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after Whitehead.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 April 1989

Dear Andy.

CENTRAL MANAGEMENT OF THE NATIONAL HEALTH SERVICE

The Prime Minister chaired a meeting on 25 April to discuss the central management of the NHS. The meeting had before it a note dated 19 April by Sir Roy Griffiths and Sir Christopher France. Those present were the Secretaries of State for Scotland and Health, the Chief Secretary to the Treasury, the Minister for Health, Sir Roy Griffiths, Sir Christopher France, Mr. Duncan Nichol, Mr. Wilson and Mr. Monger (Cabinet Office) and Mr. Whitehead (Policy Unit).

The Secretary of State for Health said that the paper fulfilled the remit from the meeting of Ministers held on 24 January. The most difficult questions concerned the relationship between the Department of Health and the NHS Management Executive. The paper identified three options. The first, that of having an autonomous Chief Executive, had been rejected because, among other reasons, it might lead to "second guessing" of the Executive by the Department. The second, that of establishing the Management Executive as a subsidiary agency, had been rejected because it would make the Executive too subordinate to the Department. He favoured the third option under which the Policy Board would receive advice on policy and resources from the Department and on implementation, management and some aspects of policy, from the Executive. The Policy Board would set the strategy for the NHS, and the Executive would be responsible for operational matters. The Board would in effect act as a holding company.

In discussion, the following were the main points made:

a. The option of turning the Executive into a Next Steps Agency deserved more consideration than it had received in the paper. The Government's general policy was that the quality of management in operational units in the Civil Service would be improved by converting them into agencies where possible. It was not clear why this policy could not also be applied to the Management Executive of the NHS. It might not be appropriate immediately, when the NHS was embarking on a major programme of reforms, but it would be the best solution once

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the reforms had been carried out. In particular, it would establish a clear relationship between the Executive and the Department. On the other hand, it was argued that an Agency would necessarily be subordinate to the Department. If the Management Executive were made an Agency, the Chief Executive would not be the Accounting Officer for NHS programme expenditure of £26 billion, as he would be with the holding company option. The agency option therefore ran counter to the objective of giving the Management Executive more independence and should not be pursued. There might however be some specific blocks of work now undertaken by the Department which would be suitable for transfer to an Agency. As the paper noted, some possibilities of this sort were already being considered.

b. The paper proposed retaining a common Administration Vote for the whole of the Department, including the Management Executive. There were strong arguments against this proposal. Effective management required that the manager should be responsible for his own budget. Ministers had recognised the importance of this principle in their decisions on community care. It was wrong to argue, as the paper did at Annex C, that the Chief Executive should not become enmeshed in personnel arrangements and running costs, since they formed an essential part of his management responsibilities. On the other hand, it was argued that a separate Administration Vote was not required to achieve the agreed objective of managerial independence for the Chief Executive. It would also have major practical disadvantages, in particular in moving towards the establishment of two small Departments. The proposals in the paper would raise the status of the Chief Executive more effectively by making him the Accounting Officer for programme expenditure, which was very much greater than administrative expenditure. Nevertheless, while these points had to be weighed, the proposal not to give the Chief Executive his own Administration Vote required further consideration.

c. It was essential, if the Chief Executive was to be an effective manager, that he should have control over the hiring the firing of his key staff. It was argued that this would be achieved by the proposals in the paper, under which personnel changes involving such staff would be cleared with him. Given a good relationship between the Chief Executive and the Permanent Secretary, such an arrangement was entirely workable. To go further would mean cutting across the arrangements for central consideration of all senior Civil Service appointments. On the other hand, it seemed right that in a matter as fundamental as this, the powers of the Chief Executive should be clear-cut and explicit. Experience suggested the need for this. The Chief Executive should himself have the power to hire and fire, not just the right for decisions to be cleared with him.

d. The earlier meeting had identified the need to reduce Departmental numbers where possible. The table attached to Appendix C of the paper suggested that there was some double-banking between the management side and the policy side. In several cases, one example being Family Practitioner

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Services, each side apparently had blocks of staff working in the same area. In many instances, this was necessary because each side had its own responsibility in that area. The Department, for example, had responsibilities for public health for which there was no counterpart in the Executive. Nevertheless, more detailed work still needed to be done in consultation with the Treasury as necessary, to establish what staff exactly were required in some areas, for example on Family Practitioner Services. In the continuing study of ways of reducing numbers where possible, particular attention should be therefore be paid to the possibility of making savings by eliminating double-banking.

e. The Secretary of Stage for Scotland would in due course bring forward his proposals for central management of the NHS in Scotland. He was likely to rule out the appointment of an autonomous Chief Executive because of the small size of the NHS in Scotland, and the creation of an Agency because it would downgrade the status of the Chief Executive. He therefore seemed likely at present to come to broadly the same conclusions for Scotland as those in the paper for England.

The Prime Minister, summing up the discussion, said that if the Chief Executive was to have real responsibility for operational matters in the NHS, he must have the powers and budgets to enable him to discharge that responsibility. The group broadly accepted the approach set out in the paper of 19 April subject to some important provisos and points of clarification designed to give effect to this principle.

First, it was agreed that the Chief Executive would work direct to the Secretary of State and that the Policy Board was the formal mechanism through which the Department would make its input to the running of the NHS, for instance by proposing targets and objectives to secure better value for money. Second, the Chief Executive would need to manage within a Business Plan, agreed by the Policy Board, which would provide a framework for operations over a three or four-year period. Third, this business plan would need to be paralleled by proper budgetary arrangements which would include a budget for capital. Both the Business Plan and the budgets would need to be updated regularly in the light of developments. Fourth, the Chief Executive would need to have sufficient powers delegated to him by the Secretary of State, for instance in relation to Regional Health Authorities including their chairmen, to enable him to manage operational matters effectively. Regional chairmen would still retain their right of access to the Secretary of State if they had a grievance; but the Chief Executive must be able to make decisions stick. Finally, the group attached particular importance to ensuring that the Chief Executive had effective control over the appointment and dismissal of key staff. The proposal that changes affecting such staff should be cleared with him did not go far enough. If he was to be responsible for management and for the delivery of results he must be able to make his own key appointments subject to clearance with the Permanent Under-Secretary and the Secretary of State in the case of the most senior ones.

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Continuing, the Prime Minister said that during the discussion the group had noted a number of points on which further work was needed:

(i) Considerable doubt had been expressed about the proposal that there should be a common Administration Vote for the whole of the Department, including the Management Executive. The group attached importance to the principle that the Chief Executive should be accountable for all management matters, and there was therefore force in the argument that an effective manager must be responsible for his own budget. It had however also been argued that there would be practical disadvantages in a separate Vote, and further consideration of the balance of advantage was needed. The question should be settled in discussion between the Secretary of State for Health and the Chief Secretary.

(ii) On the personnel side, apart from the question of key appointments, the group had also agreed that more consideration was needed of the position of more junior staff, for example statisticians, who would work for both the Executive and the policy side of the Department. It was probably sensible to maintain common services of this sort, but the further work should ensure that the Chief Executive had the ability to call on them as and when he needed.

(iii) More generally, the group had agreed that detailed work should continue on the number of staff required by the Department and the scope for slimming down. They were especially concerned that it should eliminate double-banking between the Executive and the policy side of the Department. There were a number of areas - for instance on Family Practitioner Services - where further work was needed.

In conclusion, the Prime Minister invited the Secretary of State to develop his proposals in the light of these points. She said that she would like to have a further progress report in three months time. This should in particular cover progress in separating the Management Executive from the Policy Board; turning some of the Department's functions into self-contained agencies; and reducing the overall numbers in the Department.

I am sending copies of this letter to the Private Secretaries to the Ministers at the meeting, Sir Robin Butler and Sir Christopher France, and to the other officials present.

Yours,
Paul

PAUL GRAY

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