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PRIME MINISTER

NHS REVIEW

CENTRAL MANAGEMENT OF THE NHS

[Note by the Secretary of State for Health]

DECISIONS

1. You asked for this meeting to discuss the central management of the NHS, after Mr Clarke's minute on the subject last week.

2. In his paper Mr Clarke sketches out four broad options. The first would be to continue with the present arrangements (option 1): he rules this out. You may wish to concentrate on the remainder:

i. option 2: a Management Executive within the Department of Health. This is Mr Clarke's preferred option;

ii. option 3: a legally separate Management Executive which would be known as the English Health Authority. The Regional and District Health Authorities would become answerable to it, while presumably remaining separate statutory entities;

iii. option 4: a Health Service Corporation. This would be a public corporation exercising direct management control over the industry. The degree of independence retained by the regional and district boards would have to be decided: there would be a number of possible models.

3. In addition to deciding which of these options should be pursued, you may wish to reach a view on the following:

SECRET

i. greater devolution of Departmental functions. It seems clear that the Department of Health has a significant number of staff involved in operational matters. Whichever option is adopted, you may wish to commission an exercise to see how far their work can be slimmed down, as part of the process of greater devolution to local units;

ii. chairmen of Regional Health Authorities. The White Paper refers to a clear and effective chain of management command running from Districts through Regions to the Chief Executive and from there to the Secretary of State (paragraph 2.6). You will wish to consider whether it is compatible with this chain of command to have the chairmen of Regional Health Authorities reporting to the Secretary of State.

iii. accountability to Parliament. Mr Clarke's minute accepts that there should be a new basis for Ministerial accountability to Parliament but seems to indicate in paragraphs 13 and 14 that it should not be introduced until the proposed legislation is implemented. You may wish to explore his thinking on this and ask him to draw up guidelines on how the new arrangements are to work, for use when the White Paper is issued, so that the same practice is followed for Scotland, Wales and Northern Ireland.

4. Finally, depending on what decisions are taken, you will wish to ask the Secretary of State to arrange for the White Paper to be amended accordingly and to report to Cabinet on Thursday on what has been agreed, if it affects the substance of the proposals.

MAIN ISSUES

What has already been agreed

5. Practically you might find it useful to begin by reminding the group of the points about central management which have already been agreed, namely:

i. Policy Board and Management Executive. There is to be a Policy Board, chaired by the Secretary of State, to determine the strategy, objectives and finance of the NHS and to set objectives for the Management Executive which it will monitor. The Management Executive will deal with all operational matters within the strategy and objectives set by the Policy Board (paragraph 2.5 of the White Paper);

ii. Maximum devolution. There is to be a clear and effective chain of command running through the NHS, with "as much power and responsibility as possible delegated to local level" (paragraph 1.9 of the White Paper);

iii. Ministerial accountability to Parliament. There is to be a new basis for Ministerial accountability to Parliament (paragraph 13 of Mr Clarke's paper) and it is to be made clear that Ministers will not be answerable in Parliament for day-to-day operation (minutes of meeting on 17 January);

iv. the Government should change the present arrangements in the Department of Health, which are based on a Management Board which is essentially part of the Department (paragraph 3 of Mr Clarke's minute).

6. The central question therefore is what new arrangements should be adopted which will best implement the Government's reforms and in particular what degree of formal separation there should be between strategy and operational management. At present there seems to be no clear dividing line in the NHS between politics or policy on the one hand and operations on the other; and no clear demarcation of responsibilities or line of command. These defects show themselves in the structure by for example:

i. many members of the present Management Board appear to be officials of the Department of Health;

ii. substantial numbers of Departmental staff appear to be engaged in NHS management. The annex to Mr Clarke's paper shows that 633 staff are directly engaged on support for the

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Management Board, and substantial numbers of other staff also appear to be intimately involved in the work of the NHS;

iii. as Mr Clarke's paper shows, the regional Chairmen are mainly political figures, with a direct line to the Secretary of State.

Option 2: Management Executive within the Department

7. Mr Clarke argues that he should retain the Management Executive within his Department, taking steps outlined in paragraph 8 of his paper to give it an "enhanced role" and to "mark out its new status clearly". In particular, all staff in his Department working on operational and management matters would come under the Management Executive, and the Chief Executive would have his own budget for the operation of the Executive. You will wish to consider whether those measures would be enough to establish a clear, separate structure for the operational management of the NHS, given the political and other pressures on the Secretary of State and the policy part of his Department to intervene. Particular points to explore include:

i. membership of the Management Executive. It is not clear whether officials of the Department would be members of the Management Executive, sitting as a board, and if so how many.

ii. Next Steps Agency. Mr Clarke mentions the possibility of making the Executive, with its staff, a Next Steps Agency (paragraph 8, fifth indent).

iii. Regional Chairmen would still have direct access to the Secretary of State, over the head of the Chief Executive. Might this tend to undermine the Chief Executive's position?

iv. Some senior officials of the Department would offer Mr Clarke advice on both policy and on operational and management matters (paragraph 9). It is not clear how many, or what he has in mind.

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8. Underlying these points is the question of the Chief Executive's power in practice to oversee the management of the NHS. If he is to be accountable for the management of the NHS, as the White Paper indicates (paragraphs 2.4 to 2.6), he ought to have the power to discharge this responsibility. It is not however clear from the paper what powers he would have in practice, for instance over the appointment and dismissal of managers in the NHS, over the allocation of funds, the setting and monitoring of budgets, and the giving of instructions: in short, all the matters which would be normal features of a clear and effective chain of command. If the formal legal powers are to remain with the Secretary of State, the position of the Chief Executive will be weaker than if he had formal legal powers in his own right. You may wish to explore what formal powers the Chief Executive will have.

Option 3: An English Health Authority

9. This option is not spelled out in detail in the paper but would entail setting up a new Health Authority, comprising the Management Executive, separate from the Department. The Regional Health Authorities would report to it but would presumably remain separate statutory bodies. Departmental staff engaged in NHS management would presumably transfer to it. You may wish to explore the arguments, including the following:

i. Special Health Authority. The implication appears to be that the body might be created as a special health authority under existing legal powers. You may wish to check this. If so, it would have the advantage of being a well understood process, and might arguably be the first steps down the road of making the NHS a separate commercial body without at this stage arousing too many susceptibilities.

ii. An extra link in the chain. Mr Clarke says that this would be an extra link in the chain of command between the centre and the regions. It is not clear whether this would in practice be more so than if the Executive was a Next Steps Agency inside his Department.

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iii. A pressure group for more money. Mr Clarke's main concern is that this Authority would become a lobby for more resources, despite the fact that it would clearly be a subordinate agency. You will wish to judge how serious a threat this would be. If it is serious, it points to a solution which keeps the Executive within the Department of Health.

Option 4: A Public Corporation

10. This option would mark the clearest distinction of any of the options between the Department and the NHS, and between policy and management. It would not necessarily involve centralisation. The legislation could regulate the relationships between the centre and the units to ensure that there was a proper degree of delegation. You will wish to consider these benefits against the practical problems which Mr Clarke is likely to raise.

i. Parliament might not welcome the explicit loss of Ministerial accountability which it would involve. The task of getting the other reforms through Parliament would be complicated;

ii. The Health Authority Chairmen, whose co-operation would be necessary in the short term to the implementation of the reforms, might also be antagonised;

iii. Establishment of a separate Corporation might lead to fears of privatisation;

iv. A separate Corporation might become a lobby for greater health spending.

Departmental Involvement in Management

11. Whatever option is adopted, you may wish to ask for an exercise to be carried out to review the number of staff in the Department of Health involved in operational management, given the Government policy of maximum delegation to the local level. Annexes 1 and 2 to Mr Clarke's paper indicate that the number of

staff employed by the Department is 8857. Of these, 4582 are to be transferred to Special Health Authorities or the Audit Commission, and another 1409 are possible candidates for Next Step Agencies. This still leaves nearly 3000 dealing with either policy or operational management of the NHS. It is not clear from the Annexes how this number breaks down between the two functions. There are 633 staff clearly identified in operational areas such as estate and property management, procurement and information technology; but there are significant numbers of other staff also involved in management who cannot be identified from the table. You may wish to ask Mr Clarke what the number is, and what plans he has for reviewing their work.

Accountability

12. Finally, Mr Clarke's paper agrees that there should be 'a new basis for Ministerial accountability to Parliament' but seems to indicate that it should not be introduced until legislation is implemented (paragraphs 13 and 14). You will wish to explore the arguments. There will need to be agreed guidelines for the new arrangements, for all the Ministers concerned, perhaps on the lines attached.

RTJW.

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Cabinet Office
23 January 1989

NHS REVIEW: ACCOUNTABILITY

i. The Secretary of State will continue to be answerable to Parliament, not only for the huge sums of money spent on the NHS as indicated in paragraph 2.4, but also for the matters dealt with by the Policy Board and for the functions dealt with by his Department which lie outside the NHS (eg public health).

ii. If the Secretary of State is asked by a Member of Parliament about an operational matter, his normal course will be to refer it to the Chief Executive or, in appropriate cases, the relevant Regional or District Health Authority for a reply. The Chief Executive will be available to appear before Select Committees or to meet MPs on operational issues, where necessary. In the last resort, if the MP is still not satisfied, particularly on a major issue such as a hospital closure, it will still be open to the Secretary of State to reply; but this will not be the normal routine.

iii. In exceptional cases, where for instance an operational issue may be symptomatic of a more general national problem, the Secretary of State may respond to pressure in Parliament by asking for a report from the Chief Executive, discussing it with him and publishing the report together with an account of the action being taken to deal with the problem.