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PRIME MINISTER

26 February 1988

KEEPING NHS REFORM ON THE RAILS

I am in almost total agreement with Richard Wilson's paper which accompanies the DHSS and Treasury briefs. It may be useful therefore if, instead of repeating his analysis, I concentrate on analysing the attitudes underlying some of the departmental approaches.

At the last ministerial meeting, the decisions reached were:

(a) to obtain greater information on the NHS;
(b) to examine selected aspects of health care, in particular charging;
(c) and to postpone discussion of structural reforms.

This led us down a false trail. "Without theory the facts are dumb." And without clear aims to determine what is relevant, the mere collection of data will lead to delay, loss of momentum and the accumulation of much material that is useless. In the uncertainty created, officials will tend to reflect the established interests and attitudes of their departments.

In the Treasury's case, the strongest instincts are those of a Ministry of Public Finance or watchdog of public spending. It naturally aims to maintain its centralised control of the system, to hold down public spending, and to seek greater efficiency within the system by means of external audit.

Inspired by these aims, the Treasury is waking up to the fact that the National Health Service is good at controlling its total cost (even if poor at micro-cost control). It fears that any other system will lead to runaway public spending -

especially one in which decisions over financial control are distributed outwards. And it therefore sees reform of the NHS as a synonym for charging. While the Treasury's attitude is ideal for the annual public expenditure round, it is less suited to devising fundamental reforms.

The DHSS has quite a different set of incentives. It wishes, first, to see a method of finance which makes the cost of health care visible and which is tied to rising incomes. It also has an interest in not disturbing the medical and other pressure groups of which it is the sponsoring Department. These lead it to favour financing reform over structural change - in particular, the "SERPS solution" of a dedicated health tax with contracting out.

Neither the Treasury nor the DHSS, on this analysis, have a deep interest in money following the patient, introducing the stimulus of private sector competition, getting to grips with inefficient practices on the ground, or structural solutions like Health Maintenance Organisations. And indeed the Departments have both expressed serious reservations about them, the Treasury stressing the problem of deadweight cost. They objected to a Cabinet Office paper which examined HMO reform in detail (and which now appears as an annex to Richard Wilson's brief for you.) And the Treasury papers, which are in general more opinionated than the DHSS submissions, tend to be somewhat negative in tone towards patient choice.

There is also emerging what looks like a (distinctly fragile) alliance between the two Departments in favour of a dedicated health tax plus contracting out. Some Treasury officials have dropped strong hints in favour of this, others seem to be against it. This ambiguity has given heart to the DHSS.

To put the argument in italics, the two Departments are instinctively suspicious of structural change. If structural

change is disposed of, they may well fall out over the SERPS approach which, if the Treasury opposed it strongly, would presumably then perish in its turn. And that would leave us with the present NHS system with charges - the worst of all possible worlds.

To prevent these developments and to keep NHS reform on the rails, I suggest that you adopt the following position in Monday's meeting:

1. Keep all the options for reform open - including structural change in which money follows the patient between competing providers.

2. Commission two papers:
   (a) on the options for structural and financing reform
   (b) the steps required to get there

3. Resist a general policy of "more information" for the group unrelated to solving particular problems. With Roy Griffiths' reading list and the DHSS papers we already have as much information as we can reasonably digest. We also have the examination of options that will direct our attention to such relevant information as we do not now possess.

4. Express deep scepticism about charging on the grounds of unpopularity and poor revenue raising. You might, however, grudgingly concede the possible application of charging in the context of major NHS structural reform.

5. Refuse to spend too much time on the dispute between the Treasury and the DHSS about an external audit for the Health Service. The Treasury is almost certainly right on this and will win in the end. But it is a second order question in the context of Monday's meeting and

should not be allowed to obstruct more important discussion.

6. Commission a study of guaranteed maximum waiting times as outlined in the enclosed minute. The DHSS paper contains a wealth of interesting information on waiting times. But we need to know such things as: how large is the residual category of treatments as a percentage of all treatments? And what percentage of patients in each category of treatment has to wait beyond the guaranteed maximum waiting time? The answers to these questions would enable us to calculate whether (or, more precisely, at what lengths of waiting time) we could finance the guarantees.

7. Kick two questions firmly into touch:
   (a) deadweight cost in relation to either contracting out or allowing private sector HMOs to compete for capitation fees. We have asked the Treasury for a paper on this and will respond to it later in the week.
   (b) Treasury rules on unconventional financing which at present obstruct the entry of the private sector into the building and operation of hospitals for NHS patients. Again, the Policy Unit is working on this and will raise it with the Treasury in the near future.

overstated!
PRG

John O'Sullivan

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