliance of monetarists, who want the free market to operate, and the substantial band of libertarians who resent any question of compulsion and prohibition Mr Hayhoe will have an uphill struggle to get the pharmacists' proposed contract on to the statute book. The only group standing to benefit from the whole, sorry saga is, inevitably, the lawyers.