DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Permanent Secretary

Robin Butler Esq.,
No. 10 Downing Street,
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23 December, 1983

Dear Robin.

I promised to let you have a copy of the infamous article in "PULSE" (the magazine circulated free to General Practitioners, funded by its advertisements) about the way in which GPs can maximise their income from the NHS at the expense of the Exchequer. I attach a copy of the article together with a note explaining the background to it.

I also attach notes, which you might find helpful, about the problems of forecasting and controlling demand-led expenditure on our two big demand-led programmes-supplementary benefit and family practitioner services. I will not offer any further comment on them because these will, I guess, loom large in the renewed seminar discussion which the Prime Minister wishes to have on 12 January.

I am copying this letter to Robert Armstrong and Peter Middleton.

Yours ever,

Ken.

Pulse 17 Sept,

MONEY pulse

Edited by Sue Russell

Red book use can lead to steep rise in practice cash

Dr John Gray shows that by implementing the Red Book fully GPs can dramatically increase practice income without having to depend on Government largesse.

SEVERAL YEARS ago I was baffled by a GP doyen who at a trainers' workshop euphemistically attributed his seemingly huge income to 'a full implementation of the Red Book'.

I would suspect that to many principals and trainees his remark would still be relatively meaningless.

This was recently highlighted at a local workship meeting sponsored by a pharmaceutical company when the representative suggested that the bulk purchase of their depo-steroid preparation to be dispensed on an FP 10 under section 44.13 of the Red Book was both legitimate and profitable.

The suggestion clearly fell on stony ground.

Over the last 2½ years, our practice's attempts to implement the Red Book and become more efficient have led to a radical change in philosophy and organisation.

The use of recall systems allied to an age-sex register and the ensuing paperwork have grown to such proportions that we have been forced recently to allocate one whole room to our recall clerk.

The table shown here represents the returns from the FPC for our practice at the end of the March quarter for 1981 and 1983.

It does *not* purport to be a strict statistical analysis nor does it represent eventual practice profits.

Dr John Gray: practice returns rose by 40 per cent.

What it does show is that in the areas in which an increase in practice income can be made independent of governmental largesse, quite dramatic increases in percentage terms are possible.

From the table it is possible to note that:

1. Items of service rose by 5 per cent to 21 per cent of remuneration. The most noticeable increase was for 'special drugs' which consist of a combination of vaccines for influenza, vaccines used in routine immunisation, intra-uterine devices, emergency work drugs and depo-steriod preparations (Red Book 44.13).

2. Vaccinations and smears rose some 240 per cent despite a dramatic fall of 40 per cent in maternity fees reflecting a sharp drop in births locally.

Happily this trend is reversing and we should see over the next year an increase in both these elements.

This element varies seasonally (£1,700–£2,500).

3. Night visits rose by 105 per cent due to an increase in population, a disproportionate rise in the fee and a slight increase in actual work load.

4. Element for contraception rose by 61 per cent and this is the area in which I feel there is room for further improvement.

Part of the sum inevitably accrued secondarily to the cervical cytology recalls. However our surgery 'advertising' has played an important role in attracting women away from FP clinics.

	List size 10,800 March 81	10,800 March 83	Percentage
[illegible]pitation standard	10,920.73	14,284.83	30.8%
2 65-74	271.56	342.16	26%
[illegible]	240.62	340.99	[illegible]
4 Supplementary	1386.78	1830.87	32%
Supplementary practice allow[illegible]	930	1135	22%
6 Basic practice allowance	4725	5755	21.7%
Group practice allowance	825	1005	21.8%
8 Maternity	2126.25	1275.20	-40%
[illegible] fees	—	10.90	—
10 Contraceptive services	895.22	1444.28	61.34%
Temporary residents	269.50	263.65	-2.2%
12 Night visits	241.50	497.25	106%
Vaccinations and immunisations	579.10	1954.70	240.76%
14 Seniority	1335	1973.75	47%
Vocational training allowance	—	—	—
16 Special drugs	—	1940.11	—
[illegible] reports	—	—	—
TOTAL	24 736	34 053	40%

Table shows that increased remuneration of four full-time GPs for the same quarter after a two-year interval can be quite dramatic in percentage terms.

5. Practice returns rose overall by some 40 per cent. By comparison the standard fees, namely supplementary practice allowance basic practice allowance and group practice allowance, all rose by approximately 22 per cent.

6. Investment: most small business cannot generate income without investment. GPs are fortunately in the happy position of receiving 70 per cent reimbursement for ancillary staff which offsets the cost for employing a specialised recall clerk.

In addition the costs for postage, printing and so on vary between £70 and £100 for each quarter. These costs (theoretically) should be reimbursed in the practice expenses element.

In my opinion the days of enormous leaps in Review Body awards – between 1975 and 1980 – are gone. This year's increases will not in financial terms reflect the apparent percentage rise of 6 per cent. It will in fact be nearer some 3 per cent.

Next year's award will I suspect be even lower. The pressure to reduce sizes is not acceptable unless income is maintained.

John Gray *is a GP in Chessington, Surrey.*

Ancillary staff and other fees go up

The allowance for related ancillary staff has been increased to £1,565 backdated to April 1. This level will apply until March 31, 1984, and represents an increase of 6.75 per cent on last year's allowance.

GPs who have been missing out on fees for life assurance reports because of the MIRAS scheme (Money Pulse, August 13) will be recompensed to some extent by the new increased fee when examinations are requested again.

For the ordinary form of life assurance report – where the proposed sum assured exceeds £2,500 – the fee goes up to £19. Personal medical attendant reports with niethal medical examination nor opinion go up to £9.50. Both fees are increased on October 1.

Fees for lectures and examinations at ambulance associations are also to go up, to £17.90

OCTOBER PRACTICE DIARY

October 1	FP1	registration
	FP4	registration
	FP58	registration of newborn
	FP19	temporary resident
	FP1001	contraception
	FP1002	IUCD
	FP1003	TR contraception
	Prem 1	for practices due for rent review

All above forms to FPC

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GPS' FEES AND ALLOWANCES 1981-1983

"PULSE" ARTICLE, 17 SEPTEMBER

1. This Note sets out some comments on, and the background to, the article in Pulse magazine of 17 September on how a GP practice increased its income by 40 per cent in cash terms over the 2 years 1981 to 1983.

2. The level of fees and allowances for GPs is set by the Review Body: the aim is to pay GPs on average the net remuneration the Government decides is due to them after consideration of the Review Body's report. The complex system of fees and allowances is set out in what is known as the "Red Book": what the article shows, in effect, is how one practice both changed its own behaviour and responded to changing demands by patients. In doing so, it increased its income by some 40 per cent - whilst the fees and allowances were set to produce an average increase of about 21 per cent: it did, of course also increase its workload.

3. The following paragraphs set out in greater detail the working of the system in general and the record of this individual practice in particular.

4. Over the two year period 1980/81 to 1982/83 GPs' fees and allowances generally were set to produce an increase of about 21 per cent. This was to cover

i. a 12 per cent increase in average net remuneration - 6 per cent in 1981/82 and 5.7 per cent in 1982/83

ii. a 20 per cent increase in average expenses estimated at about 11 per cent in 1981/82 and 9 per cent in 1982/83

iii. an increase of about 4 per cent to correct for past under-payments.

5. Broadly speaking all fees and allowances went up by 21 per cent except capitation fees which were increased by about 27 per cent to compensate for expected loss of income through falling average list size. (Adjustments to GPs earnings needed to take account of changes in workload are incorporated by the Review Body in the recommended average net remuneration. Fees and allowances simply aim to deliver the agreed average net remuneration. In fact the Review Body has assumed constant workload for a number of years, falling list size being deemed to be offset by increasing numbers of elderly patients, new treatments etc.)

6. The system aims to deliver the average net income to the average GP. It contains incentives in the form of item of service payments to encourage GPs to undertake particular types of treatment. It is open to any GP to try to increase his income (having regard to the needs of his patients) for example by taking on more patients (up to a maximum) or carrying out more treatments. If as a result the actual average net remuneration received by GPs as a whole exceeds the amount awarded, the Review Body will make a downward adjustment to fees and allowances in a later period and claw back the excess, making net remuneration correct in the longer term if there has been no overall increase in workload.

7. The analysis of gross payments in the last quarters of 1980/81 and 1982/83 provided by Dr Grey shows that income from

a. the basic practice allowance, the group practice allowance and the supplementary practice allowance which are fixed allowances per GP all increased by around 21 per cent;

b. the capitation fees increased by rather more than the 27 per cent fee increase because list size increased;

c. seniority payments increased by more than 21 per cent probably because one partner became eligible for a higher payment because of his length of service;

d. night visits seems to have increased by more than expected because more night visits were made in the later period (39 compared with 23 in the earlier period).

The remaining increases in income were from item of service payments; more contraceptive services were provided, more cervical smears were carried out, more vaccinations given and special drugs administered for patients requiring long term steroid treatment. The latter represents new work for the practice and accounts for 8 per cent of the 40 per cent increase.

8. When additional work is carried out by an individual or practice, as described above, the Department has no choice but to pay for it. And this of course is as it should be if the increase results in better care for the family, for example as a result of GPs responding to appeals to take part in vaccination programmes and setting up systems which ensure that women are recalled promptly when they

become due for cervical smears. The ability of individual GPs to increase their income by adjusting the pattern of work and increasing the services they offer, together with fluctuations in patient demand, makes forecasting and control of GMS expenditure extremely difficult in the short term. In the longer term as Binder Hamlyn recognise, GMS expenditure is more susceptible to control. In spite of these difficulties, control is tighter than in European insurance-based systems. Our payment to GPs are still based principally on the number of patients on the doctor's list rather than on items of service; the DDRB system gives good overall control of practitioners' earnings; and most practice expenses are reimbursed on an average basis which, as Binder Hamlyn points out, gives a powerful incentive to economy.

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FAMILY PRACTITIONER SERVICES

1. Existing constraint is dependent upon the contractual arrangements we negotiate with GPs, dentists, chemists and opticians, through negotiation of drug prices and through charges to patients. We cannot and, in Ministers' view, should not control what doctors prescribe for their patients. We have influence on the supply of doctors by tight controls on medical schools intakes, but cannot at present control the numbers of practitioners contracting for services.

Measures to Improve Control

2. Following an independent study by consultants Binder Hamlyn (which will be published in the New Year) Ministers will be putting proposals to H Committee after Christmas to introduce the controversial legislation necessary to strengthen existing controls, notably by taking power to control the numbers of contractors.

3. Other measures to contain expenditure over the next three years include:

(a) saving of over £100 million a year on the drugs bill to result from current negotiations on the Pharmaceutical Price Regulation Scheme, on which the Minister for Health made a recent statement to Parliament;

(b) savings of approximately £20 million from privatising the dispensing of glasses to adults;

(c) proposals to save approximately £60 million a year by moving to a system of cost-related charges for NHS dentistry; Ministers have not yet decided on the timing of this controversial measure.

The measures at (b) and (c) will be contentious, as would cost-related prescriptions, and/or exemption based only on ground of financial need - though the savings could be substantial.

4. In addition, we have commissioned the management consultants Arthur Andersen to advise on improving the efficiency of Family Practitioner Committees in their administration of the FPS and on streamlining their work through computerisation. The Government has just reintroduced the legislation to make these committees independent of DHAs, and to clarify accountability between them and the Secretary of State.

Forecasting

5. Forecasting this expenditure is notoriously difficult because the initiative for changes in costs and the pressure for change, lies in the hands of, mainly, prescribing doctors and in the scientific development of the pharmaceutical industry world-wide.

6. Within the Department, substantial steps have already been taken to improve the statistical and financial basis for forecasting expenditure on the FPS; we are already getting some of the benefit of this and further improvements are expected next year.

7. Most recently we have, at the invitation of the Treasury, provided up-to-date estimates of likely additional requirements for expenditure on the FPS up to 1986-87, in advance of the publication of the Estimates White Paper. The additional sums which we have sought include sums for (a) additional take-up of welfare foods (outside the FPS but demand-led and directly governed by increases in social security entitlement), (b) some upward revision in the number of doctors and dentists and (c) (the largest amount) a further increase (£26 million, £73 million and £106 million) in the estimated expenditure on drugs in the FPS. This requirement is on top of figures which took account of the substantial savings on the drug bill recently announced.

8. The reasons for (c) are revealing. It reflects the latest estimates of trends in numbers of elderly and unemployed people whose prescriptions are dispensed without charge, and in the net ingredient cost of individual prescriptions (which are the clinical responsibility of the doctor). The cost is also influenced by the fact that prescriptions (exempt of charge) for the elderly are also the most expensive per item.

JP

SOCIAL SECURITY

Controls

1. Social security expenditure is primarily controlled through decisions on benefit levels at the annual uprating, through the legislation which determines entitlement and through the delivery system, which pays the benefits so determined. We cannot control the number of beneficiaries and forecasts of their numbers are subject to substantial uncertainties.

Measures to Contain Expenditure

2. Measures to contain expenditure taken under this Government have produced savings of over £2 billion. Those decided in the last PES round will account for £250 million. The Secretary of State is now conducting several in-depth reviews of those parts of the system which are most likely to repay such reviews.

Forecasting

3. Most of the uncertainties revolve around forecasts of supplementary benefit expenditure. These are based on economic assumptions provided by the Treasury, on statistical data about past expenditure and on assumptions about people's behaviour - who will lose or gain jobs and for how long and what benefit entitlements they will take up. All three are subject to doubt. The economic assumptions are not the Treasury's most detailed forecasts of unemployment (which Treasury Ministers have been unwilling to disclose) and they tend to be fairly inaccurate. Our statistical data, particularly data about current expenditure, are available fairly late and involve estimation. The reason for this is the scale of the system we operate and its complexity: obtaining more up-to-date or more detailed data would be very expensive. This is a situation which we expect to improve substantially as our operations become more computerised under our operational strategy, and it would improve even more if Post Office counter services were mechanised, but both of these are developments for the longer term.

4. Estimating what benefit entitlement will be claimed by a

given number of unemployed people has proved difficult because experience in earlier years proved a poor guide to what would happen in the current recession.

5 This difficulty has been compounded by two others. The more important was the Civil Service dispute of 1981: as one side effect of this we lost a very substantial proportion of the basic statistical information for that year. For several months now we have been building on sand as a result of this and it is only within the last few months that reliable and up-to-date statistics have been available to provide a firmer foundation.

6 The other major source of uncertainty was the major change to the system brought about by the introduction of Housing Benefit in April. Now that figures on the new benefit system are becoming available for the first time, various of our assumptions have had to be revised.

7 These last two problems were once for all effects, and we can look for improvements in our forecasting simply because they are now behind us. We are not resting on that alone, however: our Chief Economic Adviser is chairing a joint group with Treasury and GAD to consider what all three Departments can do to improve forecasting and monitoring of social security expenditure. They have set up an expert working party to make recommendations on where improvements will be most cost effective, and to report early in the New Year. We shall be ready to take urgent action to implement recommendations of the Group as they effect DHSS; in the interim, we have already set in hand a number of small improvements in our arrangements.