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LONDON SW1A 2AA

From the Private Secretary

12 July 1988

Dear Geoffrey,

NHS REVIEW

The Prime Minister held a further meeting on 8 July to discuss the review of the National Health Service, the ninth in the present series.

I should be grateful if you and copy recipients would ensure that this record of the discussion is handled strictly in accordance with the CMO arrangements.

Those present at the meeting were the Chancellor of the Exchequer, the Secretary of State for Northern Ireland, the Secretary of State for Scotland, the Secretary of State for Social Services, the Chief Secretary, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler, Mr. Wilson and Mr. Monger (Cabinet Office), and Mr. O'Sullivan and Mr. Whitehead (Policy Unit). The meeting had before it a paper dated 6 July by the Cabinet Office 'The Overall Package: A Summary of Conclusions So Far', and also one dated 4 July by Sir Roy Griffiths on consultants' contracts.

In discussion the group went through the Cabinet Office paper, and this record refers to paragraphs in that paper.

Paragraph 4

Following discussion, the Prime Minister said that the group agreed that there was a strong case for re-merging the Family Practitioner Committees (FPCs) and the District Health Authorities (DHAs), as in Scotland and Northern Ireland. This change should be transferred from Part III to Part II of the paper. The group also saw some attraction in cash limiting all the operations of the merged bodies. This was not a necessary consequence of the amalgamation, but it would have the advantage of effectively cash limiting primary care. It had, however, been argued that such cash limiting would antagonise the profession and jeopardise its reception of the rest of the reforms. The Secretary of State for Social Services should prepare a paper examining in detail the possibility both of amalgamating the FPCs with the DHAs and cash limiting the combined bodies.

Paragraph 5

The Prime Minister said that the group agreed this paragraph subject to the following main points:

(a) The word 'long-term' should be deleted from the introduction;

(b) The reference to the effect on services to the patient should be brought from the end to the beginning of the paragraph. Here and elsewhere it was important to emphasise the practical benefit the reforms would bring to patients;

(c) The paragraph should reflect the group's belief that there was a strong case for slimming the operations of the regional health authorities. They might in time become regional offices of the DHSS;

(d) It should also cover the need to remove the political element from the district health authorities. The group attached considerable importance to this.

It was argued that the group should also consider the case for ending the provision of inessential treatment, such as cosmetic surgery, by the NHS, except at a charge. At the same time the practice of charging private patients in full for their prescriptions might be reconsidered, although it had the important advantage of discouraging over-prescription. The Prime Minister asked the Secretary of State for Social Services to prepare a paper for the group examining these possibilities.

Paragraph 8

The group agreed that there should be better information for GPs subject to resolution of expenditure aspects (item i); that GPs should carry out more minor surgery (item iii); and that there should be more schemes for the purchase of optional extras and topping-up (item vi). In discussion of the 'top slicing' financial arrangements in item ii, the following points were made:

(i) 'Top slicing' would represent too small a change from the present position. The RAWP system would remain essentially in place, with its doubtfully justifiable regional effects and its bureaucracy. Only a very small proportion of hospitals' funding would depend on their success in attracting patients. It was desirable to move quickly to a position in which much more of it was. Hospitals must be paid for what they did, not for just being there;

(ii) The principle that money should follow the patient, and that hospitals should receive their funding for services they performed, was central to the review. But it could not be introduced immediately, and the question was how best to work towards it. 'Top slicing' would be the

first step down that path. What mattered in practice was the proportion of funding to which it was applied, and that could be steadily increased.

The Prime Minister, summing up this part of the discussion, said that the funding mechanism required more work. The Cabinet Office, in consultation with the Treasury and the Department of Health and Social Security, should co-ordinate a paper on it for the next meeting of the group.

Paragraph 9

The group agreed that better information was important and that the Resource Management Initiative should be extended to the whole country next year. The group also agreed that effective audit arrangements for money spent and for value for money (item iii) were essential. This audit would have to be by a body independent of the NHS and there seemed a strong case for using the Audit Commission for this purpose. More work was however needed, and the Prime Minister asked the Secretary of State for Social Services, in consultation with the Chancellor, to bring a paper on the subject before the group.

Paragraph 10

In discussing this paragraph, the group also considered Sir Roy Griffiths' note dated 4 July on consultants' contracts.

The Prime Minister, summing up this part of the discussion, said that the group were agreed that changes in consultants' practices were an essential part of the reform of the NHS. In particular the group believed that:

(a) It was important to stop current abuses of the merit award system. For example, many awards were paid shortly before retirement, and added to pensionable pay, as a means of increasing consultants' pensions. The Government were already reviewing the system, on the recommendations of the Review Body. But since merit awards often formed a large part of total remuneration, any radical change could lead to renegotiation of the contracts and an increase in basic pay. The question had to be handled with great care, in the light of these risks;

(b) There were major objections to the current method of calculating the remuneration of consultants working part-time for the NHS, and in particular the arrangement by which they might be paid a proportion of the full-time salary which exceeded the proportion of their time they devoted to NHS work. It was desirable to develop a more flexible system producing a closer match between these two proportions;

(c) Contracts should be short term, on a rolling basis, with an enforceable period of notice;

(d) A significant increase in the number of consultants was very desirable. It would weaken one of the main supply side constraints operating in the provision of health care. The figure of 200 mentioned in Sir Roy Griffiths' paper might well be insufficient, although the cost of an increase, allowing also for the cost of any associated staff that might be necessary, had to be borne in mind;

(e) There was a strong case for transferring the contracts from regions to districts. It had been argued that the location of the contract was of secondary importance but it had to be remembered that under other proposals in the package the regions would become less significant.

The Prime Minister said that the group's view was that new contracts should be changed to take account of these points. Changing existing contracts would however raise major difficulties, and could be expensive. There were therefore attractions in trying to achieve the Government's objectives by working within existing contracts, if this were possible. It was for instance for consideration whether it would be possible to reform the merit award system, as it affected consultants covered by existing contracts, without formally changing the terms of those contracts. The Secretary of State for Social Services should bring forward a paper making proposals on the subject of consultants' contracts for the group's next meeting, in the light of this discussion.

Paragraph 11

The Prime Minister said that the group agreed the proposals in this paragraph subject to the following points:

(a) It was necessary to be sure that a practical way could be found of giving hospitals more freedom to determine local pay and conditions (item iii);

(b) There was a case for pilot experiments on independence for hospitals (item iv). But some experience of this independence had already been gained from the teaching hospitals and this could be used to ensure that the transition to the new system was not unduly delayed;

(c) The Community Health Councils could usefully be kept as a way of channelling the energies of local politicians if they no longer had a place on the DHAs.

Paragraph 12

The Prime Minister said that the proposals in this paragraph were agreed subject to a point on item i. It was very desirable to encourage joint ventures but more discussion was needed between the Treasury and DHSS to establish the financial regime to apply to them. Treatment of capital expenditure raised particular difficulties, both in relation to joint ventures and more generally under a regime in which hospitals were given greater freedom and eventually independence. The two Departments should prepare a joint

paper on the subject.

Paragraph 14

The Prime Minister said that the group attached importance to the principle of independent hospitals as described in this paragraph. Legislation would be needed in the 1989-90 Session to provide for them. Some experiments would be necessary to ensure that the system really would work, but maximum advantage should be taken of previous experience, for example with the operation of some hospitals as Special Health Authorities.

Paragraph 15

The Prime Minister said that the group endorsed the general approach in this paragraph subject to further consideration of two important points:

(a) It was not easy to reconcile the GPs' freedom of referral with maintenance of effective cash limits. The earlier paper by the Secretary of State for Social Services had however suggested a way in which they might be combined. The issue should be considered further in the paper on funding for which the group had already asked;

(b) The group accepted the principle that DHAs should act as buyers but needed to see how the arrangement would work in practice. A particular point to consider was how it would work when the hospitals were, at first, still owned by the DHAs.

Paragraph 16

The group agreed that there would need to be a change in the roles of District and Regional Health Authorities: see comments on paragraph 5 above.

Annex A

The Prime Minister said that the group agreed this list of papers, subject to the deletion of papers 2 (manpower and training issues) and 4 (action plan for the private sector), and the following additions, most of which had already been discussed:

(a) The case for ending the free provision by the NHS of inessential treatment such as cosmetic surgery. It would be useful in considering this to look at the measures recently taken in Germany. This paper could also consider the case for changing the present practice of charging private patients in full for their prescriptions, although the group were not at present convinced that such a change was justified;

(b) A package of changes that would improve the treatment of patients: for example, in the appointments system for outpatients, the physical surroundings in which they were

seen, the attitude of reception staff, visiting hours in hospitals and the management of the waiting lists for hospital treatment. Improvements in such areas would be important to public perception of the reform package;

(c) The method of funding health care, both when the changes set out in Part II of the paper were in operation, and when those in Part III had been put into effect;

(d) The treatment of capital, again under the proposals in both Part II and Part III;

(e) The treatment of consultants' contracts.

The paper on funding should be co-ordinated by the Cabinet Office, in consultation with the Treasury and DHSS. The other papers should be prepared by the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer.

Annex B

The Prime Minister, summing up the discussion, said that the group broadly endorsed the timetable set out in Annex B. At their next meeting in the week of 26 July, they would consider the papers on funding, consultants' contracts and the treatment of capital which had already been commissioned. The Cabinet Office should also revise in the light of the discussion the paper they had prepared for this meeting. As to the later stages, the objective at present should be to have a White Paper, which should be short, ready for publication in the second half of November.

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

Yours,
Paul

Paul Gray

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

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Subject ccmsb

NOTE FOR THE RECORD

NHS REVIEW

My letter recording the discussion of the NHS review meeting on 8 July did not cover the exchanges about tax relief. This reflected the Prime Minister's wish that this part of the meeting should not be recorded in papers circulating around Whitehall.

The key points in this part of the discussion were:

(i) confirmation that the Chancellor's earlier proposals for tax relief for the over-60s should go ahead. There was no specific discussion on whether that relief should be restricted to the basic rate, but the Prime Minister did not repeat her earlier argument in favour of extending relief to the higher rate;

(ii) the Chancellor unveiled a proposal to provide a complete exemption from benefits in kind taxation of employers' company private health schemes, as long as these extended to all employees in the firm. The only argument mentioned against this approach was that it would discriminate against the self-employed. This was regarded as inevitable, and there was firm agreement in the group that the Chancellor's proposal should be proceeded with. The Secretary of State for Social Services said he was happy to drop his earlier suggestion on partial contracting out of NICs.

PRCG.

PAUL GRAY

15 July 1988

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