

MEETING RECORD:
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 March 1988

Dear Geoffrey,

NHS REVIEW

The Prime Minister this morning held a further meeting to discuss the review of the National Health Service, the fourth meeting in the present series. Those present were the Chancellor of the Exchequer, the Secretary of State for Social Services, the Chief Secretary to the Treasury, the Minister for Health, Sir Roy Griffiths, Mr. Wilson and Mr. Monger (Cabinet Office) and Mr. O'Sullivan (Policy Unit). The meeting had before it four papers, HC14 to 17, circulated by the Cabinet Office.

In discussion the following were the main points made:

- a. Although change might have to be gradual, it was important to establish its direction, so that short or medium term decisions could be taken against a long term strategy.
- b. Option (i) in HC14 (the patient as buyer) was very far into the future and the Group did not wish further detailed work to be carried out on it now.
- c. The improvements in option (v) (refurbishment of the NHS) were likely to be required on any basis and further work on them would be needed in due course.
- d. Local health funds (option (ii)) could be an effective means of controlling costs, a consideration of great importance in the review. And they could be developed gradually into private sector bodies. On the other hand, if they were public sector bodies they carried the risk of an increase in bureaucracy. They might be part of the long-term development of health care but it was not clear that the Government need actively encourage their development at this stage.
- e. Independent hospitals (option (iii)) had major attractions. One of the biggest defects of the present

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NHS was that it provided hospitals with no incentives to improve performance. There was also excessively rigid control from the centre. These weaknesses could be corrected if a way were found of allowing hospitals to opt out from the health authorities' control, and receive finance beyond a base-load level according to their success in attracting patients. Such a reform would be similar to the Government's reforms in education, and would produce similar benefits. The greater diversity of provision of health care, no doubt with a gradual growth in the private sector share, would be valuable in itself. And independent hospitals could be introduced gradually, if necessary on an experimental basis. The implications needed to be explored in more detail. For instance, there might be scope for the simplification of the structure of health authorities with the abolition of Regional Health Authorities. Doctors and nurses would be employed directly by hospitals, and there could be much greater use of regional pay negotiations at the local level.

- f. Option (iv) (opting out for individuals) would encourage the growth of private care and could lead to more consciousness of costs. There were, however, objections of principle to opting out from taxation, and there was a risk that a system of vouchers would increase costs. The most obvious route would therefore be to allow contracting out from a contribution, as with pensions. There were a number of difficulties, one being that national insurance contributions were, within limits, related to income. But the option needed further examination.

The Prime Minister, summing up the discussion, said that the group had identified a promising option in the introduction of independent hospitals. It should be developed in more detail. The group also wished to consider further the case for opting out by individuals, possibly restricted to elective treatment. Tax reliefs and vouchers seemed unlikely to be suitable means of opting out and the work should include the possibility of contracting out from a health contribution

As to next steps, the Secretary of State for Social Services had offered in discussion to put forward his views on the right strategy for the Government to follow, and on the practical steps that might be taken in the medium term to give effect to it. Such a paper would be most useful and should be prepared, taking account of the points made in discussion, for the next meeting of the group after Easter. The Chancellor of the Exchequer should also prepare for that meeting a paper on opting-out including the financial implications of contracting out from a health contribution. The Cabinet Office should co-ordinate a further paper by officials on the concept of independent hospitals as it had been developed in discussion.

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I am sending a copy of this letter to the Private Secretaries of the Ministers present, to the others at the meeting and to Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Geoffrey Podger, Esq.,
Department of Health and Social Security.

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