

PRIME MINISTER

IMPLEMENTATION OF NHS REFORMS

✓ At Flag A is the minute from Mr. Clarke (which you requested), reporting on his proposals for implementing the NHS reforms following his meeting with Sir David Wolfson.

✓ At Flag B is a note from the Chief Secretary calling for the pace of reforms to be slowed in order to achieve public expenditure savings over the Survey period.

✓ At Flag C is a relevant background note from Policy Unit.

Mr. Clarke's proposals for implementing the NHS reforms in 1991-92 can be summarised as follows.

- a) Some 40 - 60 NHS trust self-governing hospitals will be set up in April 1991.
- b) About 400 GP practices will become fund holders on 1 April 1991.
- c) The major reform - the contracting system - will be introduced nationwide. But, in the first instance, the aim will be to replicate the pattern of existing patient and financial flows in the contracts, rather than involve actual trading.

The Chief Secretary's minute calls for postponing a) above. And on c), he appears to be proposing a similar approach to Mr. Clarke: he refers to establishing the financial and information systems on a "shadow" basis.

Assessment

It is not wholly clear what Mr. Clarke is proposing on the contracting system. Nor is it clear how far he and the Chief

Secretary are in agreement, both on substance and on the pace of introducing a genuine market in the health service.

The next step should be a discussion with Mr. Clarke and the Chief Secretary (and probably the Chancellor also). I will arrange for substantive advice on both the self-governing hospitals and the contracting system before any meeting.

It may be useful however to flag-up now what the key issues on the contracting system appear to be.

- i) Both Mr. Clarke and the Chief Secretary are talking about a shadow contracting system in 1991-92. But, this shadow system could amount in practice to little more than new accounting procedures, rather than trading. The Government might be accused of retreating on the reforms. How far could some genuine element of trading be introduced, in the first year perhaps with Health Districts guaranteed 90 per cent of budget?
- ii) Would it be desirable to proceed with some greater degree of genuine trading (ie less than 90 per cent of income guaranteed) within a few regions, where the patient and hence financial flows are nonetheless likely to be self-contained? This would give useful experience of how the new market might operate. And it might also offer the basis for reaching an understanding on pilot projects with the Royal Colleges - as they have asked for. (The problem with i) above, if there is no or negligible trading is that any co-operation of the Royal Colleges will be relatively meaningless.)
- iii) Neither minute touches on the major difficulties in London. Again, it would be worth exploring whether a phased introduction of the contracting system into London over several years (and perhaps also in contiguous regions) could be explored.

Next Steps

- i) Do you want me to find a slot for a meeting with Mr. Clarke and the Chief Secretary? *Yes*
- ii) Should the Chancellor also attend? *Yes*
- iii) Do you want any other Ministers to be involved at a meeting?

*BHP*

*No*

*[Handwritten signature]*

BARRY H. POTTER

4 MAY 1990

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