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10 DOWNING STREET

LONDON SW1A 2AA

Subject cc Mather

From the Private Secretary

4 July 1990

12a-c

Dear Andy,

NHS REFORMS

The Prime Minister discussed with your Secretary of State yesterday the preparations for the implementation of the NHS reforms.

I should be grateful if you and copy recipients would ensure that this letter is not copied without your knowledge and is seen only by those with a strict need to know.

Your Secretary of State said he was convinced the reforms had to be introduced next year - and would be ready to go ahead. It would be possible for the Government to win the political argument if the main structural reforms were already in place before the next election. Indeed the Opposition was close to accepting the principle that money should follow the patient. He was conscious that the NHS Management Executive had not performed well at the recent seminar. But their message was nonetheless correct. There was no plan for a "big bang" introduction of the reforms: they would be phased in gently; and the lynch-pin remained simple block-contracting arrangements. It would be difficult to disentangle elements of the proposals: they were too inter-related. Earlier the idea of a pilot project in two or more regions had been considered; but all, including the regional health authorities themselves, agreed this would not make sense in practice. The key to successful implementation would be to get self-governing hospitals in place where they were ready; to encourage as many GPs as practicable to become fund-holders in the first year; and to set in place the new basis of contracts - indeed these contracts were a pre-requisite for the successful introduction of self-governing hospitals and GP fund-holders.

The Prime Minister said that the contribution from the three outsiders at the seminar had been most valuable. Sir Robin Ibbs had followed up the discussion and suggested four measures to help the introduction of the reforms. First, it might be necessary to strengthen the management team. Second, each of the key steps, such as the construction of the block contracts, should be reassessed. Third, there should be a phased introduction of the key changes to avoid too sudden a shift in certain areas. And finally it would be helpful to have some performance indicators which could demonstrate early success.

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She appreciated the case for going ahead with the reforms but three conditions had to be met if introduction was to be successful. As Sir Robin Ibbs had suggested, indicators such as waiting times and waiting lists would have to show improvement: any deterioration would be blamed on the reforms. Also any hospitals or units which ended up with less income and were forced to close wards would attribute that to the reforms: that must be avoided. Finally, it was widely accepted that London was a particular problem. Special arrangements might be necessary there to facilitate the introduction of the reforms. B

The following were the main points made in discussion.

- (i) Some of the problems in London, including the need for closures, were already present. On the one hand it could be argued that closure of facilities in London should be accelerated. That might get some problems out of the way before the reforms were introduced. But there were physical limitations to what could be achieved: it took time to agree and implement closures - and, in some instances, to build new smaller facilities to replace large closures elsewhere.
- (ii) On the other hand, there was a case for restraining too rapid or substantial a change in the resources available within London. This might be achieved by careful projection of the resources needed under block contracts in inner London while discouraging too rapid an expansion of facilities in outer London in the short term. One further safeguard would be a safety-net to prevent hasty or unwarranted closure of facilities within inner London. Such an arrangement would have to involve conditions: access to additional safety-net money from the Department might be made conditional on achieving staff cuts or other rationalisation of facilities.
- (iii) A further possibility in inner London was more contracting of NHS facilities to the private sector. London was particularly well placed to take up such opportunities.
- (iv) Although the BMA showed little sign of accepting the reforms as yet, the Royal Colleges were now taking a more positive attitude. They had accepted that the Act was now in place and that something could be gained from closer cooperation.
- (v) Indeed the whole level of opposition to the NHS reforms had cooled in recent months. An attractive new leaflet on the NHS reforms had been published that day. Also the first three hospitals from Merseyside, including Alder Hey, the largest paediatric hospital in Western Europe, had applied for self-governing status.
- (vi) It would be important for the London authorities in particular, but also more generally to know when the contracts had been successfully put in place. Measures

were being taken to ensure that all health authorities avoided current deficits in this year. And by September the Department of Health would have a thorough appraisal of progress, area by area, with the block contracting systems. By April the position would be fully clear and the safety-net could be put in place as necessary. e

- (vii) The contribution of Sir Robin Ibbs to the seminar had been particularly valuable as had been his further proposals. There was a case for asking him to become more closely involved with the reforms by joining the NHS management board.

Summing up the discussion the Prime Minister said she was persuaded that, in general, the main structural reforms had to go ahead next year. These comprised the establishment of appropriate numbers of self-governing hospitals and GP fund-holding practices; and the introduction of the block-contract system. She continued to be concerned about going ahead with the reforms in London however: your Secretary of State would consider further what safety-net or guarantee arrangements might be appropriate in London to avoid the political damage that would flow from ward closures or deterioration in indicators such as waiting times or waiting lists. She was attracted to the idea that performance indicators could be used in order to demonstrate early success of the reforms though there were practical difficulties in constructing suitable measures. Your Secretary of State had indicated that he would consider whether Sir Robin Ibbs could be added to the NHS management board or might replace one member who was currently unwell. The Prime Minister very much welcomed this proposal.

I am copying this letter to John Gieve and Carys Evans (HM Treasury).

Yours,  
Barry

(BARRY H. POTTER)

Andy McKeon, Esq.,  
Department of Health.