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cc J. O'Sullivan

CC/BG

CONFIDENTIAL

[REDACTED]

Prime Minister

You will wish to be aware of my plans for publishing the NHS Management Board's Final Report on its Review of the Resource Allocation Working Party (RAWP) Formula.

The Review was initiated in December 1985 with the aim of improving the existing resource allocation arrangements. An interim report, published in December 1986, made recommendations for further analysis and research; the final report now describes the outcome of this work programme and recommends revisions to the formula. The Review has been the subject of considerable NHS and Parliamentary interest, and publication of the final report is expected. But the RAWP work inevitably touches on issues which have been raised in our wider Review of the NHS and we need to handle publication in a way which makes clear the distinction between the two.

The RAWP Report itself makes some useful progress; it sets the formula on a sounder analytical basis and takes some better account of service costs (in so far as the all too familiar data limitations allow). The net effect of the recommended changes is

an overall reduction in the range of Regions' distances from target. Very broadly, the Regions of the North and the Midlands now appear very close to target, while the Thames Regions collectively are also closer to target than before. Although the remaining disparities between Regions will require some continuing process of redistribution, mainly because of population movements and the faster growth in the elderly population in some Regions, the general direction of the changes is helpful, not least as it will enable us to improve the resource position of the Thames Regions. *Not N.W.*

*Yes*  
This is not to deny that some aspects of the Report will prove controversial. The measurement of need for health care is a subject which inevitably attracts debate, and one where definitive proof is rare. Any change in the balance of resource allocation across the country is also likely to draw some adverse *comment from losing areas*. Officials have however been working with the Regions concerned to ensure the Report as fair a wind as possible. My judgement is that the best course now is to aim for *early, low key publication* of the Report, accompanied by a statement making it clear that the Government accepts its recommendations, but is prepared to phase their impact on annual allocations so as to minimise the disruption to health authorities' existing plans.

An announcement on these lines of a short term revision of the existing formula need not prejudice our wider Review. Indeed the



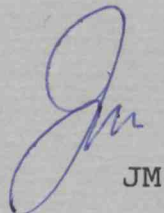
E.R.

capitation-based core of the RAWP formula could offer a starting point for a number of different models. In addition the RAWP Review's attempts to improve the measurement of consumer need and take better account of service costs are, in a limited way, consistent with some of the themes of our wider Review. I suggest therefore, that our statement on the RAWP Review should simply make it clear that we are making practical improvements within the existing resource allocation framework, and that these improvements are without prejudice to the outcome of the wider Review.

I have it in mind to issue an early publication of the Report with a written Parliamentary answer along the lines I have described. If you agree with this general approach, I will ask my officials to liaise with yours on the terms of the announcement and its reference to the NHS Review.

A copy of this letter goes to Peter Walker, Tom King, Malcolm Rifkind, John Major and to Sir Robin Butler.

10 May 1988

  
JM

NAT HEALTH Expenditure pt 12

11/11/11  
AM 11



G.R.  
R. Lyne  
SECRET 5

- 1. Mr Gray Wilson
- 2. Mr Wilson Gray

Draft minutes of yesterday's meeting.

I should be grateful if you could copy recipients would ensure that this record of the discussion is shown only to those with an operational need to see it.

Draft letter for Mr Gray to send to Principal Private Secretary, DHSS

10/5

NHS Review

DS2A HQ

on 3 May

The Prime Minister ~~yesterday~~ held a further meeting to discuss the review of the National Health Service, the fifth 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:

- 'Charting the way ahead' a paper, HCL18, by the Secretary of State dated 22 April;
- 'a scheme for Contracting out of the NHS' a minute by the Chancellor dated 22 April;
- 'an outline timetable for the review' a note by the Cabinet Office dated 4 May.

In discussion of the paper by the Secretary of State the following points were made:

- a. The purpose of the proposed new structure was to separate buying from provision of health care. This had been identified by the group at a previous meeting as a promising approach. It would introduce competition and force the buyer to look for the most effective providers, and the providers to improve their services so as to attract buyers.
- b. A great deal still remained to be worked out, however, as to how the approach would work in practice. One of the most important questions to be decided was the identity of the buyer. It was argued that at least at first there was little practical alternative to giving the District



Health Authorities (DHAs) that role. It would indeed be consistent with the evolutionary approach to change which the group regarded as desirable. But it was essential not to entrench NHS bureaucracy ~~[and not to repeat the experience of the local government review in the 1970s.]~~

OMIT?

The case for some competition between buyers should also be considered and so should the implications for the future of the Regional Health Authorities. The group needed to discuss a paper on the identity of the "buyer" at its next meeting.

- c. In principle an alternative to use of a statutory buyer was direct referral by the GP to the hospital of his choice. But ~~that would not~~ in practice be consistent with effective financial control, which was essential. Nevertheless, even within the system of statutory buyers, there had to be some arrangement by which the GP, if he wished, could ~~in the last resort~~ refer his patient to a provider of his own choice. Reconciling GP freedom with proper financial control would not be easy.
- d. The more effective the provision of health care became, the greater the potential pressure on <sup>e</sup>resources would become. The need for financial controls in the new system was therefore paramount. One solution might be to impose cash limits on the buyers. Medical audit would also have an important part to pay in ensuring financial discipline. And it was essential that funding should follow the patient, so that successful hospitals were rewarded, as they were not under the present system. The group should consider the financial arrangements, on the basis of a further paper, at its next meeting.
- e. The same arrangements would not necessarily apply under the new structure to accident and emergency (A&E) cases as to others. It was important to identify practical and politically acceptable arrangements for dealing with A&E cases. But there might be a number of ways of doing so. Even under the present system there were a number of

it was not immediately clear how this would





options, depending for example on the degree of centralisation of A&E treatment within an area. Further study might disclose ways of reducing the costs of this treatment.

- f. Paragraph 7 of the paper envisaged the possibility that not all hospitals would be self-governing and that the providers might be based on larger management units. It was not clear that this was right. It was argued that the presumption should be that the providing unit was the hospital and that all hospitals were self-governing. The Special Health Authorities set up under the present system might provide a useful precedent.
- g. The system could work only if there was adequate information about costs, so that buyers could choose the most efficient providers. Although some progress had already been made towards setting up a better information system, it was disappointing that it was not already in place. A paper should be prepared on the subject for the group to consider at its next meeting.

*and would represent a substantial improvement on present aspects.*

The Prime Minister, summing up this part of the discussion, said that more work was needed on the details of the new structure. It was essential for the group to be satisfied that it would work on the ground. A number of aspects had been identified on which further discussion was required, in particular the identity of the buyers, the arrangements for funding and controlling expenditure, the nature of the contracts between buyers and providers, and the development of adequate information systems. The Secretary of State should arrange for a paper to be prepared on these and other practical aspects of the proposed structure for the group to consider at its next meeting.



The Chancellor of the Exchequer, introducing his paper on contracting out of the NHS, said that, as the group had asked, it considered how a contracting out system could best be made to work. But his own study of the option had led him to the conclusion that it was unattractive. This was mainly because of the high deadweight cost and the probability that it would lead to pressure for a similar concession for education. There was however an option of providing relief for private health insurance premiums paid by the elderly. There were disadvantages in this too but there was some political pressure for it and it seemed a more promising option to pursue.

In discussion the following were the main points made:

- a. There was a strong case for encouraging a movement towards the private sector. This was necessary to provide downward pressure on NHS costs in the long run.
- b. One means by which this movement might take place was through the expansion of company health schemes. The group should consider how such an expansion might be promoted. One apparently promising possibility would be to exempt premiums paid by employers under a company scheme from taxation as a benefit in kind in the hands of the employees.
- c. The idea of a contribution rebate needed further consideration. If the NHS were made more efficient and responsive to consumers, the private sector might become comparatively less attractive and the upward pressure on NHS costs would become still greater. The assessment of the balance of advantage in a contribution rebate should be based on a dynamic not a static analysis. More particularly, a rebate for contracting out of the NHS for cold surgery would help to reduce waiting lists, which were made up mainly of those awaiting such treatment.





d. A possible improvement in the working of the NHS which should be examined further was the removal or modification of the present restrictions on the number of consultants. These restrictions resulted partly from the application of cash limits but partly also from restrictive practices operated by the profession itself. An increase in the number of consultants, accompanied by a reduction in the time individual consultants had to give to the NHS, ~~could~~ <sup>might</sup> help to contain public expenditure.

The Prime Minister, summing up this part of the discussion, said that the ~~group~~ <sup>group</sup> were agreed that it was desirable to encourage the growth in the private sector. Before they could form a view on the part which action on tax or contributions might play in achieving this more work and discussion was necessary. A meeting on the subject should take place in the week beginning 6 June. Meanwhile the group had identified two ~~promising~~ <sup>particular</sup> possibilities: tax relief for private health insurance premiums paid by the elderly, and exemption from tax as a benefit in kind of premiums paid by employers under a company scheme. The Chancellor should arrange for a paper to be prepared on these options, for consideration at the meeting in the week of 6 June.

Finally, summing up a brief discussion of the Cabinet Office note on the future timetable for the review, the Prime Minister said that the group endorsed its proposals ~~as to~~ <sup>as</sup> their forthcoming meetings. The form in which the outcome of the review was published would need to be considered at a later stage. But there was a distinction between the changes that would have to take place quickly and those that would develop <sup>e</sup> over the longer term. For purposes of presentation it might prove desirable to concentrate on the immediate changes.

I am sending copies of this letter to the Private Secretaries to the Ministers at the meeting, and to the others present.