



File SW2AFR

cc John O'Sullivan

My record

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SUBJECT cc MASTER

25 May 1988

Dear Geoffrey,

NHS REVIEW

The Prime Minister yesterday held a further meeting to discuss the review of the National Health Service, the sixth in the present series. I should be grateful if you and copy recipients would ensure that this record of the discussion is shown only to those with an operational need to see it.

Those present at the meeting were the Chancellor of the Exchequer, the Secretary of State for Social Services, the Chief Secretary, Treasury, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler, Mr. Wilson and Mr. Monger (Cabinet Office) and Mr. O'Sullivan (Policy Unit). The meeting had before it a paper by the Secretary of State for Social Services dated 20 May, 'NHS Review: Self-Governing Hospitals' (HC 21) and a minute by the Chancellor of the Exchequer dated 23 May.

The following were the main points made in discussion:

- a. The essence of the structure proposed in HC21 was the separation of the buying of health care from its provision. This structure would open up the system to competition between the providers and ensure greater responsiveness to patient needs. It was needed to produce the major change in attitudes which was required in the NHS.
- b. One objection to the proposed structure was that it would entrench NHS bureaucracy. The buying agencies would be too much like the present District Health Authorities under another name. It would be simpler for GPs to deal direct with the hospitals, or at least to use an intermediary body as no more than their agents. On the other hand, it was argued that the structure proposed in the paper was necessary to retain effective cash-limiting, which was essential.
- c. Another possible objection was that the role for the GPs in the new structure was unclear. GPs might complain that their freedom of referral would be effectively reduced.

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- d. In view of these difficulties, the Group should consider whether it could better achieve its main objectives by changes which, at least at first, were within the present structure. One of the most important of these objectives was that money should follow the patient, so that successful hospitals were rewarded rather than being penalised, as at present. One method of doing this would be by not allocating to hospitals in advance all the money that was available, but withholding a proportion which could later be distributed to those hospitals which had been successful in attracting more patients by greater efficiency. An important question to consider on this approach was whether it might lead to higher expenditure, because in practice the reserve might have to be additional: in principle it should be possible to make offsetting reductions in allocations to the less efficient hospitals.
- e. Whatever the precise approach adopted for the buying of health care, other changes within the present structure which would be important in meeting the Government's objectives, and should be considered further, were: the creation of independent hospitals (with each hospital being independent as far as possible, although some grouping might be necessary); acceleration of the resource management initiative; better value for money audit; medical audit; extension of competitive tendering; reform of professional practices; and encouragement of the private sector.
- f. Changes of this sort in the short term were compatible with moving in the medium and longer term in the direction described in the Secretary of State's paper. For example, more buying-in of services by District Health Authorities was desirable on any account and taken far enough would lead to the separation of buying and provision of health care.

The Prime Minister, summing up the discussion, said that the Group saw considerable attraction in proceeding by changes within the present structure. They believed that it would be unwise to try to do too much too quickly. They were particularly interested in the proposal which had been put forward for withholding part of the financial allocation to the hospital service for later distribution to the more successful hospitals. But the Group would need to consider as a whole all the changes within the present structure which had been identified at the meeting.

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For the next meeting of the Group on 7 June, it had already been agreed that they would consider a paper by the Secretary of State on greater involvement by the private sector, and a paper by the Chancellor on tax incentives to the private sector. They would also wish to consider in more detail at that meeting the proposal for topping up allocations to the more successful hospitals. The Chancellor should arrange for such a paper to be brought forward. At the subsequent meeting in the week of 23 June they would want to

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consider a further paper bringing together the other changes within the present structure which had been identified at the meeting; and also a paper on the method of allocating capital to hospitals. The Secretary of State should arrange for these papers to be prepared, in close consultation with the Chancellor of the Exchequer.

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

Yours,
Paul

(PAUL GRAY)

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

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