SMD/6217p

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Secretary of State for ~~Social Services~~ Health

CONFIDENTIAL

Paul Gray Esq
10 Downing Street
LONDON
SW1

20 July 1989

Dear Paul

NHS REVIEW: CENTRAL MANAGEMENT OF THE NHS

Mtg record at flag A/21

At the last meeting of the Ministerial Group, held on 25 April, my Secretary of State was asked to look in more detail at some of the practical implications of the decision to establish the NHS Management Executive within and as a part of the Department of Health.

2. The enclosed paper reports on:

- management arrangements, including the handling of key staff appointments in the Management Executive;
- the treatment of analytical and other support services;
- Vote and accounting arrangements (to be reviewed in 1992);
- the Department of Health's size and the devolution of its functions.

3. Delegation to the Chief Executive of the Secretary of State's powers eg in relation to Regional Health Authorities, and devolution within the NHS will be dealt with through the continuing work of the Policy Board and the Management Executive. The Policy Board has already considered its own functions and work programme and those of the Management Executive; looked at the management systems operating between the Executive and the NHS; and agreed planning guidelines for the NHS for 1990/91, for issue by the Executive. My Secretary of State is confident that the Policy Board will be able to monitor the relations between the Management Executive and Regional Health Authorities and (through the Management Executive) secure devolution within the NHS.

4. To avoid duplication and double-banking of staffs, we have concluded that responsibility for policy and execution in the Family Practitioner Services area should remain in a single Group for the time being. Those responsible for the General Medical Services will report to the Chief Executive and for pharmaceuticals and the

E.R.

General Dental and Ophthalmic Services to the Permanent Secretary, each through the same Group Head at Grade 2. This treatment of the Family Practitioner Services departs from the White Paper in that it leaves outside the Management Executive those primary services which have relatively infrequent and minor links with the Hospital and Community Health Services The reason for this departure, with which the Chief Executive agrees, is to make it possible to manage the transition to the changed accountability of the Family Practitioner Services in such a way that it does not lead to duplication of effort in the Management Executive and the rest of the Department, nor to overload of the Chief Executive. This transitional arrangement will be reviewed in 1992.

5. My Secretary of State is content with these arrangements, as are Sir Roy Griffiths, Sir Christopher France and Duncan Nichol.

6. I am copying this letter and attachments to the Private Secretaries to the Chancellor of the Exchequer, the Chief Secretary, the Secretaries of State for Scotland, Wales and Northern Ireland and the Minister for Health, and to Sir Roy Griffiths, Sir Robin Butler, Sir Christopher France, Duncan Nichol, Ian Whitehead and Richard Wilson.

Yours

Andy

A J McKEON
Principal Private Secretary

CONFIDENTIAL

CENTRAL MANAGEMENT OF THE NHS

1. It was agreed at the meeting with the Prime Minister that:

   * The NHS Management Executive should be within, and a part of, the Department of Health; its Chief Executive will report direct to the Secretary of State for Health.

   * The Management Executive will discharge certain specified functions relating to the management of the NHS, on behalf of the Secretary of State.

   * Each year, and, having consulted the NHS Policy Board, the Secretary of State will issue to the Management Executive key objectives for achievement within the resources available. These will include performance targets covering quality, outputs and value for money.

   * The policy side of the Department will make its formal input to the running of the NHS through the Permanent Secretary's attendance at the Policy Board and his briefing of Ministers on policy and resources issues.

2. This paper sets out some of the practical arrangements that have been put in place to give effect to these decisions.

3. **MANAGEMENT ARRANGEMENTS** Within the existing management structure there is a clear distinction between the separate commands of the Permanent Secretary, the Chief Executive and the Chief Medical Officer, each with his own budget within the single Administration Vote; and each with a defined and inter-connected set of objectives within the overall aims set by the Secretary of State.

4. The Chief Executive must have the powers and budget to enable him to discharge his responsibility for operational matters in the NHS, and to make Senior Open Structure appointments, subject to clearance by the Secretary of State and Permanent Secretary, who will seek the necessary central approvals. The Chief Executive believes that the budgets for which he will be responsible will provide the flexibility he needs in respect of the employment of civil servants and the present scale of secondments from the NHS. If the work of the Management Executive required a significant increase in the

scale of people with NHS background and experience, it might be necessary to develop further arrangements for secondments and the use of agencies including, possibly, a central NHS body to provide the Chief Executive with a base for the NHS support he may require. Thus, in addition to permanent Civil Service appointments, the Chief Executive will have available to him a number of options:

* secondments

* consultancy contracts

* the establishment of functions in health authorities (existing or new)

* an agency of a kind appropriate to provide NHS appointments.

5. ANALYTICAL AND OTHER SUPPORT SERVICES At the meeting on 25 April, Ministers stressed the need to eliminate double banking between the executive and the policy side of the Department. Officials have concluded that providing common analytical and support services will keep staff numbers to a minimum and eliminate duplication of effort. To split these functions would be inefficient and uneconomical: additional posts would be needed and there would be constant cross-checking - the very double banking the Department must avoid. There would also be the damaging possibility of the Management Executive and the Policy Group holding different and incompatible sets of information.

6. Officials in the support services functions are well used to working for the Permanent Secretary, the Chief Executive and the Chief Medical Officer as necessary. It is proposed to continue these arrangements as representing the most effective way of running the Department.

7. VOTE ACCOUNTING ARRANGEMENTS. Consistently with the above, it is not proposed to split the Administration Vote: to do so would effectively split the Department into two. This would lead inevitably to duplication of staffs in each functional area, the one concerned with policy and the other with execution, with significant increases in costs and loss of efficiency; and to fruitless and time consuming arguments about facts, information and the conclusions following from them. A summary of the proposed changes to the Vote Accounting arrangements is provided at Annex A.

8. SIZE OF THE DEPARTMENT AND DEVOLUTION OF FUNCTIONS The Department's management task will be to examine closely all its work to determine what can be done only at the centre, what should be discharged elsewhere, and what staff reductions can be made. The Department is currently implementing plans to remove the work of some 4,800 staff from the Department over

the next two years. The major part of what they do will be transferred to the NHS. Consideration is also being given to devolving a number of other functions, involving a further 1,200 or so posts, to the NHS or agencies in a second tranche starting in 1991. If it is concluded that agency status or transfer to the NHS is the right approach for the latter group as well, some 6,000 posts in total will be shed from the ME or the DH policy core over a period of three to five years. This would reduce the current 8,600 Departmental staff to a small "Policy" group and ME of 2,700 staff or less. These numbers will fall as a result of the management plan which the Department is developing, and might be reduced still further when the new NHS arrangements are in place, making fewer demands on central management.

9. Annex B sets out the current staffing of the Department, whilst Annex C provides details of those functions which are currently being devolved and those which are seen as candidates for further devolution.

10. IMPLEMENTATION OF THE NHS REVIEW There are at present extra staff in post to secure implementation of the NHS Review. These numbers - 135 in 1989/90 and 133, 51 and 22 in 1990/91, 1991/92 and 1992/93 respectively - although significant, will certainly reduce as implementation proceeds. Treasury has agreed the bid for this year; the numbers for further years are included in the Department's proposals to be considered in the 1989 Public Expenditure Survey.

Department of Health
Richmond House

14 July 1989

ANNEX A

ACCOUNTING OFFICER RESPONSIBILITIES

1. Changes to the Vote arrangements are needed in order to:-

(a) Separate out those parts of non-cash limited Votes which are to become cash limited in 1990 (GP practice premises and ancillary staff) and in 1991 (the drugs bill) and

(b) to provide a Vote structure which aligns Accounting Officer responsibilities with management responsibilities.

2. The situation now is:-

Vote	Accounting Officer	Cash Limited
1. Hospital, Community Health Services (HCHS)	Chief Executive	Yes
2. Family Practitioner Services (FPS)	Permanent Secretary	No
3. DH Administration and Centrally Financed Services (including Family Practitioner Committees Administration)	Permanent Secretary	Yes
4. NHS Superannuation	Permanent Secretary	No

3. The arrangement proposed from 1/4/1990 is:-

1. HCHS plus a new sub-programme on cash limited parts of General Medical Service and FPC Admin [and the drugs bill from Vote 2 in 1991]	Chief Executive	Yes
2. FPS - excluding GMS	Permanent Secretary	No
3. DH Admin and CFS (excluding FPC Admin)	Permanent Secretary	Yes
4. NHS Superannuation	Permanent Secretary	No
5. GMS (other than cash limited aspects in Vote 1)	Chief Executive	No

DEPARTMENT OF HEALTH

(Approximate staff numbers, March 1990)

ANNEX 1

1. Ministers' Private Office 39
Including Parliamentary & Correspondence Sections

2. Management Executive Functions

Chief Executive & his private office		5
Health Authority Finance		44
Health Building Directorate (Note 1)		107
Procurement Directorate (Note 1)		161
Regional Liaison		86
Health Service Information (Note 1)		18
NHS Information Technology (Note 1)		38
NHS Planning		10
Estate & Property Management (Note 1)		24
Health Authority Personnel		115
Financial & Resource Management		46
FPCs and General Practitioner Services		116
Professional Staff:		
Medical	59	
Nursing	28	
Pharmaceutical	3	
	90	90
		860

3. Policy & Other Functions

Permanent Secretary & his private office		5
CMO & his private office		6
Children, Maternity & Prevention Policy		54
Community Services Policy		74
Health Services Policy		94
Priority Care Policy		90
Aids Unit		18
NHS Review Unit		16
Policy Secretariat		5
Social Services Inspectorate (Note 2)		64
Commercial & Contractual Family Practitioner Services		57
Professional Staff:		
Medical	168	
Nursing	38	
Pharmaceutical	12	
Dental	10	
British Pharmacopoeia (Note 3)	34	
	262	262
		745

1. Common Analytical, Advisory & Support Services

Finance (FPS, CPS & Administration)		159
Economic Analysts		38
Operational Research		18
Statistics & Management Information (Note 4):		
Statisticians	44	
Computer staff	44	
Statistical support staff	147	
Total		235
Legal		29
Research Management		46
Information Division		33
Departmental Personnel		120
Central Resource Management		25
Library		32
Office Services Management		78
Messengers		84
Security Officers		25
Paper & Office Keepers		35
Typing & Reprographics		150
Telephonists		3
		1090

5. Other Authorities/Groups Accountable to the Secretary of State

Special Hospitals (Note 5)	3204
NHS Superannuation (Note 2)	520
Youth Treatment Centres (Note 2)	183
NHS Statutory Audit (Note 6)	213
Social Services Inspectorate (Note 2)	123
Dental Reference Service (Note 7)	61
Regional Medical Service	197
Mental Health Act Commission & Review Tribunals	46
National Development Team for the Mentally Handicapped (Note 8)	5
Health Advisory Service (Note 8)	10
Medicines Control Agency (Note 9)	270
Disablement Services Authority (Note 10)	1057
	5889
GRAND TOTAL	8623

NOTES

1. Candidates for an NHS Common Services Authority or other agency
2. Candidates for Next Steps or other Agencies
3. The future status of the British Pharmacopoeia is under active consideration
4. This Division provides a service to the Management Executive: the method of securing accountability to the ME is currently under consideration
5. Becomes a Special Health Authority within the NHS by 1 October 1989
6. To be transferred to the Audit Commission on 1 April 1991
7. To be transferred to the Dental Estimates Board on 1 October 1989
8. Consideration is being given to merging these 2 bodies and plans are in hand to put them onto a self-financing basis with the possibility of Agency status in the future.
9. Became a self-financing agency working within an agreed framework from 1 April 1989
10. Became a Special Health Authority in July 1987 tasked with arranging a full transfer to the NHS by 1 April 1991. Included in the Department only because the Authority is, for the present, staffed mainly by DH officials.

CONFIDENTIAL

ANNEX C

DEVOLUTION OF DEPARTMENTAL FUNCTIONS

PHASE 1: BEING IMPLEMENTED - 4,800 POSTS

* The Disablement Services Agency (1,057 staff) became a Special Health Authority in July 1987 tasked with arranging a full transfer to the NHS by 1 April 1991. It is included in the Department only because the Authority is, for the present, staffed mainly by DH officials.

* The Medicines Control Agency (270 staff) became a self-financing agency, within the Department, with an agreed framework from 1 April 1989.

* Special Hospitals (3,204 staff) are becoming a Special Health Authority within the NHS by 1 October 1989.

* The Dental Reference Service (61 staff) is to be transferred to the Dental Estimates Board on 1 October 1989.

* NHS Statutory Audit (213 staff) is to be transferred to the Audit Commission between October 1990 and April 1991.

PHASE 2: UNDER CONSIDERATION - 1,200 POSTS

* The NHS Superannuation Branch (520 staff) as a possible Next Steps Agency in 1991/92.

* All but a small core of the Social Services Inspectorate (187 staff) as a candidate for Next Steps Agency status.

* Youth Treatment Centres (183 staff) also as a candidate for Next Steps Agency status.

* Merging the National Development Team for the Mentally Handicapped (5 staff) and the Health Advisory Service (10 staff) and putting them onto a self-financing basis.

* As part of implementing the NHS Review, the Department is examining the possibility of devolving much of the Health Building, Procurement, and Estate and Property Management, and possibly some NHSIT and Health Services Information functions either to a Common Services Authority or other agency. Up to 350 posts are involved.

Nat Health

Ee & Epl Pg 22.