Prime Minister
A helpful update on the NHS reforms. BHP 2/11 (2)

CONFIDENTIAL

PRIME MINISTER **2 November 1990**

IMPLEMENTATION OF THE NHS REFORMS

This note looks at the current state of preparations for introducing the NHS reforms in April 1991.

Overall, there is more optimism about the chances of a generally smooth transition in 1991 than there was six months ago. But some things will inevitably go wrong. The trick is to try and anticipate the likely problem areas so that swift action can be taken when trouble is signalled. This requires effective monitoring by regions and by the central NHS Management Executive.

POSITIVE ASPECTS

Attitudes

- There is a marked change in attitude since the reforms became law. People working in the NHS now believe that change is going to happen, and be permanent.

- There is most enthusiasm among senior managers in health authorities and hospitals. This is not surprising: the reforms at last give them real power vis à vis consultants.

- Enthusiasm is beginning to percolate down to middle and lower levels of adminstrative staff.

- Consultants too are coming round. Kenneth Clarke has turned to wooing them. This should pay off.

- GPs are more of a problem. Many are still obsessed with the working of their contracts - an issue separate from the reforms but unfortunately muddled up with them. But more GPs are expressing interest in becoming fund holders than was expected.

Readiness for Contracting

- A lot of work is being put into this. Shadow contracts are

being introduced this month in East Anglia and Trent. First returns from all regions on the intentions of GPs suggests that referral patterns are unlikely to change dramatically in year 1. But GPs are looking for quality of service (including shorter waiting times). If provider units do not supply this they can expect to lose patients in subsequent years.

- Overall 95-99% of activity and expenditure is likely to be covered by contracts. Outside London few regions show signs of wanting to hold back money to cover unforeseen extra contractual referrals. GP fundholders are planning more contracts than had been expected, so there will be fewer extra contractual referrals from that source (reducing uncertainty).

- Work is continuing to refine the information on contracting intentions. Well run District Health Authorities are talking to GP practices. Harder information will be available in December. By that time regions must know whether the sum of purchaser intentions/provider plans match up financially.

WORRYING ASPECTS

Financial Management

- This is still a fragile area in the NHS. Not enough middle and junior managers have the necessary skills and experience to handle the financial aspects of the reforms with easy competence. Consultants working in this area have differing views. Coopers and Lybrand are rather gloomy. Ernst and Young are impressed by the general calibre and commitment of NHS adminstrative staff.

- Sheila Masters (from Peat Marwick) is stressing the importance of simple systems in Year 1. She appreciates the need for clear direction from the centre on vital matters, albeit within a framework where more day to day control is devolved downwards (this distinction is not always grasped by civil servants).

- It has been hard to recruit staff with financial skills at NHS rates of pay, especially in the South. But South West Thames Region say that things are getting a little better. They think the cold winds in the City may be blowing them some good.

London

- The reforms will be harder to introduce in London than elsewhere because of the complexity of patient flows which makes contracting difficult. Some London teaching hospitals are planning on the basis of up to 25% extra contractual referrals. If these do not materialise, they will be in trouble. The four Thames regions will almost certainly need to provide safety net funds to allow a hospital experiencing a serious shortfall of patients to reorganise itself before April 1992.

- The reforms come in against a background of London problems which would exist anyway. There are too many hospitals in London. Rationalisation has been resisted for years by the big guns of the medical profession who are concentrated in the capital. The reforms will reveal, and correct, over-provision in London. But this is likely to be a gradual process.

- More immediately, the need to eliminate financial deficits is leading towards bed closures in London (which has the biggest deficits). Bed closures are, of course, not the only way of saving money - staff could be saved instead - but they are the traditional way of drumming up pressure on the Government to bail hospitals out.

CONCLUSION

There is generally more confidence within the NHS than there was four to six months ago that it is feasible to introduce the reforms across the country from April 1991. Graham Day has commented that this confidence is in itself important, even where it is not fully justified.

But there are bound to be problems when an organisation ten times the size of ICI makes such radical changes. Perhaps the key difficulty is planning change against a background of inadequate or non-existent data about the working of the present system. Valiant efforts are being made to construct databases but this is being done in a scramble.

Kenneth Clarke's policy of:

- going ahead with the reforms from 1 April on a simplified basis eg block contracts rather than cost and volume, broad costings for activities; plus

- mending fences with the medical profession, especially the Royal Colleges.

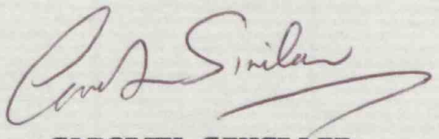
looks right.

But he should be planning a monitoring system for 1991/92 to give early warning of problems. This should focus on key indicators eg of the state of cash management, and activity levels. There must be well thought contingency arrangements for coping with the inevitable problems. Above all, the Government must avoid the impression after April 1991 of lurching unpreparedly from crisis to crisis in the NHS.

RECOMMENDATION

- This is a good time to ask Kenneth Clarke for his own assessment on the state of readiness for the reforms.

- At the same you could ask for details of the monitoring arrangements he proposes for 1991/92 (plans have not yet been drawn up in detail, but it would be reasonable to ask for them by Christmas/New Year).



CAROLYN SINCLAIR