



cc: Mr. D. Willetts

10 DOWNING STREET

From the Principal Private Secretary

14 February 1986

Dear Tony,

Your Secretary of State gave the Prime Minister a presentation this morning on Value for Money in the Health Service with particular reference to the improvements in performance indicators recently introduced into the NHS. Also present were Sir Kenneth Stowe (Permanent Secretary, DHSS), Mr. Victor Paige, Mr. Ian Mills and Mr. Michael Fairey (NHS Management Board), Sir Robert Armstrong and Sir Robin Ibbs.

Opening the presentation, the Secretary of State emphasised the National Health Service's systematic programme of action over the last four years for improving Value for Money (VFM). Radical changes had been made, though there was still much to do. A crucial feature in the improvements had been the successful fusion of inside and outside skills. In this connection the Secretary of State paid a special tribute to his Civil Servants involved in these matters. Mr. Paige described the importance attached to performance indicators in the NHS and their role in management budgeting. He emphasised the contribution which internally generated cost savings made to financing the NHS. Mr. Fairey explained the role of performance indicators from the perspective of a district general manager and provided information analysing the reason for the size of the waiting lists in various authorities. Mr. Mills spoke about the role of performance indicators at unit level.

The following were the main points which emerged from the discussion.

(i) The concept of general management at every level of the service was critical for securing VFM. It had been a massive task to recruit the general managers. The essence of the general manager concept was the association of responsibility and accountability for decision-making. If they were to manage effectively, the general managers needed numerical information on both their own and other authorities' performance. Hence the importance of the Performance Indicator Pack (PIP). The PIP helped general managers identify areas where resources could be used more effectively, guided their management action towards such use, and monitored the improvement of performance which

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provided the basis for further performance indicators.

(ii) The Prime Minister emphasised the importance of ensuring that the performance indicators were used effectively so that practical results were delivered. Follow-up of the performance indicators must not be allowed to run into sands at endless meetings.

(iii) The importance of changing the management "culture" at all levels could not be exaggerated. The rolling short term contracts for general managers and the arrangements for performance pay were crucial here. Another important element was the devolution of management responsibility down to operational levels. This was one reason why NHS management were reducing the number of circulars and giving responsibility for decision-making to local management, while at the same time making management more accountable. One problem in making management more resource conscious was the ethos, prevalent in some parts of the medical professions, that managers did not have responsibility for the effective management of resources. Much was being achieved here in securing the medical professions' co-operation. Doctors should be encouraged to join in corporate management and it was promising that 20 per cent of the unit general managers were doctors. The Prime Minister emphasised the importance of conveying the message that resources were finite. Every decision-maker in the NHS, including the doctors, had to make choices on the disposition of resources and be ready to take responsibility for those choices.

(iv) The Prime Minister said that incidents of bad performance shown up by the PIP should not be remedied by the injection of good money. The emphasis must be on more effective use of existing resources. The NHS should not assume that their costs would rise at the same rate as prices generally.

Concluding, the Prime Minister said that the PIP approach had got off to a good start. She was concerned that the inertia in the system would prevent its full fruits being gathered. The more publicity thrown on the costs of the NHS the better. There should be specific targets for monitoring the implementation of the PIP system, and the achievement of results from it in order to ensure that its full benefits were secured.

For follow up:

(a) Sir Robin Ibbs should now discuss with the Secretary of State the targets for improvement over the next two to three years that he will look to in judging whether or not the PIP is having a beneficial effect.

(b) The Secretary of State, his Chief Medical Officer and the NHS management Board should consider urgently ways to secure co-operation from all sectors of the medical professions in using the performance indicators positively to improve VFM.

BF1 (c) The Management Board should go ahead vigorously with the other initiatives described drawing on the help of the Efficiency Unit for their scrutiny on waiting times and with other work as appropriate. The Secretary of State should come back in a year's time to discuss achievements and further plans to improve VFM. 1BF

I am sending a copy of this letter to Sir Robert Armstrong, Sir Robin Ibbs and Richard Broadbent (Chief Secretary's Office, HM Treasury).

Yours sincerely
Nigel Wicks.

N L WICKS

Tony Laurance, Esq.,
Department of Health and Social Security

MR WICKS

19 February 1986

VALUE FOR MONEY IN THE HEALTH SERVICE

Your letter of 14 February reports on the Prime Minister's seminar on value for money in the Health Service. May I record some further points which were made at the meeting?

The Prime Minister was very concerned with improving the output of some doctors, and your record reflects this. She went on to propose two particular measures. First, she suggested that it might be worthwhile employing new doctors on short-term contracts rather than giving them life tenure. Secondly, she wondered if part of the merit awards to doctors could reflect their output and efficiency rather than academic distinction.

The Prime Minister is worried about the medical and political effects of further cuts in the London teaching hospitals. This has led her to advocate an "internal market" in the Health Service so that Districts outside London don't need to build their own facilities whilst facilities in London are being closed. She made this point again on Friday, and suggested that provincial Districts should be encouraged to buy services for their patients from the London teaching hospitals.

The meeting followed up recent correspondence in which we have been urging more action on the waiting list. So it might be

useful if I could flesh out your reference to waiting times. Mr Paige explained that the waiting list was not evenly distributed across the country, but was disproportionately serious in some Districts and specialties. He went on to identify action which could be taken at national, Regional and District level, including task-forces targetting on the worst problems. It was agreed that the waiting list was a major problem which needed vigorous action.

David Willetts
DAVID WILLETTS



JS11/NW1

MR WICKS

NHS VALUE FOR MONEY SEMINAR

After a brief discussion with Sir Robin about this morning's session (which seems to have gone well) I suggest these follow up points for the minutes:

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- Ibbs*
- (1) Sir Robin should now discuss with the Secretary of State the targets for improvement over the next two to three years that he will look to in judging whether or not the ~~performance indicator package~~ *PIP* is having a beneficial effect.
 - (2) The Secretary of State, his Chief Medical Officer and the NHS management ~~team~~ *board* should consider urgently ways to secure co-operation from all sectors of the medical professions in using the performance indicators positively to improve ~~value for money~~ *VFM*.
 - (3) [~~If you feel you can push it this far~~] the Management Board should go ahead vigorously with the other initiatives described drawing on the help of the Efficiency Unit for their scrutiny on waiting times and with other work as appropriate. The Secretary of State should come back in a year's time to discuss achievements and further plans to improve ~~value for money~~ *VFM*.

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IAN B BEESLEY
14 February 1986