



**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon William Whitelaw CH MC MP  
 Secretary of State for the  
 Home Department  
 Home Office  
 50 Queen Anne's Gate  
 London SW1

22 July 1981

Dear Willie,

Colleagues will know that for some time my officials have been looking at the strengths and weaknesses of our present system of financing health care compared with other countries. Preliminary work is almost complete and following discussion with the Secretaries of State for Scotland, Wales and N Ireland and with the Chief Secretary to the Treasury, I now propose that our respective officials carry out a review of the financing of health care. Their findings would be presented in a form which might be the basis of a Green Paper by the end of 1982.

**NEED FOR REVIEW**

Since its inception, the NHS has been financed mainly through general taxation, about ten per cent of costs being met through charges. These services are supplemented by privately-financed health care at present accounting for some three per cent of spending on acute services. There are, however, weaknesses in this system. In particular there is increasing conflict between the need to increase health spending to meet the needs of the very old and to improve standards of health care (including reduction in waiting times), and the need to reduce total public expenditure and taxation. We should also consider whether the system could be made more responsive to costs and give more weight to the wishes of the individual in deciding what level of health care he is prepared to pay for. Our aim should be to keep the best in the present system but to look for new ways of tackling its weaknesses.

**OBJECTIVES**

More specifically our aims should be:

- (a) to sustain a National Health Service providing acceptable standards of care but perhaps with some restrictions in coverage;
- (b) to permit improvements in health care as national prosperity



increases but to reduce the extent to which health services are financed by Government whilst enabling market forces to increase the share of GDP devoted to health care further if the public want and are willing to pay for it;

- (c) to secure that the benefits of good health care are distributed equitably between people of different income levels and living in different parts of the UK;
- (d) to maintain and build on the strengths of the present system in the field of primary care, care of the elderly and other vulnerable groups and in the relative ease of relationships with other social services;
- (e) to explore the potential for increased consumer choice;
- (f) to increase the efficiency of health service delivery;
- (g) to improve professional morale and performance.

#### OPTIONS FOR CHANGE

It may be possible to achieve these objectives by changing the balance between the public and private provision of services, or by changes within the public sector, or by some combination of these. Changes within the public sector could include new methods of financing, for instance by greater reliance on health insurance in one form or another, or by substantial increases in the size and range of charges. We should however make it clear from the outset that we will not set out to drive people into the private sector by deliberately depressing standards in the public sector, and that no one should be denied necessary treatment for want of means to pay. The review will also need to take account of regional disparities in the distribution of private health care and of the special position of services for groups less likely to benefit from insurance based systems eg. the elderly, mentally ill and mentally handicapped needing long-term care.

There are a large number of ways in which we could change the present arrangements; their effects may be complex and difficult to assess, and in many cases there is relevant experience in other countries which we should take into account. We must ensure that any major changes will achieve our aims without creating new problems, and that they will command a long-term consensus.

#### METHOD OF REVIEW

An initial review would be carried out internally by DHSS, Treasury, Scottish, Welsh and Northern Ireland officials, keeping closely in touch with Ministers and drawing on the advice of outside experts, some of whom have already been identified. This would identify and short-list broad strategies for detailed assessment. Ministers would then decide which options should receive more detailed study and at that stage (end 1981) the membership of the group would be reviewed to see whether more outside expertise was needed. The terms of reference are shown at Annex A.

#### ANNOUNCEMENT

That the subject is under study is widely known. We could now announce, in a low-key way, the setting up of an interdepartmental group. However, we would make it clear that the study would be an internal one exploring options;



there would be no commitment to a Green Paper but we would need to make clear that there would be ample time for discussion of any options we might think worthy of further study. Annex B indicates the kind of thing I have in mind.

I ask colleagues to agree that we proceed in this way. As I should like to make an announcement before the recess I should be grateful for replies by close of play on Monday 27 July.

I am copying this letter to all members of 'H' Committee, the Prime Minister, Sir Keith Joseph and Sir Robert Armstrong.

Your ever  
Patel.



## TERMS OF REFERENCE

## 1. To identify:

- (a) alternative sources of finance for the NHS, including different forms of social and private insurance, new and higher charges, and any other forms of payments or contributions by individuals or groups;
- (b) alternative ways of promoting more private sector provision of services, including tax concessions (on investment or private insurance), contracting out of state insurance, reimbursement of treatment costs and discontinuing parts of the NHS.

2. To consider how these options might be grouped to form alternative broad strategies (eg. a much higher level of charges might require insurance cover, whilst private insurance financing might require payment by work done).

3. To carry out a quick initial assessment of these strategies having regard to the objectives listed in paragraph 3 of the letter of 22 July to H Committee members from the Secretary of State for Social Services, drawing on relevant information in other countries, and to consider their implications for the overall level of health services and their organisation, delivery, utilisation and control (by Government and by the consumer) as a basis for decision by Ministers late in 1981 as to which strategies should be studied in greater depth.

4. To carry out in the first half of 1982 such further studies as are then commissioned, possibly with enhanced membership, and to present the results in a form which might form the basis of a Green Paper later that year.



## PROPOSED ANNOUNCEMENT

**QUESTION:** To ask the Secretary of State for Social Services, what progress he is making with his review of alternative means of financing health care.

**SUGGESTED REPLY:**

My Department is in the process of completing its studies of health care financing in other Western countries, which form the groundwork for consideration of what options there may be to improve health care financing and delivery in this country. In view of the advanced state of this work, I am now able to announce the formation of an interdepartmental working party who will consider, on the basis of its findings, a range of possible proposals to improve the financing and delivery of health care in this country. When this second stage of the review is completed, which I expect to be by the beginning of 1982, I and my colleagues will be in a better position to establish which if any of many possible approaches is likely to be of value here, and to select options for more detailed examination. I shall make a further statement about the progress of the review at that stage.

Officials will be assisted in their work by two specialist consultant advisers with experience of the private health sector in this country. The review will be based on the premise that an adequate standard of health care will continue to be provided for all, regardless of means, and will seek to keep the best in the present system while looking for new ways of tackling its weaknesses. Its key objective will be to identify means of improving health standards and giving greater weight to the wishes of the individual consumer but at the same time recognising the need to contain public expenditure and reduce taxation overall.

The issues involved are complex and of considerable public interest. There will be full consideration and discussion of any proposals which emerge but I believe that the aim of providing better health care for all the people of this country is one with which everyone will agree.



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10 DOWNING STREET

From the Private Secretary

27 July 1981

The Prime Minister has seen a copy of your Secretary of State's letter of 22 July to the Home Secretary, in which he proposed to set up a group of officials to study alternative methods of financing the NHS.

The Prime Minister is content with your Secretary of State's proposals, and agrees that he should make a low key announcement before the Recess of the setting up of the interdepartmental group.

I am copying this letter to the Private Secretaries to Members of H Committee, to Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

W. F. S. RICKETT

Mrs. Mary McVerry,  
Department of Health and Social Security.

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10 DOWNING STREET

PRIME MINISTER

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In the attached, Mr. Jenkin proposes to set up a group of officials to study alternative methods of financing the NHS. DHSS, Treasury, Scottish Office, Welsh Office and NIO will be represented on this group, which will draw on the advice of Hugh Elwell and Michael Lee of the Health Services Group of the Centre for Policy Studies. Mr. Elwell and Mr. Lee were closely involved in the report on the NHS produced by the Centre in April.

Content for Mr. Jenkin to proceed in this way, and to make a low-key announcement of the setting up of the interdepartmental group before the Recess?

*L. J. Jenkin*

*WJG*

23 July 1981





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

WM  
31/7

John F Halliday Esq  
Private Secretary to the  
Secretary of State for the  
Home Department  
Home Office  
50 Queen Anne's Gate  
LONDON  
SW1H 9AT

31 July 1981

*Dear John,*

In his letter of 22 July to the Home Secretary suggesting a review of the financing of health care, Mr Jenkin indicated that discussion had taken place with the other Health Ministers, including my Secretary of State. For the record I am writing to confirm that Mr Younger is entirely content with what is proposed.

I am copying this letter to the Private Offices of those to whom Mr Jenkin's letter was copied.

*Yours truly,*

GODFREY ROBSON  
Private Secretary





*Mr. Lonkster*

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

*Wm  
51/7*

From: J. R. Ibbs

Qa 05646

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31 July 1981

*Dear Secretary of State,*

I have seen a copy of your letter of 22 July to the Home Secretary proposing an interdepartmental review of the financing of health care.

I welcome this review and I should be glad to offer CPRS assistance with the initial review which you suggest that officials should carry out.

I am sending a copy of this letter to the recipients of yours.

*yours sincerely,*

J R Ibbs

The Rt Hon Patrick Jenkin MP  
Department of Health and Social Security  
Alexander Fleming House  
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*From The Secretary of State for Wales*

The Rt Hon Nicholas Edwards MP

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27 July 1981

*D. P. Jenkins*

*WN  
28/7*

ALTERNATIVE FINANCE FOR THE HEALTH SERVICE

I am broadly content with the objectives and terms of reference of the study proposed in your letter of 22 July to Willie Whitelaw. I also agree the terms of the proposed announcement.

/ I am copying this to Members of H Committee, the Prime Minister, Sir Keith Joseph and Sir Robert Armstrong.

*John P. Jenkins*  
*Neil*

The Rt Hon Patrick Jenkin MP  
Secretary of State for  
Health and Social Services  
Department of Health and Social Services  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1



28 JUL 1987





*Nax Health*



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Secretary of State for Industry

27 July 1981

The Rt Hon William Whitelaw CH MC MP  
Secretary of State for the  
Home Department  
Home Office  
50 Queen Anne's Gate  
London SW1H 9AT

*Wh  
27/7*

*Dear Willie,*

*with  
PM*

Patrick Jenkin sent me a copy of his letter to you of 22 July suggesting a review of the financing of health care. I welcome his proposal and write to support it enthusiastically.

I am copying this letter to the recipients of his.

*Conover,*

*Ken*



27 JUL 1961

