

PRIME MINISTER

When you considered Sir John Hunt's initial briefing on pay and cash limits, you agreed that the Government's attack on waste should be extended to cover local authority expenditure. We therefore invited the views of the Secretaries of State for the Environment, Health and Social Security, Scotland and Wales on the best way of tackling this. Their replies are flagged below.

The Cabinet Office have considered these responses, and, in the attached minute, advise that several points raised might best be tackled in the coming public expenditure exercise (charging, house maintenance, school meals, in particular). Cabinet Office further advise that Sir Derek Rayner could help in these areas, perhaps especially in the Health Service in which he has already expressed some interest, but also in the general area of local authority expenditure. You now have several exercises on waste and efficiency in hand, and Clive Whitmore will shortly be putting to you Sir Derek Rayner's initial report on his subject, together with related papers. It is important to keep the various waste and efficiency exercises co-ordinated if they are to retain momentum. Are you therefore content that we should not pursue the NHS and local authority points separately for the present, but should take care of them partly within public expenditure work, and partly through Sir Derek Rayner's work with individual Ministers?

9 July 1979

Not yet  
completed.

Health paper  
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Nat Health  
May 79 Waste  
in NHS.

I agree very much with the last para of Dr. Vile's minute. I am alarmed at the changes in the content of some of the letters. There is no real intention to get on with some of the problems. Good, I have word with Dr. Vile before my own

Ref. A09849

MR. LANKESTER

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Waste: Local Authorities and National Health Service

This correspondence was originally prompted by a point made in Sir John Hunt's brief of 3rd May to the Prime Minister about Pay and Cash Limits. He said in passing that there was little doubt of real room for economy in the administration of local authorities and of the National Health Service, as well as of central Government Departments. This was in the early days, before the lines of the Rayner exercise had been laid down clearly. You therefore asked us for a letter which you sent to DOE and DHSS, and to the Welsh and Scottish Offices, on 16th May, calling for the personal suggestions of their Ministers about the elimination of waste in these two main areas. All their replies have now been received. (Mr. Edmonds' letter of 24th May for DOE; Mr. Craig's letter of 1st June for the Welsh Office; Mr. MacKenzie's letter of 11th June for the Scottish Office; and Mr. Brereton's letter of 7th June for DHSS.) You had some interim comments from the CPRS in Sir Kenneth Berrill's minute of 8th June about the DOE letter. We have also consulted Sir Derek Rayner's team.

2. The Secretary of State for the Environment agrees with the diagnosis, but recommends leaving the remedy primarily to the local authorities, with what help and encouragement central Government can give them. The Secretary of State for Scotland broadly agrees. The Secretary of State for Wales lays more emphasis on the use of cash limits and expenditure cuts to force local authorities to examine their own priorities. All three Secretaries of State point to the reduction in controls over local authorities as a means of reducing the administrative burden in the Town Hall as well as in Whitehall. Sir Kenneth Berrill's comments add some other points: the need for a Government push on efficiency audit and value-for-money studies; a new approach to charging policy; a shift in the responsibility for housing maintenance from the local authority to the tenant; and the re-examination of school meals policy. The last three are likely to be covered, in greater or less depth, in the course of the public expenditure cuts exercise, and it

may be best to wait now for the Cabinet discussion on this on 12th July. The more general question of value for money and efficiency and audit comes up in another way too. Sir Derek Rayner, although concentrating on central Government administration to begin with, is available to advise any Minister who wishes to consult him. (He has already had suggestions from former local government officers, including the proposition that local authorities should themselves set up project teams to investigate specific services. In this context, it is significant that some local authorities including, I believe, Berkshire, Buckinghamshire and Norfolk, have invited Mr. Leslie Chapman ("Your Disobedient Servant") to assist them.

3. At this stage, it is important not to close too many doors. The Secretary of State for the Environment understandably wants to rely on self-help by the authorities (reinforced by public expenditure pressure). There may be a case for some outside assistance and some gentle prodding: it is too early to be sure. In due course Sir Derek Rayner may be able to help. The right line to take at this stage would be to agree with Mr. Heseltine on the need for self-help, but to ask him to discuss the issues with Sir Derek Rayner, whom he has not yet met, but not to rule out central Government involvement at some stage.

4. Turning to the NHS, the letter from Mr. Jenkin's Private Secretary is only an interim report; the Secretary of State for Social Services intends to mount a major exercise later in the year. It says that there is only anecdotal evidence of sheer waste. This is significant. DHSS does not have this kind of evidence because it is not organised to manage the NHS directly itself. Management responsibility is diffused to regional and area level, and it is there that information resides. The Department has responsibility without power. This also indicates that the DHSS has adopted a narrow definition of waste. There is considerable scope (we believe, as does the CPRS) for improving the efficiency of the NHS by persuading doctors and others to adopt best practice (e.g. in prescribing, and hospital lengths of stay). A lot needs to be done to improve productivity on a broad front. Some machinery already exists. O & M in its wider sense, has always flourished in the NHS. Perhaps it even counts for a high proportion of administrative costs. Measurement of results is more difficult, though the letter from Mr. Brereton does quote some quite impressive victories.

As in the case of local authorities, cash limits are likely to be a particularly important instrument of waste reduction. But as with any monopoly service, there is a danger that their effect will be to penalise the customer, rather than to induce efficiency in the service. Quite apart from the ethics and politics of this, there is an economic penalty attached to this kind of false efficiency. The sheer loss of man-hours of productive time spent by patients in hospital and surgery waiting-rooms, for lack of efficient appointment systems, must be very high. This is one of the areas of waste which no conventional approach to cost-saving will touch. Another, mentioned in the letter, is of course the structure of the NHS. Streamlining could save manpower and improve lines of management communications. The Secretary of State proposes to await the report of the Royal Commission, and this is obviously sensible before tackling this major problem.

5. Sir Derek Rayner hopes to be able to tackle some of the NHS problems too. He has had a preliminary talk with Mr. Jenkin, and with his Permanent Secretary. He was assured that they would welcome his help. But there are some signs of resistance elsewhere. It would therefore be useful if the Prime Minister were to make it clear that she supports his entry into this area.

6. Our advice is therefore:

- (a) to round-off the present exercise with letters of acknowledgment to the various Departments concerned;
- (b) that you specifically ask DOE and DES to ensure that the points about charging house maintenance and school meals are covered in the public expenditure exercise. (Our information is that they are, but no harm in reinforcing it).
- (c) That your letters of acknowledgement should make it clear that Sir Derek Rayner is available for consultation on any of these subjects, and hopes to be able to have time to spare to move outside the immediate area of central Government early next year. If the Prime Minister agrees, you might add that she personally attaches great importance to Sir Derek's involvement in both the Health Service and the local authority area.

(M.J. Vile)

A circular red stamp with numbers 1 through 12 arranged in a circle, with a red hand pointing to the number 10. To the right of the circle is a date stamp that reads "55 JUL 1979".