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Nat Health
Prime MinisterMJD
20/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
London SE1 8BY

20 March 1981

R Patrick,

NHS : USE OF ACCOUNTANTS

At Cabinet on 24 February, it was suggested that the technique used with striking success in the water industry, of bringing in outside accountants to find ways of reducing costs and charges, might usefully be employed more widely, for example in the National Health Service.

I know you have been looking for ways of increasing the efficiency of health authorities, notably by setting up a Management Advisory Service. Trial projects are to be arranged to establish how this could best operate, and I understand it has been suggested that management consultants might play some part in one or more of the trials.

Clearly there are large differences in functions and attitudes between health authorities and water authorities. But Michael Heseltine thinks it worth applying the same technique, of a quick study by a team of outside accountants, in local authorities (Barnet has already had the first trial run) - where there are no commercial accounts or financial targets so that the analogy with health authorities is closer. No doubt DOE or Treasury officials can let your people know in more detail the way these accountants have operated. But briefly, I think the lesson is that with reasonable co-operation from top management, they have been able to talk to people down the line and come forward with some suggestions for economies, not confined to accounting adjustments aimed at reduced rates or charges. This does suggest to me that there may be value in bringing in outsiders for quick studies elsewhere in the public services, and not least in the National Health Service. Clearly this would need to be focussed on some particular authorities or on specific aspects (e.g. purchasing, to supplement the work of your new Supplies Council).

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I hope you will agree that officials should examine how this experience might be brought to bear in the NHS context, and should report to us before too long.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, and George Younger.

Leon
Brittan

LEON BRITTAN

CONFIDENTIAL

19 MAR 1981





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

2 for National
Health
✓ MJD

Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
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2 April 1981

NHS: USE OF ACCOUNTANTS

You sent to me a copy of your letter of 20 March to Patrick Jenkin in which you suggested that officials in the Health Departments might examine how private sector accountants or consultants might be used to carry out studies of particular areas of the administration of the health service, where these might be expected to yield economies or improve efficiency.

I would be happy to see these possibilities explored fully. I should record however that we already make considerable use of accountants and consultants to advise on particular aspects of administration and on problems of a specialised kind where they arise within the health service, and several exercises of this kind are at present in train. Your letter envisages assistance to the health service principally in quick one-off exercises concerned with logistic matters. On a slightly different basis, in Scotland we took professional advice in setting up a financial administration within our 15 Health Boards when these were established in 1974. At that time we commissioned from Peat, Marwick, Mitchell and Co a very substantial study and report on the organisation and staffing structure of the Treasurers Departments of the new Boards. A major recommendation of their very thorough report was that within each Treasurer's organisation there should be a number of management accountants to handle the construction of budgets, financial planning, budgetary control, cost effectiveness and cost analysis, and to advise on and review matters concerning financial expenditure and the use of resources. This recommendation has been implemented and there are now some 50 management accountants in the Scottish Health Service charged with ensuring the most effective use of resources and with operating systems of management accounting.

The position therefore is that on the advice of a leading firm of accountants we have a financial management system which to a large extent provides at the centres of administration of the health service the sort of analytical professional expertise which might otherwise be obtainable only from outside consultants. My view is that in the Scottish situation the most appropriate use of outside advice might now be to review the efficacy of this internal financial management system to ensure that it is being given full scope to influence service

provision. I am therefore asking my officials to consider whether an exercise of that kind should not be mounted. Obviously, however, I would also hope that any lessons learned from studies of health services anywhere in Britain would be applied in Scotland as elsewhere.

Copies go to the Prime Minister, Patrick Jenkin and Michael Heseltine.

GEORGE YOUNGER

13 APR 1964

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DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

2 April 1981

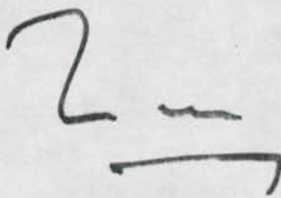
✓ MPA

Dear Patrick,

20/3/81

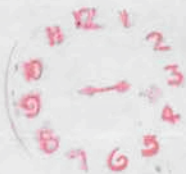
I have seen Leon Brittan's letter to you about the use of private sector accountants in the Health Service following our recent use of them in the water industry. Michael has already written to you about the importance of proper timing on this, but there are a number of other lessons that we learnt during the work with the water authorities. I think it is most important that these points are understood by any other colleague who is thinking of following the same path. I was therefore writing to say that I would be very happy to talk to you or whoever might be involved, so that our experience can be of help. I think this is particularly important if we are to avoid a backlash from the public finance sector who are clearly concerned about our water exercise and who could be very much more vociferous if the exercise is seen to be repeated very widely and without careful planning.

/ I am copying this letter to recipients of Leon's letter.


TOM KING *lan*

The Rt Hon Patrick Jenkin MP

3 APR 1977



CONFIDENTIAL



Nax Health

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

26 March 1981

Den Lion

20.3.81

I have seen your letter to Patrick Jenkin. Naturally I very much support the use of private sector consultants to look for economies and value for money in the public sector. I am planning this for local government on a significant scale.

But one crucial point emerges from your letter. The water exercise had to be sandwiched in a very tight period between the wage negotiations - which I didn't want to upset - and the rate fixing meetings. It was a matter of days. Certainly it produced results but it is not the right way to proceed normally.

In the future I intend to do the job properly. There will be not just quick talks with officials but proper in depth analysis of the costs of an individual organisation and - just as important - comparative costings with similar organisations.

In conclusion I very much support your approach but hope you will agree that we should take the advantage of the time available to us to do the job thoroughly.

I am copying this to the recipients of your letter - the Prime Minister, Patrick Jenkin and George Younger.

Yours ever
MHE

MICHAEL HESELTINE

27 MAR 1981

