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PRIME MINISTER

THE NATIONAL HEALTH SERVICE

The note by the Secretary of State for Social Services sets out a wide range of options. It may help our discussion if I indicate those which I think are most promising - though I do not want to rule others out at this stage.

The Internal Market

We must introduce a more dynamic market into the health service. At present it is a planned and centralised bureaucracy. Whatever management improvements are made - and I accept that there has been good progress - they need to be leavened by competition and trading of services between health authorities.

Since the idea was first given wide currency by Professor Enthoven some 3 years ago, various outside commentators have tried to develop it further. Some thought has been given to this by officials in both Treasury and DHSS. There are various possible models: much greater freedom of patient choice (which would probably need to be combined with an insurance or voucher system); giving control to GPs over where to send patients; giving control to districts; or, simply building on the tentative first steps that some health authorities are starting to take. It is a development which would be consistent with what many health service managers would like to do. I believe DHSS and Treasury jointly should now work it up more fully.



Publication of information and audit arrangements

Better information about waiting lists, unit costs and performance at hospital and district level needs to be published if a market is to work. This might be combined with some form of independent scrutiny of value for money - the Audit Commission, which does this sort of thing for local authorities, is one possible model. It may not be right in relation to health authorities: the relationship with NAO would need to be thought through. But I see a strong case for the publication of value for money reports of this kind, which might have more force, and be more useful, if produced by a body independent of government.

Charges

I believe there is scope for doing more here. Higher charges will help to moderate the "all or nothing" cost choice between public and private sector provision. The best bet is probably to broaden the base of prescription charges, notably by removing the exemption for pensioners above income support level. This would have two advantageous spin-offs: we could similarly narrow exemptions in other fields; and it would pave the way for later rationalisation of the charging structure, perhaps by relating charges more directly to the cost of drugs. Charges for visits to GPs would also offer excellent value for money, since they would cut down the present excessive use of the FPS. I also favour hotel charges for hospital stays, although I recognise that recent statements may restrict our ability to do this in the short term.

Doctors

I welcome the proposed review of consultants' contracts. I hope this will be as wide-ranging as possible. There is a mismatch between responsibility for the use of resources and accountability for them. Doctors do not yet generally have budgets within which



to work. They are employed by regional health authorities, while resources are managed at district level. Yet ~~is~~ it is they who largely determine the use made of those resources. The resource management initiative is a step in the right direction. But the medical profession must be tackled on this issue more generally.

Compulsory private health insurance

I do not see this as other than a long term option, although in principle an attractive one. Both the private health care sector and the health insurance industry would have to be much larger than they are today. But it may turn out to be a natural second or third stage development from changes that we make now. We should not therefore discourage others from discussing it in public debate, as it may help to open up that debate and make other, less radical options appear more feasible. We need to bear this in mind when we consider the options next week.

I am copying this minute to John Moore and Sir Robin Butler.

Muir Wallace

PP N.L
15 January 1988

(Approved by the Chancellor
and signed in his absence.)

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