



House of Commons  
Public Accounts Committee

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# **NHS Pay Modernisation in England: Agenda for Change**

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**Twenty-ninth Report of Session  
2008–09**

*Report, together with formal minutes, oral and  
written evidence*

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## Summary

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Agenda for Change, the pay modernisation programme for 1.1 million NHS staff in England, representing a pay bill of £28 billion in 2007–08, was implemented between December 2004 and December 2006. It covered all NHS staff, except doctors, dentists and senior managers, who were subject to separate pay modernisation programmes. Agenda for Change introduced a job evaluation scheme and harmonised employment terms and conditions for the multitude of jobs within the NHS. A key part of the programme is a process for encouraging staff development and improving staff performance known as the Knowledge and Skills Framework.

Agenda for Change was expected to bring about new ways of working which would contribute to improved patient care and to more efficient delivery of services. In its business case to the Treasury, the Department of Health (the Department) predicted that Agenda for Change would bring about total savings of £1.3 billion over the first five years. These were to come from improvements in productivity of 1.1%–1.5% a year, reductions in equal pay claims, reduced use of agency staff and more controllable pay costs.

The Department and NHS Trusts did not establish ways of measuring the effects of Agenda for Change and there is no active benefits realisation plan. The NHS pay bill for the staff employed on Agenda for Change terms and conditions of service has risen by 5.2% a year on average since 2004–05 while productivity fell by 2.5% a year on average between 2001 and 2005. By autumn 2008 (nearly two years after Trusts had completed transferring staff to Agenda for Change terms and conditions and pay rates) only 54% of staff had had a knowledge and skills review.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the NHS and the Department on the benefits resulting from Agenda for Change, and on the implementation of the Knowledge and Skills Framework across the NHS.



## Conclusions and recommendations

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- 1. Between December 2004 and December 2006, the Department and the NHS successfully transferred around 1.1 million staff on to a new simplified pay system.** This was a considerable achievement requiring a major job evaluation process to assess each role within the NHS and to transfer staff to new pay bands. The new pay system replaced previous complex pay arrangements which prevented staff developing new roles and obstructed the creation of modern team-working, focused on patient care.
- 2. Agenda for Change has not yet brought about service-wide changes in the ways in which staff work despite the new pay system having been in place for nearly three years.** The Department should identify and promote good practice examples of where Trusts have used Agenda for Change to make measurable improvements in efficiency and patient care, for example, by staff taking on new roles and working more flexibly. Trusts should also identify a champion at board level to highlight such opportunities and provide the necessary leadership to drive productivity improvements from staff working differently.
- 3. In spite of the Knowledge and Skills Framework having been re-launched twice, by autumn 2008 only 54% of staff had received an annual knowledge and skills review.** Full implementation of the Framework is crucial to bringing about improvements in patient care and efficiency. The Department and Strategic Health Authorities should simplify the guidance and processes that serve to support the Framework (in partnership with the NHS trade unions), and highlight examples of what it has achieved in Trusts where it has been implemented well. In keeping with good management practice across the public and private sector, all Trusts should ensure that every member of staff has received a Knowledge and Skills Framework annual review by 1 April 2010.
- 4. The Department did not require Trusts to measure productivity improvements and other benefits from Agenda for Change.** To motivate Trusts to deliver change the Department needs to put in place a clear framework of indicators to allow for comparison of performance between Trusts. At a local level, when using Agenda for Change to reconfigure roles and teams, Trusts should specify in advance the likely benefits, and establish the means to assess (against baselines) whether those benefits have been achieved.
- 5. No reliable figure is available for the extent to which the £1.3 billion net savings promised by Agenda for Change have been achieved.** The Department considers Agenda for Change to be an 'enabler' and that its specific effects cannot be measured. When formulating business cases for major reform programmes where cause and effect may be difficult to measure, the Department should set realistic targets, differentiating between aspirational objectives and those where more practical measurement is possible.

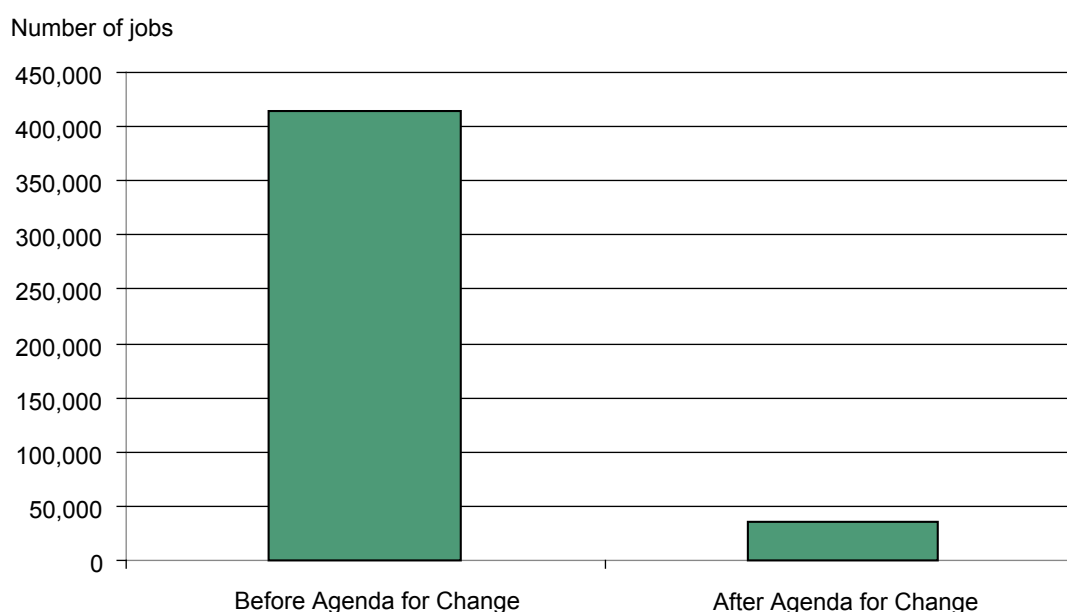
6. **Between 2001 and 2005 NHS productivity, as measured by the Office for National Statistics, fell by 2.5% a year on average, as growth in the amount of healthcare provided failed to keep pace with the growth in NHS staffing and resources.** The Department and the NHS need to close this gap by having in place clear and transparent measures of productivity to identify areas where the pace of reform needs to be stepped up. Specifically:
- the Department should provide a clear framework to enable Trusts to separate improvements in service quality which are attributable to greater productivity from the impact of increases in resources. The Department and Strategic Health Authorities would then have the means to challenge Trusts on whether their productivity improvement plans are sufficiently challenging and sustainable, and
  - the Department should, after discussions which have lasted several years, set a timetable with the Office for National Statistics to reach an agreed methodology for measuring NHS productivity that fully reflects improvements in the quality of healthcare.
7. **Some £15 billion of NHS efficiency improvements are planned over the next three years, but more clarity is needed as to how these will be delivered.** The Department should set out how Agenda for Change will be used to support the savings promised.

# 1 Achievements of Agenda for Change to date

1. Agenda for Change, the pay modernisation programme for 1.1 million NHS staff in England, representing a pay bill of £28 billion in 2007–08, was implemented between December 2004 and December 2006. Before Agenda for Change there were 12 separate pay structures covering more than 400,000 different job descriptions across the NHS. Different staff groups were entitled to different amounts of leave and different length working weeks. In addition, there was a multitude of allowances ranging from, for example, ‘radiation protection supervisors allowance’ to ‘authorising clerks allowance’ and a wide variety of shift patterns and on-call arrangements and payments.<sup>2</sup> The variety of terms and conditions created barriers to developing new roles and new ways of team working, designed around patient care pathways.

2. The NHS is the largest employer in Europe and it was a significant achievement for it to introduce the new pay system successfully in a short timescale.<sup>3</sup> Implementation included training staff in NHS Trusts to participate in job evaluation panels, through which they matched 90% of around 415,000 jobs to just 463 national profiles (**Figure 1**). They also dealt with applications for reviews and amended 1.1 million individuals’ payroll details to their new pay points, deleting all the previous allowances. The new pay arrangements removed the structural barriers described above.<sup>4</sup>

**Figure 1: Under Agenda for Change over 400,000 different roles were rationalised to just over 35,000**



Note: each job may be held by a single individual or by many thousands.

Source: C&AG’s Report, para 1.20

2 Q 100; C&AG’s Report, paras 1.4–1.5

3 Qq 3, 58, 79

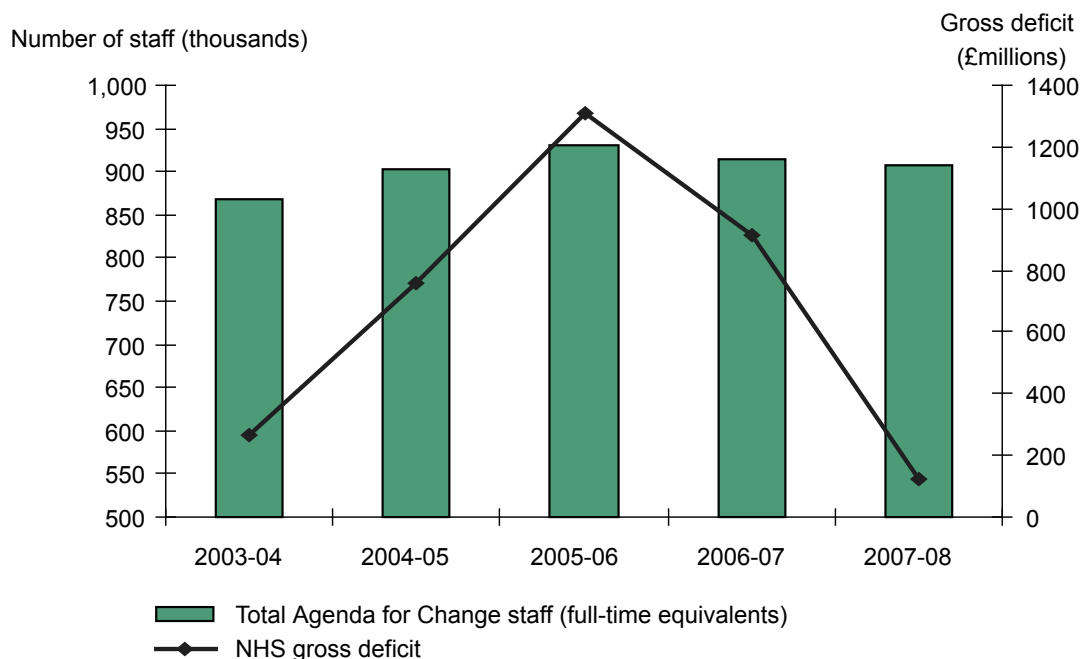
4 Qq 56, 88

3. Agenda for Change was developed and implemented in partnership with the NHS trade unions. This led to the development of constructive relationships between staff representatives and managers in NHS Trusts, and contributed to the low level of challenge to the system. Schemes, such as Agenda for Change, which involve job evaluation, have the potential to undermine staff morale.<sup>5</sup> However, Healthcare Commission NHS staff surveys show that levels of job satisfaction stayed broadly stable between 2004 and 2006, the period over which Agenda for Change was implemented.<sup>6</sup>

4. Increased expenditure on the NHS since 2000 has resulted in increased numbers of doctors, nurses and other staff, new buildings and equipment, and more and better drugs. Waiting times have come down and treatment for certain conditions such as cancer have improved. The fall in overall productivity over this period, however, indicates that the improvements may be the result of extra resources rather than the result of staff working more efficiently.<sup>7</sup>

5. The Department considers that reductions in the numbers of posts which have been vacant for more than three months and falls in expenditure on 'agency' staff are evidence that Agenda for Change had been successful in helping the NHS to employ sufficient staff for its needs.<sup>8</sup> The percentage of nursing posts that were vacant for more than three months fell from over 2.5% to less than 1% between 31 March 2004 and 31 March 2006.<sup>9</sup>

**Figure 2: The number of staff employed under Agenda for Change fell slightly as deficits were reduced.**



Source of staff numbers: Information Centre for Health and Social Care  
 Source of gross deficits: NHS (England) Summarised Accounts 2003-04 to 2007-08

5 Q 90

6 C&AG's Report, para 3.12

7 Qq 14, 25

8 Q 14

9 C&AG's Report, Figure 9

The fall in vacancies may, however, have been due to other factors, such as a freeze in recruitment as part of the drive to reduce financial deficits in 2005–06, rather than to the success of Agenda for Change (**Figure 2**). The NHS is spending less of its pay bill on nurses employed through private employment agencies than in the past, but other factors have contributed to this apart from Agenda for Change. These include framework contracts with employment agencies, increased use of NHS ‘bank’ staff<sup>10</sup> and a fall in the demand for nursing due, again, to the financial deficits.<sup>11</sup>

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10 Committee of Public Accounts, Twenty-ninth Report of Session 2006–07, *Improving the use of temporary nursing staff in Acute and Foundation Trusts*, HC 1176

11 C&AG’s Report, para 3.9

## 2 Measuring the benefits from Agenda for Change

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6. In its 2002 business case to the Treasury, the Department predicted that new ways of working introduced as a result of Agenda for Change would bring about productivity savings of between 1.1% and 1.5% a year. This improvement in productivity was to form part of £1.3 billion savings in the first five years of the pay reform, along with savings from reductions in equal pay claims, reduced use of agency staff and more controllable pay costs.

7. At the time of the Comptroller and Auditor General's Report, the Department was unable to produce evidence to show whether the productivity improvements or other savings had been achieved.<sup>12</sup> The Department viewed Agenda for Change as an 'enabler' contributing to the wider improvements in patient care (for example, reduced waiting times and reduced length of stays in hospital). It argued that measuring efficiency savings in aggregate from a range of initiatives, including Agenda for Change, was more appropriate than introducing potentially bureaucratic measures to assess the cause and effect of each initiative.<sup>13</sup> Taking a global view of savings in this way, however, creates the risk that the Department and Trusts fail to identify the relative contribution of different initiatives. Having this information would allow them to encourage those which are successful and bring an end to those which are not.<sup>14</sup>

8. Despite the claim that the effect of Agenda for Change is not measurable, the Department has since estimated cumulative savings from Agenda for Change of between £1.1 billion and £2.2 billion.<sup>15</sup> These savings are calculated using a series of assumptions of how Agenda for Change has contributed to wider improvements in the NHS through the development of new roles or using the Knowledge and Skills Framework. For example, Dartford and Gravesham NHS Trust has improved its stroke service by using the Framework to strengthen staff competencies for dealing with patients who had a stroke. The Department has then calculated savings on the assumption that the new roles and ways of working have been implemented across the NHS. There is, however, no evidence that Agenda for Change has led to systemic changes to the way that NHS staff are working.<sup>16</sup> Other assumptions made within the savings calculation are also not fully supported by evidence; for example, the assumption that Agenda for Change has contributed to reductions in staff sickness.

9. The Department does not have an agreed methodology for measuring productivity and does not consider that the present measure of productivity used by the Office of National Statistics takes sufficient account of improvements in the quality of care.<sup>17</sup> The Office for National Statistics data show, however, that NHS productivity was stable between 1995 and

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12 Qq 3–4

13 Qq 5, 24

14 C&AG's Report, para 25

15 Q 109, note 1

16 C&AG's Report, paras 3.3–3.4

17 Qq 37–39

2001 and then fell by 2.5% a year on average between 2001 and 2005. During the latter period the amount of healthcare provided by the NHS expanded substantially but the resources used by the NHS grew at an even faster rate. For several years, the Department and the Office for National Statistics have been attempting to develop a better measure which accurately reflects quality. An agreed measure would allow for NHS productivity to be assessed from year to year and help the Department understand and manage the impact of its policies on the efficiency and effectiveness of the NHS.<sup>18</sup>

10. The Department did not establish a baseline against which to measure progress against the 10 success criteria set for Agenda for Change in order to assess its contribution to improvements in the way they deliver their services.<sup>19</sup> With no means of measuring the benefits of Agenda for Change and no requirement for them to do so, Trusts' attention moved to other initiatives and challenges once staff had transferred to their new pay bands in 2006. In addition, the Department does not have an active benefits realisation plan for Agenda for Change despite an expectation that the programme will deliver further savings.<sup>20</sup>

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18 Committee of Public Accounts, Forty-first Report of Session 2007–08, *NHS Pay Modernisation: New contracts for General Practice services in England*, HC 463

19 Qq 62–69

20 Q 41

## 3 Helping staff to work differently

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11. The Knowledge and Skills Framework represents the other main element of the Agenda for Change reform programme, and is the key to unlocking significant improvements in staff capabilities, more flexible working and, ultimately, better care. Together, Agenda for Change and the Knowledge and Skills Framework were designed to contribute to breaking down ‘silos’ within the NHS, particularly around historical roles and responsibilities and to allow staff to work in new ways.<sup>21</sup> No obligation, however, was placed on Trusts or staff to be more productive in return for higher pay, or to use the new freedoms and flexibilities provided by Agenda for Change and the Framework to create new roles or work differently.<sup>22</sup>

12. Agenda for Change has been used locally to introduce some new ways of working. Commonly these have been enhanced roles for healthcare assistants to take on tasks previously carried out by qualified nurses. Similarly, ‘nurse consultant’ roles have been developed under which senior nurses undertake elements of work formerly carried out by doctors, such as prescribing. There are also examples of the creation of new roles focused on patient needs, such as generic mental health workers to deliver a range of services to mental health patients at home in one visit, in place of several different healthcare professionals visiting at different times. The introduction of new roles generally has, however, been local and sporadic, rather than systemic and NHS-wide.<sup>23</sup>

13. The Knowledge and Skills Framework requires managers and their staff to agree an outline of the particular knowledge and skills needed for each job and to review individuals’ progress against this outline at least annually. The reviews provide individuals with the opportunity to discuss with their manager how they are performing their role, and to identify training needs and agree development plans. The reviews are designed to result in better focused training and performance management.<sup>24</sup>

14. The Department intended that the Framework should be an intrinsic part of Agenda for Change but it placed more emphasis initially on getting staff on to the new pay bands. Consequently, Trusts focussed their efforts on job evaluation and assimilating staff on to new pay bands in the period December 2004 to December 2006.<sup>25</sup> As a result of the slow adoption of the Framework, it was not until spring 2007 that the Department took action to re-launch it. In spring 2008, the Department reinforced this with a letter from the Minister to all Trust Chief Executives, stressing the benefits of using the Framework fully. By September 2008, only 54% of NHS staff had had a Knowledge and Skills review in the previous 12 months.<sup>26</sup>

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21 Qq 58, 88

22 Q 3

23 C&AG’s Report, paras 3.4, 3.29

24 Q 22

25 Q 45

26 C&AG’s Report, para 3.27

15. Implementing the Framework requires an initial investment of staff time and effort in order to put in place the necessary processes, and many individuals and managers have yet to be convinced that the effort required is worthwhile.<sup>27</sup> Where the Framework is supported by Trust management, staff have been given sufficient time to prepare for annual reviews and with their managers allowed to develop the skills and culture needed to conduct appraisals as part of wider performance management. The Framework Handbook is complex and over 262 pages long, and there is a lack of clarity about how the respective functions of the two IT systems that support the Framework and career development should be used.<sup>28</sup>

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27 C&AG's Report, para 3.30

28 Q 48; C&AG's para 3.32

# Formal Minutes

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**Monday 1 June 2009**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Ian Davidson

Mr Nigel Griffiths

Geraldine Smith

Rt Hon Alan Williams

Draft Report (*NHS Pay Modernisation in England: Agenda for Change*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Twenty-ninth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

[Adjourned till Wednesday 3 June at 3.30 pm]

## Witnesses

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**Monday 2 March 2009**

*Page*

**Mr David Nicholson CBE**, NHS Chief Executive, **Ms Clare Chapman**, Director General of Workforce, Department of Health, and **Mr Michael Griffin**, Executive Director of Human Resources, King's College Hospital NHS Foundation Trust

**Ev 1**

## List of written evidence

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- 1 Department of Health
- 2 Department of Health

Ev 15

Ev 20

## List of Reports from the Committee of Public Accounts 2008–09

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First Report	Defence Information Infrastructure	HC 100
Second Report	The National Programme for IT in the NHS: Progress since 2006	HC 153
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Fourth Report	Widening participation in higher education	HC 226
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Twentieth Report	Ministry of Defence: Major Projects Report 2008	HC 165
Twenty-first Report	The Department for Transport: Letting Rail Franchises 2005–07	HC 191
Twenty-second Report	Financial Management in the NHS: Report on the NHS Summarised Accounts 2007–08	HC 225
Twenty-third Report	Mathematics performance in primary schools: getting the best results	HC 44
Twenty-fourth Report	Maintaining the Occupied Royal Palaces	HC 201
Twenty-fifth Report	The efficiency of radio production at the BBC	HC 285
Twenty-sixth Report	Management of tax debt	HC 216
Twenty-seventh Report	Building Schools for the Future: renewing the secondary school estate	HC 274
Twenty-eighth Report	Management of Asylum Applications	HC 325
Twenty-ninth Report	NHS Pay Modernisation in England: Agenda for Change	HC 310

# Oral evidence

## Taken before the Committee of Public Accounts on Monday 2 March 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr Paul Burstow  
Mr David Curry  
Mr Ian Davidson  
Nigel Griffiths

Keith Hill  
Mr Austin Mitchell  
Geraldine Smith  
Mr Alan Williams

**Mr Tim Burr**, Comptroller and Auditor General, **Mr Michael Whitehouse**, Assistant Auditor General, and **Mr Mark Davies**, Director, National Audit Office, were in attendance.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL NHS PAY MODERNISATION IN ENGLAND: AGENDA FOR CHANGE (HC 125)

*Witnesses:* **Mr David Nicholson**, CBE, NHS Chief Executive, **Ms Clare Chapman**, Director General of Workforce, and **Mr Michael Griffin**, Executive Director of Human Resources, King's College Hospital NHS Foundation Trust, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts where we are considering the Comptroller and Auditor General's Report on *NHS Pay Modernisation in England: Agenda for Change*, and we welcome back David Nicholson, NHS Chief Executive. I am sure you greatly enjoy coming to see us so regularly.  
**Mr Nicholson:** Yes, absolutely.

**Q2 Chairman:** Would you like to introduce your two colleagues?

**Mr Nicholson:** On my left, your right, is Mike Griffin, who is the HR Director from King's, and on my right, your left, is Clare Chapman, Director General of Workforce, Department of Health.

**Q3 Chairman:** We are talking about huge numbers here. Over one million people work in the NHS and nobody denies that it was an achievement, Mr Nicholson, to introduce a rationalised pay structure, but I want to ask you about what has been achieved in terms of productivity and costs. If we look at paragraph 20, we see that the department expected that Agenda for Change would result in a 1.1-1.5% year-on-year rise in productivity. In fact, we know, do we not, Mr Nicholson, that between 2001 and 2005 productivity in the NHS declined per annum by 2.5%, and since 2005-06, which are the latest figures we have, productivity has been going down by 0.2% per year, so clearly that hope of achieving a productivity increase of 1.1-1.5% has definitely not been achieved. Why does it say here then that you have signed up to this? Later on in this paragraph it says, "The Department has not carried out a specific exercise to demonstrate the productivity savings resulting from Agenda for Change nor have trusts attempted to measure the resulting efficiency or

productivity gains". Why did you not put in place, Mr Nicholson, given the huge sums of money involved here, an annual pay bill of £28.1 billion in 2007-08, obligations on trusts to show that they were achieving or attempting to achieve these productivity gains? It is absolutely crucial, is it not?  
**Mr Nicholson:** We have had the discussion in the Committee before about the way in which you measure productivity and our concern about the inability of the present measures to reflect the enormous gains in quality that we have had over the period. As I say, we have had that discussion before.

**Q4 Chairman:** This figure of a productivity decline in the NHS between 2001 and 2005 of 2.5% a year was given to us by the National Audit Office. Do you dispute that?

**Mr Nicholson:** Using the criteria that the Office for National Statistics use, that is absolutely the case, but we do not believe it is a proper reflection of productivity in the NHS. We have commissioned work through York University and others to help us get a better definition of quality. Nevertheless, having said all of that, on the issue of pay modernisation generally, and this is again a theme that has come up before, pay modernisation in itself does not improve productivity. It is the way in which it is applied; it is essentially an enabler, something that helps us improve services to our patients. When we looked at it what we had was pay modernisation on the one hand, changing the terms and conditions of service of 1.1 million people (which was no mean feat in itself) going on at the same time as major programmes of service improvement, a major investment in IT and increasing the number of people who work within the NHS by almost a third. All of those things were happening at the same time.

**Q5 Chairman:** Given the huge sums of money involved, why did you not put in any measures or obligations on trusts to help you achieve these promised productivity gains, which you yourself set out; nobody else did, you set them out, of 1.1–1.5%, which clearly you have utterly failed to deliver? If you had imposed obligations, if you had imposed these measures, we might have achieved them or at least known what was going on.

**Mr Nicholson:** We do know what was going on and I will explain why we do. If you look at a particular service improvement, it could be the reduction in the average length of stay or whatever, it is very difficult in those circumstances to work out whether that reduction in length of stay is due to service improvement, having more staff, the job redesign associated with Agenda for Change or the implementation of IT, and we felt it would be much better to look at what the conclusion from all of those things working together would give us rather than trying to argue and debate with the service what the various elements were doing. As you know, our conclusion from that was that this change of pay modernisation, coupled with service improvement and the increase in the number of staff that we have, gave us something in the region of £3 billion worth of savings. That is what we think when you look at it as a whole. We think that is a reasonable return on the massive investment that we have made in terms of pay modernisation.

**Q6 Chairman:** Where is that in the Report?

**Mr Nicholson:** I do not know whether it is in this report or not but it is part of the Gershon efficiencies, it is part of the productive time savings that we have identified.

**Q7 Chairman:** Nobody denies that Gershon has achieved efficiencies but I was asking about the overall picture. You do not deny the figures that I have given you, do you?

**Mr Nicholson:** No, of course I do not, but what I am saying is that pay modernisation on its own will not deliver—

**Q8 Chairman:** What I am saying is that it is such an enormous organisation you can always point to certain areas which are working more efficiently, where efficiency savings have been made, and when you have got a staff bill of £28 billion I am sure it is possible to add up £3 billion of savings somewhere. All I am saying is that you have not put in the measures to try and ensure that you achieve what you set out to do.

**Mr Nicholson:** As I explained, when you look at the detail of how you do it, it is enormously difficult to separate out those savings.

**Q9 Chairman:** Okay. Let us press on; others can come in if they want to. Let us look at paragraph 25. We are now talking about what the effect of this is on staff. “Achieving the benefits of Agenda for Change was predicated on staff working differently . . .”, so you signed up to that. “The Department did not put in place the necessary arrangements with trusts, so

the Department has limited evidence to show what impact pay modernisation has had on productivity”. Have you any kind of evidence to show that the majority of your staff, as a result of Agenda for Change, are behaving differently to any significant extent?

**Mr Nicholson:** There are lots and lots of examples and I will ask Mike to say something about that in a moment. There is no doubt, whether it is delivering 18 weeks or reductions in hospital-associated infection, that you can see new roles, new responsibilities, new jobs being created.

**Q10 Chairman:** Nobody denies, Mr Nicholson, that things have changed in certain respects for the better, but could you not have achieved your work on hospital-acquired infections, for instance, without Agenda for Change? Point to me in this report the tangible evidence of what Agenda for Change has achieved in terms of changing the way your staff work.

**Mr Griffin:** Chairman, can I offer a view? In terms of tangible evidence, if we look at the Workforce data of my own hospital, ever since the inception of Agenda for Change all the Workforce indicators—staff turnover, sickness absence, et cetera, have improved dramatically. I cannot say that that is entirely due to Agenda for Change but for sure—

**Q11 Chairman:** Why did you sign up to this phrase then, “. . . the Department has limited evidence to show what impact pay modernisation has had on productivity”?

**Ms Chapman:** I would like to add to that, Chairman. One of the absolute tangible benefits is that to increase the capacity of services that are offered you absolutely did need the staff. If you looked at the vacancy rate before Agenda for Change, which was running at just over 3% for qualified nurses, after Agenda for Change that has dropped to about 0.5%. The same can be said of a number of other professions, so I think one of the things you do see is that the pay modernisation absolutely did hit the objective in terms of paying people better and being able to attract and retain them.

**Q12 Chairman:** I want to ask about what is saved in money terms. Going back to paragraph 20, “This rise was planned to contribute to net savings of at least £1.3 billion over the first five years . . .”. Where was this going to come from?

**Mr Nicholson:** It was going to come from increased productivity.

**Q13 Chairman:** That did not happen.

**Mr Nicholson:** In certain areas it certainly did.

**Q14 Chairman:** Not overall it did not.

**Mr Nicholson:** By the measures that are produced by the Office for National Statistics that is absolutely true, but it does not take into account the significant improvements in quality that we have had over the time. It was in more staff being involved, the vacancy

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rates, all of that, less use of agency staff, reductions in pay drift through the assimilation and the improvement in quality that I described earlier.

**Q15 Chairman:** Let us look at this in slightly more detail. If we go further into the report to paragraph 2.15, “Calculating the Cost of Agenda for Change”, “The Department monitored the costs of Agenda for Change for 2004–05, but did not set up arrangements with trusts to continue to track the actual costs of Agenda for Change thereafter”, so why did the NHS trusts not say what Agenda for Change had cost them?

**Mr Nicholson:** They may have done. What we did not do was set out a national picture to calculate that.

**Q16 Chairman:** Should you not have done so?

**Mr Nicholson:** As I explained before, there were a whole series of changes going on at the same time. What we were looking at overall was the impact of things like the efficiency gains that were required as part of the tariff, the delivery of a whole series of improvements in service for our patients through hitting the targets that were available. They were the things that were important for us to focus our attention on rather than trying to identify in retrospect the detailed costings of Agenda for Change.

**Q17 Chairman:** You told us last month, do you remember, that Gershon has achieved £15 billion? That is in the uncorrected oral evidence from the Committee hearing on 2 February, “Financial Management of the NHS”. How much of that £15 billion is coming from Agenda for Change?

**Mr Nicholson:** We know that out of the Gershon savings the savings out of Agenda for Change and the changes I have described in terms of service improvement were in the region of £3 billion.

**Q18 Chairman:** So that is £3 billion out of £15 billion?

**Mr Nicholson:** Yes.

**Q19 Chairman:** Pressing on, the Knowledge and Skills Framework is very important. Let us look at paragraph 3.33. This has been re-launched twice. It has not yet been implemented across the entire NHS. I see in paragraph 3.30 that “the Knowledge and Skills Framework Handbook issued by the Department is 262 pages long”. Have you read it, Mr Nicholson?

**Mr Nicholson:** I have not read the complete handbook.

**Q20 Chairman:** Has anybody read it?

**Mr Nicholson:** I think probably Mike has.

**Mr Griffin:** Yes, I have.

**Q21 Chairman:** Or is it like the Schleswig-Holstein question, that only two people have read it and one is mad and one is dead, or something? The third is you, is it?

**Mr Griffin:** It is to be dipped into, not to be read from cover to cover.

**Q22 Chairman:** Oh, I see. The third one did not know what the question was. Why has it not been implemented across the NHS? It is absolutely crucial to all this, is it not?

**Mr Griffin:** It is. It is a very innovative piece of work. It is a complex piece of work and it came in part way through the implementation of Agenda for Change. In itself it would have been a major piece of change to implement. I think coming straight on the back of Agenda for Change made it particularly difficult for trusts to focus on it. However, it is an essential part of Agenda for Change and one of the real areas for benefit comes from successful implementation. It provides a way of analysing our work. It provides us with a way of having performance management discussions with our colleagues. It provides a development framework within which people can plan their future careers. It has been a hugely important piece of work. The fact that it has been slow to be fully implemented is not a reason for despair but a case for greater perseverance in completing the implementation of it.

**Q23 Chairman:** Lastly, we have looked in detail at the doctors’ and consultants’ contracts. Are they the real winners from Agenda for Change in terms of their pay?

**Mr Nicholson:** No, they are not. I would argue that the real winners from the entire programme of pay modernisation are essentially our patients. They have got the benefit from the improvements in quality that we have seen across the service. They have seen the benefits from the improvement in quality in primary care. They have seen the benefits of being able to manage the time they consult medical staff, the increased amount of time that consultants spend on clinical care and the amount of time that GPs spend with their patients, which has gone up as part of it.

**Q24 Chairman:** But how much of this has come from Agenda for Change? That is what I am asking you. I am not denying there have been improvements. I am asking specifically on Agenda for Change what has been achieved. You have got to come up during the rest of this afternoon with what Agenda for Change has achieved.

**Mr Nicholson:** As I say, it is very difficult to try and explain what the benefits are of what is essentially an enabler. Agenda for Change helps you do things. It enables you to make your arrangements so you can design a job without going through a huge bureaucracy to deliver individual patient benefit.

**Q25 Mr Bacon:** Mr Nicholson, I must say I am puzzled by all this. You went to a lot of trouble to set up an all-embracing, all-singing and dancing pay system reform and yet you cannot tell us anything about what it has done although there were some fairly specific assertions made at the time. For example, you referred earlier, in answer to the Chairman, to this 1.1–1.5% year-on-year rise in

productivity. A rise of 1.1–1.5% in productivity was an assertion that the department made at the time, in 2002, when Agenda for Change was launched. That is a very specific thing. How could that assertion have been made without it being known what it would look like if it were achieved, without your being able to attribute it to the thing you were doing?

**Mr Nicholson:** Additionally, of course, at that particular time decisions were taken to increase the size of the NHS by nearly a third. As you will know yourself, it is extraordinarily difficult to deliver productivity gains when you are expanding a service in the way that we were at that time. All that I can say is that to get through the complexity of that we decided to look at a package of things working together and see how that would give us the indication. As I say, it does show that we made £3 billion worth of savings as part of the process that we adopted, and we think that is a reasonable return on what I think is a very complicated thing.

**Q26 Mr Bacon:** This 1.1–1.5% year-on-year rise in productivity was a very specific assertion and that 1.1–1.5% rise in productivity was specifically related, was it not, to Agenda for Change?

**Mr Nicholson:** Yes.

**Q27 Mr Bacon:** I am looking at paragraph f on page 9, where it says, “Agenda for Change was expected to achieve specific and measurable benefits,”—

**Mr Nicholson:** And it has.

**Q28 Mr Bacon:**— “but there has been no formal assessment of the programme by the Department or by individual trusts”. Surely, if you came along with any programme that was designed to achieve specific and measurable benefits you would say, “What are these benefits? How specific are they and how do we know whether we have got them?”. It is basic, is it not, and yet you do not seem to be able to do that?

**Ms Chapman:** I think we can do that in that, of the four areas we said we would get improvements from, part was productivity, part was the increased staffing for in-service staff and also the reductions in drift and the improvements in care that were being looked for, particularly in terms of improved waits, et cetera, so we knew the areas. Rather than go off and measure whether we got the £1.3 billion anticipated savings in those four areas, it was recognised that at the time the service had two other areas where productivity was being looked for in terms of the technology that was being put in and the service framework.

**Q29 Mr Bacon:** Sorry, hang on. When you say the technology was being put in are you talking specifically?

**Ms Chapman:** There were a number of pieces of technology that were being introduced at the same time along with the service frameworks.

**Q30 Mr Bacon:** Such as what? Which technology?

**Ms Chapman:** I was not here at the time.

**Mr Nicholson:** If you look at the things like the electronic staff record, if you look at the new arrangements we were putting in place for GP connectivity with their IT systems, these things were all being developed at the same time.

**Q31 Mr Bacon:** Hang on a sec—GP connectivity?

**Mr Nicholson:** Sorry, I meant the community systems like RiO and all of these systems that were being implemented.

**Q32 Mr Bacon:** When you say “GP connectivity with their IT systems”, do you mean GP connectivity among GPs? I do not quite follow you.

**Mr Nicholson:** Yes, sorry; I was referring to community services. I was not referring to GP services at all.

**Q33 Mr Bacon:** You were not referring to Choose and Book?

**Mr Nicholson:** No, no.

**Q34 Mr Bacon:** My father-in-law had an experience with Choose and Book the other day. He was sent home with a phone number to ring. He could not book it. When he phoned the recorded message said that the service was not available, so it certainly has not increased productivity, has it?

**Mr Nicholson:** I am sorry he had that experience, but there are lots of examples where Choose and Book has worked extraordinarily well for the patient.

**Ms Chapman:** The reason I was explaining those was that if you talk to a trust it is very difficult, given that there were three areas of improvements in productivity going on at the same time, to try and measure the productivity improvements from each one separately. Actually, they looked at productivity improvements in the service. Therefore, there was a programme initiated centrally called the Productive Time Initiative, which was looking very much at whether the benefits were delivered?. The benefits of Agenda for Change were consolidated in there and that is what Mr Nicholson has already described in terms of the improvements being in the region of £3 billion, which was slightly better than the £2.9 billion target that was set up in the Product Time Initiative arrangements.

**Q35 Mr Bacon:** The trusts individually have to implement all this. How will you, going forward, hold trusts accountable for productivity?

**Mr Nicholson:** From now on, you mean?

**Q36 Mr Bacon:** Yes.

**Mr Nicholson:** The major way in which the centre holds individual organisations to account for productivity is through the tariff and the way in which the tariff is set. For example, for this year the tariff is set in such a way that individual trusts are expected to deliver a 3% cash-releasing productivity improvement in their arrangements. We have planned to make that probably 3.5% next year. That is the way in which we drive the change with the

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individual organisations, so we do that on the one hand. On the other hand we provide organisations with the tools to enable them to do it. Agenda for Change is one of those tools, so we have a pay system now which is much simpler, much more flexible, much more able to respond to the individual needs of organisations than the old Whitley system was in the past, and individual organisations can make those changes at a local level. We provide them both with the incentive, or penalty, if you like, through the tariff and the tools to enable them to do it.

**Q37 Mr Bacon:** You mentioned that you have commissioned York University and others to do work on improving productivity measures.

**Mr Nicholson:** Yes.

**Q38 Mr Bacon:** When was that commissioned from York University?

**Mr Nicholson:** It was commissioned some time last year and is due to report this month.

**Q39 Mr Bacon:** What I do not understand is, knowing that the measures of productivity as you have described them were inadequate (Nigel Crisp used to tell us this) at the time Agenda for Change was being introduced originally, and these assertions were being made about the way in which it would increase productivity, why did you wait six or seven years until last year before commissioning work to do something about getting better measures?

**Mr Nicholson:** I think we were trying to work with the measures that we had and improve them. We have been working with the Office for National Statistics over the last few years and they do include some small quality improvements within them but we do not believe enough, so we have been working with the ONS to make that case a reality. In practice what we have been doing is getting on with implementing Agenda for Change, consultant contracts, GP contracts and delivering benefits for patients. That is essentially what we have been focusing our attention on. As I say, we have been working with the ONS. We have not quite got to the place we wanted to be with them so we have commissioned our own work now.

**Q40 Mr Bacon:** Do you still have the active benefits realisation plan for Agenda for Change?

**Mr Nicholson:** The benefits realisation plan is called ISIP.

**Q41 Mr Bacon:** And it is ongoing, is it, or have you parked it?

**Mr Nicholson:** I think we have finished that particular part of the process. We have now got assimilation of most staff on Agenda for Change. We have dealt with most of the issues in relation to Agenda for Change and we will essentially be delivering the productivity improvements I have described by using the tools that we have in the environment we use now as the tariff.

**Mr Griffin:** Could I just add that from a trust perspective it really makes much more sense to focus on the total outputs, what the trust is trying to

achieve, what the service is trying to achieve, rather than trying to identify specific elements and contributions to the overall thrust. Our key objectives are to meet our waiting list targets, to meet the four hours' wait target, to bring down MRSA and reduce our infections. These are the big ticket issues to which Agenda for Change and lots of the other Workforce changes have been an important contributor.

**Q42 Mr Bacon:** It might have been better, if what you say is correct, not to have made such bold assertions about Agenda for Change in the first place because this report is littered with, wherever you look, in paragraph 2.16, for instance, "In order to assess whether Agenda for Change has contributed to this £7.4 billion increase . . ."—you cannot even say whether it has, let alone the extent to which it has; "The Department cannot demonstrate the contribution that Agenda for Change has made to the achievement of the efficiency programme", and so on and so forth; "The Department did not put in place the necessary arrangements for trusts so that it has got limited evidence to show what impact . . .", blah, blah, blah. Would it not have been better not to make a series of sparkling assertions for what Agenda for Change was going to deliver if you were not prepared to have in place at the time the measures that were necessary to make sure you could make them stack up?

**Mr Nicholson:** They were the best assessments that could be made at the time in relation to the impact of it. What I would say, having lived through this myself, is that what I think the department did was listen very carefully to what the service was saying, and what the service was saying was, "Please do not have 20 different benefits realisation programmes going on collecting data. Have one benefits realisation programme which identifies both the total impact in terms of the resources and also the total benefit in terms of the patient". That is what the service said to us and I think they were absolutely right.

**Q43 Mr Mitchell:** To a superficial eye, which is mine, the Knowledge and Skills Framework looks more important in the sense of improving quality of service, but it seems to have taken a back seat to the review. Why is that?

**Mr Nicholson:** There is absolutely no doubt that the focus of the attention was the implementation of this massive programme. I am sure you understand. I do not think there is anything quite like it on the planet in terms of trying to change the terms and conditions of service of 1.1 million people, all within a relatively short space of time.

**Q44 Mr Mitchell:** Why was it necessary to get it through quickly? Why not do the two at the same time?

**Mr Nicholson:** I have implemented job evaluation programmes and you probably know better than I do that when you start evaluating someone's job and comparing it with their colleagues' jobs that is an enormously difficult and complicated and highly

charged thing to do, so doing it for that number of people was enormously difficult. One of the things we learned from looking around at people who tried job evaluation, not on the scale that we have done it but on a scale, was that speed was of the essence. The longer you take to implement something like the Agenda for Change where you are changing people's terms and conditions the more complicated it gets, the more you get involved in back pay, the more you get involved in all sorts of interminable discussions. We felt it was right to do it quickly and I think lessons have shown that.

**Q45 Mr Mitchell:** But knowledge and skills were sacrificed?

**Mr Nicholson:** The implication of that, of course, I think you are right, was that the focus and attention on the Knowledge and Skills Framework was not given equal weight when all of that was being implemented because the drive was to get the numbers through, get the jobs evaluated and get them through. I have to say we were slightly late on that. In retrospect we might have done more, and you are absolutely right: the Knowledge and Skills Framework is critical to driving the changes through. I think what you will find in the report and in reality is that the proportion of staff who had a Knowledge and Skills Framework review stood at about 54% (as at Sept 2008).

**Q46 Mr Mitchell:** 54% had the framework by September 2008.

**Mr Nicholson:** Okay.

**Q47 Mr Mitchell:** Why could you not implement it, having got the main business through?

**Mr Nicholson:** It is proving more difficult to do than perhaps the people who designed the thing imagined.

**Q48 Mr Mitchell:** Is it more contentious?

**Mr Nicholson:** No, I do not think it is more contentious. One of the things that you find about the Knowledge and Skills Framework is that it is generally well regarded by both managers and staff, certainly the staff side. It is a very valuable mechanism with which to sit down with someone and talk it through. I think there are issues about its complexity, about how sometimes both managers and staff have found it more complicated than perhaps it needs to be, and we are working on that to simplify the arrangements, and sometimes how something that might apply very well to a highly technical job does not always apply so well to a more generalist job. We are learning this as we go along. I do not know whether Mike wants to say anything about the practicalities of it because I think it is important for us to learn and King's have done pretty well, I think, as far as that is concerned.

**Mr Griffin:** It is a big piece of work to get it taken on board and every single manager, every supervisor, has to get actively involved to work this around the jobs in their particular areas of responsibility. Implementing Agenda for Change by comparison involves a number of people but not the same volumes of people that are required to get actively

involved with the Knowledge and Skills Framework. There is a big investment in time resource by every manager to make it work. What we have found is that one just has to keep behind and encourage managers to put in the effort, to put in the training to develop the programmes when they start. Once people have done that and gone through the pain threshold they become very strong advocates of it, and our experience is that once we build up a critical mass of people who have done it we can get to a tipping point where we can expect all other managers to achieve it too.

**Ms Chapman:** Can I just reinforce that? There is one profession that has got to about an 82%<sup>1</sup> completion rate and there is one region, I think it is the north east, that has got to a 65% completion rate, so what we do know, working with our Social Partnership Forum with employers, trade unions and the department, is that by looking at those who are doing it well we are getting those learnings out, so, exactly as Mike describes, we are able to make sure that those who have to struggle to do it as fast and as well as others get those learnings out too, and that is getting good traction.

**Q49 Mr Mitchell:** Just seeing it from the outside in Grimsby, it did seem a lot of trouble. There were gradings and then a failure of some and an attempt to align them all because different supervisors assess things very differently. Do you have any figure for the actual costs of implementing the programme as opposed to the benefits in productivity or wages?

**Mr Nicholson:** The total costs that are identified in the report here are difficult to get to because in a sense what you have to do is say what would have happened if we had not implemented it, so how would pay awards have gone and all the rest of it. You can see from the report in front of you that the National Audit Office have put a kind of range of costs or savings around it.

**Q50 Mr Mitchell:** It is not savings I am interested in. It is the costs of doing it and all the meetings and all the assessments and all the consultations and all the appeals.

**Mr Griffin:** In terms of the time of lots of people involved in implementing it, it is difficult to quantify what that opportunity cost was valued at, but the payback for that investment was a terrific response in terms of improved partnership working between managers and staff, and a big feature of the implementation programme, a requirement which paid dividends, was that staff should be actively involved in the implementation process. That lesson of implementation has been carried forward into the substance of the service, a re-designed service and service development. That was the payback. Again, it is difficult to quantify what the value of that is, but it was more than worth the investment for the 12 or 18 months of implementation.

<sup>1</sup> *Note by witness:* This figure and the subsequent figure of 65% refer to staff having any form of appraisal. The corresponding figures for a KSF review are 65% and 47%—Staff Survey 2007

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**Q51 Mr Mitchell:** I can see the benefits of it.

**Ms Chapman:** Can I just add one other thing? I think there is some evidence to suggest that the “do nothing” approach would have cost more than doing something, particularly when you look at the rate of equal pay claims.

**Q52 Mr Mitchell:** I do not argue with that because it is a simplification of the system.

**Ms Chapman:** Exactly right.

**Q53 Mr Mitchell:** But in the sense that you have got a more readily comprehensible, simpler system, how far ahead is it going to need in order to change it because some of the foundation trusts have not implemented it, and Southend, for example, is not going to use it, so how are staff going to be able to transfer in that situation?

**Mr Nicholson:** There is only one, and I think the remarkable thing was that everyone worked across the system to do it because there was an understanding across the system of the value of having a comprehensive national system, and there has been very little movement in practice from that basic tenet. Even though we have got foundation trusts, other parts of the United Kingdom have not got foundation trusts but our coverage of Agenda for Change is greater than for any other country in the UK.

**Q54 Mr Mitchell:** Paragraphs 3.25 and 3.26 say that some of them are going to have to bid higher for staff or apply regional variations.

**Mr Nicholson:** There was always what I think is called Annex K of the agreement, which sets out within the agreement what are the flexibilities that organisations have, and I think it is important that any system, particularly a national system, has flexibility, so the ability to flex for regional pay, the ability to look at the total package with holidays and terms, seems to me perfectly reasonable flexibility. The point of it is that first of all it has to be within its own framework; it cannot step outside of it. Secondly, it has to be agreed with local staff. It seems to me that those are positive things.

**Q55 Mr Mitchell:** Mr Bacon was fairly suspicious of the productivity benefits you estimated initially. Is not the honest truth that this was just put in to pretty it up and get it accepted? I cannot see how it would have led to productivity gains. How can you estimate them as precisely as you did?

**Mr Nicholson:** I think we have been round this one already. Nevertheless, it was the best estimate—

**Q56 Mr Mitchell:** But not the accusation that it was just put in to make it look good.

**Mr Nicholson:**— that people could make at the time. I am sure it is part of the business case.

**Ms Chapman:** Can I add one other thing, which is that, remembering where we were before, which was hundreds of pay scales and thousands of allowances, when you look at the amounts of changes which are going to be required to individual roles, given the visions that exist in each of the regions, there will be

changes. Those are big barriers to changing roles when you have got a pay system that is that complex, and so I think we have already seen that what it is doing is enabling that change in a much more straightforward way. It is not the barrier that it was before.

**Q57 Mr Mitchell:** Productivity in the Health Service levelled out because you were employing fewer staff and then it began to fall again so you employed more staff, and that is the real driver of productivity, is it not? What does drive productivity?

**Ms Chapman:** There is also the ability that it gave us to put in different roles. For instance, the assistant practitioner roles to support the registered nurse and the advance practitioner roles did not exist before. This was a system that enabled trusts to put those new roles in and put them in within a framework that was coherent. Those are the things which enabled far more thought around affordability as well as practicality for the staff themselves.

**Q58 Geraldine Smith:** I do not want you to spend too much on benefits realisation programmes and all sorts of assessments to see how successful you have been with Agenda for Change because if you do we will be telling you that you wasting taxpayers’ money because there are too many managers in hospitals collecting figures all the time and not doing front-line work. To me it is pretty straightforward. If you are looking at simplifying the system that existed, and it was an absolute nightmare when you looked at all the pay scales and all the other things, as you have already said, and if you achieve that simplification and if we do not have too many trades unionists knocking on our doors going absolutely mad about what is going on and too many members of the public complaining that things are going wrong, then surely that is a measure of your success. I have heard very little about Agenda for Change. I did go to one meeting where unions were disagreeing about some of the job descriptions but it was detail really that they had to sort out; it was not something for politicians, so would you say so far it has gone fairly smoothly and that you are in danger sometimes of over-analysing and over-assessing things?

**Mr Nicholson:** As some of you will know who may have been around when we did nurse grading in the NHS some years ago, which was the exact opposite of that, we had huge problems with trade unions, we had huge difficulties with staff, we had literally thousands and thousands of appeals against it, and it went on for years and years and really did distort the relationship, I think, between the NHS and the nursing profession over a period. This was, I think, a remarkable thing to have done, to change the terms and conditions of service of 1.1 million people and at the same time provide benefits, and we have shown how we provided benefits when you add them to everything else. When we got the level of satisfaction from the staff of the process that we have, and we have had very few reviews overall when you think of the number of people that have been through it, I think it was a remarkable task that was done. When

you look at an individual's job and start comparing it with their colleagues' in the service, the potential for getting it wrong is very significant. I think we will, like in many of the pay modernisations, see really big benefits coming over the next few years as we focus our attention on both improving services but also in a time of financial constraint.

**Mr Griffin:** If I could add to that, as well as the simplification, which was very real, I think the real value has been that it has really started the process of breaking down the silo mentality which existed previously. It has enabled us to provide a common core way of evaluating jobs and to start mixing and matching skills from across traditional skills boundaries and, as Clare said, provide a series of core composites which everybody's job is measured against—quality, communications, et cetera, rather than each specialty being a set of special requirements of the profession. It really is making a major contribution to start bringing about an integrated workforce to provide an integrated service. That is really the benefit and it would not have been achievable had Agenda for Change not been put in place.

**Q59 Geraldine Smith:** Do you feel you reward people enough when they get involved in an issue though? It is just a personal experience I have of visiting a local hospital which is doing a lot of knee replacement surgery. They do it at weekends, they do it right into the evenings and it has put a lot of additional work onto the nursing staff because the ward is full of people coming in and going and coming back from theatre. They need a lot of care and attention, and those nurses were really working flat out. Talking to one of them, she was complaining that their morale was low. I was asking, "Why is that? Why do you feel that way?". She said, "Everyone else is getting something from these initiatives, the doctors who are carrying out the surgery at weekends, but we are not getting anything extra. We are just expected to do it". Would that be the case or do you give incentives to people to take this on? At weekends hospitals used to be very quiet, but my experience of this hospital is that it is extremely busy, which is good because waiting lists are going down and people are getting those operations.

**Mr Nicholson:** I do not know the circumstances you have described. Every hospital negotiates things slightly differently, but the whole purpose of the pay modernisation was to make more sense of that kind of thing where you had literally different grades of staff with completely different mechanisms by which they got paid for extra work, from literally doing the work at plain time right the way through to double time and almost any gradation in the middle. Agenda for Change made that much more simple, so there are four or five ways in which you can get paid, and it is completely transparent so everyone knows what everyone is getting. Similarly, the consultant contract was designed in such a way as to make sure that with that extra time we needed for consultants we were not in the place where we were paying them spot rates that were negotiated locally, but that extra time they used was part of the consultant contract

and would be paid accordingly. The intention was to get that in the right place. Where I think it is sometimes slightly different, and Mike might want to say something about this, is when you have managers involved. When I say "managers", there are some quite senior nurse managers who sometimes do not receive extra payments for working out of hours in a way that others have done.

**Mr Griffin:** Yes, that can happen. Somebody that is working on a shift system picks up a shift premium. If they then come out of the shift system and take on a managerial day job they lose the shift premium and they say, "I am not materially better off". That is an issue and that applies in every walk of life. The terms around Agenda for Change are very much based around the spine of nurses' pay, so people harmonise and coalesce around the nurses' pay and conditions, which is perhaps why nurses might feel that they have got less than others, but radiographers complained bitterly that they had lost their 35-hour week and had to do a 37½-hour week as part of the equalisation. One of the great benefits that nurses achieved was the increase in clinical nurse roles and particularly the inception of the nurse consultant role which has brought about a dramatic improvement in services and has enhanced the profession of nursing enormously.

**Q60 Geraldine Smith:** One of the aims was to improve equal opportunity and diversity in the Health Service. Do you think Agenda for Change has achieved this?

**Mr Nicholson:** Yes.

**Ms Chapman:** There is evidence that there have not been the sorts of improvements yet that we would want to see on that. I think it is probably a bit like the KSF, where there is now a platform on which there will be real opportunities to improve that. Having said that, we looked at the report that has come out recently that suggested that our rates were running underneath the national average in terms of the level of discrimination that people were reporting, so my sense is that we have made progress, there is more to be done and we have now got a platform to enable us to do that.

**Mr Nicholson:** Where we have made progress, I think, is in terms of low pay. One of the things that was particularly relevant to Agenda for Change was tackling some of the groups, not the qualified nurses but the people who worked as nursing assistants in support roles. I think they got a comparatively greater benefit from Agenda for Change and I think that has helped the workforce considerably.

**Mr Griffin:** I want to mention one small matter. The non-professional grade particularly saw the biggest increase in their pay across the professions and is also perhaps where the biggest change in terms of career thresholds, which takes them up through unqualified status into qualified roles, has been achieved.

**Q61 Geraldine Smith:** Can I ask finally about the claims for discrimination around equal opportunity? What is happening with those? Where are we up to on that?

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**Ms Chapman:** Those are being heard at the moment. We are waiting for the outcome of those as we speak.

**Q62 Mr Burstow:** I want to ask a couple of questions around Box 3 on page 11, which sets out the success criteria. Just running down this list, can you tell me whether in each case there was a baseline set against which you could measure success?

**Mr Nicholson:** I will do my best on all of those. More patients being treated more quickly. We did the calculation at the time as to the extra number of patients you would need to treat to deliver the waiting time guarantees at the time, which were, I think, six months for in-patient, three months for out-patient. We calculated the volume so we could say whether we had delivered both the volumes and the waiting times.

**Q63 Mr Burstow:** So there was a baseline against which you could measure Agenda for Change?

**Mr Nicholson:** And there was a baseline on which that could be done. In terms of higher quality care, we set out our improvements both in terms of improvements in cancer and coronary heart disease care targets and in terms of the delivery of improved outcomes for both of those.

**Q64 Mr Burstow:** Can you say that there was something against which you could say, "This is our starting point and this programme will result in these changes"?

**Mr Nicholson:** I have not got a document with it all in but I am unaware of where this is all written down in that way. I am just going through it because I think they were all done. In better recruitment and retention there was a whole series, as we know. Vacancy rates were running at about 3.5% and we knew we had to get them down to 0.5% in order to deliver the volumes for the capacity that we needed. As for better team working and breaking down barriers, I do not think there was a specific measure for that, but what we did know in order to deliver the changes we needed in terms of cancer services to make sure we had multidisciplinary teams operating in breast, colon and other cancers, so we worked to do that and we have delivered all of those multidisciplinary teams. We can give lots of examples of innovation in deployment of staff but we think we have a fair pay—

**Q65 Mr Burstow:** I think the point I am trying to get at—

**Mr Nicholson:** No, I understand what you are saying.

**Q66 Mr Burstow:**— is that you can give lots of examples of how it has changed and you have given many answers to members of this Committee saying you have done that, but one of the roles this Committee has is looking at whether we have got value for money out of the process you have gone through and I am not clear from what you said that there were baselines set against which you could evaluate whether this programme had been the contributory cause of improvements.

**Mr Nicholson:** This was not set out as a programme with specifically identified success criteria that were measured independently of everything else that we were doing. I have said that four times now, and that is true.

**Q67 Mr Burstow:** And would you acknowledge that with the benefit of hindsight that is something that if you were setting out on this again you would not do it that way?

**Mr Nicholson:** No.

**Q68 Mr Burstow:** So you would not set criteria again?

**Mr Nicholson:** We set off on a whole series of significant changes to the NHS all at the same time. If you are saying to me could we in hindsight have identified the totality of that at the beginning and put it through, I would say that we did through the NHS Plan. We set out in the NHS Plan what it was we were trying to achieve, which was more staff, better paid, all of those sorts of things.

**Q69 Mr Burstow:** The reason I started this question was that the thing that struck me as I went through this report was simply that on a number of occasions data have not been collected. On a number of occasions when data have been collected, albeit by other agencies, there is not the evidence to support the contention of these success criteria having been delivered. You have been able to give us lots of anecdotal evidence but not concrete evidence. Is that a fair characterisation of it?

**Mr Nicholson:** No, I do not think what I have just described is anecdotal evidence. The fact that we have reduced avoidable deaths through coronary heart disease, the fact that we have delivered a whole series of significant reductions in the waiting times for patients and access to services generally are not anecdotes. They are substantiated in the real world by patients.

**Q70 Mr Burstow:** And you can substantiate the link directly to the general changes in the delivery of that?

**Mr Nicholson:** This is the dilemma that we have. The judgment was, would we spend a great deal of time trying to get that or would we get on with it? We decided jointly with the NHS that it was better to look at the thing in the round and that is what we have done.

**Q71 Mr Burstow:** In answer to one of the questions Mr Bacon asked you said there was a report on productivity due this month.

**Mr Nicholson:** Yes.

**Q72 Mr Burstow:** When might this Committee be sent a copy of that report?

**Mr Nicholson:** When ministers have looked at it presumably it will be published. I do not think it is a secret document.

**Q73 Mr Burstow:** Sometimes things take a little time after the minister has studied them before they do get published. How soon do you think it will be published after ministers have looked at it?

**Mr Nicholson:** I have not seen it so I genuinely do not know, but I will make sure the Committee gets it as soon as I can.<sup>2</sup>

**Q74 Mr Burstow:** Just coming back to this point about costs, paragraph 2.21 says that data were not collected that would be necessary to see whether the anticipated savings could be realised. Why, given that you had put in cost assumptions of what you would save, was there no data collection put in place to prove that you had done that? I would have thought that was a fairly obvious thing to do.

**Mr Nicholson:** The rhetorical question is, what data would you collect? With almost everything that was happening there was a multitude of things happening to it, so if you take, for example, the reductions in waiting times—

**Q75 Mr Burstow:** But you said there was an estimate in the programme. You must have made some assumptions to come up with that estimate. Surely you then instruct a data collection that would underpin those assumptions.

**Mr Nicholson:** As I have said, I think people made the best assessment they could make at the time about what the impact of it would be, but it was essentially a top-down assessment. If you look at something like delivering a reduction in the waiting time to within four hours for patients in A&E, we have been remarkably successful at getting it down to four hours. Some of that related to Agenda for Change because some of that was done through organising job roles and particular jobs to do particular things in diagnostics which would not have been available, but how much of the four hours would you attribute to Agenda for Change as opposed to increasing numbers?

**Q76 Mr Burstow:** That is why you are here; that is why I am asking the question.

**Mr Nicholson:** We made the assessment that it was better to look at the totality of all of the things, the way they were interacting, ie, the quality of the way they were implemented together as a measure, as opposed to identifying each individual one.

**Q77 Mr Burstow:** One of the success criteria is around fair pay and the report draws some comparisons with the other two sets of pay modernisation at work which were put in train around the same time, particularly the consultants' contract, and this Committee has published reports on that in the past. It suggests that the consultants' contract added 6% to the annual pay bill for consultants. We have established here that that is nowhere near the percentage added to the pay bill for general changes significantly lower down. What

does that send out as a message around fairness and what does it say about the difference in attitudes to different types of staff within the NHS?

**Mr Nicholson:** In each of the groups of staff we were dealing with quite different things. If you take the consultant contract, for example, there was no system of measurement and organisation of time for consultant staff in the NHS up to the new consultant contract, so not only were we negotiating something going forward; we were also essentially putting right something that had been there since 1948, and the impact of getting that right for the future will be absolutely enormous. I do not think looking at straight percentages between one group and another necessarily identifies the fairness of it.

**Q78 Mr Burstow:** But, again, because we have no metric or baseline against which we can judge fair pay, that is an answer that does not stack up against anything we can measure.

**Mr Nicholson:** There is a whole set of legal cases going on about fair pay at the moment, is there not? Our judgment is that the pay modernisation scheme is a fairer way of paying people and no doubt that will be contested in the courts.

**Q79 Mr Burstow:** In conclusion, it strikes me that in terms of 1.1 million workers, making this simplification was a very good thing. The thing that has disappointed me from being a member of this Committee is that when it comes to measuring whether it has had a real effect you can offer us assertions and you can offer us examples but linking them back to this as the real cause of those changes is not there, is it? There is no audit trail on deliveries.

**Mr Nicholson:** That is because pay modernisation is not an end in itself, it is an enabler, it helps you do things. In itself it does nothing, all it does is add to the pay. It is the way in which you use the staff and the way in which they are deployed.

**Q80 Mr Burstow:** Perhaps calling them success criteria and having success criteria in that sense did not really help this at all because you could not use them as criteria.

**Mr Griffin:** I think they are. They are not hard quantifiable ones but they are sensible things to be looking to say at the end of the day do we think we have got improvements around these areas. Using whatever information we can get, anecdotal examples and data, one can test the proposition, has it delivered against these and by and large it has.

**Q81 Mr Davidson:** Am I right in thinking that everybody covered by this exercise got more money?

**Mr Nicholson:** There were people who when we looked at their jobs and did the evaluation, their jobs were priced at a level below what they were currently on. In those circumstances they got the original pay increase and then their jobs marked time until 2011.

**Q82 Mr Davidson:** That is helpful. You made the point that the lowest paid got more comparatively. That was part of Government policy anyway, was it not?

<sup>2</sup> <http://www.york.ac.uk/inst/che/pdf/rp47-pdf>

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**Mr Nicholson:** Yes.

**Q83 Mr Davidson:** Again, unlike some others, I am not entirely clear how all these things mesh together. Change has often got to be bought in these circumstances or, indeed, in any circumstances when we are revising things. What I am not clear about is the extent to which this opportunity of a big slug of cash coming into the system was used to buy all the changes that were necessary at the time. I am looking particularly at paragraphs 2.8, 2.9 and 2.10 where it basically seems to be saying there that the changes were not made at the time in working practices. People were put on new scales but they were not put in new structures, new systems and so on. What I want to clarify is whether or not it has subsequently cost you additional slugs of money to get people to work differently or was that initial boost to the system sufficient to allow you to subsequently make changes?

**Mr Nicholson:** That was exactly the way we did it. It would have been remarkable had we managed both to completely re-organise the Service and the way people worked and implemented Agenda for Change and the KSF all at the same time, it simply was not a practical proposition for us. We thought Agenda for Change essentially was a fantastic baseline on which to take things forward. If you look at the five years before Agenda for Change and the five years afterwards, you can see there the total pay bill for Agenda for Change staff grew less the five years after than the five years before.

**Q84 Mr Davidson:** To be fair, that could be to do with overall falling numbers of staff.

**Mr Nicholson:** No, we were increasing at the same time.

**Q85 Mr Davidson:** If you strip that out, right, okay.

**Mr Nicholson:** No, that was absolutely the case. The percentage increase for staff again was lower in the last five years than the first five years. There is no indication we have been throwing lots and lots of money to get more change out of a system that we put through Agenda for Change.

**Mr Griffin:** I would support that. I think the investment brought change, harmonisation and a lot of goodwill and subsequently we have been able to use that to drive change.

**Q86 Mr Davidson:** Let me be clear then, if you now want to restructure the way in which people in a particular area are working, you are able to do that without having to put in additional dollops of cash, is that correct?

**Mr Nicholson:** That is correct.

**Q87 Mr Davidson:** Sorry, I am getting two nods and a stony face and I am not quite sure. Mr Nicholson, since you are the boss, I want to make sure I have your view of this.

**Mr Nicholson:** That is absolutely the intention. If you ask me, in every single circumstance where we are implementing change that either extra people or

whatever are not put in, I could not say that, but there is no evidence that people are putting lots of money into that.

**Q88 Mr Davidson:** There was specific mention made in the initial stage of this document about what the objectives were and one of them was down as breaking down traditional barriers. What I want to clarify is whether or not in your view these traditional barriers have entirely been overcome, they are working in silos and "That's not my job", the sort of demarcation lines you used to have in the shipyard, all of which have gone there. Are they still there in the Health Service?

**Mr Nicholson:** In some organisations there are still people working in silos more than we would hope. We have not abolished people working in silos, but there is lots of anecdotal evidence around which shows ways in which these have been moved on and we have changed the Service. What we can say, though, is new jobs as they are created are not part of that process. One of the things I am sure you have seen when you have been around hospitals is "We've got a problem in a particular department, we need another nurse", that is not normally the response these days, it is what are the skills we need to satisfy the needs of our patients or the particular service. There is quite a lot more to do, but there are some good encouraging signs that we can do it.

**Ms Chapman:** I think there are two separate things here. One is we talked about the thousands of allowances and you talked about working practices, I think those thousands of allowances distorted working practices because encouraging people to move when you were asking them potentially to let go of those was confusing the matter. Has Agenda for Change solved that? Yes, because you have got a much more transparent system. Does that mean there are still problems to be solved in terms of ways of working? Yes, but it is not the pay that is the barrier, there are other things that need to be addressed which you will not sort out through pay modernisation.

**Q89 Mr Davidson:** I think I understand most of that. Recruitment and retention, to what extent have the difficulties you face in recruitment and retention been overcome by this methodology? To what extent would they have been overcome simply by the additional slug of cash which was being provided anyway?

**Mr Nicholson:** Of course, particularly the Agenda for Change element and those areas, what you described as the non-professionally qualified areas, there has been competition for staff. We have increased the number of staff we need, so we could have found ourselves in a position with bigger vacancies and bigger problems when you look at the economy as a whole. It has been remarkably successful at recruiting and retaining staff for us in that period. When you look at it, we were expanding at the same time as lots of other parts of the care system were and the economy was expanding and we

have managed to reduce our vacancy rates, which is no small measure of the implementation of Agenda for Change.

**Q90 Mr Davidson:** Can I turn to paragraph 3.10 where mention is made that: “41% of staff thought their Agenda for Change pay banding was fair in 2006”. That means 59% thought it was not fair. Is that a satisfactory situation or does that tell us that, like Sir Fred Goodwin, some people are never happy?

**Mr Griffin:** It is a feature of job evaluation we reflect on this, that with all this investment are people remarkably happier immediately afterwards and the answer is well maybe momentarily, but it soon fades. When there is a job evaluation change, all the people whose jobs come out with no change feel, “Well, I’m not getting anything out of this”, those who have been upgraded feel, “Well, it’s only right and proper, it means I’ve been short-changed before” and those who have been downgraded are the ones who really feel it. Job evaluation pay systems do not generate happiness, so I am not surprised by that figure.

**Q91 Mr Davidson:** I understand those three divisions but given the fact that nobody was worse off as a result of this exercise and the vast majority were better off.

**Mr Griffin:** Except relatively. Of course, as you and I know, relativities are very important. If somebody is seeing a contemporary go up and they stay the same, they potentially feel aggrieved.

**Chairman:** I know all about that in my political career!

**Q92 Mr Davidson:** Yes, but some deserve it, do they not! Can I turn to the question of efficiency. Again, in paragraph 3.18 there is mention here that: “Only 6% of staff who responded to our survey agreed or strongly agreed with the statement, ‘I feel that I am more productive as a result of this Agenda for Change/Knowledge and Skills Framework’”. If this was such a wonderful system and really working, surely more than 6% would have thought they were working more efficiently than they had been before.

**Mr Griffin:** Again, not necessarily. People will not see the sort of changes they have experienced as attributable to Agenda for Change. If they have been through other re-organisation in their department and there has been some sort of restructuring, people will not associate that with Agenda for Change. If Agenda for Change in the background is facilitating change happening, people will not necessarily make that association. The change itself was not brought about overnight, everybody’s job was evaluated as it stood. There were no overnight changes in jobs, the intention was to get in the job evaluation system, re-band the jobs as they stood and then, having got it in place, use it to start bringing about change.

**Q93 Mr Davidson:** Would it be fair for me to take from this that the benefits of Agenda for Change are unknown and unknowable?

**Mr Nicholson:** No. We know Agenda for Change delivered all of those things around harmonisation and simplification, we know they delivered benefits to us in terms of vacancy rates going down, we know they have achieved a whole series of benefits in relation to job redesign where it is much more simple now to design jobs around the needs of individual patients, so there are all sorts of ways in which we can identify the benefits of it. Can you put a cash figure against those individuals, our judgment was it is much better to look at the totality of the change than just one of the enablers.

**Q94 Chairman:** The question I want to ask you, arising from Mr Davidson’s question, and this is from paragraphs 3.5 and 3.12, is if NHS pay overall in real terms for all your staff has increased over the period by 5%—quite a lot—why has job satisfaction not increased?

**Mr Nicholson:** Because job satisfaction is not just a function of pay, job satisfaction relates to a whole series of issues: the way you are managed; the nature of the job you do; the pressures that are put on you; the quality of the leadership that you have in a particular organisation, there are all sorts of factors which relate to that.

**Q95 Chairman:** Which is absolutely right, but what has Agenda for Change achieved then?

**Mr Griffin:** Whilst the staff survey may not reveal the changes, when you see vacancies falling, staff turnover going down and the number of people applying to come into the NHS, all of that says that in part is a measure of the Agenda for Change.

**Q96 Mr Davidson:** Surely it says there is a recession.

**Mr Griffin:** Not when this data was collected. The recession is about six months old, we have been operating Agenda for Change for the last five years.

**Ms Chapman:** Looking at the staff survey results last year, which obviously related to the year before, it is also worth pointing out that almost half of all the measures improved. There is evidence that there are a number of things, as Mr Nicholson described, which are going on alongside pay which is impacting and is being fed back by staff. If the overall measures of this were to enable expansion and also enable flexibility, then there are specific things in terms of both of those where there is evidence.

**Q97 Nigel Griffiths:** I used to serve on a local health council and ten years ago if you accompanied me to one of my advice sessions, then once a week somebody would hobble in waiting for a hip replacement operation or complaining of a wife or a husband left on a hospital trolley for eight or 12 hours or during the winter would come to me complaining that an urgent operation had been cancelled. I now get no such complaints, in fact in the past two months I have not had one constituent raise with me a problem with the National Health Service. How much of that is due to Agenda for Change?

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**Mr Nicholson:** It is an important element of it. All of those things you have just described would have been extraordinarily more difficult to do, if not impossible, without Agenda for Change. If you take the hip replacement, we have designed a whole new set of jobs around diagnostics to get the patients in earlier and we have designed jobs for people to go out to see the patient in their houses to make sure they are fit and well before they come in. The issue you raised around waiting on trolleys, again there are jobs we have designed around diagnostics and the way we operate that. Operating theatres are often an issue for cancellation and the development of technicians in hospitals again have all been jobs which have come out of the Agenda for Change process. That has made a significant impact on all of the things you have just described.

**Q98 Nigel Griffiths:** On Friday a young trainee consultant came to see me accompanying some other consultant with an immigration problem and he told me in passing that he and his colleague worked 12-hour shifts at the moment and they are intensive, they are working just about flat out, but his father, in his generation, had a strict 36-hour shift but slept for large chunks of the time. How has the Office for National Statistics been able to measure whether the father or son was more productive?

**Mr Nicholson:** That is part of the issue. That is a good example about the intensity of the work that we do and we know, for example, patients in hospitals now are much sicker than they used to be. When people are admitted to hospital now they are normally extraordinarily sick and require intensive services when they are in there, that is not reflected in the way productivity is described. When an individual patient now is diagnosed for cancer, that is not the view of one surgeon, it is the view of a multi-disciplinary team of oncologists, surgeons, radiologists and pathologists all working together which improves quality but is not reflected in those productivity figures.

**Q99 Nigel Griffiths:** Following Mr Davidson's question, how much has the pay boost helped in you being able to recruit up to 80,000 more nurses net?

**Mr Nicholson:** You can see whether it is nurses where the vacancy rates have gone down considerably, that has been a considerable part of the improvements in pay and conditions of nursing staff in that, whether it is consultant medical staff, medical staff or even whether it is GPs, we have significantly reduced the vacancies of all of those. The pay modernisation has made a major impact in making that a reality because other people compete for their skills as well as us.

**Q100 Nigel Griffiths:** Point 2, page four indicates that the previous practices with different pay scales, et cetera, was really a dog's breakfast, is that a fair summary?

**Mr Nicholson:** It was an extraordinary byzantine and complex mechanism which involved literally thousands of different circumstances. It was genuinely the case that only half a dozen people in

the country knew how it all worked. It was extraordinarily difficult to get change in that environment; it was incredibly inflexible.

**Q101 Nigel Griffiths:** How many more people is the NHS treating now than they were ten years ago?

**Mr Nicholson:** Currently we treat over a million people every 30 hours in the NHS, which has probably gone up by about 30% over the last period.

**Q102 Nigel Griffiths:** Ms Chapman, you have clearly got a very distinguished history in HR, Head of Tesco's HR, Vice President with Pepsi, I think two of the most successful private sector companies in the world. If you were now wearing a Pepsi hat or a Tesco hat, what sort of rating out of ten would you give the Agenda for Change process?

**Ms Chapman:** Whether you look at it through the private sector lense or the public sector, the thing which is extraordinary is there was no disruption to services whilst all this was going on and it was enabling us to set up something which has got a very high degree of fairness underneath it. To have implemented the size and scale of what Mr Nicholson talked about is extraordinary. Certainly, when I look at the lessons from the private sector, it is not a surprise to me that there is still work to do, particularly around things like the KSF because that now is what you would expect in terms of the next phase of this Report.

**Q103 Nigel Griffiths:** I think one of the criticisms of the NAO Report is really the failure of the NHS to isolate precisely what the benefits have been and to quantify them of Agenda for Change. In a presentation to the board of Tesco and Pepsi, would you expect and would they expect you to be able to isolate the benefits more than we should expect you to?

**Ms Chapman:** That is why I summarised a moment ago that the two overarching benefits we were looking for were to enable the workforce expansion and enable flexibility. Would you in the private sector absolutely be able to demonstrate how many more people you hired in what areas that the Service required and what did you do to vacancy rates? Those would be the sorts of metrics which would be looked for. In terms of enabling flexibility, what you would be looking for is evidence over a much longer timescale so that the new services which are being delivered in communities in the acute sector and primary sector are those being enabled. I think you would have two sets of metrics, firstly the immediate, were those delivered, yes, in the way that Michael described and, secondly, we would also be expecting to come back and look in five years' time, have the new types of care, as identified in Lord Darzi's report, been delivered? That is what you would have expected this to enable.

**Q104 Mr Davidson:** What do you think is the fairest and unfairer criticism in the NAO Report?

**Ms Chapman:** I think the fairest criticism is there is still more to do. There is always a trade off. If you decide to implement quickly so that you minimise

disruption but absolutely make sure you get the framework in, there is always more to do. We should not consider that a failure, we should consider it a feature of the decisions which were taken. Probably the unfairness is when I take a look at the benefits which I see around the Service, I think that is under-represented by the amount of evidence which is presented in the Report. If a full diagnosis was done of the productive time programme so that you could detail out to what extent were the benefits delivered through Agenda for Change, I think that would be more helpful for the Committee to give it full consideration.

**Q105 Nigel Griffiths:** How much do you think there is a danger of grievances due to other parts of change in the NHS being dumped on Agenda for Change?

**Ms Chapman:** If there were going to be a lot of grievances dumped on Agenda for Change you would have known by now. The fact that there have been so few and, as Michael has already pointed out, the amount of review that was done locally demonstrates the Agenda for Change process in itself has been very well accepted, I doubt whether we will see that. The fact that there is a very high degree of proofing around equal pay also means we are well protected on that front too.

**Q106 Nigel Griffiths:** Mr Nicholson, on the benefits' columns, points 17 to 20, I come to one of my pet gripes, that is the laggards, those who drag their feet, and I think Mr Griffith mentioned it, those who do not see the benefits of putting the resources into making this work. This is where I think devolution does not work in the Health Service and elsewhere. I would like to know what more you would do to make sure those laggards, those health authorities that are failing to adopt and embrace best practice do not land their local patients with a second rate service.

**Mr Nicholson:** There are two or three things about all of that. You are absolutely right, we need to make sure that with organisations that are performing poorly, those issues are addressed by the system. The major way in which organisations are identified overall as to whether they are performing is through the Healthcare Commission results and the satisfaction of staff is part of that. We have a whole series of mechanisms to identify those organisations and to take them through a process of them identifying improvements. We performance manage them through those improvements, we give them improvement targets to deliver and we make it clear to the leadership of those organisations that if they do not improve in those circumstances, what the consequences for them are. Where organisations are not delivering for patients, that is what we do and we need to do that. Devolution does not mean giving it all away, devolution means where people can benefit from local responsibility and power to improve

services for patients they should and where they cannot, we should be as interventionist as we need to be to protect our patients and the services.

**Nigel Griffiths:** Thank you.

**Chairman:** I think Mr Davidson has a supplementary.

**Q107 Mr Davidson:** One point about the exercise of the use of external consultants, management consultants and the like, was there any?

**Mr Griffin:** I think very few. This was very much a scheme designed by the Service.

**Q108 Mr Davidson:** The fact that this seems to have been pretty successful and the fact that you had very few external management consultants, do you think these two points are related in any way?

**Mr Nicholson:** There is absolutely no doubt with things like this where the people in the NHS have the talent, understanding and knowledge to make it happen, we are really good at doing it. One of the things which came out of all the turnaround work when we had the financial difficulties was that for all the money we spent on external management consultants, the feedback to us was there was somebody in the NHS who knew how to solve all of these problems, we just did not connect them properly with the problems. We are learning this, it is something we have learned out of Agenda for Change, there is huge talent in the NHS to be able to solve these issues.

**Q109 Chairman:** Thank you. That concludes our hearing, which has been very interesting. Of course, this is not a policy committee, it is a value-for-money committee, therefore there is one last note I would like to have from you. I am not sure we have still explored this in enough depth. We know from paragraph 20 that Agenda for Change was supposed to deliver net savings of at least £1.3 billion over the first five years. It is not clear to me, Mr Nicholson, if that has been achieved at all. I would like you to give me a note, please, at your leisure so you can explain how those savings have been achieved, if they have been, and if they have not, they have not.<sup>3</sup>

**Mr Nicholson:** Can I finally say, this was the biggest job evaluation and implementation scheme probably on the planet. It was remarkably successful in the sense that it delivered some of the benefits described in here. It was value-for-money for taxpayers because the total cost of it in terms of increased pay was less over the five years when it was implemented than it was before and we think when you take all of the changes in hand and you look at it, we can show we can deliver £3 billion worth of savings.

**Chairman:** Thank you. At your leisure means within two weeks, Mr Nicholson! That concludes our hearing.

<sup>3</sup> Ev 15

**Supplementary memorandum from the Chief Executive, NHS Department of Health**

**“NHS PAY MODERNISATION IN ENGLAND: AGENDA FOR CHANGE”: DELIVERY OF AT LEAST £1.3 BILLION NET SAVINGS OVER THE FIRST FIVE YEARS**

Thank you for giving me the opportunity to provide further information relating to whether we delivered “at least £1.3 billion” net savings in the first five years of Agenda for Change.

The £1.3 billion savings, as were to come from:

- gains from increased productivity;
- gains from increased staff resources (“participation rates”), for example because this would reduce the need to use expensive agency staff;
- a reduction in pay drift from its historical average of 1.6%. Pay drift is the rate at which average earnings increase above the rate of the annual pay award; and
- higher quality care.

As I said at the hearing, it is difficult to separate out the savings that could be attributed to one programme when a range of other initiatives were also being introduced at the same time. In the event, the approach to measuring savings was overtaken and subsumed in the cross Government efficiency programme (Gershon), the priority being to deliver savings, not assign them to different programmes.

The methodology used to assess the extent to which savings were being delivered, was set out in our Productive Time programme, part of our contribution to the cross Government efficiency programme.

As was explained by Clare Chapman, Director General, Workforce At DH, Productive Time involved the integrated impact of the following three workstreams:

- the new workforce contracts, of which Agenda for Change was one;
- process redesign which aimed, for example, to encourage a reduction in variation in length of stay for common surgical procedures; and
- the introduction of new technology. I referred in the hearing, for example, to the handheld computers that community nurses use to record their visits to patients, saving administration time and paperwork.

The Productive Time programme, which was published in our Departmental Autumn Report 2008, shows that we have exceeded our target of delivering £2.9 billion of annual savings by March 2008, building cumulatively over the four years of the Productive Time programme to achieve nearly £3.1 billion.

In the attached paper, I include examples of how the introduction of the Agenda for Change contract has contributed to delivering savings and provide an assessment of the extent of those savings.

In addition, the NAO report identified that other savings contributing to this £1.3 billion figure include “a reduction in the likelihood of equal pay claims”. Neither we here, nor the NAO in their report, have sought to estimate the value of this reduction, due to the uncertain outcome of ongoing legal action. However, it is worth noting that the NAO reported “There is a widespread view in the Department and amongst NHS Employers and other commentators that Agenda for Change has made it easier to show that NHS pay is fair and equitable”.

I would also like to take this opportunity to remind you that we are continuing our work to improve measures for quality that should more fully reflect the gains I believe we have made over the past years.

The Office for National Statistics (ONS) include a partial measure of quality in their estimates of NHS productivity, but this is crude and almost certainly understates the gains we have made. Nonetheless their most recent article did conclude that NHS quality, on their narrow measure, was increasing by 0.5% a year from 2001 to 2005. This quality improvement has a value of around £370 million a year. The Agenda for Change “share” of this quality improvement (based on Agenda for Change spend as a proportion of total NHS spend) would be around 36% or £133 million a year.

I explained that we have commissioned work from York University to improve the quality measure. The York study is a three part research project that will first refresh and update the output measure, then improve the measurement of inputs before going on to suggest improvements to the quality adjustment. The report expected at the end of this month reports on the second stage. Once Ministers have had the opportunity to consider their work, I will provide you with a copy.<sup>1</sup>

<sup>1</sup> <http://www.york.ac.uk/inst/che/pdf/rp47.pdf>

In conclusion, my assessment of the savings attributable to the five years of the Agenda for Change contract, is within a range of between £1.1 billion and £2.2 billion.

25 March 2009

## Annex

Q.109: *Did we deliver “at least £1.3 billion” net savings over the first five years of Agenda for Change?*

### 1. INTRODUCTION

The Productive Time programme, part of the Department of Health’s contribution to the Gershon cross Government efficiency programme, has been used to assess the impact of Agenda for Change, providing the most appropriate measurements available.

The “Productive Time” programme covers two of the four contributors to the savings set out in paragraph 2.20 on page 18—“(i) gains in increased productivity” and “(ii) gains from increased staff resources”. In terms of the effect of Agenda for Change on the pay bill, of which “(iii) reduction in pay drift” is a part, the NAO report concluded that the effect of Agenda for Change was more or less neutral. One of the NAO’s scenarios gave a saving (£604 million over five years), and the other a cost (£186 million over five years)—the details are set out in Figure 5 on page 18 of the report.

Finally, a partial measure for “(iv) higher quality care” has been included in the calculations but will need to be revised in due course once the York work on quality measures has been concluded.

### 2. PRODUCTIVE TIME

The Productive Time programme ran from April 2004 to March 2008 so broadly mirrors the Agenda for Change period the PAC is interested in.

Three main areas of opportunity for savings in productive time were identified:

- IT (the National Programme for IT, “Connecting for Health”).
- Process Improvement (the NHS Institute for Innovation and Improvement’s High Impact Changes and subsequent developments of this work).
- Pay Modernisation (Agenda for Change, Consultant Contract and GP Contract).

DH recognised that the measurable outcomes overlapped across the three programmes. Within the NHS, it was anticipated that changes would be planned and managed in an integrated way with these three programmes acting as enablers to organisational improvement. Out of this thinking, the Integrated Service Improvement Programme (ISIP) was developed. This was referred to in the hearing.

This is the key reason efficiencies were not monitored separately to pay reform. The NAO endorsed this approach in their first study of Gershon efficiency in 2005.

This rationale is documented in Appendix 1 pages 23–37 of the Efficiency Technical Note (ETN), which accompanied the published Productive Time Measurement Templates. The templates, where Agenda for Change was identified as having contributed to delivering efficiency savings, have been used as a basis for calculating the contract’s contribution over the period of the Productive Time programme (see section 4 below).

The ETN can be found on the DH website at:

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_081430](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_081430)

The savings from our Productive Time programme were published in our Autumn Performance Report 2008 and can be found in Chapter 4: “Value for Money” at:

[www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_091854](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_091854)

### 3. PRODUCTIVE TIME EXAMPLES

Below I set out some examples of how the NHS has delivered productive time improvements through the use of the Agenda for Change contract. The following show how employers have improved service delivery by using Agenda for Change.

#### (i) *Reduction in length of stay for elective in-patients*

Aintree University Hospitals NHS Foundation Trust has adopted a partnership approach between management and staff, to create new roles, made easier by the Agenda for Change job evaluation process. The establishment of a breast link nurse in cancer services has supported patients returning home, improving productivity by reducing length of stay (190 bed days in 17 weeks) and patient experience.

*(ii) Reduction in emergency bed days*

Dartford and Gravesham NHS Trust improved its stroke service by using the NHS Knowledge and Skills Framework to strengthen staff competencies. Agenda for Change enabled the service to be redesigned and a new role to be created. The introduction of the Stroke Pathway Nurse means that patients are now treated on a dedicated rehabilitation ward, with better therapeutic input. Care has become more consistent, resources used more effectively and length of stay, bed occupancy and incidence of healthcare associated infection all reduced.

*(iii) Reduction in “did not attends”*

Waiting times for the audiology service provided by Central Manchester PCT have been reduced to zero. Using the NHS KSF, staff have been trained to decide which audiology tests to apply, improving the efficiency with which diagnosis is reached. Agenda for Change out of hours arrangements have enabled an extended working day and longer working week. New roles have been created using the Agenda for Change job evaluation process. Assistants set up rooms allowing audiologists to concentrate on serving patients, improving skill mix.

*(iv) Reduction in staff sickness*

The National Blood Service used Agenda for Change to standardise working practices across the country, its harmonised terms and conditions providing the basis for reviewing regional differences. The NHS KSF and Agenda for Change job evaluation supported the introduction of new and extended roles to support service redesign. Outcomes included “round the clock” working, where needed; reduced medical input; reduced courier costs; and improved staff morale reflected in reduced sickness absence.

*(v) Reduction in Cancelled Operations*

Preoperative assessment can be carried out by telephone for fit patients having minor procedures. Hospitals that assess six weeks before admission have reduced postponement rates to 5% through better skill mix. Many hospitals use the NHS KSF to ensure nurses with the appropriate clinical expertise and experience have the skills to undertake telephone pre operative assessment. If consultants do pre operative assessment, they often do them too near to the procedure date, increasing the chance of cancellation.

*(vi) Reduction in Use of agency Staff*

Avon and Wiltshire Mental Health Partnership NHS Trust has been using Agenda for Change job evaluation and the NHS KSF to tackle recruitment and retention issues in nursing by creating new roles including associate mental health practitioners, community mental health workers and advanced practitioners. These new posts are designed to attract a wider range of applications. Partnership working with trade unions ensures that staff are able to develop, progress and move into other posts over time. This initiative has reduced the reliance on agency staff.

*(vii) Better skill mix—introduction of Emergency Care Practitioners*

Agenda for Change helps support new roles which improve efficiency and develop careers eg Emergency Care Practitioners (ECPs).

About 900 ECPs are employed by ambulance trusts, supporting urgent and emergency care. They are able to work independently, treating at the scene adding value to services delivered in the community, out of hours and primary care.

Agenda for Change supported recommendations in “*Taking Healthcare to the Patient: Transforming NHS Ambulance Services*” (2005) offering a career structure up to ECP.

Since then, Agenda for Change has enabled a better skill mix to provide a greater range of mobile healthcare including a new role of Emergency Care Assistant (ECA) and increased use of Emergency Care Practitioners (ECPs).

These changes help to develop a career structure in the ambulance service that more closely mirrors that of the wider NHS, with an emphasis on a range of roles that local ambulance trusts can draw on to respond to local demand.

#### 4. ATTRIBUTION OF PRODUCTIVE TIME AND QUALITY SAVINGS TO AGENDA FOR CHANGE STAFF

The following tables look at the key deliverables of the Productive Time programme and attributes them first to the Agenda For Change workforce and second to the Agenda For Change contract.

Table 1 estimates, in the penultimate column, what proportion of the realised efficiency saving is attributable to Agenda for Change staff. The % estimates follow the following logic:

- the reduction in length of stay reflects the efforts of staff working in hospital (Agenda For Change is 75% of hospital staff costs);

- the reduction in emergency bed days reflects the efforts of all staff, hospital, community and primary care (Agenda For Change is 67% NHS staff costs); and
- the reduction in Did Not Attends is a whole system effect, not simply attributable to staff effort (Agenda For Change is 36% of total NHS spending).

Table 1

ATTRIBUTION OF PRODUCTIVE TIME AND QUALITY SAVINGS TO AGENDA FOR CHANGE STAFF

<i>Key Performance Indicator</i>	<i>Start point (April 2004)</i>	<i>End Point (Mar 2008)</i>	<i>Cumulative savings over the period April 2004 to Mar 2008 (£million)</i>	<i>Estimated contribution from AfC staff</i>	<i>Cumulative Savings attributable to AfC staff (£ million over the period April 2004 to March 2008)</i>
Reduction in length of stay for elective in-patients	3 days	2.5 days	2,000	75%	1,500
Reduction in emergency bed days	33,508,608	28,293,911	2,900	67%	1,950
Reduction in Did not attends	11.52%	10.60%	90	36%	30
Reduction in cancelled operations	1.19%	0.91%	35	36%	10
Reduction in staff sickness	4.71%	4.50%	200	75%	150
Reduction in use of agency staff	5.2% of paybill	3.1% of paybill	300	75%	225
Better skill mix eg introduction of Emergency Care Practitioners (ECPs)	0 ECPs	900 ECPs	80	100%	80
Quality	£370pa	£370pa	1,480	36%	500
Total					4,445
<b>Rounded Down</b>					<b>4,400</b>

## Notes:

- (i) Figures rounded down. Those up to a 100, to the nearest five, those above a 100, to nearest 50.
- (ii) For length of stay, reduction in staff sickness and reduction in agency, the proportion ascribed to staff on Agenda for Change is based on their percentage of the overall Hospital and Community Services (HCHS) paybill, 75%.
- (iii) For emergency bed days, given the influence of GPs, their paybill is added to HCHS, reducing the influence of staff on Agenda for Change to 67%.
- (iv) For DNAs, cancelled operations and quality, all of which have a “system wide” impact, the influence of staff on Agenda for Change is less still and assessed as the Agenda for Change paybill percentage of overall NHS spend, 36%.
- (v) For better skill mix, the impact is adjudged to be 100%.
- (vi) The figures above except for quality are cumulative over the 4 year period of the productive time programme.
- (vii) Quality is an annual figure based on the ONS assessment of 0.5% pa (£370 million per annu,) as a proportion of NHS expenditure from 2001 to 2005. This has been extrapolated for the Productive Time period.

Table 2, which provides a range within which it is estimated that the new Agenda for Change contract itself has delivered Productive Time efficiency savings, anticipating that some may have been delivered anyway if without the introduction of Agenda for Change.

The number and range of options illustrates the difficulty of allocating efficiency gains to one particular programme at a time when the focus of activity in the NHS was improving efficiency, not attributing it to different modernisation programmes.

**Table 2**

**ATTRIBUTION OF PRODUCTIVE TIME AND QUALITY SAVINGS TO THE AGENDA FOR CHANGE CONTRACT**

<i>Key Performance Indicator</i>	<i>Cumulative Savings attributable to AfC staff (£ million over the period April 2004 to March 2008)</i>	<i>Cumulative Savings attributable to AfC contract (£ million over the period April 2004 to March 2008) [50%]</i>	<i>Cumulative Savings attributable to AfC contract (£ million over the period April 2004 to March 2008) [33%]</i>	<i>Cumulative Savings attributable to AfC contract (£ million over the period April 2004 to March 2008) [25%]</i>
Reduction in length of stay for elective in-patients	1,500	750	495	375
Reduction in emergency bed days	1,950	950	640	480
Reduction in Did not attends	30	16	10	8
Reduction in cancelled operations	10	6	4	3
Reduction in staff sickness	150	75	50	35
Reduction in use of agency staff	225	115	75	55
Better skill mix eg introduction of Emergency Care Practitioners (ECPs)	80	20	13	10
Quality	500	250	165	125
Total	4,445	2,205	1,450	1,100
<b>Rounded Down</b>	<b>4,400</b>	<b>2,200</b>	<b>1,450</b>	<b>1,100</b>

This methodology produces an estimated contribution from the Agenda for Change contract to efficiency savings of between £1.1 billion and £2.2 billion over the period April 2004 to March 2008 based on a range of assumptions that the Agenda for Change contract might have delivered between a quarter and a half of the benefits attributed to Agenda for Change staff themselves.

## 5. CONCLUSION

At this time, therefore, DH considers that between £1.1 billion to £2.2 billion might be attributed to the introduction of the Agenda for Change contract over its first five years from increased productivity, increased staff resources and improved quality. Although the methodology used here does not define the impact that Agenda for Change has made on the ground, we believe that on a number of reasonable assumptions it illustrates the likely scale of effect.

The quality contribution will be reassessed once DH has seen the report from York University.

Finally, one of the most important aspects of Agenda for Change is its ability to provide fair pay based on rigorous job evaluation. There was an estimate included in the business case to HMT of savings from fewer equal pay cases which was part of the “at least” £1.3 billion. DH is not in a position at this time, to assess the extent of any such savings given ongoing legal proceedings in which a number of key issues relating

to Agenda for Change and preceding pay arrangements are being considered. At the moment, it is also unclear how long the legal process will take as that will depend on how the parties react to the Judgment expected at the end of this month.

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#### **Further supplementary memorandum from the Chief Executive, NHS Department of Health**

As David Nicholson promised, I would like to share with you the findings of the recent publication of the Centre for Health Economics (CHE) at York University led by Professor Andrew Street on NHS inputs for the period 2003–04 to 2007–08. The report includes figures on NHS productivity for the period 2003–04 to 2006–07.<sup>2</sup> Productivity is measured by comparing the rate of output growth with the rate of input growth. It shows an increase in NHS productivity for the most recent years (2004–05 to 2005–06 and 2005–06 to 2006–07).

Since 2000–01 there has been strong input growth, with significant investment in new staff, equipment and buildings. Meanwhile output growth has lagged behind input growth. This is unsurprising since investments take time to bear fruit. Even so, year-on-year increases in the number of patients treated meant that output growth averaged more than 3.7% per year up to 2003–04. The net effect, though, was negative productivity growth up to 2003–04.

This latest publication shows that the trend has since changed. NHS output has continued to rise, but at a faster rate, averaging 5.5% per year between 2004–05 and 2006–07. Not only are more patients being treated, but the quality of the care they receive has been improving. For example:

- Waiting times have been falling, both for outpatient appointments and for admission to hospital.
- Survival rates have been improving for patients admitted to hospital whether as electives or non-electives.
- Improved disease management in primary care, brought about largely by the Quality and Outcomes Framework, has led to reductions in blood pressure for patients suffering chronic heart disease, stroke and hypertension.

There has also been a slowdown in input growth since 2003–04. This is primarily the result of a levelling off in staff recruitment and less reliance on the use of agency staff. As a consequence recent NHS productivity growth has been positive or, at worst, constant.

Although this is positive news, it is not the end of the story. Although we are at the forefront of international efforts to better measure health care productivity, this is an inherently difficult task. The Department will continue to work closely with CHE and ONS to improve the measurement of NHS output, input and productivity.

Next year CHE will produce some estimates of productivity at sub-national (Strategic Health Authority) level. These estimates will help us to better understand the drivers of productivity in the NHS. Furthermore, when patient reported outcome measures (PROMs) become available it will be possible to capture improvements in health status more accurately.

*April 2009*

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<sup>2</sup> <http://www.york.ac.uk/inst/che/pdf/rp47.pdf>