Weekly Record
SUBJECT CENTRAL

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 June 1990

Dear Andy,

NHS SEMINAR

The Prime Minister held a seminar yesterday to discuss implementation of the NHS reforms. Those attending were your Secretary of State, the Minister for Health, the Parliamentary Under-Secretary of State for Health, the Chancellor of the Exchequer, the Chief Secretary, Lord Rayner, Sir Robin Ibbs, Sir David Wolfson, Mr. Duncan Nicol, Mr. Peter Griffiths, Miss Sheila Masters and Mr. Michael Fairey, and members of the No.10 Policy Unit.

Your Secretary of State said that the aim of the presentation by members of the NHS management team was to describe the progress to date and the plans in place for introducing the NHS reforms so as to achieve a smooth implementation without disrupting services to patients.

Following the presentation, the following were the main points made in the discussion.

(i) The sheer scale of the reforms should not be underestimated. There would inevitably be start-up costs over and above those required to run the NHS on the existing lines.

(ii) The contracting proposals for health authorities were at the heart of the reforms. It could be argued that both the GP practices and the NHS self-governing hospitals could be introduced without overcoming the same scale of problems.

(iii) The proposed system of funding District Health Authorities (DHAs) from 1991 would set health authorities' income as purchasers on the new basis of resident population. But expenditure on hospitals within DHAs might be difficult to predict. The likely pattern of expenditure was to be projected forward on the past record of referrals. But each hospital seemed to be expecting more referrals under the new arrangements than in the past: clearly that could not happen in aggregate.

(iv) There was a particular difficulty with the high occupation of hospital beds by geriatrics. This was a growing problem: geriatrics might pre-empt the ability of hospitals to cope with new inflows of patients.

(v) It could be argued that there was grossly inefficient use of resources at present within hospitals with inadequate patient records and admission systems. Too much effort was going into cost systems and accounting. It was arguable that attention should first be paid to getting existing systems right, before contemplating reforms on the scale proposed.

(vi) The key problem was managing the transition: managing the Health Service at present was an immense challenge, given the sheer size of the business. But making complex changes could not be achieved without extra money to smooth the transition and accommodate the changes. On the other hand financial stability was clearly required for hospitals and Health Authorities to achieve continuity. In short, it would be particularly challenging to plan the dynamics of the reforms from a static basis.

(vii) The nature of the reforms required the setting up of a pseudo-market in the form of the block contracts in the first year: and then interfering with it in order to prevent excessive changes. Those making the presentation had not fully explained how this inevitable conflict was to be resolved.

(viii) Given the scale and practical difficulties of the reforms, and the massive changes required on IT, it might be that pilots and other transitional measures should be introduced in certain areas in the first instance. This would avoid multiplying across the country the inevitable errors that would be discovered.

(ix) The stability of referrals patterns was a key issue. Members of the NHS Management Team had argued that the pattern of referrals was relatively stable and therefore that, with the immense progress on information achieved over the last 15 months, it would be possible to identify and cost patient flows on a reliable basis. Changes from existing patterns of referrals should only be marginal in the first year. On the other hand, one purpose of the reforms was to make doctors question their existing referral practices: to the extent that they did so, past patterns might be expected to change. It was not yet clear to what extent the proposals would be able to accommodate such changes.

(x) Even a small error in percentage terms in forecasting patient flows would have a massive impact, equal to several hundred million pounds in aggregate on the budgets of Health Authorities. It would be necessary

to prevent DHAs holding back a contingency margin in order to accommodate unexpected demands. Even a small margin would lead to a misallocation of resources. That opened up the the prospect of dramatic and unnecessary ward closures which would attract public attention.

(xi) On the other hand, the Management Team pointed out that DHAs could be prevented from holding such contingency resources: effective and continuous monitoring of the system was the way of ensuring that resources went to the right place.

Summing up the discussion, the Prime Minister said that further, more detailed, exposition of certain key elements of the reforms was required. The presentation had rightly noted that the overall purpose of the reforms was to create a new internal market in order to improve quality, quantity and value for money in health services: yet at other times the need for firm controls to prevent other than marginal changes in the first year had been emphasised. It was not clear that this apparent potential conflict in objectives had been resolved. Neither was the meeting yet convinced that there was sufficient information to achieve the critical correct allocation of resources. Some had expressed doubts about the stability of the referrals pattern - particularly when the purpose of the reforms was to make doctors and hospitals question existing referral practices. The NHS Management Team appeared to have suggested that the contracting reforms had to proceed at the same pace across the country. But others had argued for a more measured pace of introducing the reforms, perhaps involving faster progress in some areas than in others, such as London. The inevitable financial costs of proceeding with the reforms on a nationwide scale would be relevant to further consideration of implementing the changes.

I am sending copies of this letter to John Gieve (H.M. Treasury), Carys Evans (Office of the Chief Secretary) and Sonia Phippard (Cabinet Office).

Yours,

Barry

BARRY H POTTER

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