SECRET - CMO

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LONDON SW1A 2AA

From the Private Secretary

24 January 1989

Dear Andy,

NATIONAL HEALTH SERVICE REVIEW

The Prime Minister chaired today the twenty-first meeting of the group reviewing the National Health Service. The group had before it a note by the Secretary of State for Health 'NHS review: central management of the NHS'.

I should be grateful if you and copy recipients would ensure that this record of the discussion is handled strictly in accordance with the CMO arrangements.

Those present were the Secretary of State for Health, the Secretary of State for Scotland, the Chief Secretary to the Treasury, the Minister for Health, Sir Roy Griffiths, Sir Robin Butler, Sir Christopher France, Mr. Wilson and Mr. Monger (Cabinet Office), Mr. Whitehead (No.10 Policy Unit) and Mr. Duncan Nichol (Chief Executive, National Health Service Management Board).

In discussion of the paper by the Secretary of State for Health the following were the main points made:

(a) The Department of Health appeared to have a large number of staff involved in NHS management. It was doubtful whether this involvement on such a scale was appropriate. The functions and number of this staff should be reviewed. Of the 8,900 staff employed by the Department, nearly 6,000 were to be transferred to Special Health Authorities and the Audit Commission, or were in areas being considered for Next Steps Agencies; and a proportion of the 3,000 staff at Headquarters were involved on work which it seemed right to retain in the Department including public health, licensing and regulation of pharmaceuticals and personal social services. Nevertheless, many of the Headquarters staff could be said to be involved in NHS management work. The Department of Health would need to examine their functions to see what savings could be made.

(b) NHS procurement work now done by Departmental staff was an obvious example of work which might be better undertaken by the NHS direct. The Health Authorities and self-governing hospitals should be responsible for their

own purchasing policies. But there were also advantages in maintaining a central buying function to exploit the NHS's strength as a very large buyer, where authorities and hospitals themselves wished it to continue to be available. An outside businessman was in charge of the Department's procurement work and had already produced considerable savings for the NHS.

(c) Another example of work which needed to be reviewed critically was personnel work. This covered mainly central negotiations on pay through the Whitley Council machinery. It was common ground that centralised pay bargaining in the NHS should be broken up in the interests of greater flexibility. This was an area where the Department aimed to make savings. The Secretary of State was already taking action to give the Chief Executive a direct role in pay negotiations.

(d) Relations between the Secretary of State, the Management Executive, especially the Chief Executive, and the regions needed clearer definition. If the Chief Executive was to be responsible for all operational matters in the NHS, he needed to have the powers to enable him to discharge this: otherwise he would be in a position of responsibility without power. The power to appoint and dismiss Regional General Managers, for instance, seemed fundamental. At the same time, it could be argued that the system would work in practice. The pay received by the Regional General Managers would depend on the Chief Executive's assessment of their performance. If a Region proved unresponsive to the wishes of the Chief Executive, he could appeal to the Secretary of State, who had the power of appointment and dismissal over Regional Chairmen. The Secretary of State therefore had the powers necessary to ensure that the system worked, and was determined to exercise them so as to achieve that. To go further and give the Chief Executive the explicit power to appoint General Managers would be inconsistent with having separate Regional Health Authorities and cut across the devolution of responsibility rightly emphasised in the White Paper.

(e) There needed to be a clear statement of the functions and powers of the Management Executive. They should be established clearly before the composition of the Executive was decided. The Department had conducted in 1983 a major review of the management structure and the chain of command down the line, but its conclusions had never been implemented. That analysis should now be reconsidered and brought up to date.

(f) A clear statement of responsibilities would also be needed for Scotland. The Scottish Office was working along the same broad lines as the Department of Health. The recent decision to appoint a Chief Executive for the NHS in Scotland would make it easier than hitherto for Ministers there to distance themselves from management matters.

(g) There were major disadvantages in more far-reaching structural changes such as the establishment of an English Health Authority or a Health Service Corporation. They would be seen as forming another layer of bureaucracy and might in practice become lobbies for more spending on health.

(h) There were numerous examples of waste in the NHS. One area which needed attention was policy on stocks. Maintaining stocks was expensive and there was much to be said for reducing and in some cases even eliminating stocks held by the NHS as opposed to its suppliers. Some progress had already been made in this direction. Another area needing attention was that of employment of nurses. The NHS at present hardly attempted to provide proper management of nurses, partly because the Royal College of Nursing had always insisted that it could be undertaken only by trained nurses, who might not have the necessary aptitudes. Greater use of general management for nursing services needed to be considered. But improvements in this area, and other areas where NHS management was deficient, should result from the new competitive pressures arising from the Government's reforms as a whole.

The Prime Minister, summing up the discussion, said that the group accepted the case against more far-reaching structural changes like the establishment of an English Health Authority or a Health Service Corporation. They accepted that there should be a Management Executive, located in the Department, but with a separate and defined status under the Secretary of State for Health.

All central operational and management work on the NHS carried out in the Department should be brought under the Management Executive, as the Secretary of State proposed. This central management structure should however be kept small and effective, in accordance with the White Paper objective of maximum devolution of decision-taking, and not be allowed to become a large bureaucracy. The Secretary of State for Health had said in the discussion that he would continue his scrutiny of the size of the Department and in particular hoped to make further reductions in the number of staff involved with NHS management matters. This objective should be pursued.

A lot more work was needed on the detail of the new arrangements and how they could work in practice. A written statement for the purpose should be prepared. It would need to cover the relationship between the Secretary of State and the Chief Executive, including what powers would be delegated to the latter,what powers the Secretary of State would retain and what the position would be in grey areas, for instance where the Chief Executive was only able to act with the consent or support of the Secretary of State. The note would also need to define clearly the powers, responsibilities and functions of the Chief Executive - and of the Management Executive - in relation to the Policy Board, the Department,

the Regional health authorities and the NHS below them including self-governing hospitals, bearing in mind the importance of maximum delegation throughout. The arrangements would need to include the setting of budgets, monitoring, the use of medical audit and financial audit and sanctions for non-performance. Consideration would also need to be given to membership of the Management Executive in the light of conclusions reached on these matters, which where necessary could include Departmental officials.

A review should now be undertaken to prepare an agreed written statement on these lines, drawing on the analysis done in 1983 as appropriate. The work could probably be better done in house, perhaps drawing on the expertise of one or two good managers from within the NHS, but the Department would be able to use outside management consultants if it wished. The work should be completed in not more than three months and the proposed outcome should be reported back to herself and other members of the Ministerial group. A similar statement would need to be prepared for Scotland.

I am sending copies of this letter to the private secretaries to Ministers on the group, to Sir Robin Butler and Sir Christopher France and to the other officials present at the meeting.

Yours,
Paul

(PAUL GRAY)

Andy McKeon, Esq.,
Department of Health.