

National Health

BF-13/6/79



**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

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From the Secretary of State for Social Services

7 June 1979

Tim Lankester Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

I have the impression  
that there is no determination  
to get to grips with the matter.  
Would you remind Mr. Vaughan?  
Believe me, he will know what  
I mean!  
mb.

Dear Tim,

**WASTE**

I am sorry that I am a little late in replying to your letter dated 16 May about the problem of waste in the public sector, outside central Government. My Secretary of State is convinced that there are opportunities for improving the use of resources in the National Health Service and has asked the Department to make detailed proposals covering the main areas of NHS expenditure. He would like to provide a more comprehensive reply on the strategy for tackling waste later this year. The paragraphs below set out in broad terms the direction which a strategy to cut out waste might take.

We know of no evidence, other than the anecdotal sort which is told about any large scale enterprise, that there is much "sheer waste" in the NHS. But efficiency can undoubtedly be improved in every aspect of the organisation. For example, considerable attention has been paid, in the past, to improving efficiency in "support services" such as supplies, works, energy, catering and domestic services. There have been some remarkable results. For example in 1978 the cost of energy consumption of the NHS is estimated to have been about £150 million. Without energy conservation measures put in hand over a number of years we estimate that this figure would have been £30 million higher. Another example has been the review of management costs over the last two years, through which expenditure on management has fallen from over 5.6 per cent of total revenue, to below 5.2 per cent. In real terms this has freed at least £16 million per annum from expenditure on management, making it available for services more directly concerned with patient care.

Pratt's  
Shannon  
Stewart

Looking to the future the following factors will be important:-

- (i) The continuing restraint on cash limits, reinforced by the contribution of £24 million that NHS Authorities have to make this year towards the cost of pay awards, is exerting a steady pressure to cut waste.

E. R.

(ii) We are expecting the Report of the Royal Commission on the National Health Service in about six weeks. The Secretary of State has decided not to take any specific initiative on structural simplification, until he sees what the Report recommends. In the longer term, however, he will be looking for three advantages from a simpler structure with more local economy -

*Nothing helpful*

- (a) fewer management tiers will reduce the number of people not directly engaged on patient care;
- (b) more autonomy will underline management responsibility for getting value for money;
- (c) it will become possible to extend the use of incentive budgeting to help managements at all levels to find the most economical ways of providing services.

(iii) We are hoping to have Sir Derek Rayner's help in due course, because he has had direct experience with the DHSS Management Review Team, and he has indicated that he could help to show where substantial improvements can be made in resource usage within the National Health Service, especially in the field of purchasing.

(iv) In the context of our commitment not to cut the provision for the National Health Service, the Secretary of State intends to make it clear to Health Authorities that the serious deficiencies in the service can only be attacked by saving money elsewhere and channelling it into patient care. The Secretary of State will want to make it plain the NHS exists to provide care for patients, not jobs for staff.

I am copying this letter to Sorenson (Department of Environment), Kenneth MacKenzie (Scottish Office) and George Craig (Welsh Office).

Yours sincerely

*Don Brereton*

D Brereton  
Private Secretary

*cc Cato off*



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Nat Health

10 DOWNING STREET

From the Private Secretary

B/F 23.5.79.

16 May 1979

Copied to :  
Local Auth'y  
May 79: Waste

Waste

The Prime Minister has been considering the problem of waste in the public sector outside central government. She regards this as an important area for study, in its own right, and as a way of helping the local authorities and the NHS to absorb the costs of recent pay increases while still living within their cash limits. As you know, she has appointed Sir Derek Rayner to advise her on the general question of 'waste': but he intends to concentrate initially at any rate on central government. The Prime Minister would therefore be glad to have your Secretary of State's own views on the best way of attacking the problem.

I am sending copies of this letter, with a similar request, to Don Brereton (Department of Health and Social Security), Kenneth MacKenzie (Scottish Office) and George Craig (Welsh Office).

MANCHESTER

K.E.C. Sorensen, Esq.,  
Department of the Environment.

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