

PRIME MINISTER

HEALTH SERVICE REFORMS

I will now be asking Ian Whitehead to investigate David Wolfson's concerns about the NHS reforms. I hope he will be able to produce a report for you before Easter.

Could I clarify one point in my minute. In it, I referred to a big bang against which you commented that only a few hospitals will apply. I was not, however, referring principally to self-governing hospitals or to GPs' practice budgets, but to a change in the basis of funding. It is true that the former will depend upon the speed with which candidates for self-governing status come forward and, in the nature of things, they will not all come forward at once. The dangers that David sees relate to the change in funding which will apply throughout the health service.

In future, health districts will not be funded in proportion to the amount of work done in their areas, but in relation to the population for which they have to provide. Starting with these initial allocations of funds, districts will have an obligation to provide certain core services such as accidents and emergencies. Thereafter, they will trade. A district with a large number of people, but without a major teaching hospital will, rather than provide the treatment itself, send patients to another district for treatment and will then pay that district.

Few people doubt that this will be a better system. The concerns are that in order to make it work, districts need good information about the flows of patients across borders and the costs of providing treatment. Without it, there is a risk that a hospital will decide, for example, to retain X consultants and keep Y operating theatres and Z beds. If it does not get its sums right, it could find itself towards the end of the year having to make rapid financial adjustments. The main concern is that the accounting arrangements needed to underpin trading will not be ready, making mistakes more likely.

As my earlier note made clear, this system has to be introduced over a wide front as one cannot move district by district, as that would leave the pioneers with no-one to trade with.

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ANDREW TURNBULL

2 April 1990

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