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PRIME MINISTER

The Cabinet Office paper on NHS reform is in general a very clear guide. I would add just three points:

(i) We should be clear that some systems of finance cannot easily be reconciled with some structures of health care. For instance, a dedicated health tax with "contracting out" is hard to combine with competing HMOs financed by full cost capitation fees. In such a system, the consumer has little incentive to contract out. He would get a better bargain by keeping his full capitation fee and adding "top up" insurance to it. Equally, partial "contracting out" under the present NHS structure would tend to undermine the existing private insurance market.

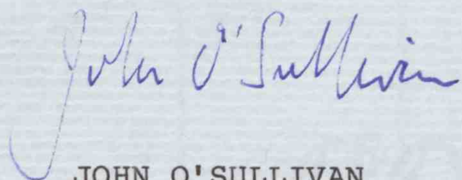
(ii) The term HMO is used in the paper, as in our previous discussions, to denote both of two slightly different institutions:

(a) Health Maintenance Organisations (HMOs proper) which contract to provide all necessary treatment for a fixed sum for a fixed period from their own hospitals employing their own doctors;

(b) Preferred Provider Organisations (PPOs) which contract to provide all necessary treatment for a fixed sum for a fixed period, but purchase this treatment from independent hospitals and doctors, using their bulk buying power to hold down costs.

There is also a third such institution - Health Management Units (HMUs) which combine features of both the above, employing GPs directly on an HMO basis but purchasing treatment from hospitals as PPOs do.

(iii) In paragraph 7, it is proposed to study how certain NHS problems might best be tackled. The list omits the problem of NHS priorities, in particular those relating to waiting lists. Since explicit priorities of urgent and non-urgent treatment provide an incentive for certain forms of health insurance, I would include this topic in the list.



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7 February 1988

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