



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

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30 January 1987

Dear Tony,

The Prime Minister held a meeting yesterday with your Secretary of State, the Minister for Health, Sir Kenneth Stowe, Sir Roy Griffiths and Professor Brian Griffiths of the No.10 Policy Unit about current and longer term issues of NHS policy. I have recorded in a separate letter the discussion on current issues.

The following points were made about longer term issues:-

- i. It was important to work towards a system where the money went with the patient so as to make the Service's producers more responsible to patients' needs. Hospitals and consultants should lose money if they did not produce a satisfactory output. There needed to be a greater focus on outputs generally.
- ii. There needed to be a greater connection between the demand for care, its cost and the method of paying for it. This was linked with patient choice and a system for money following the patient.
- iii. One possibility was to link the Service's funding to the health stamp which would need to rise. But many people, it was suggested, would regard the health stamp as no more than taxation in disguise. Against that, it was pointed out that in some countries, for example, Germany, there was a clear perception of the difference between tax and national payments for Health Services. The risk of increasing the NHS stamp was that it would become a progressive tax making it harder for people to afford to pay for private insurance schemes. People were, it was suggested, willing to pay more for the Health Service, but, it was argued, only if they could see themselves personally benefiting from the extra expenditure.

- iv. The districts might be given an incentive to raise money from the local community in exchange for improvements in local services. Another possibility was to encourage firms to pay for extra services for their employees.
- v. The reforms sought, including the association of outputs with payment, might require a change in the management structure of the Service. Some form of National Health Corporation was one possibility. It was strongly argued that the Government should not use the language of business, such as a corporation, when talking about future management structure; a different nomenclature such as a trust or foundation, might be used.
- vi. Public opinion needed to be softened up in the next Parliament so that the ground could be prepared for introducing the reforms the Government wished to see. To this end the Government could publish a Green Paper or establish a Royal Commission to prepare the ground. But there was only a four year window of opportunity in any Parliament for the implementation of fundamental reforms. A Royal Commission or other external enquiry would use up at least two years. Whatever the means, the important aim was to open up public discussion, in a way which avoided dogma, about the fundamental problems of the Service.

The Secretary of State said that he would now consider, very quietly, what might be done. The Prime Minister commented that nothing should be said which removed the Government's freedom of action in the next Parliament.

I leave it to you to show copies of this letter to those who attended the meeting from your Department. I am not sending copies direct.

*Yours sincerely,
Nigel Wicks*

N.L. Wicks

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Department of Health and Social Security