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Treasury Chambers, Parliament Street, SW1P 3AG
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4 January 1989

Paul Gray Esq
10 Downing Street
LONDON
SW1

Dear Paul,

NHS REVIEW: DRAFT WHITE PAPER

... The Chancellor has asked me to circulate to the Review Group the attached draft chapter entitled "An Efficient Health Service", which was promised in the Chief Secretary's letter of 22 December to the Secretary of State for Health. Although it is cast in the form of a separate chapter, the Chancellor thinks it could as easily be combined with some of the material now in the present draft chapter 2 to form a new chapter on the general objectives of the Review, in line with the Prime Minister's comment that chapter 2 needs to say more about better value for money in the health service.

The Chancellor and Chief Secretary also feel that the White Paper will need to mention the public expenditure implications of the Review, although it is for consideration where such a reference should be placed. I attach their suggested paragraph. We understand that the Secretary of State for Health is considering the detailed expenditure implications of the proposals. The Chancellor suggests that he might discuss these bilaterally with the Chief Secretary.

I am copying this letter and enclosures to the Private Secretaries to the Secretaries of State for Health, Scotland, Wales and Northern Ireland, the Minister for Health and Sir Robin Butler, and to Sir Roy Griffiths, Mr Wilson (Cabinet Office) and Mr Whitehead (Policy Unit).

Yours

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MOIRA WALLACE

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AN EFFICIENT HEALTH SERVICE

One of the Government's main concerns is to ensure that the public gets the best possible value for the considerable sums of money the taxpayer puts into the health service, which will in real terms be 37 per cent higher next year than in 1978-79. Greater efficiency and cost-effectiveness can significantly improve the quality of the service given to patients, which is the prime objective of the health service. Moreover, the more that staff can feel they are contributing to a well run organisation, the better their motivation to give of their best in serving the patient.

2. The Government remains committed to keeping the health service largely free at the point of use. This means however that the normal market mechanisms which encourage suppliers of services to do so in the most efficient manner are absent. It is therefore all the more important that other ways are found of ensuring the resources made available by the taxpayer are used to the best effect. The delivery of health care must be structured in a way which actively promotes efficiency. This becomes even more vital as the demands on the health service continue to grow. So a recurring theme of this White Paper is how to ensure the best possible value for money in all the health service does.

Responsibility and accountability

3. The health service has evolved as an organisation controlled from the centre through a series of detailed rules and guidance going out through a hierarchy of authorities. These frequently have little relevance to the day to day work of doctors and nurses in clinics and on wards. In the past, responsibility has been diffuse, and managers' accountability for the use of resources has been divorced from clinical decisions which have in large measure committed them. Where decisions are taken which affect the use of resources, there needs to be full accountability for the expenditure so incurred. And those who manage the organisation need to have more influence over the way resources are used. In other words, management responsibility and accountability for resources must go together.

4. Following Sir Roy Griffiths' report in 1983 on the management of the health service, reforms were made, including the introduction of general managers with overall responsibility for management decisions. These were important first steps. The time has now come to carry this process a stage further.

Delegation and efficiency

5. The Government believes that most decisions are better taken at local levels. Increased delegation of responsibility is

therefore proposed. A series of detailed proposals is set out in chapter [5]. This will include delegation of functions from regions to district, and from district to hospital. Detailed decisions about pay and conditions of service can be devolved much more to local level. New arrangements will be introduced to encourage the efficient use of capital assets, incorporating financial incentives for those authorities who make best use of them.

Money
money with patient.

6. Those hospitals with the capacity to do so will be able to opt for a new "self-governing" status within the National Health Service, described in more detail in chapter [4]. This will free them from many of the detailed financial controls which apply to them now. They will also have the opportunity to enjoy greater freedom over employment and staffing matters. They will directly benefit according to their ability to offer the best service to patients on the most cost-effective terms to health authorities. These hospitals will express the Government's determination to devolve responsibility and give local managers full charge of, and full accountability for, the resources under their command.

7. The greater local accountability for using and managing resources will be further extended and reinforced by a new system of funding health authorities. This will enable money to follow

patients more directly than now. It is described more fully in chapter [7].

8. The Government proposes an important change in the audit of health authorities and other NHS bodies. The work at present done by auditors employed in the Department of Health will be transferred to the Audit Commission, who will, for this purpose, report to the Secretary of State. There will be more emphasis on value-for-money audit. The Audit Commission has already made a valuable contribution to the audit of local authorities, especially through its comparative value for money studies, and it will bring this expertise to its new role in the field of health care. The role of the National Audit Office, in auditing the consolidated accounts of the NHS and more particularly its very important value-for-money studies, will be unchanged.

9. The Government also intends to give doctors greater responsibility for the ^{use of} resources available to them, so that they can be applied for the ^{maximum} benefit of patients. As an important first step, the Government will begin next year to extend to all major acute hospitals the resource management initiative, pilot experiments in which exist at a small number of sites. These systems will give doctors for the first time comprehensive information about the care patients are receiving, and its costs.

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They will enable medical staff to play a much fuller day-to-day role in the management of hospitals.

10. The Government attaches great importance to medical audit, and the continuing review of doctors' clinical practice and quality of care by their professional colleagues. It will therefore be seeking the introduction of comprehensive arrangements as soon as possible, building on the best practice now current. The consultants' distinction award system will be reformed in order to improve the incentive it gives for consultants to contribute to better medical care and better management, and to remove some unsatisfactory features of the present system. There will be new budgeting arrangements for GPs.

11. Taken together these reforms will enable the Health Service to use the resources at its command to provide the most efficient and high quality service to its patients. The following chapters describe the proposals in more detail.

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Public expenditure

The reforms in this White Paper will enable a higher quality of patient care to be obtained from the resources which the nation is able to devote to the NHS. The provision for spending on health in the coming financial year, 1989-90, announced in the Autumn Statement already included provision for the likely cost of preparing for the reforms and for the legislation which will give effect to them. In subsequent years such extra costs should soon be offset by the improved efficiency which will stem from them. The total provision for spending on health in those years will take account of the progress made in implementing the reforms, and will be determined in the regular annual public expenditure surveys, having regard to the priority to be attached to this and other spending programmes.

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