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From the Private Secretary

28 January 1988

Dear Geoffrey,

NATIONAL HEALTH SERVICE

The Prime Minister chaired a meeting yesterday to discuss the review of the National Health Service (NHS). There were present the Chancellor of the Exchequer, your Secretary of State, the Chief Secretary, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler and Mr. Wilson (Cabinet Office), and Mr. John O'Sullivan (No. 10 Policy Unit). The meeting had before it minutes from your Secretary of State and the Chancellor of the Exchequer, both dated 15 January.

Your Secretary of State said that the present public debate about the NHS provided an opportunity to tackle its problems more fundamentally than ever before. There were three related problems: the public equated the NHS with the acute care sector; the NHS was seen as costless; and the structure was monolithic and producer-dominated. The answers would have to be both financial and structural; the structural changes would be politically difficult unless total resources for health care could be increased and diversified. Key issues to address were the absence of consumer choice in the present system and the lack of public understanding of costs. This pointed to considering such options as higher charging (although this would not deal with all the fundamental problems) and switching from a system which was tax-financed to funding health care on a National Insurance model. Structural changes which could be considered within the present system included developing an internal market, reviewing consultants' contracts, greater use of contracting out and changing the private/public mix. In procedural terms there were seven key aspects of the NHS which he suggested that the Group might wish to consider, and his Department stood ready to prepare papers on them.

In discussion it was pointed out that the lack of information about costs was a crucial weakness in the NHS at present. It would be wrong to make changes in financing unless there was confidence that there was a system and structure which would drive costs down and operate cost-effectively. The Group ought to look at what could be learned from how BUPA operated; from the experience of, say, the ten best hospitals in this country; and from overseas experience (e.g. New Zealand). It was crucial that those who took the decisions about medical treatment - both the public

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and the medical profession - should be given greater information about costs. And there was a need to consider some form of medical audit, perhaps on the model of the National Audit Commission. None of this meant producing a massive amount of management information which no one could use. Nor should it take too long to produce; the present timescale for the full implementation of the Resource Management Initiative was not acceptable.

In further discussion it was argued that the present structure of the NHS was an important part of the problem. There had to be proper incentives to those who worked in the service to bring costs down, as well as clarity about who was in charge and could take decisions. There also had to be a more dynamic market, including greater interchange between the private and public health sectors, which made the best use of resources and allowed patients and doctors greater choice. It ought to be possible to make information readily available about the relative length of waiting lists and the availability of beds in different areas and hospitals.

A further important area for consideration was the terms of employment of the medical profession. Notwithstanding the sensitivities, the Group would need to look carefully at the issues of consultants' contracts and tenure with a view to early changes.

Summing up the discussion, the Prime Minister said it was agreed there should be a small Ministerial Group, based on those present, to take a fundamental look at the National Health Service and health care. Nothing would be said publicly about the work of the Group, or the timescale in which it expected to reach conclusions or about publishing a White or Green Paper, beyond a brief indication that there was an internal review of the NHS with special emphasis on the hospital service and that anyone who wished to put in representations to the Secretary of State for Social Services would be very welcome to do so. On the substance, it was clear that the issues which needed to be considered first were those which related to costs, structure and the medical profession. Increases in financing could not be considered before there was confidence that the system was cost-effective. The next meeting would wish to consider a paper proposing how the Group should proceed in tackling the issues, and work on this should be put in hand co-ordinated by the Cabinet Office. Finally, it was essential that there should be no leaks about the Group's work: Departments should ensure that the papers were only seen on a strict need-to-know basis.

I am sending a copy of this letter to the Private Secretaries of Ministers present at the meeting, to Sir Roy Griffiths, to Sir Robin Butler and Mr. Wilson (Cabinet Office) and to Mr. O'Sullivan (No.10 Policy Unit).

Yours, Paul.

(PAUL GRAY)

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