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Treasury Chambers, Parliament Street SW1P 3AG

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The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
London
SW1A 2NS

14th September 1989

D. K.

CENTRAL MANAGEMENT OF THE NHS

I have now studied your paper of 20 July, and I have seen the Prime Minister's response of 11 September. I should like to add certain points.

First, I should confirm in writing my response to your proposal to retain a single Administration Vote, since at the last meeting you were asked to agree on the matter with me. I think it conflicts, strictly speaking, with the intention stated in annex A of your paper "to provide a Vote structure which aligns Accounting Officer responsibilities with management responsibilities". However, I understand that you feel strongly that your Permanent Secretary should retain responsibility for the whole of the Administration Vote for the time being; and that it is agreed between our departments that the matter will be reviewed. I am content to proceed on that basis: I understand that our officials suggested the review should take place in 1991, but I expect you will now be revisiting the question in the progress report in May next year for which the Prime Minister has asked.

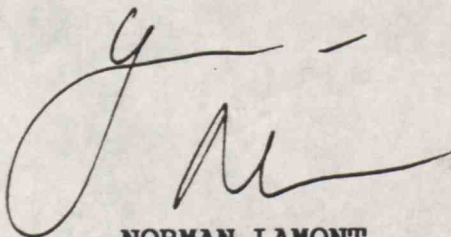
Secondly, at the last meeting you were asked to show how you would reduce the numbers of DH staff as a consequence of the NHS review. However, I can see no significant proposals in the paper for overall net reductions. While the paper refers to the proposals for devolving departmental functions to Agencies and analogous authorities, which would certainly reduce the size of the existing DH, this might have no real effect on overall staffing or public expenditure levels. That result would be very disappointing, but we can discuss the matter further in our Survey discussions.

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Thirdly, the paper implies that the Chief Executive of the NHS should have complete freedom to appoint as many senior staff as he likes, on whatever terms and conditions he chooses, without any need for clearance by you or by the Treasury, if such appointments are not scored as a part of the Senior Open Structure. (I understand that you have included a bid of £1 million pa for such appointments.) I entirely accept that it is very desirable that Mr Nichol should have the responsibility for proposing the kind of senior staffing he considers necessary, and the freedom to choose the people concerned. But to grant an unfettered discretion to decide numbers and pay rates would undermine our policies for controlling administrative costs. We are agreed that the NHS Management Executive should remain part of your department, so that it cannot be argued (eg in an attempt to ring-fence the arrangement) that it is completely separate from the rest of central government..

I hope you will therefore agree that the case for additional posts at Senior Open Structure levels and for the pay rates proposed should be cleared with the Treasury in the same way as Senior Open Structure posts themselves. That is what was done when the original NHS Management Board was established, and certain outside appointments were made to the Board and as advisers.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'N. Lamont', with a large, stylized initial 'N' and a horizontal line extending to the right.

NORMAN LAMONT

NAT 116AUFH. Expenditure PT22

