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Prime Minister ②
Work is now getting under way
on the three studies on the
health side agreed at the DHSS
seminar.

Treasury Chambers, Parliament Street, SW1P 3AG

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Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

MS

23 February 1984

Dear Secretary of State

PUBLIC EXPENDITURE REVIEWS

When we had a word a little while ago with the Prime Minister, we agreed that three aspects of health spending should be reviewed. The purpose of this letter is to say how I see the scope of these three reviews.

In each case the aim of the review would be to examine the scope for improved control and public expenditure savings both in the longer term, and in the immediate future. I would hope to see specific proposals emerge which we can then confidently put forward to our colleagues. In the process of so doing I hope that the reviews will identify possible immediate savings as well as any immediate action which could and should be taken now to secure longer term improvements. The reviews should be radical, but consistent with the wider approach we are now trying to promote to greater financial control and responsibility in the field of primary care.

It was agreed that each review could be conducted jointly by the DHSS and the Treasury. If possible I think there should be an agreed joint report to us both on each review by DHSS and Treasury officials. As far as immediate savings are concerned, recommendations should be submitted to us both in time for the findings to be taken into account in the next public expenditure survey. Work on longer term savings can no doubt continue after that, if necessary, but nevertheless I would wish it to be carried out promptly.

① The first subject area to be covered is the contractual relationship between the NHS and the contractor professions in the family practitioner services. I know that you already have in hand a fundamental

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review of the pharmacists' contract; I am grateful for Kenneth Clarke's letter of 17 January about this. The public expenditure review would not duplicate or take over this work, but rather would extend its radical approach to the other contractor professions. In the case of general practitioners, for example, the review might look at whether the arguments that led to item of service payments and direct reimbursements are still valid, as well as whether the system has become too complicated. For dentists, there is the fundamental issue of whether the item of service basis of remuneration is producing the results we would wish. We cannot expect to achieve everything at once, and in some areas we will be able to build on work already in hand. But I would certainly expect to see, for each professional group, a clear plan for how we intend to go forward.

② The second area for review is the PPRS including its impact upon prescribing practice. Again, I am aware of work already in hand here, and in the case of the PPRS of the changes which have recently been made to the scheme. We shall have to look at these again in the light of the report of the Review Board on Non-Competitive Government Contracts. The public expenditure review would however need to consider more fundamental changes than have been made so far. Action taken so far has altered some of the parameters of the scheme without affecting its basic mode of operation: the new review will need to consider that. For example, it should consider the justification for reimbursing any promotional expenditure by drug companies, an issue to which I drew attention in my letter of 29 November 1983 to Kenneth Clarke: though the timescale for making any further changes will have to take account of what has been said on this in Parliament and to the industry. But I do not think that it is sensible to look at the PPRS in isolation from our wish to see more effective and more economical prescribing practices. We need to be sure that the form of the PPRS will not frustrate attempts by doctors to prescribe economically by reference to the price of individual drugs. We agreed that it was most important to bring about changes here to promote prescribing of cheaper drugs and to discourage unnecessary prescriptions.

③ The third area for review is that of NHS charging policy generally. It goes without saying that this is a highly sensitive area, which will need to be handled with care. But the Government's policy of seeking ways of financing a higher proportion of essential public services other than from taxation requires us to look at NHS charges, although we all recognise that our Election pledges may rule out some of the major changes for this Parliament. We do need to be clear in our own minds, however, about the charging options which are worth considering for the future.

There are some charges not ruled out by our pledges, which the review should consider for possible introduction in the shorter term. I have particularly in mind cost-related charges for drugs. Quite apart from the possibility such charges offer for raising increased income, they could have a strong and beneficial influence on prescribing practice. There are links too with the review of contractual relations with the practitioners.

If you agree, I suggest that we should ask our officials to begin work on these three reviews forthwith. Given the sensitivity of the subjects we need to keep the circulation of the papers as limited as possible.

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I am sending copies of this letter to the Prime Minister, and to the Secretaries of State for Scotland and Wales.

Yours sincerely

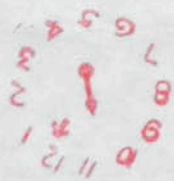
J. G. Greville

J- PETER REES

[Approved by the Chief Secretary]

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