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CONFIDENTIAL

PRIME MINISTER

IMPLEMENTING THE NHS REFORMS

I have always made the achievement of a "soft landing" for our reforms in April 1991 my personal priority task for this year. I am not surprised about your concern on the subject and I have re-considered our position in full.

2. Following our meeting on 18 April I have had a long discussion with Sir David Wolfson. I have reviewed progress on implementation with the NHS Management Executive and also met again Professor Dillwyn Williams, Chairman of the Conference of Royal Colleges and Sir Anthony Grabham, Chairman of the Joint Consultant's Committee. My overall conclusion from these discussions is that it is both sensible and practicable to implement the reforms on 1 April 1991 so that they lay the foundation for further evolution in the 1990s. We will not carry the BMA with us as they continue to offer little by way of compromise but there is a reasonable prospect of an accommodation with the Royal Colleges which will begin to involve them with us in making the new system work.

3. My stock-taking review with the NHSME concentrated on the three key and most controversial areas of the reforms - NHS Trusts, gp fund holding, and the contracting system - although it is worth remembering that work is well advanced on all the other major changes. We have reached complete agreement with the profession on changes to consultants' contracts and we are making smooth progress on medical audit.

4. So far as NHS Trusts are concerned, there are some 80 first wave candidates and there are very good prospects of bringing 40-60 to fruition by April 1991. These will be pilot projects to test and develop the concept of self-governing NHS Trust status within the NHS. After the Bill has received royal assent, candidates will consult the public on their formal applications for Trust status. I expect each of the consultation exercises, which will run for 3 months, to be hard fought locally over the summer and to raise the public profile of NHS issues again. I am therefore taking steps to bolster the local sponsors and to counter campaigns by the Opposition. I only intend to approve NHS Trust status where I am satisfied that we have enthusiastic volunteers with well judged plans likely to make a success of their proposal.

5. There has been an excellent response from GPs interested in becoming fund holders. The overwhelming majority of eligible practices want to have a practice budget. I expect approximately 400 of the 850 practices which have expressed interest in the scheme to become fund holders on 1 April. The NHSME and Regional health authorities are on course in preparing costing and information systems which will be suitable for the introduction of the scheme. As with NHS Trusts the pace of introduction of GP fund holders can be managed at every stage to ensure that we do not bite off more than we can chew. David Wolfson expressed concern that a hospital's financial stability might be threatened if a cluster of fund holding practices opted to change their referral patterns. We will pay particular attention to this point in deciding whether to give approval to individual practices to become fund holders.

6. We have always known that the contracting system poses more problems than either NHS Trusts or fund holding practices. A great deal of pilot and trial work with Regions and Districts has been carried out by the NHSME. The best District Health Authorities are well advanced with their plans and have shown that the system can work and will lead to improved services. The majority of DHAs are not in this position however. The NHSME are concentrating their efforts to ensure that all DHAs can move to securing services by contract from 1 April. It is important to understand however that in most cases the first series of contracts will be framed in broad terms and simply replicate existing patient and financial flows. We are stressing this point in all our advice and will aim to minimise initial turbulence whilst requiring some improvement in the quality of service eg reductions in waiting times. Simple contracts do not need elaborate information technology. Existing information systems will be adequate to meet the demands placed on them in April subject to some further investment in IT for out-patient departments. Development of better IT and the sophistication of contracts can then evolve steadily in response to the needs of the NHS in later years.

There there are NO pilot schemes

7. David Wolfson supported the Royal Colleges public claim that we should introduce contracts in certain Regions or parts of the Service only. It was in fact our original intention to phase in contracting. The NHSME and Regional Authorities were unanimous in advising that we should abandon that because it was impractical to change part of a system that was so interdependent nationwide. We therefore made a deliberate management decision many months ago to abandon the 'Regional pilot' idea.

8. Overall, I believe that the NHSME is implementing the reforms at a sensible and manageable pace. The key to smooth implementation will be getting the contracting system right. Both I and the NHSME have emphasised ever since the White Paper was published that there will be no "big bang" on 1 April. The foundations of a new system will be laid then and it will steadily evolve and become more sophisticated over time. Authorities are therefore being encouraged to take a pragmatic approach to what can be achieved by April.

9. In order to implement the reforms at all we will need to maintain the momentum that has been generated. If we did not do this but instead signalled publicly a change of pace I fear we would destroy the morale of NHS managers who are committed to delivery and also lose many of our enthusiasts and volunteers for NHS Trust and fund-holding status. However, the process will continue to be carefully managed. The NHSME are agreeing with each Region the basic level of implementation that each can and must deliver. I intend regularly to review progress on implementation with the NHS Policy Board and to make judgements in the Autumn about individual Regions' state of readiness to take on contracting, NHS Trusts and gp fund holding practices. I will pay particularly close attention to implementation in London where the contracting system will be most complex. I will be working closely with the Policy Board, which includes businessmen with experience of major change in public sector businesses, and the Management Executive in whom I have complete confidence. I will not in any way disregard any unwelcome advice from either source but both bodies are at the moment committed to and confident of implementation in April 1991.

10. It would clearly help implementation if a measure of agreement could be reached with the medical and nursing professions nationally. My meeting with Sir Anthony Grabham was disappointing. I do not believe that reasonable agreement is possible with the BMA. His agenda ranged widely. It included not only items directly related to the reforms such as restrictions on the number of NHS Trusts and a lengthy period of evaluation before they could be extended but also non-reform issues such as firm understandings on the implementation of Review Body recommendations on consultants' salaries.

11. I am more hopeful that an understanding of some kind can be reached with the Royal Colleges. Recent Government majorities on their key amendments in the House of Lords have greatly improved the climate. A change of tack now would worsen it again as it would give them fresh hopes of turning us back. They are showing increasing willingness to accept my reassurances about the effect

of the reforms on clinical standards and the part which they can play in ensuring that high standards continue to prevail. I aim to work with them over the coming months to see whether they can become more positively involved in the reforms. This will mute their level of opposition, and involve them in implementation, but I doubt that we could ever gain their open support on principles.

12. I expect the NHS and Community Care Bill to be given Royal Assent in June or early July at the latest. This will mark a significant watershed and increase the pressure for change locally. The commitment of those managers and professionals who have so far been neutral or unenthusiastic will grow as they work to introduce contracts, NHS Trusts and gp fund holding practices against a clear deadline. This will not of course remove the reforms from controversy. Nor will it stop our opponents seeking to blame any problems in the NHS on their implementation however unjustified that might be. However, I have been planning in detail for some time to take the opportunity after Royal Assent to launch a fresh publicity initiative to re-emphasise to the public and to staff within the NHS the significant benefits of the reforms.

2nd May 1990 KC
Secretary of State for Health