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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
London
SW1A 2NS

19 January 1989

Dear Secretary of State,

NHS REVIEW: DRAFT WHITE PAPER

At Tuesday's meeting I said that I would write to you about some further points which the Chancellor and I have on the draft.

The present draft of paragraph 2.23 gives the misleading impression that health authorities will become major property developers in their own right. This is not the case: property development is an activity which is properly for the private sector, and health authorities do not in any case have the expertise to control the considerable risks that would be involved. In the first sentence, therefore, delete "imaginative use of property assets" and substitute "property which is surplus to requirements". In the fourth sentence, delete "encourage more imaginative property development", substitute "assist them in this", and insert "central" before "group of professionals". The present text invites a replay of the Crown Agents' scandal.

The third sentence of paragraph 2.28 mistakenly implies that the Audit Commission will be responsible for auditing the consolidated accounts of the NHS, which is and will continue to be the responsibility of the NAO. This sentence should instead read "... the external audit of health authorities and other NHS bodies at present audited by the department. In this capacity, it would report to the Secretary of State."

In the fourth indent of paragraph 3.14, the requirement on hospital trusts will be rather more than simply to break even taking one year with another. Like other public sector bodies, hospital trusts will need to earn a rate of return on their capital, which will be reflected in their annual financing limits. The sentence should read "... temporary deficits, but will be set overall financial targets designed to yield an appropriate rate of return on the capital employed."

The first sentence of paragraph 3.15 has got a little garbled. I suggest it should read:

"Hospital trusts will be subject to annual financing limits, within which they will be free to borrow, either from the Government or from the private sector."

The third indent of paragraph 6.9 suggests that the drugs element of practice budgets should be higher than if the GP was not in the scheme and hence had only an indicative drugs budget. This is not a proposal we have previously discussed, and it seems to me to have no merit at all. There is no reason why holders of real budgets should be more likely to overspend than those with indicative budgets: if anything the reverse will be the case. Moreover, the agreed 5% flexibility will give GPs adequate scope to manage fluctuations in their drugs expenditure. This extra margin seems unnecessary and wasteful. The words "but with a small premium because it will be a component of a real budget" should therefore be deleted.

As the Chancellor said at the meeting, the present paragraph 7.21 does not include the point agreed at our 5 January meeting about the failing in the present system that the remuneration of GPs in aggregate does not take account of falling list sizes. We suggest replacing it with the following two paragraphs:

"7.21. It is the Government's responsibility to ensure that there is adequate access to primary care services across the country, and that opportunities exist for good doctors to enter general practice. But the Government also has a responsibility to the taxpayer to ensure that the total cost of the service does not rise beyond acceptable bounds. The present system by which fees and allowances are set so as to deliver a target average net income for GPs, irrespective of changes in the average numbers of patients on their lists, is a matter for concern. It means that the costs of the system increase in direct proportion to the numbers of practitioners.

7.22. The Government proposes therefore to take two further steps to enable it better to control the total cost of the service while ensuring that sufficient opportunities remain in general practice for the best young doctors. First, it will seek reserve powers ... Health and Medicines Act 1988. [as in present draft]"

I am copying this letter to the Prime Minister, the Chancellor, Secretaries of State for Scotland, Wales and Northern Ireland, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler, Mr Wilson (Cabinet Office), and Mr Whitehead (Policy Unit).

*Yours sincerely,
P. Waller*

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]