MT.

CONFIDENTIAL FILING

Prime Minister's meeting with Sir Geoffrey Finsberg MP, 20 March 86 about Hampstead Health Authority

PRIME MINISTER

March 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
20.3.86							

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SUBJECT cc MASTER

file

filed on PM
Meeting with Finsberg MP
3/86.

10 DOWNING STREET

From the Private Secretary

20 March 1986

Dear Jane,

The Prime Minister together with your Secretary of State met Sir Geoffrey Finsberg, M.P., today at his request to discuss the proposed closure of two wards of the Royal Free Hospital on 1 May.

Sir Geoffrey Finsberg said that he found it difficult to justify publicly the closure of two wards in a hospital which was relatively new. The Chairman of the Health Authority was conscious of the need for economies and had done as well as possible given the unhelpful composition of the Authority itself. Its problems were exacerbated by the RAWP process which in his view had gone too far in re-allocating resources away from London. Your Secretary of State said that he had made a close study of the figures and had concluded that the problem faced by the Hampstead District Health Authority was not a result of RAWP. Provision for 1986/87 was, after allowing for inflation, only 174,000 less than in 1985/86 on a cash limit of nearly £56m. This compared with a shortfall declared by the Authority of some £2m. There was clear evidence of scope for economies: for example £½m. could be saved by putting domestic services out to tender. The Authority had been notably slow in doing so. Moreover, there were a number of areas in which there was evidence that the Royal Free was not as efficient as it might be. For example, the overall length of stay was much higher than in comparable hospitals and the number of operating theatres for each available bed was the highest in the country.

Your Secretary of State went on to say that he appreciated the problems which RAWP caused in London but the policy of moving resources to where the population and therefore the demand was remained valid. He had sought to operate RAWP as sensitively as possible and he foresaw considerably difficulties were the policy to be abandoned.

The Prime Minister said that as a London Member she could understand Sir Geoffrey's concern at the operation of the RAWP formula and she noted that it was under review. Nevertheless, the difficulties of the Hampstead District Health Authority did not seem a product of the RAWP arrangements, but rather of an unwillingness on the part of

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the Authority itself to operate as efficiently as possible. Nevertheless, it was vital that the Government's position should be defended and accordingly she asked that Sir Geoffrey Finsberg should be provided with as much information as possible on areas in which efficiency might be increased. Your Secretary of State undertook to do this: he also agreed to a request from Sir Geoffrey for a meeting between Sir Geoffrey himself and the Chairman of the Health Authority with a DHSS Minister. No doubt you will be arranging this.

Yours ever

Tim Flesher

Tim Flesher

Miss Jane McKessack
Department of Health and Social Security

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

Tim Flesher Esq
Private Secretary
10 Downing Street

19 March 1986

Dear Tim — It eventually arrived!
Sue

PRIME MINISTER'S MEETING WITH SIR GEOFFREY FINSBERG MP: 20 FEBRUARY

I attach briefing on Hampstead Health Authority for tomorrow's meeting.

Yours
Giles

Giles Denham
Private Secretary

BRIEF FOR PRIME MINISTER'S MEETING WITH SIR GEOFFREY FINSBERG: 20 MARCH 1986

Introduction

1. Sir Geoffrey has requested the meeting to discuss the closure of 2 wards in the Royal Free Hospital from 1 May (56 beds out of some 850). He argues that RAWP has forced the closure. He hopes the Prime Minister will agree that RAWP "must now cease as it has achieved virtually all it was intended to do, and allocations should be made more intelligently from now on. It would help if the 1986/87 allocation could be re-determined." (The Regional allocation is adjusted by the RAWP formula - the RHA's allocation to its Districts is now being determined by the resources required to fund the approved District plans).

Background and comment

2. The Hampstead District mainly consists of the Royal Free Hospital (850 beds acute) and Friern (950 mental illness beds). Its resident population is one of the smallest in London (105,700). Whilst this leaves little room for savings from rationalisation of buildings, it does expose the Hampstead Authority to the effects of DHSS policy of moving services closer to the patients, and it places a heavy onus on the Authority to generate savings by internal cost improvements whilst maintaining a specialist Regional service.

3. Financial pressures in year have led to Hampstead's decision to close the 2 wards at the Royal Free. It is simplistic to see this as a direct consequence of, and solely attributable to, the effects of RAWP at national, or sub-Regional, level.

4. In 1986/87 the Hampstead District allocation, after allowing for a 4.5% increase for inflation, will be only £174,000 less (0.3%) than in 1985/86 on a cash limit of £55.9m. This virtual levelling off of funding follows a period in which Hampstead has experienced

a loss of resources as part of N E Thames' policy of re-distributing resources within the Region to fund service developments within a roughly level Regional allocation. For 1986/87 the DHA has a projected revenue shortfall of £2m but it is the result of a combination of factors

- serious overspending on certain 'demand led' budgets such as drugs and blood products

- the need to fund part of the 1985/86 pay awards

- the cumulative effect of covering reductions in allocation in earlier years (£710,000 in 1983/84, £1.2m in 1984/85 and £860,000 in 1985/86) from reserves, which are now exhausted, rather than from recurring revenue savings arising from increased efficiency.

5. There are two major preoccupations - the effects of the ward closures and the scope for further revenue savings within the District.

a) it is doubtful whether the closure of 2 wards will result in a drop in the number of patients treated - the only criteria that finally matters. Since 1982 the Royal Free has treated 4% more in patients compared to 17% more day patients - and about 3% fewer out patients. Experience elsewhere (eg Bloomsbury and Southend) shows that activity can be sustained using fewer beds and staff resources.

b) we are not convinced that further savings are not possible in areas which will have no (even potential) effect on patient services. Progress on competitive tendering has been very slow in Hampstead - no tenders have yet been awarded (see note F). Above all

Hampstead's problems seem to flow from an inability to control medical and surgical budgets. Other Districts have found it possible to control these through the introduction of clinical budgetting and other ways of making clinicians more conscious of the relative costs of different clincial practices without jeopardising the quality of services to patients. (See note E).

6. RAWP at national (or sub-regional) level would only be to blame if one assumes

- that the scope for making further, relatively small savings on the cash limit is exhausted

- that the scope for absorbing increased costs within the allocation is exhausted

- that the scope for cost improvements to deliver the same or greater level of service with fewer resources - manpower, money, physical facilities-is exhausted

- that there is little scope for controlling costs in 'demand led' areas such as drug prescribing

- that the Royal Free should not be affected by the policy of equality of access under which the Thames Regions are building up services in areas of high population growth outside London.

7. We are not convinced that the solution to Hampstead's undoubted problems is to provide it or N E Thames with extra funds. It might temporarily alleviate the symptoms. It would not solve the problems.

Line to take

We suggest the following line to take:

a) Government remains committed to equality of access to services : is pursuing this at regional level on basis of manageable pace of change and expects Regions to progress similarly. Pressure for slower pace of change in some areas is matched by equally strong pressure (from MPs and others) for faster progress in, for example, Oxford, Wessex and Shire counties within Thames Regions. 'Stopping RAWP' would disrupt other Regions' plans and provoke major political problems;

b) decisions do take account of special pressures on Thames Regions - N E Thames has a higher than planned cash increase of 5.7% for 1986-87;

c) Government is looking at scope to refine RAWP formula as regions approach target. Review will include teaching costs and cross-boundary flows, both relevant to London's teaching districts;

d) efficiency is also an essential element - Thames Regions have scope to do more than other Regions;

e) there is scope for further self-help in Hampstead eg on competitive tendering, on getting budgets under control and making better use of resources.

Detailed briefing notes are appended as follows:

A. National and Regional Allocation Policies

B. The effect on London

C. N E Thames and Hampstead allocations in 1986/87

D. Hampstead's financial problem and the decision to close 2 wards at Royal Free

E. Measures of efficiency in use of resources in Hampstead

F. Competitive Tendering.

A. National and Regional Allocation Policies

1. We agree that resource allocation must be done intelligently and not mechanistically in a way that might damage services.

2. At national level it is important to remember that allocations are not based simplistically on RAWP targets. Allocations are largely based on historic funding levels with changes at the margin determined in relation to RAWP's measure of each Region's distance from its relative need. We remain committed to securing equal access to health care across the country. The purpose of the review or RAWP which we have already put in hand is to look at the scope for improving the way relative need is measured. This will include study of teaching costs and inner city costs with a view to improving the sensitivity of RAWP.

3. At Regional level the same general point applies. As recently as this Monday (17 March) the Chairman of N E Thames RHA confirmed to Mr Hayhoe that the Region had moved away from undue reliance on RAWP as a determining factor in sub-regional resource allocation. A more sophisticated approach is being developed which relates changes in allocations to specific, agreed and manageable service changes. The very small resource reduction for Hampstead this year reflects this new approach.

4. At both national and regional level emphasis is on building up local services that people want and expect for many people who have traditionally had to travel to hospitals like the Royal Free.

B The effect on London

1. National and Regional allocation policies mean less for London not because we need to rob Peter to pay Paul but rather because there is scope for savings in London. The financial policy follows the scope for greater efficiency and structural change in the organisation of London's hospital services, it does not lead it. The Thames Regions receive lower increases in funding than other Regions, and within that are expected to find the resources to develop services in the Shires, because their higher unit costs mean they have more scope to help themselves by shaking out resources through increased efficiency. In addition as we develop local services in the Shires and reduce the need to travel into London for services that can and should be provided locally, so there will be scope for planned reductions in certain services. All these changes together with changes in medical practice, such as the development of day surgery, may call for fewer, more effectively used beds.

C The 1986/87 allocations: NE Thames and Hampstead

1. NE Thames' allocation for 1986-87 shows a substantial increase on 1985-86 - 5·7% or 1.2% more than the projected level of general inflation.

2. NE Thames has yet to decide on the allocations to its Districts. The RHA will decide at its meeting on 24 March. The papers recommend no significant change for Hampstead. The detailed figures are as follows:-

	£ 000	
1985/86 basic allocation	53,103	
Cash uplift 4.5%	2,164	
Part funding of Pay	701	
1986/87 basic allocation	55,968	
Adjusted as follows:		
Efficiency savings	-336	
Growth pool contribution	-22	
Growth	194	
Transfer of services to other authority	-10	
=	55,794	£174,000 less than 1985/86
giving, after further adjustments for Premature Retirements, and a £179,000 increase for Joint Finance, a cash limit of	55,902	

D Hampstead's Financial Problem and the decision to close 2 wards at the Royal Free

Financial position

1. The HAs decision to close 2 wards was a reaction to a projected shortfall of £2m in 1986/87 between income and projected expenditure.

2. The shortfall is attributed to

- national RAWP policies
- re-distribution of funds within NE Thames
- overspending on budgets (especially 'demand-led' ones such as drugs and blood products)
- shortfall in funding pay awards
- the effect of funding savings in previous years from reserves rather than through identification of recurring savings.

The HA acknowledged that the 86/87 problem was only partly due to savings required to meet 86/87 reductions in allocation.

3. Reductions in allocation in the last 3 years have been as follows:

	£,000
83/84	710
84/85	1,200
85/86	860
	£2,770 m

While Examples of Increases in costs since 80/81 are

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Blood products	627
Rates	251
Medical staff costs	91
On call payments	37
Medical and Surgical Equipment	30
	£1.8m

A total loss in spending power over 4 years of £4.6m NB: with the exception of rates all these areas are within the control of the HA - see Section E on efficiency.

4. The main areas of overspending this year, projected into next year are:-

£'000

	Overspent	On cumulative expenditure to Jan 86 of
Medical and Surgical equipment	200	4,200
Drugs	450	2,470
Diagnostic Depts	50	3,730
Administrative Services	140	3,476
Domestic and cleaning	28	2,954
Estate management	65	6,635
All other general services	120	2,126

Nursing services are £300,000 under spent on £16,173m - a welcome change from an historically chronic lack of control on the budget. The bulk of the overspend is at the Royal Free. Friern (the only other major unit) is underspent.

Measures to make savings/control expenditure

Measures taken (totalling, if achieved, savings of £735,000) include:-

- freeze on vacancies
- review of out-of-hours lab requests
- reduced domestic staffing following changes in practices
- new arrangements for review of equipment drugs and theraputic substances budgets
- reduction in operating theatre sessions

The DHA's 1986/87 Short Term Programme identified other savings totalling, if achieved, £660,000 in 1986/87, £700,000 in a full year.

Proposed closure of 2 wards

The HA concluded it had "no realistic alternative to making plans for closure of services". It agreed that detailed work proceed on closure of 2 wards from 1 May, and contingency plans be prepared to close 2 more during 86/87 in case this

became necessary. The estimated saving is £100,000 a ward. No estimate has yet been made on likely effect on workload.

E. Measures of efficiency in use of resources in Hampstead

Activity and resource changes 1982-84

1. By comparison with the decline in financial resources activity and manpower have changed as follows:

A. Patients Treated	1982	1983	1984	% change 82-84
Inpatient	25,694	26,366	26,726	+4%
Day cases	2,026	2,433	2,457	+17%
Outpatient	212,000	212,000	205,000	-3.4%
B. Manpower				
All	5,260	5,078	4,881	-7.2%
Front line	3,220	3,067	3,046	-5.4%

Performance Indicators

2. Hampstead is an unusual District in that most of its resources are tied up in two large units - the Royal Free Hospital and Friern Hospital. The scope for savings from service rationalisation on to fewer sites (as in Bloomsbury with its 17 hospitals) is limited. Savings have to be found in the main from within the Royal Free.

3. Indicators show a number of areas which would appear to warrant investigation to see if resources are being used to maximum effect:-

(i) the numbers of theatres for each available bed is the highest in the country - twice as high as the England average and much higher than in other London Districts in NE Thames. Are all these theatres used efficiently?

(ii) overall length of stay, even after taking account of type of cases, is high in general medicine, general surgery and trauma and orthopaedics. Post-operative length of stay is very high in some specialties.

4. Very little day surgery is done. The idea of 5 day wards has been rejected in the past. Both are attributed to medical opposition. The Region is encouraging reconsideration and considers that a theatre utilisation study is needed to see if savings can be made without reductions in activity.

5. Inpatient costs at the RF are the highest of the Region's 5 teaching hospitals. The proportion of expenditure on direct patient care is 51.9% - significantly below Regional average of 54.3%. The proportion of spend on para-medical services is 13% compared to Regional average of 10.8%.

F. Competitive Tendering

1. The exercise has not yet been completed for any of the 3 services. A laundry contract commences in May 1986 and will produce savings of £40,000 a year. Domestic services are due to go to tender in September this year. There have been difficulties in obtaining tenders for catering services because of problems over the physical condition of the kitchens at the Royal Free. The District has persistently sought exemption for Friern Hospital on the grounds that it will eventually close. The request has been refused and services will be put to tender in March 1987 - within the national deadline.

2. Many DHAs completed the exercise on at least one of their services a year ago. Nationally savings are averaging at 33% (domestic) 10% (catering) 15% (laundry) of cost. Hampstead's annual budgets for these services are as follows, together with savings that would be made if savings followed national trends:

£1000 1984/85 figures

	Expenditure	Possible saving
Laundry	380	57
Domestic	3,100	1,000
Catering	2,400	240,000
	£5,880	£1,297

cc. M Young.

0712
x 7486

SIR GEOFFREY FINSBERG, M.B.E., J.P., M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

Tuesday 18th.
4.15 (½ hr.)

15th March 1986 R15

Dear Margaret

Hampstead Health Authority

For the first time ever I am in a position of being unable to defend the Government.

RAWP is forcing the closure of two wards of the new Royal Free Hospital on May 1st and you can imagine the catastrophic effect this will have upon the elections for the ILEA and Camden.

I know that you share my feelings about RAWP, which I do not seem able to get through to the Secretary of State, and I wish you would find it possible to say that RAWP must now cease as it has achieved virtually all it was intended to do, and allocations should be done more intelligently from now on.

If there was any way of re-determining the 1986/7 allocation it would be of enormous help.

Yours ever
Geoffrey

The Rt.Hon. Margaret Thatcher MP
The Prime Minister
10 Downing Street
SW1

Perhaps I might have a word with you next week if convenient to you? G

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Introduction

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5. Inpatient costs at the RF are the highest of the Region's 5 teaching hospitals. The proportion of expenditure on direct patient care is 51.9% - significantly below Regional average of 54.3%. The proportion of spend on para-medical services is 13% compared to Regional average of 10.8%.

F. Competitive Tendering

1. The exercise has not yet been completed for any of the 3 services. A laundry contract commences in May 1986 and will produce savings of £40,000 a year. Domestic services are due to go to tender in September this year. There have been difficulties in obtaining tenders for catering services because of problems over the physical condition of the kitchens at the Royal Free. The District has persistently sought exemption for Friern Hospital on the grounds that it will eventually close. The request has been refused and services will be put to tender in March 1987 - within the national deadline.

2. Many DHAs completed the exercise on at least one of their services a year ago. Nationally savings are averaging at 33% (domestic) 10% (catering) 15% (laundry) of cost. Hampstead's annual budgets for these services are as follows, together with savings that would be made if savings followed national trends:

£1000 1984/85 figures

	Expenditure	Possible saving
Laundry	380	57
Domestic	3,100	1,000
Catering	2,400	240,000
	£5,880	£1,297

10 DOWNING STREET

18th March, 1986

Dear Geoffrey,

Thank you for your letter of 15th March about Hampstead Health Authority.

I am happy to confirm that the Prime Minister is looking forward to seeing you at 4.15pm on Thursday next, 20th March in her room at the House of Commons.

Yours ever
Michael

MICHAEL ALISON

Sir Geoffrey Finsberg MBE JP MP

SIR GEOFFREY FINSBERG, M.B.E., J.P., M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

Tuesday 18th.
4.15 (½hr)

15th March 1986 R15

Dear Margaret

Hampstead Health Authority

For the first time ever I am in a position of being unable to defend the Government.

RAWP is forcing the closure of two wards of the new Royal Free Hospital on May 1st and you can imagine the catastrophic effect this will have upon the elections for the ILEA and Camden.

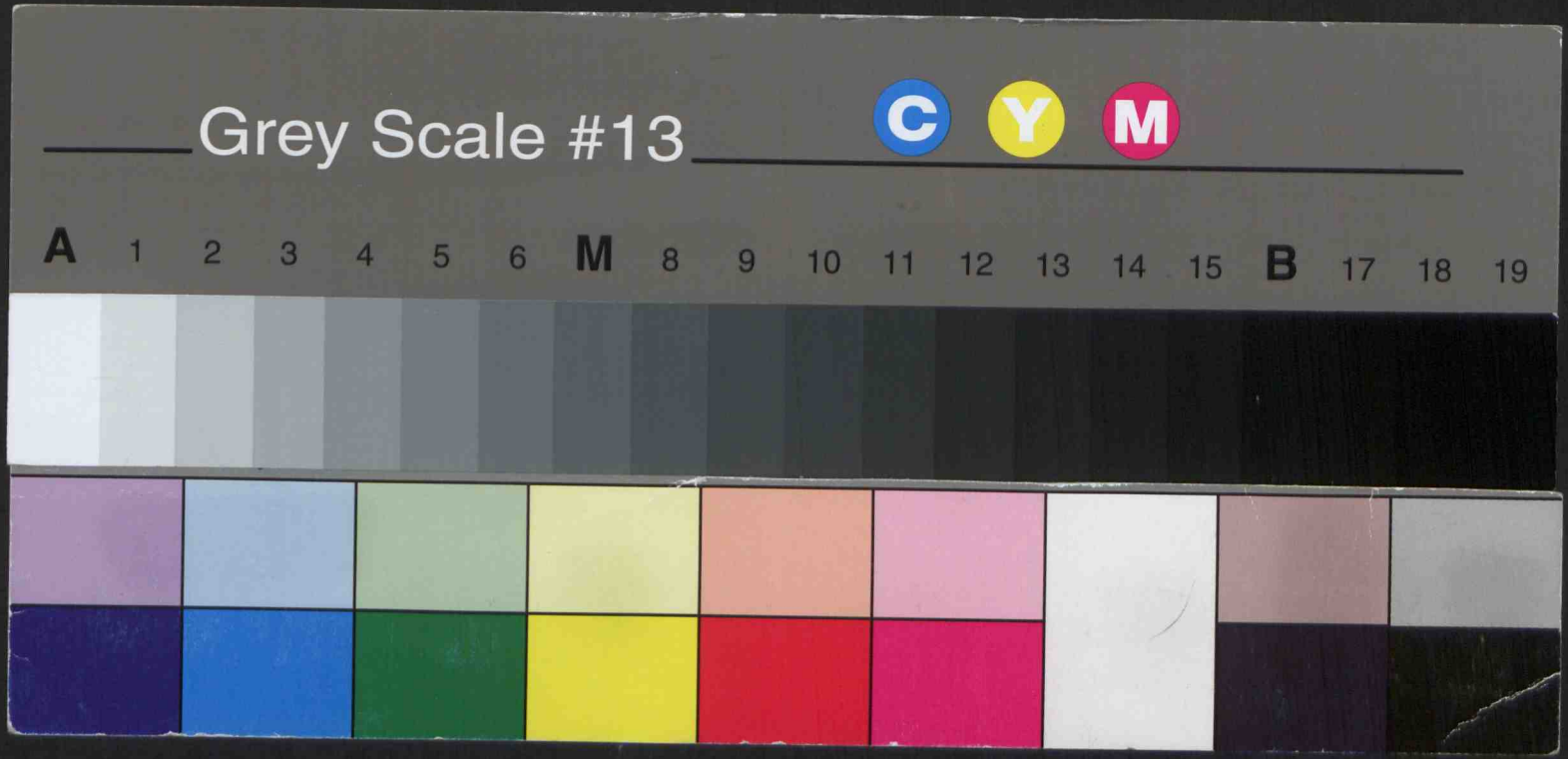
I know that you share my feelings about RAWP, which I do not seem able to get through to the Secretary of State, and I wish you would find it possible to say that RAWP must now cease as it has achieved virtually all it was intended to do, and allocations should be done more intelligently from now on.

If there was any way of re-determining the 1986/7 allocation it would be of enormous help.

Yours ever
Geoffrey

The Rt.Hon. Margaret Thatcher MP
The Prime Minister
10 Downing Street
SW1

Perhaps I might have a word with you next week if convenient to you?
G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