

12a-c

000710



Treasury Chambers, Parliament Street, SW1P 3AG

Dominic Morris Esq
Private Secretary
10 Downing Street
London
SW1

21 December 1988

Dear Dominic

NHS REVIEW MEETING 22 DECEMBER: HC 68 AND 69

... I attach two joint papers by the Chief Secretary and the Secretary of State for Health recording the outcome of their discussions on the FPS and GP practice budgets.

I am copying this to the Private Secretaries to the Chancellor, the Secretaries of State for Health, Scotland, Wales and Northern Ireland, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler and Ian Whitehead (Policy Unit).

Yours

Carly

MISS C EVANS
Private Secretary

NHS REVIEW: FPS - HEADS OF AGREEMENT

Drug budgets

1. Cash limits to be set for RHAs to be passed on to FPCs, who will set indicative budgets for GPs.
2. Excess expenditure in one year to be recovered by reduction in RHA's cash limit the next (except where specifically agreed).
3. Scheme to be set up on basis of existing information base. Study needed of factors causing legitimate differences in prescribing costs at practitioner level to put in place adequate information systems and control mechanisms.
4. Sanctions against excessive prescribers available in the form of peer review and Service Committee proceedings, but would not in practice be used until improved information base fully operational in 2-3 years time. (Target date for RHAs to become responsible for FPCs is April 1991, following necessary legislation.) In meantime existing pressure for more economical prescribing, through dissemination of information and FPC monitoring, will continue.

Control of GP numbers

1. Legislation to be introduced to obtain powers, to be held in reserve, to control numbers of GPs.
2. Continue to negotiate with GMSC to increase capitation element of remuneration, at expense of Basic Practice Allowance.
3. Geographical variation of Basic Practice Allowance, including abolition in some areas.

GP PRACTICE BUDGETS

Note by the Secretary of State for Health and the Chief Secretary of the Treasury

We have had further lengthy discussions on the principle and practice of GP practice budgets, and have to report to the Group a fundamental difference of view.

2. The Secretary of State believes that practice budgets are an essential ingredient of the review. Their objective is to improve consumer choice, competition and the responsiveness of hospitals to GPs and their patients. Budgets are intended to give substance to the concept of the money following the patient. They will be an attractive part of the package, for both GPs and their patients. They will open up the system to a much greater extent than DHAs' ability to place block contracts with each other will achieve.

3. The Chief Secretary thinks their suggested benefits are illusory: they will not add to the competition between suppliers which is already proposed; and the Group's proposals for funding cross-boundary flows will allow money to follow the patient more readily in future. The budgets would amount to no more than 2% of NHS expenditure, and cannot be represented as a centrepiece of the White Paper. There is a fundamental dilemma, in that, as at present constituted, the budgets would offer an unwise, possibly improper, inducement to divert patients' money to a GP's own income. The Chief Secretary thinks this unsustainable. And he does not see how GPs will be able to exercise control over the budgets when decisions determining expenditure will be taken by hospital doctors.

4. We agree that further work is needed before the White Paper on the following issues:

- a. what separation of business and patient funds is needed;
- b. incentives for GPs to opt for the scheme;

- c. the basis of setting budgets;
- d. how to ensure the budget holder has sufficient control over his costs to keep within budget;
- e. accounting and audit requirements.

5. The Secretary of State believes that these problems are soluble and feels very strongly that the scheme must be included in the White Paper. The Chief Secretary thinks it would be most unwise to confirm a decision to proceed until it has been demonstrated that the scheme is workable and will achieve its objectives.

21 December 1988