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PRIME MINISTER

NATIONAL HEALTH SERVICE

Meeting of Ministers, 9 May 1988

Minute by the Chancellor of the Exchequer, 22 April.
Paper by the Secretary of State for Social Services 22 April.
Note by the Cabinet Office, 4 May.

DECISIONS

1. The main decision for the meeting is whether the Secretary of State's proposals for a new structure for the NHS, sketched out in his paper, are broadly on the right lines. Further work can then be put in hand to refine and clarify key aspects. Mr Moore suggests that the buying and the providing of health care should be separated, and that statutory buyers should contract to buy health care from providers such as independent hospitals (or groups of hospitals) at a specified price and quality. This follows on from the group's last meeting which thought that the introduction of independent hospitals was a promising option If the group confirms that the Secretary of State's general approach is the right one you may wish to ask him to work up his proposals in more detail for the later meetings on the lines suggested in the Cabinet Office timetable.

2. The Group will also wish to consider the Chancellor of the Exchequer's minute on contracting out of the NHS. This argues against both tax relief for the cost of private health care and a system of contracting out from health contributions. The Secretary of State for Social Services, however, favours the latter. You may think that it would be better to avoid firm decisions on contracting out at this stage and not close any options for promoting private care through tax relief or NICs. The immediate priority is to make progress on structure and then

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see what arrangements on financing fit with it best. You may wish to conclude that the possibility of action on tax or NICs requires further consideration at a meeting in early June, as proposed in the Cabinet Office note. If the discussion suggests that one option in this area may be specially attractive, you could ask the Chancellor to develop it in more detail.

3. Finally the Group may wish to consider briefly the timetable for the review suggested by the Cabinet Office. The only immediate issue for decision is the programme of further work suggested for the next three meetings: that is, papers on:

i. structure and funding for a meeting in a fortnight's time;

ii. encouraging private sector involvement for a meeting in the week beginning 6 June;

and iii. the professions in the week beginning 20 June.

4. Looking ahead, you will wish to consider in due course how to bring into the exercise a wider circle of Cabinet Ministers including the regional Secretaries of State; and whether there should be a Green Paper or a White Paper. The handling of the conclusions of the NHS Review in this year's PES will also need some care. But none of these issues requires an immediate decision at this meeting.

BACKGROUND

5. At the group's last meeting on 22 March you accepted the Secretary of State's offer to put forward his views on the right strategy for the Government to follow and on the practical steps to be taken in the medium term to give effect to it. You also asked the Chancellor to prepare a paper on opting-out including the financial implications of contracting out from a health contribution. The two papers before this meeting are the result.

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ISSUES ON STRUCTURE

6. The Secretary of State proposes a system of statutory buyers of health care who would contract for the provision of services from competing providers. The providers would be autonomous, so that this model incorporates the independent hospitals (or groups of hospitals) which attracted the group at its last meeting. The contracts would however also cover family practitioner, community and public and preventive health services.

7. The group may find this general approach attractive. (We understand that it is similar to the approach proposed for New Zealand.) But the central question is whether it can be made to work and to yield genuine benefits. A good deal remains to be worked out, in particular:

a. Who are the buyers? The paper is not clear about this. Possible candidates are the Regional Health Authorities, District Health Authorities, FPCs. Perhaps over time, private sector bodies could also be buyers. There could be different solutions for different areas, according to local circumstances. There also needs to be clarity about what is to happen to the present structure: is it envisaged for instance that Regional Health Authorities will be abolished? You may wish to emphasise that in developing detailed proposals it is important to avoid bureaucracy, encourage diversity and allow for the gradual expansion of the private sector.

b. Should there be competition between the buyers? The paper suggests that there should not: it says (paragraph 4) that buyers would secure health services 'for their resident population'. Does it have in mind that each buyer will have a defined area and will be responsible for everybody living in that area? If so it will be said (as paragraph 10 hints) that GPs' freedom of referral will be reduced, since they will have to go

a.p. referral?

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through one buyer whereas, in principle, they can now refer their patients wherever they wish. You may wish to probe this point and, depending on the discussion, ask for further work to concentrate on ways of providing for competition between buyers and therefore more freedom of choice for GPs and patients.

c. How will the medical profession be involved more closely in the management of hospitals? At present it appears to be easy for many consultants to stand aside from responsibility for the management of NHS resources. The implication in Annex A to Mr Moore's paper is that consultants' employment contracts should be transferred to hospitals and that they should be subject to the control of hospital management boards. This seems both desirable and controversial. Here too you may wish to probe Mr Moore's thinking.

d. What arrangements will there be for medical audit? One key aspect of keeping down costs will be medical audits: that is, arrangements for looking at the practical efficiency with which hospitals are run and peer reviews for monitoring relative performance of different doctors. You may wish to ask how these could be built into Mr Moore's new structure.

e. What specific steps can be taken to encourage private sector involvement with the NHS in the provisions of health care? Mr Moore's paper is understandably concerned primarily with the restructuring of the NHS. But it will be important to ensure that the arrangements build in as large a role as possible for the private sector.

f. What will be the level and means of funding? The paper says (paragraph 16) that the changes might increase upward pressure on public expenditure on the NHS. You will want to probe this. One way of reducing pressure

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on expenditure, which has been found to work in the USA, is to provide finance by means of capitation fees covering all health care for each individual, so providing a ceiling on costs. Annex B to the paper discusses the case for financing providers through capitation fees but could buyers be financed in the same way? It would also help to ensure that money went to the buyers most successful in attracting patients - a principle the group thought important. In any case, you will want to emphasise the importance of developing funding mechanisms which both direct money to the most successful buyers and providers and ensure a proper control over expenditure.

8. The conclusion of this part of the meeting may be that the Secretary of State's approach is along the right general lines but that it now needs to be worked up in more detail taking account of the points raised. The Cabinet Office note suggests possible papers for future meetings.

ISSUES ON FINANCING

Financing

9. The Chancellor's paper opposes both tax relief and contribution rebates. You will want to consider this. The arguments for a concession of this sort are:

a. first, that it is inequitable for people to pay 'twice over' when they pay for private care without any reduction in their payments to the NHS; and

b. second, that as living standards and incomes rise, people should be encouraged to spend their money on "topping up" the health care which they can get for themselves and their families from the NHS by for example insuring privately for cold surgery, or for faster treatment.

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10. As to tax relief, you may in particular want to probe the case for tax relief for private health insurance premiums paid by the elderly. They are the group least able to get private cover. The Chancellor accepts that the case is 'strongest' for them and estimates the cost of only £20m a year. Since pensioners do not pay NICs, this option could readily be combined with a system of NIC rebates for the working population. Alternatively you could ask for further work to be done, not only on tax relief for the elderly but also for company schemes, another possibility which the Chancellor specifically mentions.

11. As to contributions, the Treasury paper accepts that a rebate could be introduced without any change in tax or NIC rates. Thus the enormous complications of extending NICs or introducing a new contribution system could be avoided. The arguments which the Treasury put forward against rebates are:

i. the deadweight cost;

ii. the lack of any offsetting reduction in NHS expenditure. But need this be so? It would be open to Ministers to make the PES allocation for health lower than it would otherwise have been to allow for the transfer of some care to the private sector.

iii. 'adverse selection', by which only the healthiest would contract out, leaving the most expensive cases within the NHS. But there might be ways of avoiding this. For example, could contracting out be only to a private sector insurer who had to accept all comers at a fixed tariff probably varied with age? He could not then discriminate against the less healthy.

12. Depending on the discussion, you may wish to decide that no options should be closed now, and that the case for fiscal and NIC incentives should be considered at a later meeting. If any particular option specially interested the group, you could ask the Chancellor to work them up for the further discussion. One

possible approach would be to concentrate on introducing limited tax relief for the elderly and company schemes at this stage and to defer more radical changes in financing arrangements until the Secretary of State's structure had been established.

Timetable

13. No decisions are needed on timetable now, but it might be useful to have a first look at the issues, on the basis of the Cabinet Office note. The main questions are:

i. whether the Group is content with the programme of work proposed for the next three meetings. There is a lot to be done and we need to get as much as possible under way.

ii. what should be the target date for the outcome of the review? This partly depends on whether you still want to aim at legislation in 1989-90. The note suggests publication in November/December. Earlier publication may not be practical; later publication might jeopardise legislation in 1989-90.

iii. what form should the conclusions of the review take? Associated with this is the question of how much consultation there should be. The main choice is between a White Paper and a Green Paper; but there could be intermediate options, such as a White Paper announcing the broad lines of the reform but leaving the detail to be decided after consultation.

RTJW.

R T J WILSON
Cabinet Office

6 May 1988