



National Audit Office

Releasing resources to the frontline: the Department of Health's Review of its Arm's Length Bodies

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Releasing resources to the frontline: the Department of Health's Review of its Arm's Length Bodies

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KEY FACTS

What is an Arm's Length Body?

'Arm's Length Bodies' (ALBs) are stand-alone, national organisations that are sponsored by the Department of Health to deliver specialised services and functions. The level of autonomy an ALB has, its relationship with the relevant Minister and its legal form vary depending on its role. ALBs range widely in size, but normally have boards, employ staff and publish accounts. Most ALBs receive substantial funding from the Department.

Across the health sector as a whole, there are four main categories of ALB:

- **Regulation** – holding the health and social care system to account including registration of providers where appropriate (e.g. the Healthcare Commission)
- **Standards** – establishing national standards and best practice (e.g. the National Institute for Health and Clinical Excellence)
- **Public welfare** – focused primarily on safety and the protection of public and patients (e.g. the Health Protection Agency)
- **Central services to the NHS** – providing economies of scale and focused expertise (e.g. the NHS Litigation Authority)

In 2003-04 there were 38 ALBs, employing over 25,000 staff and receiving £1.2 billion grant-in-aid funding from the Department. A list of all the Department of Health's ALBs, and their remits, is given in Appendix 1. They do not include: 'frontline' NHS bodies such as Primary Care Trusts or Hospital Trusts; expert committees such as the Committee on Safety of Medicines; or tribunals such as the Mental Health Act Tribunal.

Examples of ALBs



NHS Blood and Transplant was established as part of the ALB Review as a result of the merger of the National Blood Authority (including the Bio Products Laboratory) and UK Transplant. Its remit is to provide a reliable, efficient supply of blood, blood products, organs and associated services to the NHS.

It receives most of its funding from Hospitals in return for supply of blood and blood products. Throughout the period of the Review it has undertaken an internal reconfiguration resulting in a considerable reduction in establishment and overall expenditure.



NHS Direct runs a 24 hour, confidential telephone, online and interactive digital TV health advice and information service. It was established in 1997.

As part of the ALB Review it changed its organisational status to an NHS Trust. This gave the body more financial freedom and removed it from the ALB sector, effectively transferring it to the 'frontline'.

Why carry out work through an ALB?

The advantage of delivering some services and functions through ALBs is that it allows the Department to establish bodies with specific, identified remits, which can focus on delivery, minimise unnecessary bureaucracy, provide independent advice, and connect with service users. The risk of relying on arm's length relationships is that this can lead to overlap or lack of clarity in bodies' remits and that organisations may become divorced from service-users' needs or the aims of the Department.

What is the ALB Review?

Since 1997 the Government's wish to focus independent action on key areas and to improve regulatory structures led to an expansion in the number of ALBs. In August 2003 the Government commissioned Sir Peter Gershon to report on the scope for improving efficiency in the public sector, and the 2004 Comprehensive Spending Review drew on Sir Peter's report to set targets for efficiency savings for departments. An important contribution to the savings identified by the Department of Health was to come from rationalising the ALB sector, so that its functions and services could be delivered by fewer bodies, requiring less funding from the Department and employing fewer staff. The resulting savings could then be redistributed to services identified as more 'frontline'.

The Review aimed to deliver:

- Savings in expenditure of £0.5 billion (£250 million from reduced operating costs and £250 million from improved procurement);
- A 25 per cent reduction in posts; and
- A reduction in the number of ALBs from 38 to 20.

SUMMARY

The Department's progress in delivering the targets of the Review

1 The Department of Health (the Department) funds arm's length bodies (ALBs), such as NHS Blood and Transplant and the Healthcare Commission, to deliver specialised services and functions. In 2004 the Department announced its ALB Review, which aimed to reconfigure and streamline the ALB sector so that it would be able to deliver its services more efficiently. As a result of this more efficient configuration, the Review would deliver, by 2008-09:

- savings of £0.5 billion (comprising £250 million savings in ALB operating costs, and £250 million savings in procurement of items across the NHS secured through the National Contracts Procurement programme run by the NHS Purchasing and Supplies Agency);
- a 25 per cent reduction of the number of posts in the sector; and
- a reduction in the number of bodies from 38 to 20.

The Department would also ensure that 850 posts in the ALB sector would be relocated out of London and the South East by 2009-10.

We examined the Department's management of the Review and its progress towards these efficiency targets. Our methodology is summarised in Appendix 2.

2 We found that, over the four years 2003-04 to 2007-08, the number of ALBs in the sector, and the total resources devoted to them, in terms of their funding from central government and the number of whole time equivalent posts they employ, has decreased. There have also been increasing procurement savings in NHS Trusts year on year on the items covered by the National Contracts Procurement programme.

3 Using the metrics set for the Review the Department has already achieved expenditure cuts of £555 million, exceeding the target of £0.5 billion. This is made up of a £207 million reduction in grant-in-aid compared to the baseline in 2003-04, and procurement savings of £348 million, as shown in **Figure 1**.

4 The Department has reduced grant-in-aid funding by £207 million by setting up appropriate governance arrangements for delivering the Review, which have led to tighter financial management across the ALB sector than had been the case before the Review. It has ensured the efficiency programmes that ALBs had in place or had planned were actually delivered, so that ALBs could operate within reduced central funding limits. Considerable savings have also been made by closing down some ALBs.

5 The Department has, through the NHS Purchasing and Supply Agency, encouraged NHS Trusts to make greater use of centrally negotiated contracts for procurement in areas such as pharmaceuticals, telecommunications equipment and laundry services, with the total spend on such contracts rising from £202 million in 2005-06 to a projected £1.7 billion in 2007-08, yielding total savings of £348 million in comparison with baseline expenditure in these areas, as Figure 1 shows.

6 The Department has encouraged ALBs to make use of its provider of shared financial services to deliver efficiencies. ALBs were expected to use this service unless they could demonstrate that alternative arrangements would be more efficient. Most ALBs are not currently using the shared financial services, for example because their transaction volumes are too small to realise efficiencies through moving to shared services, or because their specialised requirements would involve the shared services provider in prohibitive development costs. In all cases the ALBs provided evidence to justify the value for money of retaining their existing arrangements.

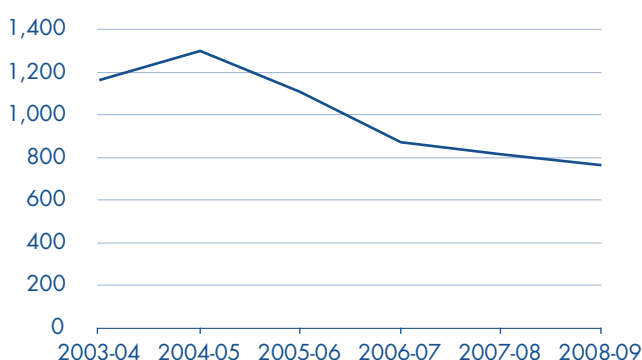
7 The Department has also put in place arrangements to monitor ALBs' performance on a consistent and regular basis, allowing the ALB Business Support Unit within the Department to identify issues or concerns relating to the performance of the sector as a whole, and to inform regular accountability meetings between ALBs and their departmental sponsors on operational and financial performance, and on future business planning. It was beyond the scope of our study to examine the performance of individual ALBs in detail. Our examination of the Department's performance monitoring system did not reveal evidence of a decline in performance, since the monitoring was brought in, across the ALB sector as a whole; and our discussions with the larger ALBs also confirmed that they were managing to deliver their services and functions within the budgetary constraints imposed by the Review. The Department collected substantial

information on the performance of ALBs before and during the Review. But it would have been helpful if it had collected baseline information for the complete set of metrics it is currently using to measure performance to provide an assessment of any overall change in performance across the sector for the complete period of the Review.

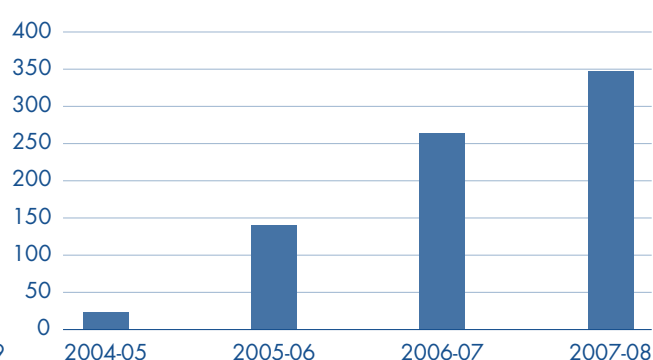
8 The expected number of ALBs in place during 2008-09 will be 22 (Figure 2), plus a new ALB, the Alcohol Education and Research Council, which was transferred from the Department of Culture, Media and Sport to the Department of Health in 2007. The Department plans to reduce the number of ALBs by a further 3 by the end of 2008-09, which would mean that the number of ALBs in place by 2009-10 would be 20, the original target number of bodies envisaged in the Review.

1 Central funding for ALBs has reduced, and procurement savings have been made

Total grant-in-aid (£m) to ALBs over the Review period



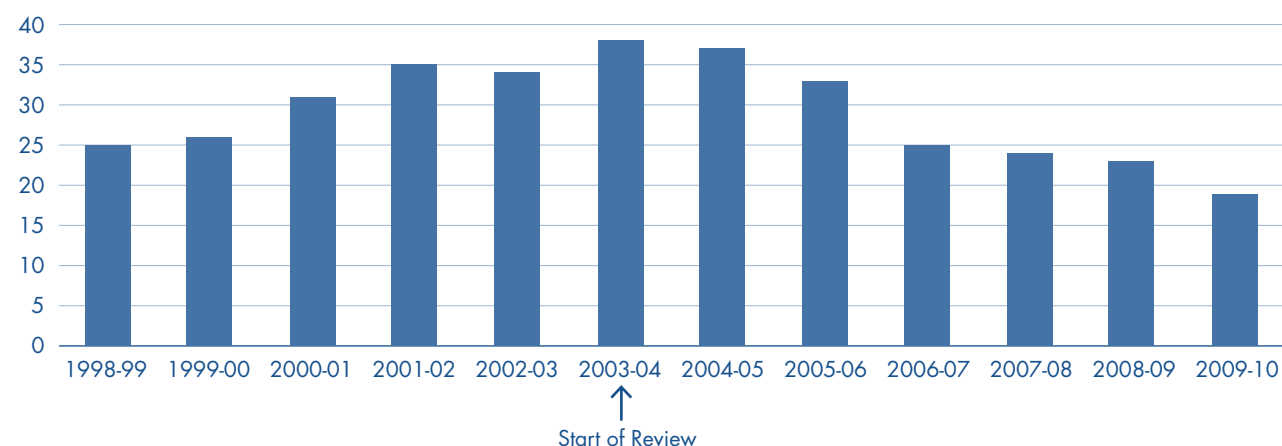
Procurement savings from the National Contracts Procurement programme during the Review (£m)



Source: National Audit Office analysis

2 The number of ALBs has reduced since the start of the Review

Number of ALBs over time



Source: National Audit Office analysis

9 The principal reasons that the reduction in the number of ALBs to 20 will not be achieved until 2009-10 are:

- the time required to create the planned new overarching health and social care regulator through the merger of the Commission for Social Care Inspection, the Healthcare Commission and the Mental Health Act Commission;
- delays in obtaining the necessary primary legislation for the transfer of the National Institute for Biological Standards and Control to the Health Protection Agency; and
- the cancellation of the planned merger of the Human Fertilisation and Embryology Authority and the Human Tissue Authority.

10 The Department is making good progress towards its target for relocating ALB staff outside London and the South East. By December 2007 it had achieved 745 post relocations, against the target of 850 to be achieved by 2009-10, and it has identified further potential relocations. There will be risks to be managed in delivering these, with concerns being raised by some of the ALBs concerned about business continuity if the proposals go ahead. The Department is working to identify further relocations in ALBs that have already contributed to the target and in the others.

11 There have been costs associated with implementing the Review. The Department spent £61 million over the Review period, over and above grant-in-aid to ALBs, in transition costs. Redundancy costs arising from headcount reductions accounted for £47 million of this (and some ALBs met additional redundancy costs from within their grant-in-aid allocations). Ring-fenced transitional funding was made available to ALBs for the period of the Review, and further funding will be provided in 2008-09 for a final year. From 2009-10 onwards transitional funding will cease and the full savings achieved through the Review will be realised.

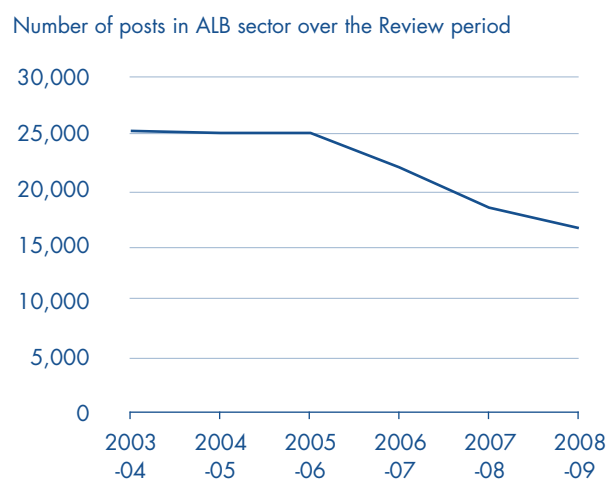
12 Headcount reductions have been achieved across the sector, as shown in **Figure 3**. Many of these are transfers of staff to other parts of the NHS. For example, around half of the total headcount reduction in the ALB sector has come from changing the status of NHS Direct from an ALB to an NHS Trust. NHS Direct employees, many of whom are nurses, remain Government employees, and continue to provide the same services to patients, but are now defined as frontline staff rather than as part of the ALB sector.

Wider efficiency issues across government

13 To assess the effectiveness of the ALB Review as an efficiency programme, rather than simply checking whether the targeted levels of savings and post reductions were delivered, it is necessary to consider the extent to which any of the savings or headcount reductions would have occurred, in any case, had the programme not taken place – the so-called counterfactual scenario.

14 In defining how the targets for the programme would be realised, the Department used as its counterfactual for grant-in-aid reductions a constant year-on-year total grant-in-aid allocation to the sector at 2003-04 levels, to make it clear to ALBs what the baseline figure was against which savings would need to be delivered. This is equivalent to assuming that, without the Review, there would have been an annual real-terms decrease in total grant-in-aid from 2004-05 to 2006-07. This is a conservative estimate of what would probably have happened, during a period of increasing expenditure on the health sector, if the Review had not taken place. Indeed, Treasury guidance for counting efficiency savings suggests that inflation effects should normally be factored in. Assessing against a counterfactual that was adjusted for inflation would have suggested a higher level of grant-in-aid savings attributable to the Review.

3 Number of posts in the ALB sector over the Review period



Source: National Audit Office analysis

15 On the other hand, the counterfactual used to assess procurement savings assumes that none of the savings that have arisen as a result of NHS Trusts' changing to cheaper, generic versions of pharmaceutical products when they come off patent would have occurred without the National Contracts Procurement programme. It seems likely that at least some hospitals would have realised some of these savings if the programme had not been in place. Assessing against a counterfactual that takes account of this would have suggested a lower level of procurement savings attributable to the Review. However, NHS PASA has worked with NHS Trusts and other organisations to deliver savings by ensuring that purchasing is responsive to price movements in the pharmaceuticals market.

Conclusion on value for money

16 The Department is on track to meet the key targets set for the ALB Review in 2004. Definitions of how the Review's targets would be measured were clear, agreed with Ministers, and in conformity with the prevailing criteria for assessing efficiency savings at that time.

Figure 4 summarises the high-level results so far.

4 High-level results of the ALB Review so far

The targets set were to reduce, between 2003-04 and 2008-09:

- expenditure by £500 million (£250 million on centrally funded operating costs and £250 million on procurement costs);
- the number of posts in the sector by 25 per cent; and
- the number of ALBs in the sector from 38 to 20.

By the end of 2007-08, and by the metrics set for the exercise:

- expenditure will have been cut by £555 million (£207 million in centrally funded operating costs and £348 million on procurement);
- the number of posts in the sector will have decreased by 27 per cent; and
- the number of ALBs will have reduced, through mergers and reconfigurations, from 38 to 23.

In terms of target achievement the exercise has been a success.

Source: National Audit Office Analysis

NOTE

Figures exclude the Alcohol Education and Research Council, which did not form part of the original Review.

17 In the years since the 2004 Comprehensive Spending Review, guidance on measuring efficiency savings in the public sector has been developed to include requirements to consider alternative counterfactuals when necessary, and to measure efficiency gains net of the costs of achieving them. The Department of Health spent £61 million over the Review period on implementation costs – such as redundancy costs – associated with the Review, and expects there will be further costs in 2008-09. According to current guidance on measuring efficiencies, these would be deducted from the savings figures. Transition funding will cease from 2009-10, so the full recurrent savings will be achieved from that year onwards.

18 In order for the savings that have been achieved to count as efficiency improvements, it must be demonstrable that the quality of performance in the ALB sector has been maintained since the beginning of the Review. Our examination of the Department's performance monitoring system did not reveal evidence of a decline in performance, since the monitoring was brought in, across the ALB sector as a whole; and our discussions with the larger ALBs also confirmed that they were generally managing to deliver their services and functions within the budgetary constraints imposed by the Review. The Department did collect significant performance data from ALBs, however, not always in a form which permits direct comparison of current and baseline performance, so that it is not always possible to establish whether performance has been maintained in comparison with 2003-04.

19 Around half of the reduction in posts has been achieved by reassigning existing posts to new categories. Nurses working for NHS Direct who have been reassigned to the 'frontline' count as staff reductions even though their duties remain as they were.

20 Consequently, the exercise has certainly cut costs, posts and the number of bodies, and in this sense has improved value for money in ALB sector and secured some notable savings. In the wider context of developments in efficiency measurement since 2004, there remain some areas in which further evidence would be required to quantify unequivocally the overall value for money achieved.

21 For the future, to ensure that further efficiencies are delivered in accordance with the requirements of the 2007 Comprehensive Spending Review, the Department will have to work within the tighter requirements for demonstrating efficiency gains that have been announced by the Government since the previous Spending Review. We make a number of recommendations below to help in taking this forward. These will also be of interest to other government departments in managing their arm's length bodies to deliver efficiencies.

Recommendations

For departments generally, on using targets to deliver efficiencies

If targets are used to deliver efficiencies they should be clear, unambiguous and informed by sector knowledge, focused on delivering value for money improvements and measurable.

- a The value for money improvements delivered by the ALB Review have largely been driven by the savings target, less by the headcount reduction or number of bodies target. The headcount reductions have been achieved partly by redefining organisations; and the number of bodies itself is not key to delivering value for money in the sector. **If targets are used in efficiency programmes they should focus on value for money defined in terms of total resources used and performance quality, rather than on input measures.**
- b Initially the targets lacked clarity and caused some confusion over what they would mean in practice. This meant that there was uncertainty in the ALB sector and delays in getting started on the necessary reforms. However, once the Department ensured that the definition of the targets was clear ALBs began working towards them. **Departments must be clear about what targets mean in practice, including how they will be calculated and what the counterfactual will be, when announcing them to bodies responsible for their delivery.**
- c The need to meet a predetermined target for the number of ALBs has led to instances where, in the opinion of the ALBs concerned, mergers have taken place without a clear business logic. **Decisions to merge or reconfigure bodies should be based on an Impact Assessment, which identifies and assesses the costs and benefits of change. Moreover, post merger, work should be carried out on the merged organisations to determine what costs and benefits have arisen from their reconfiguration.**

- d Savings and headcount reductions targets for individual ALBs were sometimes less challenging than they might have been, for example where ALBs had internal change programmes aimed at delivering greater savings than their allocated targets. **Departments intending to deliver efficiencies through their arm's length bodies should map out their ALB sector and understand the individual circumstances of their ALBs, to maximise the effectiveness of targets that are cascaded to bodies.**
- e As the Department does not have a set of comparable performance metrics for the full period of the Review we cannot reach a definitive conclusion on changes on performance in the sector during the Review. **When undertaking major change programmes, Departments should establish baseline performance and financial metrics, in order to assess the 'before and after' effect. In the case of the ALB Review, this would have provided a greater level of assurance that savings achieved represented genuine efficiencies, and not just reductions in expenditure.**

For the Department of Health, on managing the arm's length relationship

Efficiency improvements have to be delivered by the ALBs themselves. The role of the Department should be to create the right environment for efficiencies to be realised.

- f If sponsors ask ALBs to take on extra work without approaching the central ALB finance team to secure and agree funding, it will not have been allowed for in ALB budgets. This may result in sponsors finding funding through other routes, which can lead to confusion for ALBs as to who within the Department has overall operational responsibility for their budgets. **Sponsors or other parts of the Department should not commission new work from ALBs without prior discussion with the central ALB finance team to ensure that funding is available.**

- g** It is clear that prior to the ALB Review the Department's financial scrutiny of ALBs was variable. There were also mixed standards in business planning and performance monitoring. The implementation of the ALB Review has improved the Department's overall governance of its ALBs. **The Department should ensure that ongoing efficiency requirements on ALBs and the existing good practice governance arrangements are maintained after the conclusion of the ALB Review in 2008-09. This might entail, for example, ensuring that the current ALB Business Support Unit continues to provide independent challenge to future business plans and budgets proposed by ALBs and their sponsors.**
- h** Between 1999 and 2004 the number of Department of Health ALBs grew from 25 to 38. The ALB Review called into question the value for money of several of the bodies established during this period and recommended their closure. **After the ALB Review concludes in 2008-09, the Department should ensure that the robust arrangements now in place for assessing the purpose and value for money of ALBs are applied whenever new bodies are proposed. The current ALB Business Support Unit could take on this gatekeeper role.**
- i** The Department has made good progress towards its relocation target, however some risks remain to be managed if the full quota of relocations is to be delivered by 2009-10. **The Department should continue encouraging ALBs to identify potential relocations and ensure that ALBs are committed to those identified within the programme.**

PART ONE

Progress towards the targets of the Review

The Review aims to deliver efficiency savings and headcount reductions by 2008-09

1.1 In August 2003 the Government commissioned Sir Peter Gershon to report on the scope for improving efficiency in the public sector, and the 2004 Comprehensive Spending Review drew on Sir Peter's report to set targets for efficiency savings for departments. An important contribution to the savings identified by the Department of Health was to come from rationalising the arm's length body sector, so that its functions and services could be delivered by fewer bodies, requiring less funding from the Department and employing fewer staff. The resulting savings could then be redistributed to services identified as more 'frontline'.

1.2 The Department published the conclusions of its review of ALBs, *Reconfiguring the Department of Health's Arm's Length Bodies in July 2004*, followed in November 2004 by *An Implementation Framework for Reconfiguring the Department of Health's Arm's Length Bodies*, which detailed the principles, processes and timescales that would underpin the ALB change programme. The programme was designed to be implemented over the four years 2004-05 to 2007-08, with targets set for cash-releasing savings and headcount reductions to be achieved by the end of 2007-08. This would enable the ALB sector to deliver the target levels of savings and headcount reductions during 2008-09. We examined the Department's progress towards achieving the targets, and our conclusions are set out in this part of the report. Parts 2 and 3 of the report set out our findings on how ALBs and the Department have worked to deliver these results. In part 4 we consider some of the wider issues to be considered in assessing the value for money of efficiency programmes such as this one.

1.3 **Figure 5** shows the targets the Department set for the ALB Review programme to deliver.

5 Targets for the ALB Review programme

By 2008-09, the programme will have delivered

- Annual cash-releasing **savings of £500 million**, made up of £250 million savings in ALB operating costs, and £250 million savings in procurement of items across the NHS secured through a procurement programme run by the NHS Purchasing and Supplies Agency;
- A 25 per cent reduction in the **number of posts** in the ALB sector, compared with 2003-04 (a cut of 6,250 whole time equivalent posts); and
- A reduction, compared with 2003-04, in the **number of ALBs**, from 38 to 20.

By 2009-10, there will be

- A **relocation of 850 posts** from the ALB sector out of London and the South East.

Source: Department of Health

1.4 The programme entails a significant restructuring of the ALB sector, with some bodies being abolished, others merged or reconfigured, and some being transferred out of the sector. Appendix 3 summarises the Department's 2004 plan for implementing the Review. It groups Arm's Length Bodies broadly by function (public welfare, regulators, standards, central services to the NHS), and indicates where the main reductions in bodies' budgets, and the main headcount reductions, were to occur. More details on the remits of each organisation are given in Appendix 1.

The Department is on track to meet the key targets of the Review

1.5 We audited the Department's progress against the targets set out in Figure 5. **Figure 6** shows our assessment of progress to date. The reasons for our conclusions are explained in the remainder of this section.

The savings in ALB operating costs have come from reductions in grant-in-aid

1.6 One of the objectives of the ALB Review was to achieve cash releasing savings of £250 million from ALB operating costs, to be redistributed to the frontline. This objective was translated into the operational target of reducing total grant-in-aid funding to the sector over the four year period of the Review, such that total budget for all ALBs in the sector at the beginning of 2008-09 would be £250 million less (in nominal terms) than the total in 2003-04, allowing for changes to the make-up of the sector (for example bodies transferring out).

1.7 The Department is on course to achieve this target. **Figure 7 overleaf** shows that, taking into account changes to the ALBs making up the sector, the Department will achieve savings of £207 million in 2007-08, and is set to achieve £255 million by 2008-09.

1.8 **Figure 8 on page 15** shows progress towards the target over the Review period. Further details of how these savings have been calculated, including how structural changes such as bodies closing, merging, or being transferred out of the sector have been accounted for, are provided in Appendix 4.

1.9 Inevitably, as the four year Review has progressed, circumstances external to the sector have changed and certain ALBs have had to take on extra workloads or functions. For instance, following threats to national security, the National Biological Standards Board and the Health Protection Agency have been asked to take on extra work. This has meant that, although all ALBs have been pressed to minimise costs and produce efficiencies throughout the Review, some have seen their budgets increased, and hence have ‘negative savings’ reported in Figure 7.

1.10 The Department took the decision to include this funding in its overall savings calculation. This meant that extra savings had to be found in other areas to achieve the £250 million target. It should be noted then that in some areas the ALB sector is now actually performing more work, whilst the Department is still on course to achieve its overall savings target for the sector.

1.11 Moreover, due to the time taken to decide on savings targets for individual ALBs, 2004-05 spending plans were largely unaffected by the Review. Expenditure in 2004-05 increased by £130m across the sector. This meant that in order to achieve the target of £250 million nominal savings against the baseline of 2003-04, £380 million nominal savings had to be found against the baseline of 2004-05.

1.12 To achieve the £250 million savings target, the Review programme must deliver at least £43 million additional savings in 2008-09. The Department’s plans, if realised, will generate £48 million in that year. The main risks to the delivery of these savings are:

- Ensuring that the NHS Business Services Authority, which had planned to deliver savings through an outsourcing programme that has been delayed, can find £12 million savings elsewhere during 2008-09; and
- Ensuring that both the Commission for Patient and Public Involvement in Health and NHS Professionals are in a position where they will need no funding from the Department for 2008-09. The Commission for Patient and Public Involvement in Health is working toward closure in June 2008, whilst the organisational status of NHS Professionals is still being reviewed. Together these two ALBs are planned to account for £22.6m savings in the final year of the Review.

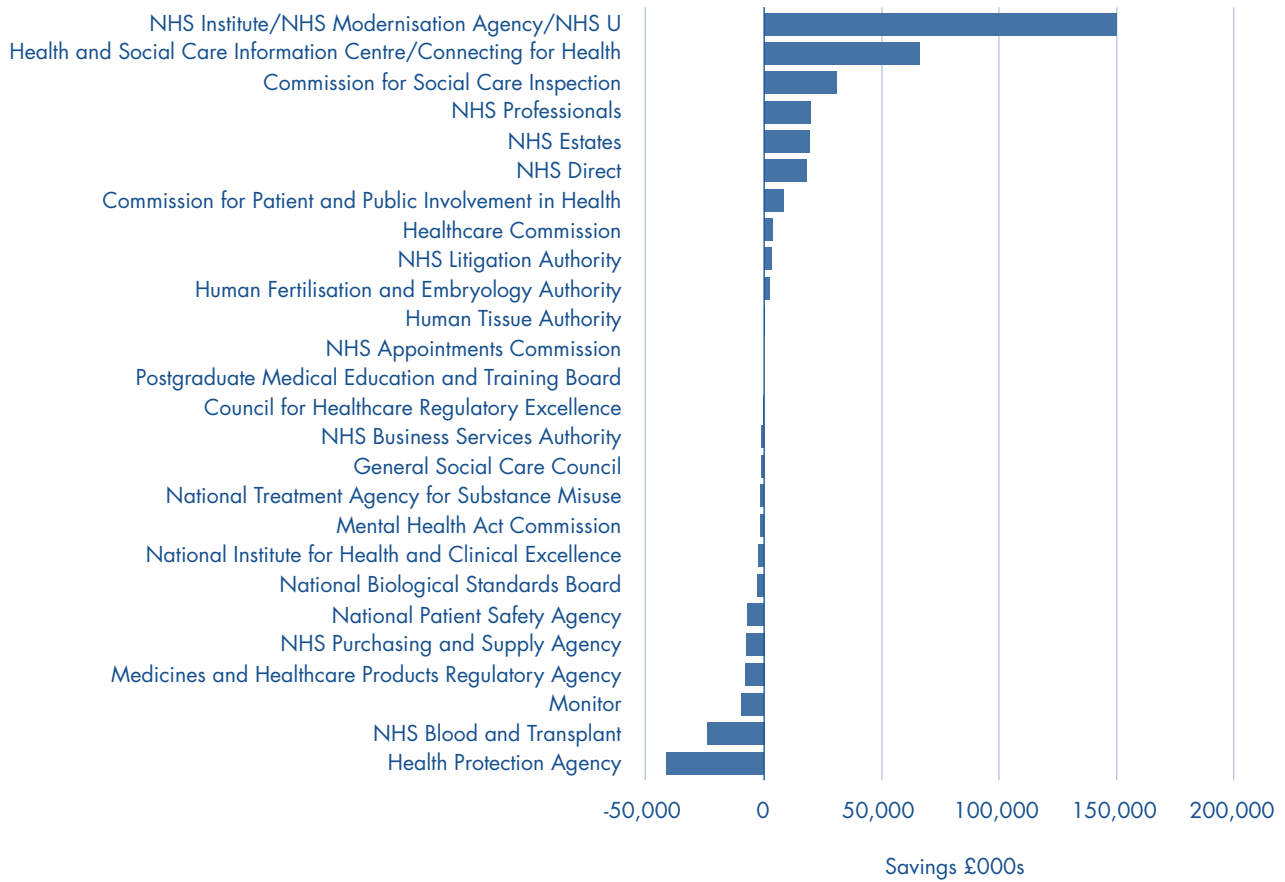
6 The Department’s progress against its targets for the Review

Objective	Target	Budgeted position by end 2007-08	Projected position by end 2008-09
Cost savings: ALB operating costs	£250m	£207m	£255m
Cost savings: NHS procurement	£250m	£348m	£361m
Headcount reductions (whole-time equivalent posts)	6,250	6,814	8,232
Number of ALBs	20	23	22 [reducing to 19 in 2009-10]
Relocations out of London and the South East	850	745	817

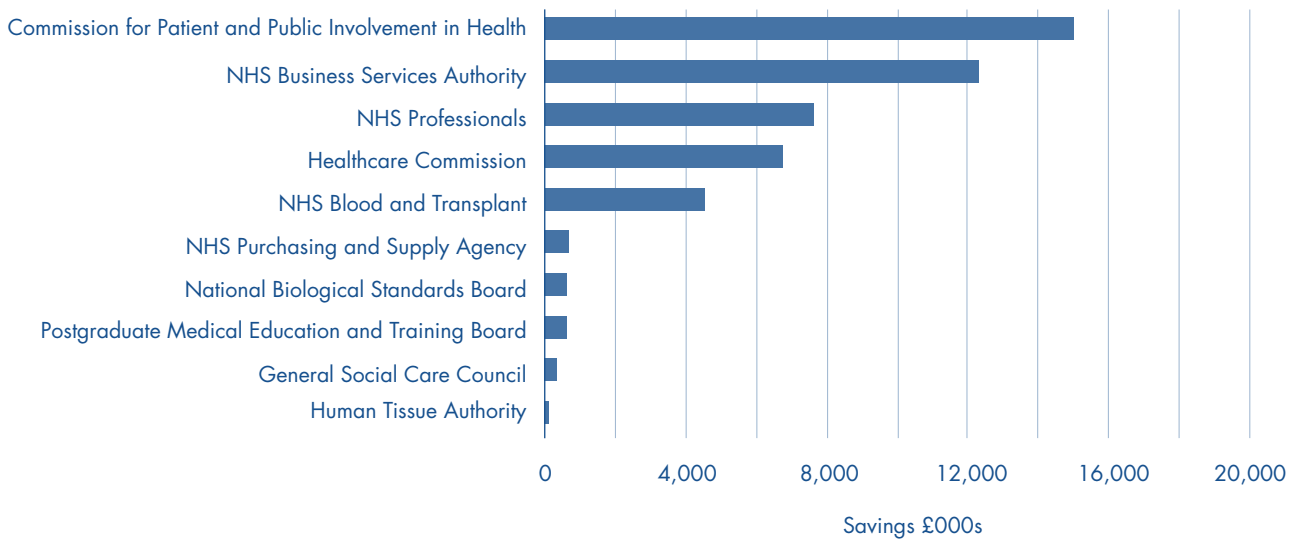
Source: National Audit Office analysis. Figures exclude the Alcohol Education and Research Council, which did not form part of the original Review

7 Cash-releasing savings from ALB operating costs

The ALB Review has identified £207 million savings from grant-in-aid to date

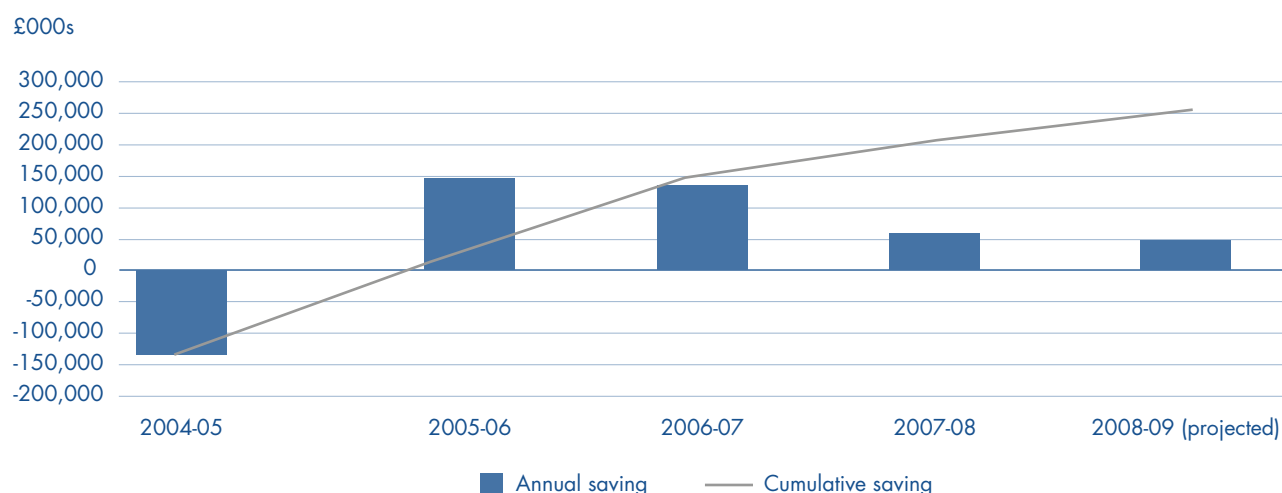


An additional £48 million savings are planned



Source: National Audit Office analysis of DH data; NAO financial audit of ALB accounts, 2003-04 to 2006-07

8 The ALB Review is on course to deliver £255 million in grant-in-aid savings



Source: National Audit Office analysis of DH data; NAO financial audit of ALB accounts, 2003-04 to 2006-07

1.13 Our assessment, however, is that the Department is well positioned to manage these risks and is on course to meet its target.

The procurement savings arise from NHS PASA's National Contracts Procurement programme and have already exceeded the £250 million target

1.14 The former Secretary of State for Health, John Reid, in announcing the parameters for the Review on 20 May 2004, stated that it would deliver savings in expenditure of £0.5 billion. The Department's *Implementation Framework*, published in November 2004, broke down the £0.5 billion figure into '£250 million from savings in ALB operating costs' and 'at least £250 million from efficiencies generated by ALBs'. The Department noted that many such efficiencies would be in the area of procurement, and also that the work on improving the NHS supply chain already in progress suggested that further procurement savings could be made. It decided, therefore, that it would aim to achieve the £250 million efficiency savings target through a specific programme – the National Contracts Procurement programme – to improve procurement of items such as pharmaceuticals, agency staff, laundry services and telecommunications across the NHS.

1.15 The National Contracts Procurement programme is run by the NHS Purchasing and Supply Agency (NHS PASA), an ALB that undertakes national purchasing for the NHS, and assists NHS Trusts to improve the efficiency of their procurement practices. The programme commenced in 2004-05, and involves securing improved national contracts for a range of commodities that NHS Trusts routinely purchase. The savings arising from this programme, therefore, are realised across the NHS, not within the ALB sector itself.

1.16 We examined the methodology used by NHS PASA to calculate the savings arising from the National Contracts Procurement programme, and tested a sample of the reported savings for pharmaceuticals and telecommunications procurement (NHS PASA's largest areas of procurement savings), to ensure that they had been calculated in line with the methodology as described to us.

1.17 We found NHS PASA's methodology for evaluating the savings that have been achieved to be appropriate and reasonable. It consists essentially in establishing a baseline price for each item covered by the programme, per NHS Trust, based on average prices paid over a defined period before changing to a new supply contract under the programme. The difference in prices is then multiplied by the quantity of items purchased by each NHS Trust to obtain quarterly total savings figures. Our audit checked the derivation of the baseline, verified the contract price to the contract and recalculated the savings for a sample of items. We found that they had been accurately calculated.

1.18 Figure 9 shows the savings NHS PASA has calculated for each of the four years of the ALB Review programme. The £250 million target was already exceeded in 2006-07. Based on returns from the first two quarters of the year, NHS PASA is projecting a saving of £347.5 million for 2007-08.

The Department is on course to meet its headcount reduction target

1.19 The Review set out to reduce the number of whole-time equivalent (WTE) posts in the ALB sector by 25 per cent in comparison with the number in the baseline year. Posts were to be cut by a combination of the following means.

- Posts would be reduced, for example on boards and senior management teams, when ALBs merged, or functions were reorganised, in order for ALBs to work more efficiently and effectively;
- Some functions would transfer out of the ALB sector, either as a result of market testing and contracting to the independent sector, or as a result of devolution to the frontline, and posts would transfer out with those functions; and
- Transformation of processes would lead to reductions in posts, for example corporate services such as Human Resources, finance and IT would move towards a business partner approach with transactional work undertaken by shared services.

Figure 10 shows where the headcount reductions have been achieved across the sector.

1.20 The originally planned figure of 10,605 headcount reductions by 2008-09 will not be achieved, for two principal reasons:

- The NHS Business Services Authority's business plan assumed that around 2,000 headcount reductions would be made through outsourcing the operations of their prescriptions division. This outsourcing has now been put on hold.
- NHS Professionals planned to deliver a further 740 headcount reductions in 2008-09 from its transfer out of the sector. This has now been delayed, pending a review of the future status of NHS Professionals, and will not be completed by the end of the Review as originally planned.

Nevertheless, even without these planned reductions occurring in 2008-09, the Department has already met the ALB Review target which requires a reduction of 6,250 posts from the sector.

9 Procurement savings achieved during the Review

	£ million
2004-05	23.3
2005-06	140.6
2006-07	264.2
2007-08 (projected)	347.5

Source: NHS PASA

There has been progress in achieving other aspects of reconfiguration

1.21 The Implementation Framework for Reconfiguring the DH Arm's Length Bodies set out specific expectations (so-called 'parameters for change') for each of the main ALB reconfigurations. An example of a set of parameters is given in Figure 11.

1.22 The Department commissioned an external stock take of progress against these parameters, which found that over three quarters of them have already been achieved. Only six per cent were not on course to be completed by the end of the Review. These generally relate to programme transfers/ mergers that were not followed through due to a change in policy direction. We have not repeated this work as part of our study.

ALBs have identified productivity efficiencies as well as headcount reductions and cash releasing savings

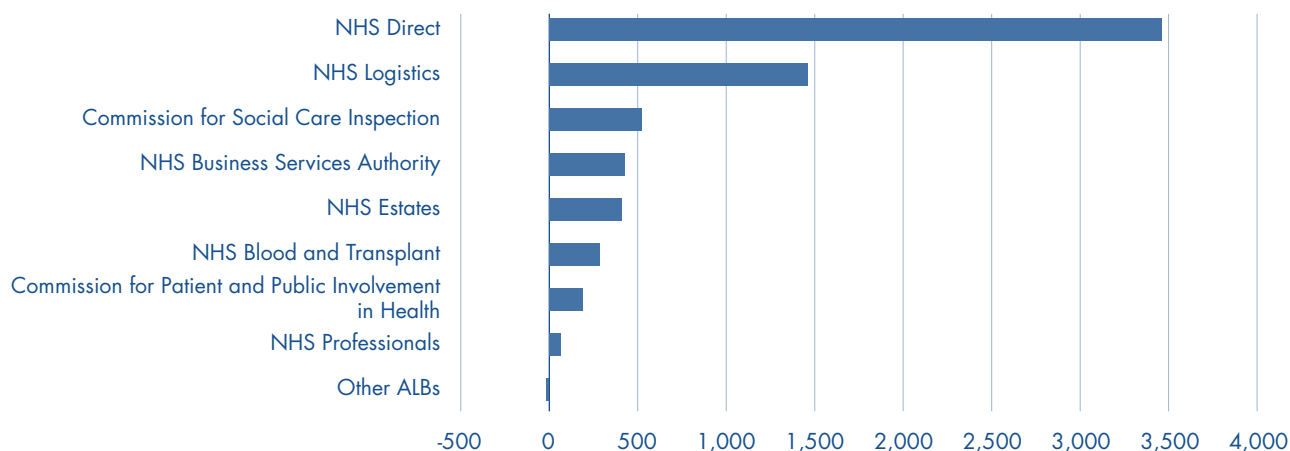
1.23 Cash releasing savings arise when organisations can achieve the same output for less money, for example by operating within lower budgets or procuring items more cheaply. The £500 million savings target set for the ALB Review is for cash releasing savings. ALBs may also, however, improve their productivity by getting more output for the same amount of funding. For example ALBs may:

- reduce the cost of a core service to the NHS enabling the NHS to use the savings as it sees fit;
- carry out more essential work for the same cost to the NHS; or
- take on new core functions without requiring extra funds from the Department or NHS.

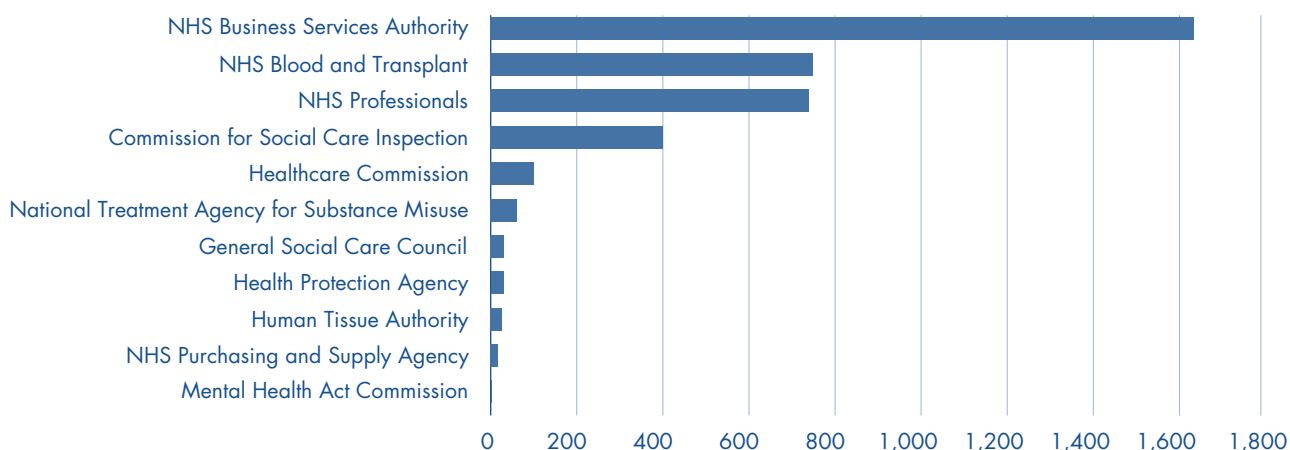
1.24 Such productivity improvements can be valued in cash terms, namely as what the extra production would have cost previously. For example, NHS Blood and Transplant has delivered a significant level of cost reduction and savings that have been passed on to hospitals in the

10 How the ALB headcount reductions arise

The ALB Review has achieved 6,814 WTE post reductions to date



An additional 3,791 post reductions were planned



Source: Department of Health

prices charged for its blood components. This releases cash within the NHS, even though it is not a cash releasing saving for NHS Blood and Transplant itself.

1.25 ALBs have identified £88 million of productivity savings to be delivered by the end of 2008-09. As at March 2007, they had claimed £50 million of such savings, the largest of which came from two ALBs, as shown in **Figure 12 overleaf**.

1.26 We have not investigated these as part of our study. The Department has in place controls for checking the validity of these savings and is actively challenging those still to be delivered. If they are valid (for example, do not double-count efficiencies made by ALBs to deliver services within reduced budgets), they can, of course, count towards the Department's overall efficiency savings target under the terms of the Gershon Review, over and above the procurement and grant-in-aid reduction savings.

11 Example of a set of Parameters for Change

The National Institute for Health and Clinical Excellence (NICE)

- Bring about the merger by absorption of the Health Development Agency (HDA) by NICE by 1 April 2005, moving core HDA functions to NICE
- Dissolve the HDA by 31 March 2005
- Transfer responsibility for the three National Confidential Enquiries from NICE to the NPSA by 1 April 2005
- Establish a clear position on the future of the joint Department for Education and Skills/Department of Health Healthy Schools programme within the HDA's current portfolio by end December 2004

Source: Department of Health

12 Productivity savings in ALBs, 2006-07

ALB	Saving (£ million)	How the saving was made
NHS Blood and Transplant	25	Reducing blood prices
NHS Business Services Authority	9	Increasing volumes in prescriptions and pensions work

Source: ALBs

There are some risks to be managed

The Department will achieve its target of reducing the number of ALBs to 20 one year later than planned

1.27 Although there has been a significant reduction in the number of ALBs, the Department will not reach its target of reducing the number to 20 by April 2008. Current indications are that there will be 23 ALBs remaining in 2008-09.

1.28 The Department's 2004 *Implementation Framework* for the ALB Review announced the planned merger of the Healthcare Commission and the Mental Health Act Commission. This merger has not yet gone ahead, and now forms part of the planned three-way merger of these two bodies and the Commission for Social Care Inspection to form a single, overarching health and social care regulator as part of the programme of regulatory reform being overseen by the Better Regulation Executive in the Department of Business, Enterprise and Regulatory Reform.

1.29 The following changes and slippage have also occurred to the original programme:

- The Commission for Patient and Public Involvement in Health (CPPIH) was programmed for closure in August 2006. This has been delayed until 30 June 2008, as Ministers required a more fundamental review of what is to replace CPPIH, and require the new system for patient involvement to be in place before CPPIH closes.
- The transfer of the National Institute for Biological Standards and Control to the Health Protection Agency, originally planned for April 2006, has been delayed until April 2009. This is due to the Department's being unable to secure the appropriate legislative slot, and is outside the control of the Department.

- The merger of the Human Fertilisation and Embryology Authority and the Human Tissue Authority, due to take place by April 2008, has been cancelled by Ministers.
- NHS Professionals was originally scheduled to become self-financing and to move out of the ALB sector by the end of 2007-08. As at December 2007, the Department was still working with NHS Professionals to determine what its future status will be.
- During the course of the Review a new ALB was added. The Alcohol and Education Resource Centre transferred to the Department from the Home Office. The Department are currently planning to convert this to an Advisory Non-Departmental Public Body (which would mean it no longer has ALB status).

The Department is making good progress towards the target for post relocations

1.30 Originally a target of 1,000 relocations of posts out of London and the South East was set for the ALB sector, to be achieved by April 2010. This target was revised to 850 in line with an overall reduction in the Department's target following the transfer of the Mental Health Review Tribunal to the Department for Constitutional Affairs. The target for the ALB sector represents over 80 per cent of the Department's current target of 1,030 post relocations arising from Sir Michael Lyons's review of public sector relocation, published in March 2004.

1.31 The Department is making good progress towards this target, though there remain risks to be managed. The programme has currently identified 817 relocations by 2009-10, leaving it 33 short of the total. There are also issues with some of the potential relocations identified; in particular:

- the National Patient Safety Agency is seeking clarification from the Department as to whether posts relocated to home working, the creation of a service in Scotland and the transfer of posts to Strategic Health Authorities will count towards their target of 52 posts relocated; and
- the Department are still in discussions with the NHS Litigation Authority about moving 70 posts out of London. The ALB has concerns about business continuity and feels the move will not realise any financial savings.

1.32 The Department is, however, actively working to identify further relocations, in both ALBs that have already contributed relocations, and in the others.

PART TWO

How the targets were delivered

The Department put in place appropriate governance arrangements to deliver the Review

2.1 A Director General was allocated responsibility for the Review and the ALB Business Support Unit (BSU, formerly the ALB Change Team) was set up to drive through its delivery. The BSU's remit is to ensure that there are robust governance and assurance arrangements in place to manage the ALB sector. It does this by providing:

- assurance to the Departmental Board on the operational and financial performance of the sector;
- support to the Departmental Sponsors in their assurance of individual ALBs; and
- support and guidance to the ALBs themselves.

2.2 The ALB BSU monitors ALB expenditure and headcount against organisations' individual targets and across the sector. It monitors performance of the sector by collecting performance information from ALBs and attending their quarterly Accountability Review meetings. It also approves and allocates transition cost funding – such as funding for redundancies over and above grant-in-aid allocations – associated with the Review.

2.3 The Department has been open to external review and has responded to recommendations. Internal audit reviewed the programme in its early stages, the Office of Government Commerce (OGC) carried out a Gateway Review which concluded in February 2006 that the programme was 'well structured, well led and enjoys broad support'.

2.4 The Department also commissioned an independent review of progress in 2007 that provided a detailed assessment against the original ALB Review targets. As delivery of the ALB Review covers several years we consider that carrying out this stock-take part way through delivery was good practice programme management.

ALBs themselves must implement changes to deliver the targets

2.5 Delivering the targets and the changes entailed by the ALB Review has been achieved through the work of the ALBs themselves, working in conjunction with the BSU. The Department cannot micro-manage its ALBs from the centre, but it can create the right environment for change to take place. Central initiatives, such as Shared Business Services, have delivered lower total savings than individual ALB-specific programmes.

Efficiency programmes were already in place in several ALBs, but the Review has helped ensure that these were implemented

2.6 A number of the ALBs were able to deliver the saving and headcount reduction required of them as part of the Review through programmes that they were already planning to implement. For example, the Commission for Social Care Inspection already had in place a three year plan to move to a proportionate, risk-based inspectorate that was designed to deliver savings in excess of those required by the Review. Similarly NHS Direct and the National Blood Authority (now part of NHS Blood and Transplant) had internal reconfiguration plans in place that were aimed at delivering considerable efficiencies over the period in question.

2.7 However, through imposing restricted budgets and monitoring expenditure, the Department has ensured that these programmes have been delivered on a timely basis.

Mergers and reconfigurations have not delivered considerable savings, but closing down bodies has

2.8 The vast majority of the savings and headcount reductions achieved have not arisen through the mergers and reconfigurations identified in the Review. Some savings have been achieved by merging corporate services and the need for fewer Boards. The Department estimates the Review has also delivered £13.4 million savings on estates, partly related to mergers and reconfigurations.

2.9 Substantial savings from a merger can usually only be achieved if synergies can be identified in front line operations. Many of the mergers that have occurred as part of the Review have merely resulted in corporate services being combined. The NHS Business Services Authority still operates as five separate divisions, and NHS Blood and Transplant still operates along the same lines as before the Review. Merging operations takes time, and is only possible where genuine synergies can be identified. Some of the merged ALBs are looking to take this forward in the future, and may be able to deliver further efficiencies in the long term.

2.10 On the other hand, considerable savings have been achieved by closing down organisations. The closure of NHS U and of the NHS Modernisation Agency contributed significantly to the £155 million saving made by the NHS Institute, as shown in **Figure 13**. Similarly, the closure of the NHS Information Authority contributed to the £66 million saving made by the Health and Social Care Information Centre over the course of the Review.

Take up of Departmental Shared Business Services across ALBs has been limited

2.11 The Review set out to deliver major changes in the way ALB corporate services are organised and managed. The Department in its Implementation Framework stated that “all ALBs will be expected to share Human Resources and Finance services”.

Shared Financial Services

2.12 The take up of Shared Business Services has been slow. Each ALB was approached by NHS SBS, the provider of Shared Financial Services, as part of the Review and shared payroll and finance systems functions were available. Of the twenty four remaining ALBs eight are using the Shared Financial Services offered: three are using the payroll and finance function, two just the payroll and three just the finance as shown in **Figure 14**.

2.13 However, the remaining ALBs have decided that the savings or service levels are not sufficient to move to these arrangements. There are a number of reasons why ALBs have not taken up these services. NHS Blood and Transplant carried out a detailed feasibility study on whether to implement the Shared Financial Services and decided it would not be economical at this point in time. Small ALBs tend to find that they can provide the service, either in-house or contracted out, cheaper than NHS SBS. Other ALBs have not used shared services due to the specialised nature of their work.

Shared Human Resources Service

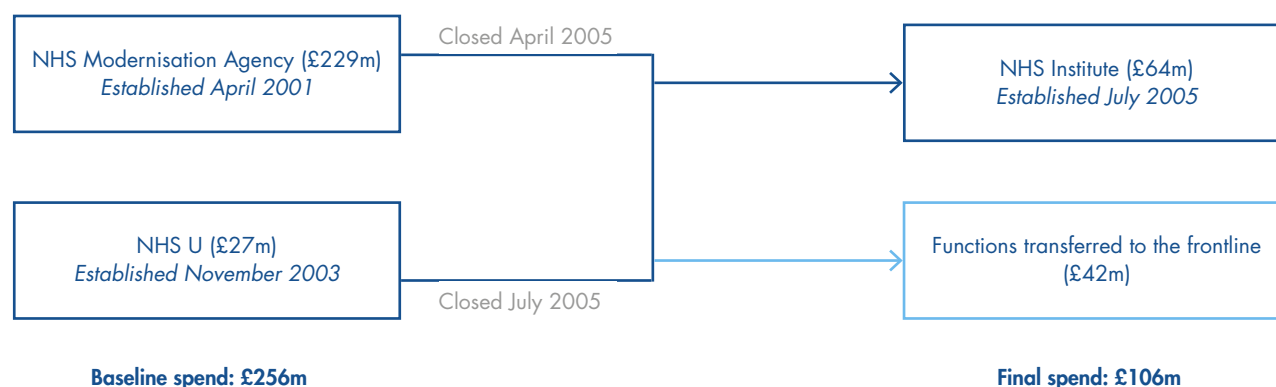
2.14 The Department also investigated the possibility of instigating Shared Human Resources Services for the ALB sector. A number of possibilities were considered:

- An arrangement by which the Commission for Social Care Inspection would manage ALB Human Resources Shared Services;
- An Executive Non Departmental Public Body model; and
- Forming part of wider, cross-government arrangements.

None of these options was felt to be economically viable and they were not taken forward.

13 Establishing the NHS Institute generated savings of £150 million in comparison with predecessor bodies

The NHS Institute was established in July 2005, taking on a number of the functions of the NHS Modernisation Agency (established to spread innovation throughout the NHS) and the NHS U (an agency for training NHS staff), both of which were dissolved. Other functions of the NHS Modernisation Agency and the NHS U were transferred out of the sector, to Primary Care Trusts and Strategic Health Authorities ('frontline' organisations).



The NHS Institute was able to make efficiency savings by reducing the duplication that had occurred in its predecessor organisations. A number of Modernisation Agency programmes were not continued from July 2005, as they had been completed. The Department estimates that £42 million of NHS Modernisation Agency functions were transferred out of the sector. The strategic activities of the NHS U were transferred to the NHS Institute. Delivery of NHS U programmes and services was transferred to frontline organisations.

Source: National Audit Office analysis of Department of Health data

14 Eight ALBs are using shared financial services

Name	Shared Finance Functions being used
Health Protection Agency	Payroll
Mental Health Act Commission	Finance and Payroll
National Institute for Health and Clinical Excellence	Finance
National Treatment Agency	Finance and Payroll
NHS Professionals	Finance and Payroll
The Health and Social Care Information Centre	Finance
The NHS Institute for Innovation and Improvement	Finance
Medicines and Healthcare Products Regulatory Authority	Payroll

Source: National Audit Office financial audit returns

PART THREE

The Department's management of the Review

Although ALB-level targets were not always felt to reflect organisational circumstances, they have led to tighter financial management across the sector

3.1 The need for targets to be cascaded quickly meant that some ALBs feel that their organisational-level targets did not take into account their circumstances. NHS Blood and Transplant for example, were allocated savings and headcount reduction targets that were lower than targets they had identified for themselves in their own three year strategy.

3.2 Having more explicit targets has, however, led to tighter financial management across the sector. Having bold public statements about savings and headcount was effective in getting the sector focused on the agenda. The Department now has better control and tighter financial management across the sector.

3.3 The perception of financing before, reported to us by a number of ALBs, was that there was often slippage of budgets as sponsors approved additional funding throughout the year. Now budgets are set for the year and ALBs have to plan accordingly. This has meant that some ALBs have had to work on their resource management and planning. Over the period of the Review we have seen an improvement in the timeliness and accuracy of accounts produced.

Initially ALBs felt the targets were unclear

3.4 When the ALB Review targets were announced there was confusion over what they would mean in practice. ALBs were unsure as to whether savings were real or nominal, whether they related to grant-in-aid or overall expenditure, whether one-off costs were taken

into account or whether adjustments should be made for capital costs or depreciation. Setting the baseline proved to be a complex process because of this and was not agreed until 2005-06. Similarly ALBs were unsure of the definition of what counted as a headcount reduction. The Department issued guidance to clarify this in November 2005.

3.5 Productivity savings were not explicitly defined in the original documents setting out the Review and were not at first monitored. It was made clear though, through the Business Planning Guidance provided by the Department, that productivity savings would be expected from each ALB year-on-year. As noted in paragraph 1.25, ALBs claimed £50 million in productivity savings by the end of 2006-07. The Department is reviewing these savings.

3.6 ALBs were confused by the need for a target for both headcount and expenditure. Reducing both headcount and expenditure drives financial savings. Some ALBs felt that having targets for both seemed unnecessary and could act as a restriction on the freedom to achieve efficiencies. The NHS Institute felt that it was possible that had the headcount restriction not been in place they may have maintained more staff from their legacy organisations and had a smaller level of procured resource. The recent Public Administration Select Committee Skills for Government report urged caution on job cuts. It concluded that mass job cuts were not necessarily the best way to realise efficiencies, describing them as an 'incredibly blunt and counter-productive instrument'. The Cabinet Office's 2007 Capability Review of the Department of Health also concluded that the Department placed too great a focus on structural change and headcount reductions in managing change.

3.7 The final structure of the sector was influenced by the need to meet a predetermined Ministerial target for the number of bodies, and its rationale was not always clear to the ALBs involved. Some of the mergers and reconfigurations identified potential synergies and were carried out without major problems (e.g. Health Protection Agency, National Institute for Health and Clinical Excellence). Some ALBs told us they felt that the mergers they had been involved in lacked a clear business logic. This was raised, for example in connection with the merger of NHS Counter Fraud and Security Management Service into the NHS Business Services Authority and the merger of Human Fertilisation and Embryology Authority and the Human Tissue Authority, which has now been cancelled. ALBs felt that some of these decisions were driven by the desire to meet the target of 20 bodies in the sector and not on the basis of clearly thought out business cases. Before deciding to merge bodies, an Impact Assessment should be carried out to identify the costs and benefits of a merger.

3.8 There are a number of other bodies that could have been included in the Review. The Department carries out much of its work through arm's length relationships of one kind or another. The remit of the Review was very specific, covering Executive Non Departmental Public Bodies, Special Health Authorities and Executive Agencies. Some ALBs felt they should not have been included in the Review. There are many other types of working relationship the Department has and other bodies that could have been included in the Review, for example the Advisory Non Departmental Public Bodies and the National Prescribing Centre. The Department is however now moving forward with this and mapping these relationships out.

The Department has been able to contain the administrative costs associated with the Review

3.9 The level of administrative costs associated with the Review has not presented major difficulties for the ALBs. Implementing the Review has necessitated an increase in the returns ALBs send to the Department, monitoring headcount and expenditure by type on a monthly basis and providing balanced scorecards quarterly. Most ALBs have been able to cope with this.

3.10 Some ALBs told us that, early on in the Review, they were being asked to produce the same information repeatedly in slightly different formats to satisfy different parts of the Department. However, as the bodies have become more used to working with their Account Managers in the ALB BSU, and systems are becoming established, this is generally perceived to be less of a problem.

3.11 However, for some smaller ALBs the process has been relatively time-consuming and costly. The Commission for Healthcare Regulatory Excellence (CHRE) estimates that, based on staff hourly rates, the opportunity cost of fulfilling the obligations of the Review to date has been £141,000. The Department has agreed that CHRE does not have to submit formal balanced scorecard performance reports. In smaller ALBs, such as the Postgraduate Medical Education and Training Board, the role of IT Director, Human Resources Director, Finance Director and Estates Manager are all covered by one person and fulfilling all the obligations of the Review would be costly in terms of their overall budgets.

3.12 As part of the Review the Department stipulated that all redundancies over £100,000 were to be approved by its Governance and Assurance Committee (GAC) and that all other redundancies were to be reviewed by the GAC. Some of the larger ALBs felt that GAC approval represented a duplication of the governance structures they had in place themselves and added an extra layer of bureaucracy. The Department was able to demonstrate to us a number of cases in which proposed payments were reduced due to intervention by the GAC to ensure that appropriate governance procedures were followed.

The Department needs to provide more clarity to ALBs about where its internal responsibilities for budgets and operational decisions lie

3.13 The Department established the ALB BSU together with a new ALB finance team. The previous finance arrangements for ALBs spanned several parts of the Department. The BSU has been instrumental in ensuring delivery of the targets of the ALB Review. We found, however, that there was some confusion amongst the ALBs themselves about how the new arrangements affected existing roles and responsibilities, and how policy and finance branches and the BSU interact.

3.14 For example, some ALBs commented that they had been asked to take on extra work by one part of the Department (usually through their sponsor) but were not receiving funding because of apparently contradictory messages about decreasing availability of resource from the ALB Review team. The Health Protection Agency told us that they found this apparent lack of joined-up working within the Department to be problematic for a new organisation expected to forge a new identity and build up relationships with stakeholders.

3.15 The ALB BSU team realised that cultural changes were needed and introduced guidance on effective sponsorship of ALBs. The ALB BSU has focused on finance and governance, providing support to sponsors and advice to ALBs where necessary. For example, to clarify the investment approval process, the Capital Investment Branch of NHS Finance, Performance and Operations Directorate has recently clarified and strengthened guidance (jointly with the ALB BSU) for all ALBs.

3.16 If sponsors or other parts of the Department who ask ALBs to take on extra work do not approach the ALB BSU to secure and agree funding for this work, it will not have been allowed for in ALB budgets, and sponsors may find funding through other routes. This can lead to confusion for ALBs as to who within the Department has overall operational responsibility for their budgets.

3.17 The reconfigurations required by the Review have sometimes left ALBs with complex Departmental sponsorship arrangements. For example, the NHS BSA has maintained its five separate policy area sponsors from before the merger and now also has a senior sponsor to co-ordinate them. The area sponsors report to different divisions within the Department, and fall under the areas of responsibility of different Ministers.

3.18 ALBs were generally complimentary about the support they received from the ALB BSU Account Managers. They see their strength as being able to look across the sector and provide guidance and advice on matters of finance and governance. ALBs find benchmarking across the sector on corporate services useful. A few ALBs still feel that some of the guidance and monitoring they receive is not always relevant to their individual needs or the issues facing them.

The Department has set up arrangements to monitor ALBs' performance

3.19 The Department's monitoring suggests that the ALB sector is performing well. At the beginning of the Review, the Department did not have comparable performance monitoring information available for all the ALBs in the sector. New performance monitoring arrangements were put in place for the first quarter of 2006-07. They were based on a balanced scorecard of performance covering: outcomes; investment; reputation; and business improvement. Performance is rated green, amber or red in each area. ALBs were encouraged to use these, or where appropriate, to submit their own Key Performance Indicator metrics. Virtually all ALBs are now reporting performance to the ALB BSU.

3.20 The implementation of a change programme always carries the risk that it will impact on performance. For some of the ALBs implementing the changes necessary to achieve savings or change their operational structures led to short term dips in performance. NHS Direct for instance saw its Key Performance Indicators dip as it went through its organisational reform. However, these have since risen again.

3.21 Where ALBs felt that the Review had contributed to such dips in performance this was usually linked to the uncertainty involved. For example, the Commission for Patient and Public Involvement in Health commented that successive abolition date changes have meant a constant need to redraw business and financial plans, renegotiate contracts and redraw HR strategies for staff. The perception in the predecessor bodies to the NHS Business Services Authority was that little was going on prior to the merger and staff were unsure what their future roles would be. They felt that this uncertainty affected staff morale and could lead to problems with retention.

The Department did not carry out full cost-benefit analysis of the mergers that have occurred

3.22 The Department did not have robust plans in place to track the 'before and after' effect of change. The balanced scorecards indicate that overall performance has not suffered. However, work has not been carried out on the merged organisations to determine what costs and benefits have arisen from their reconfiguration.

3.23 Some mergers appear to have gone well (Health Protection Agency, NHS Institute), others have been more difficult to fully implement (NHS Business Services Authority), while some of the more complex have been postponed (the merger of the Commission for Social Care Inspection, the Healthcare Commission and the Mental Health Act Commission) or cancelled (the merger of the Human Fertilisation and Embryology Authority and the Human Tissue Authority). Generally, mergers have gone well where there is a clear synergy of the constituent parts and have been more difficult to implement when they appear to have been arranged merely to meet the number of bodies which the target set out in the Review. Without an assessment of the successes and failures of the programme of reconfigurations it is hard for the Department to ensure that lessons learnt are applied in the future.

3.24 There have been some minor value for money issues that have occurred as a result of the reconfigurations. There have been a few instances – for example, at the NHS Information Authority – where staff have been made redundant only to be rehired as consultants to do the same jobs in successor bodies. At the Dental Practice Board, staff were rehired through recruitment agencies in the period up to closure. The Chief Executive of the Dental Practice Board was not given his contractually obligated 12 months' notice, despite the fact that the date of dissolution was known well in advance. He was therefore entitled to six months' pay in lieu of notice for the period after the ALB was dissolved. Some problems were encountered by ALBs closing part of the way through the year (the need to prepare and audit two sets of accounts for example). We did not find these practices to be widespread however and generally the closure process worked well.

PART FOUR

Wider issues to consider in assessing the value for money of the programme as a whole

There have been costs associated with implementing the programme

4.1 Over the four years 2004-05 to 2007-08 total expenditure by ALBs has decreased year on year; but some of the money that has been freed up as a result has been used to fund the implementation of the programme, for example to pay for redundancies and other costs associated with the mergers and closures of organisations. The Department agreed to fund transition costs incurred by ALBs implementing the Review, provided that these were submitted in the form of a business case for approval on an annual basis. If approved, ALBs were then allocated additional ring fenced grant-in-aid to meet the costs of implementing the Review.

4.2 Transition funding was made available for the period of the Review, and further funding will also be provided during 2008-09. No further transition funding will be provided from 2009-10 onwards. From that time onwards the full savings will be realised. It should be noted that the nature of the savings are recurrent whereas the transition costs were temporal. Therefore the savings will continue to accrue into the future whereas there will not be further transition cost funding after the end of the Review.

4.3 The total transition costs approved by the Department up to 2007-08 were £61 million, as shown in **Figure 15**. ALBs were given ring fenced grant-in-aid funding to meet these costs in year. Redundancy costs amounted to £47 million of this. Other transition costs funded by the Department have included payments for broken leases when offices have been closed.

4.4 Not all costs associated with implementing the ALB Review were funded by the Department, only those that were approved for ring fenced funding. This means that the transition costs do not represent the full costs associated with the ALB reconfiguration. Some costs will have been borne by individual ALBs out of their grant-in-

aid. They will have had to make compensatory savings to accommodate this, so the level of 'cash releasing savings' achieved by the Department is not affected. Other costs are likely to be more intangible and harder to quantify, for instance, the effect on staff morale and performance of redundancies or relocations.

4.5 As noted in paragraph 1.28, the merger of the Healthcare Commission, the Commission for Social Care Inspection and the Mental Health Act Commission is now due to go ahead in 2009. The savings and transition costs associated with the ALB Review to date, therefore, do not include the cost of the creation of the new healthcare regulator, or savings estimated to be generated by the merger. The savings already recorded by the Healthcare Commission and the Commission for Social Care Inspection under the ALB Review have been achieved through internal efficiencies within the organisations, allowing them to operate within lower grant-in-aid allocations.

4.6 The Health and Social Care Bill for the creation of a single inspectorate for social care and health, the Care Quality Commission, was introduced in the House of Commons on 15 November 2007. In the explanatory notes accompanying the Bill, the Department states that in relation to the establishment of the new regulator 'latest estimates would suggest that the yearly savings would be between £10.9 million and £13.4 million. Initial estimates have suggested that transitional costs in relation to the cost reduction exercise might total up to £140 million. This sum would include the costs of ICT investment; continuing costs following planned estates rationalisation; and redundancy payments. The reduction in annual operating costs will be £60 million per annum (on a 2004-05 baseline).'

4.7 In a separate part of the explanatory notes, the Department state that the Impact Assessment for the creation of the new regulator estimates that the proposed changes could lead to average transition

costs of £2.3 million over three years, and an average change in annual costs in the range of +£2.7 million to –£21.1 million. The net present value of the benefits from the merger, over a 10 year period from a baseline of 2007, was estimated to be between +£129.3 million and –£24.0 million. The Department told us that it has not been possible to quantify the cost implications of all the factors that could have an impact, and some of the ranges are necessarily large, as the extent of the impact will depend on aspects of secondary legislation.

Performance must be maintained for savings to count as efficiencies

4.8 In order for the savings discussed in Part 1 to represent an improvement in efficiency in the ALB sector there must not have been a reduction in the functions performed by the sector, the service levels of ALBs, or the quality of their services. We have addressed this issue by mapping the functions of the sector before and after the Review, reviewing performance data collected by the Department and in discussion with the ALBs we visited. Due to the diverse nature of the sector, and the difficulty of separating the effect of the Review from other changes that have occurred in the period, it is hard to assess overall sector performance. We have not surveyed the users of ALB services to ascertain their view on performance. However, some ALBs (for instance the NHS Purchasing and Supply Agency) take into account customer surveys in the performance metrics they report to the Department.

4.9 It was beyond the scope of our study to examine the performance of individual ALBs in detail. Our work has not identified instances where the Review will adversely effect the operations of the ALB sector going forward. Some ALBs have indicated that they would have to cut back on certain activities, for example the Healthcare Commission will produce fewer reports. Our examination

of the Department's performance monitoring system did not reveal evidence of a decline in performance, since the monitoring was brought in, across the ALB sector as a whole; and our discussions with the larger ALBs also confirmed that they were generally managing to deliver their services and functions within the budgetary constraints imposed by the Review. The Department did not, however, collect comparable baseline information for these performance metrics to provide an assessment of any overall change in performance across the sector for the full period of the Review.

4.10 Given the diverse nature and functions of the ALB sector it is hard to capture and compare its overall performance. The balanced scorecards may not be able to pick up all performance but they give some indication across the sector: in 2006-07 all four areas monitored showed an increase in the number of measures rated 'green'.

Some headcount reductions are transfers of staff to other parts of the health sector

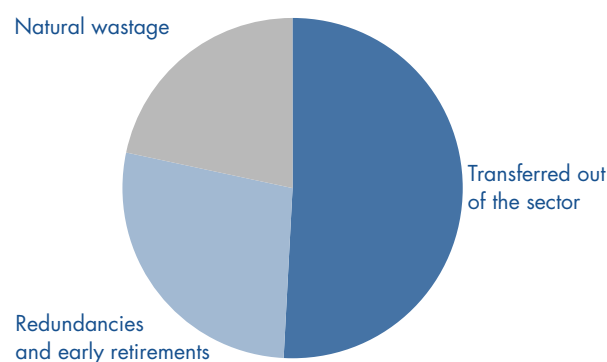
4.11 Around half of the headcount reduction achieved has come from transferring posts out of the ALB sector (**Figure 16**). Ministers agreed when the original targets were set that such transfers would count towards the headcount reduction target. The most obvious example of this is NHS Direct, which became an NHS Trust, contributing 3,461 posts to the target. NHS Direct staff are still Government employees, and are paid from the public purse. They are, however, now counted as part of the NHS (i.e. frontline staff) rather than as part of the ALB sector. Similarly NHS Professionals is to be transferred out of the sector but will still have employees funded from the public purse.

15 Transition costs funded by the Department

	Annual cost (£000)	Cumulative cost (£000)
2003-04	0	0
2004-05	0	0
2005-06	13,700	13,700
2006-07	10,636	24,336
2007-08	36,462	60,798
2008-09	To be finalised	To be finalised

Source: Department of Health

16 Around half of the headcount reductions achieved to date result from posts being transferred out of the ALB sector



Source: National Audit Office analysis of Department of Health data

4.12 In all, the reduction of 6,814 posts reduction consists of 1,883 redundancies (1,391 in 2007-08 and 492 in 2006-07) and 3,461 posts transferred out of the sector (through NHS Direct). The remaining 1,470 have gone through natural wastage or other methods.

4.13 There is a significant risk that some of the planned headcount reductions for the final year of the Review will not come to fruition (in particular planned reductions at NHS Business Services Authority and NHS Professionals). If these headcount reductions do not take place, the final headcount reduction will be 7,919. This will mean that 45 per cent of the final figure has come from transferring NHS Direct out of the ALB sector.

The Review recommended that a number of recently established bodies should be closed

4.14 Figure 17 shows that a number of ALBs that had only been recently established were closed during the Review.

4.15 The Review found that the functions of the ALBs in Figure 17 which had ongoing relevance could be delivered more efficiently through a rationalised ALB sector. By abolishing these bodies savings have been made, as discussed earlier in paragraph 2.10. It is not possible to determine absolutely the value for money these organisations were securing. However, these savings have helped the Department mitigate the risk of reductions in performance in other ALBs, through excessive budget cuts to those organisations, while remaining on track to deliver the £250 million target for grant-in-aid reductions overall.

4.16 Closing down bodies clearly has also contributed to the target for the reduction of the number of ALBs in the sector, although this target can also be achieved in other ways. For example, in April 2007, NHS Direct became an NHS Trust under the terms of the Review: this counts as a reduction in the number of ALBs. Similarly, the aim is for NHS Professionals to change status and no longer to count as part of the ALB sector.

4.17 Merging bodies also contributes to the ALB reduction target, even if it does not materially affect the operations of the bodies themselves. For instance, the NHS Counter Fraud and Security Management Service is a division of the NHS Business Services Authority but still maintains its own corporate services. The NHS Business Services Authority has put in a Memorandum of Understanding between themselves and the NHS Counter Fraud and Security Management Service but their responsibility for strategy, business plans and funding is direct to the Department.

There are other ways of defining the counterfactual for reporting savings

4.18 To assess the savings that have been delivered by any programme, policy, or intervention over a specific time period, we have to calculate the difference between what was actually spent over the period in question, and what would have been spent over the same period, if the intervention had not taken place. The amount that would have been spent is called the 'counterfactual'. Since, by definition, it cannot be observed, it must be estimated in some reasonable manner. This is the case for every savings calculation. A saving is always the difference between an estimated counterfactual, and an observed actual, spend.

4.19 Interventions generally have implementation costs associated with them. For example, in the ALB Review programme, reducing headcounts meant that some redundancy costs were incurred that would not have occurred had the reductions not taken place. So implementation costs also have to be added to the actual (but not the counterfactual) spend to assess the savings delivered by a programme, as shown for the case of the ALB Review in Figure 18.

4.20 Often, when a savings figure is calculated, the counterfactual is taken to be a 'baseline' spend: for example, the previous year's spend. This is appropriate when, had there been no intervention, the spend on the area or activity in question would probably have been the same as in the baseline year. Sometimes a more realistic counterfactual may be derived by adjusting the baseline in some way. For example, it may be reasonable to assume that, without any intervention, the expenditure

17 Bodies that were closed soon after they were established

ALB	Established	Closed	Baseline (2003-04) funding (£ million)
NHS Information Authority	1999	2005	198
NHS Modernisation Agency	2001	2005	229
Retained Organs Commission	2001	2005	1
NHS U	2003	2005	27
Commission for Patient and Public Involvement in Health	2003	2008 (planned)	23

Source: Department of Health

on a particular area of government activity would have increased in line with inflation, or would have moved in line with overall movements in government expenditure, or in line with the historical trend for expenditure in that area. Simple (unadjusted) baselines may be unrealistic estimates of counterfactuals for savings calculated a number of years after the baseline year (for instance they might be too conservative, as comparing against an unadjusted baseline is equivalent to assuming that there would have been a real-terms cut in expenditure, without the intervention). Treasury guidance on measuring efficiency savings, originally published by the Office of Government Commerce to complement the 2004 Comprehensive Spending Review, discusses the use of adjusted baselines to estimate counterfactuals. It notes that, though they may be technically appropriate, they can also be difficult to present publicly in a transparent manner.

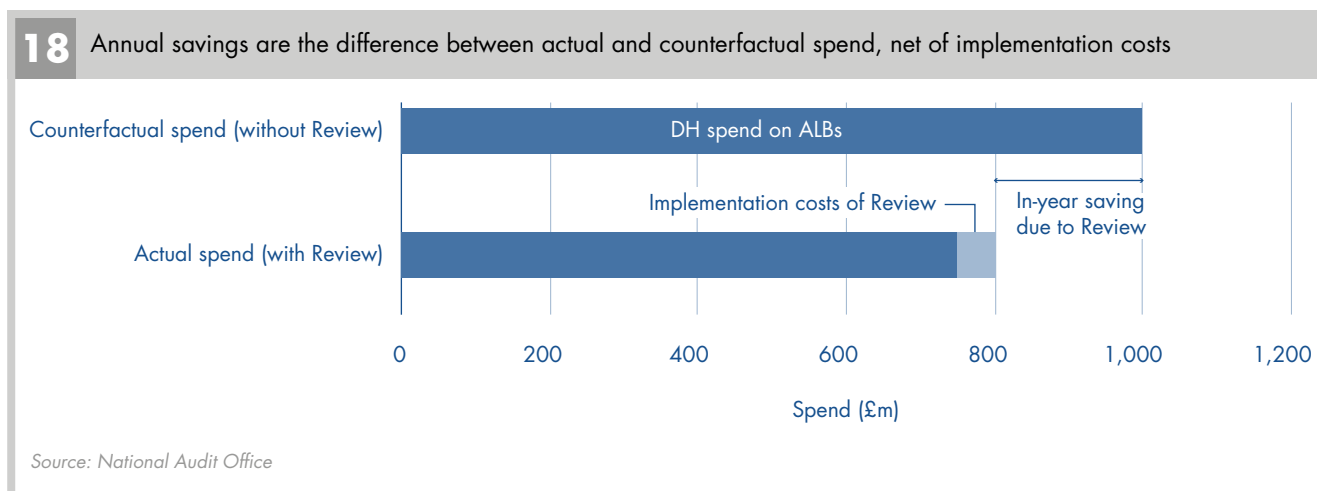
The Department used a constant baseline as the counterfactual for defining savings

4.21 The Department's Implementation Framework for Reconfiguring the DH Arm's Length Bodies sets out expectations for making savings in ALB operational costs 'by comparison with their expenditure in 2003-04'. The ALB change programme team took that to mean that the target of £250 million savings from grant-in-aid to ALBs would refer to a reduction in total spend of £250 million in nominal (not real) terms, from the 2003-04 outturn to the 2008-09 budget for the sector; and that in-year savings during the course of the Review would not be reported net of implementation costs. The effect of this is illustrated in **Figure 19 overleaf**. An alternative counterfactual is also given in the figure, showing what the effect on savings would have been had it been assumed that, without the Review, total funding to ALBs between 2004-05 and 2007-08 would have increased at about the rate of inflation each year.

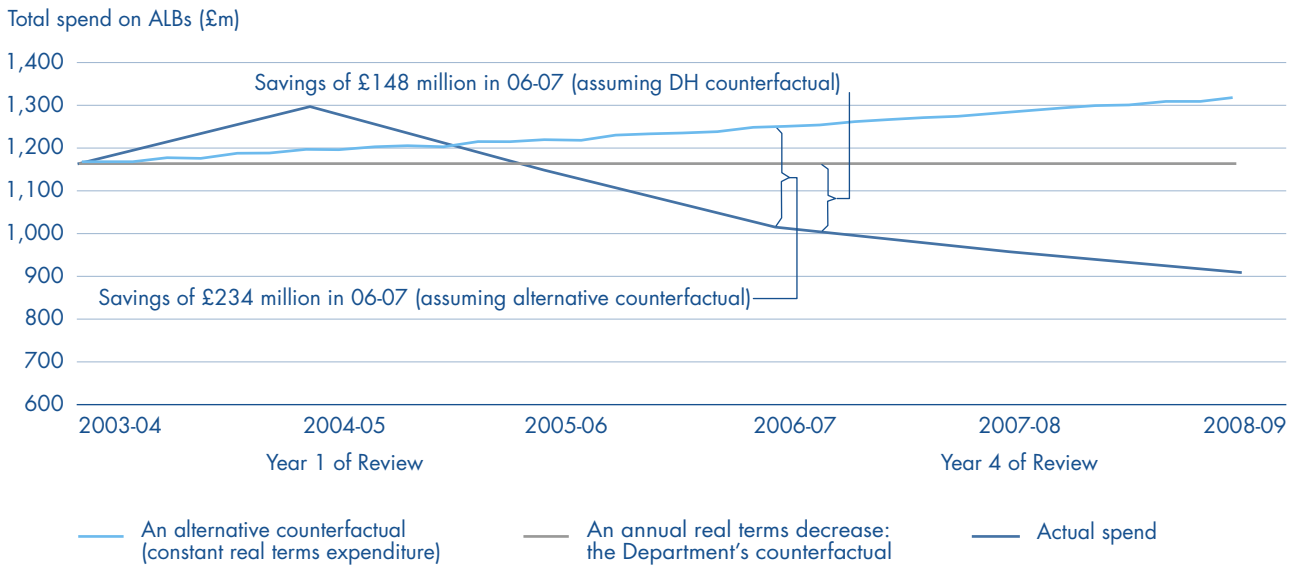
4.22 Over the period 2003-04 to 2006-07, government expenditure on the health service increased from £69.8 billion to £91.2 billion, a 22 per cent increase in real terms. This suggests that, had the ALB Review not taken place, there could have been a real terms increase in total expenditure by ALBs over that period (and indeed, expenditure did increase from 2003-04 to 2004-05, before the grant-in-aid reductions to be made in response to the Review were finalised). Figure 14 shows that the level of savings attributable to efficiency programmes of this kind can vary considerably depending on the counterfactual chosen. The Department's definition of savings measured against a constant baseline in 2003-04 terms may well have led to an underestimate of the total savings attributable to the Review.

The counterfactual for the procurement savings also uses constant baseline prices

4.23 The methodology used by NHS PASA to calculate the savings arising from its National Contracts Procurement programme that count towards the savings target for the Review also involves comparing against baseline prices, although the date which is set as the baseline varies across items procured and NHS Trusts, depending on when the switch to procurement under the NCP programme happened. Broadly speaking, a baseline price is established for each item covered by the programme, for each NHS Trust, based for example on the average prices paid over a defined period prior to changing to a new supply contract under the programme. The difference in prices is then multiplied by the quantity of items purchased by each NHS Trust to obtain total savings figures each quarter. **Figure 20 overleaf** shows the total difference between what was actually spent, and what would have been spent had procurement continued at the baseline price for each item, over the period of the Review.

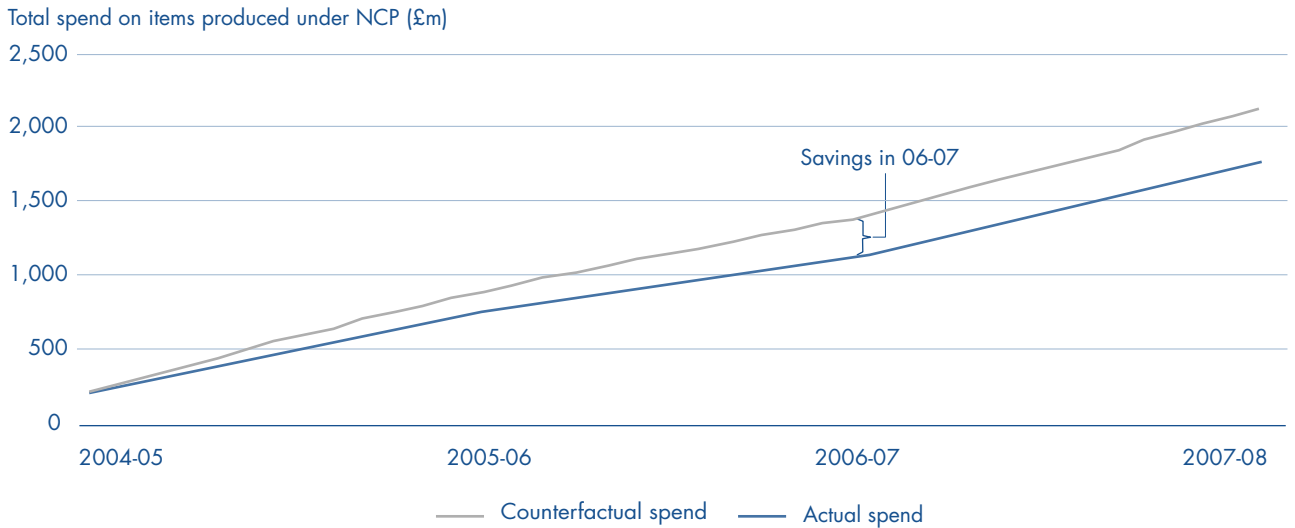


19 Calculating the money freed up by reducing grant-in-aid depends on assumptions about what would have been spent if there had been no Review



Source: National Audit Office

20 Procurement savings are the difference between spend at current prices and what would have been spent at baseline prices



Source: National Audit Office analysis of NHS PASA data

4.24 Savings on pharmaceutical items in total make up about 60 per cent of the overall procurement savings achieved. NHS PASA works with NHS Trusts and other organisations to deliver savings by ensuring that purchasing is responsive to price movements in the pharmaceuticals market. The NHS PASA methodology takes as counterfactual the position that, without the intervention of the NCP programme, NHS Trusts would have continued

to purchase items at the baseline price. This assumes that no NHS Trusts in the programme would have changed to cheaper, generic versions of those pharmaceutical items that came off patent during the period. Hence although the methodology is appropriate for measuring the total levels of savings achieved, it may overestimate the level of savings that are directly attributable to the NCP programme.

APPENDIX ONE

What the Arm's Length Bodies do

2004/05 Body	Current Position	Remit
Healthcare Commission	Continues	The independent regulator of the NHS and independent healthcare
Commission for Social Care Inspection	Continues	Provides independent regulation of social care and assessment of the performance of councils in adult social care
Mental Health Act Commission	Continues	Monitors the operation of the Mental Health Act 1983 (amended 2007) as it relates to detained patients and provides safeguards under the consent provisions
Human Fertilisation and Embryology Authority	Continues	The independent regulator of fertility treatment and embryology research
Retained Organs Commission	Abolished	Ensures accurate information, good practice and appropriate government policy in relation to retained organs
Postgraduate Medical Education and Training Board	Continues	The independent regulator of postgraduate medical education which sets standards, maintains standards and promotes and develops postgraduate medical education across the UK
Dental Vocational Training Authority	Functions merged into Postgraduate Medical Education and Training Board	Supervises dental vocational training
General Social Care Council	Continues	Responsible for registering and regulating social workers and social care workers and regulating social work education
Medicines and Healthcare products Regulatory Authority	Continues	The government agency responsible for ensuring that medicines and medical devices work and are acceptably safe
Prescription Pricing Authority	Merged into NHS Business Services Authority	Scrutinises pricing and payment to contractors for the dispensing of NHS prescriptions
Dental Practice Board	Merged into NHS Business Services Authority	Handles payment claims and remunerates dentists providing services under the NHS
NHS Logistics	Merged into NHS Business Services Authority	Responsible for managing and developing the NHS supply chain
NHS Pensions Agency	Merged into NHS Business Services Authority	Administers the NHS Pension Scheme for England and Wales
NHS Counter Fraud and Security Management Service	Merged into NHS Business Services Authority	Responsible for the prevention, detection and investigation of fraud in the Department of Health and the NHS
National Blood Authority	Merged into NHS Blood and Transplant	Responsible for the management of the National Blood Service in England and Wales
UK Transplant	Merged into NHS Blood and Transplant	To increase the availability of organs for transplant and facilitate their effective and equitable distribution
NHS Modernisation Agency	Merged into NHS Institute	To improve NHS services throughout the UK by opening up communication channels and spreading best practice

2004/05 Body	Current Position	Remit
NHS U	Merged into NHS Institute	Responsible for training NHS staff
NHS Litigation Authority	Continues	Provides the NHS with specialised support on litigation and contractual issues
Family Health Services Appeal Authority	Merged with the NHS Litigation Authority	Tribunal for appeals and applications
NHS Information Authority	Functions divided between the Health and Social Care Information Centre and Connecting for Health (part of the Department)	The Information Centre is responsible for delivering information services for health and social care, Connecting for Health is responsible for delivering the IT infrastructure
NHS Estates	Abolished – functions transferred to the Department	Responsible for property management in the NHS
NHS Purchasing and Supply Agency	Continues	Ensures that the NHS in England makes the most effective use of its resources by getting the best possible value for money when purchasing goods and services
National Institute for Clinical Excellence	Merged with the Health Development Agency to form the National Institute for Health and Clinical Excellence	Provides advice on effective and cost effective clinical interventions and practices
Health Development Agency	Merged with the National Institute for Clinical Excellence to form the National Institute for Health and Clinical Excellence	Develops the evidence base to improve health and reduce health inequalities
National Patient Safety Agency	Merged with the National Clinical Assessment Authority	Provides analysis of reports of patient safety incidents nationally, identifying risks and recommending actions. Provides the funding for and monitors three national Confidential Enquires. Facilitates and encourages clinical research in the UK. Promotes effective local resolution of concerns about the performance of health professionals. Develops and implements appropriate safety recommendations, advice and strategies. Enhances public confidence in health and clinical research

2004/05 Body	Current Position	Remit
National Clinical Assessment Authority	Merged with the National Patient Safety Agency	Provides advice and support to the NHS in situations where the performance of doctors and dentists is giving cause for concern
Health Protection Agency	Continues	An independent body to protect the health and well being of the population against infection and other hazards to health
National Radiological Protection Board	Merged into the Health Protection Agency	Responsible for disseminating information about the protection of mankind from radiation hazards
Public Health Laboratory Service	Merged into the Health Protection Agency	Detection, diagnosis, surveillance, prevention and control of infection and communicable diseases.
National Biological Standards Board	Due to merge with the Health Protection Agency	Assures the potency, purity and related efficacy and safety of biological substances used in human medicine
NHS Direct	Transferred out of the ALB Sector – now a Trust	Telephone, online and interactive digital TV health advice and information service
NHS Professionals	Continues	Manages and provides temporary staff to the NHS
Commission for Patient and Public Involvement in Health	Abolished	Establish a system of patient and public involvement in health
National Treatment Agency	Continues	Focuses national effort on drug rehabilitation
NHS Appointments Commission	Continues	Makes Chair and Non Executive Directors appointments to NHS bodies, makes a number of other HS-related appointments, has the power to appoint on behalf of other government departments and makes arrangements for the training and appraisal of those whom it appoints
The Independent Regulator of NHS Foundation Trusts (Monitor)	Continues	Assesses applicants and authorises foundations trusts, regulates them to ensure compliance with the authorisation, intervenes in cases of clinical, service or financial failure and sets the assurance and reporting framework. It also supports the development of foundation trusts in a variety of ways
Council for Healthcare Regulatory Excellence	Continues	Oversees and facilitates closer working between the various statutory self-regulatory bodies for healthcare professionals
Human Tissue Authority (established on 1 April 2005 – not one of the original 38 ALBs)	Continues	An independent regulator that regulates the removal, storage, use and disposal of human bodies, organs and tissue for a number of Scheduled Purposes; and the donation by living people of solid organs and bone marrow

APPENDIX TWO

Study methodology

We designed this study to answer three key questions:

- 1 Have the outputs claimed by the Department been achieved?
- 2 What have the Department done to ensure that the Review has not had a detrimental effect on the operations of the bodies involved?
- 3 How has the way the Department managed the programme contributed to the outcomes achieved?

The focus of the study was on how the Department had planned and implemented the Review. It was not aimed at analysing the performance of individual ALBs.

We reviewed the following to inform and guide the direction of our study:

- The internal stock take commissioned by the Department and carried out by AMTEC Consulting plc (August 2007)
- The OGC Gateway Review – Strategic Assessment of the ALB Change Programme (February 2006)
- Arm's Length Body Assurance Planning Review – conducted by the Department of Health Assurance Strategy and Audit (July 2005)

Our testing of question one was focused on data provided by the Department, verified by the ALBs we visited and our own financial auditors. We carried out the following:

- Financial analysis, in conjunction with our financial auditors, of the grant-in-aid reductions claimed by the Department based on the audited accounts of the ALBs
- Financial analysis of the procurement savings claimed by NHS PASA
- Interviews with Department of Health staff responsible for relocations and headcount reductions

To address question two and three we visited the following five ALBs, spoke with their senior management and their Departmental sponsors:

- NHS Direct
- Healthcare Commission
- Commission for Social Care and Inspection
- NHS Business Services Authority
- NHS Blood and Transplant

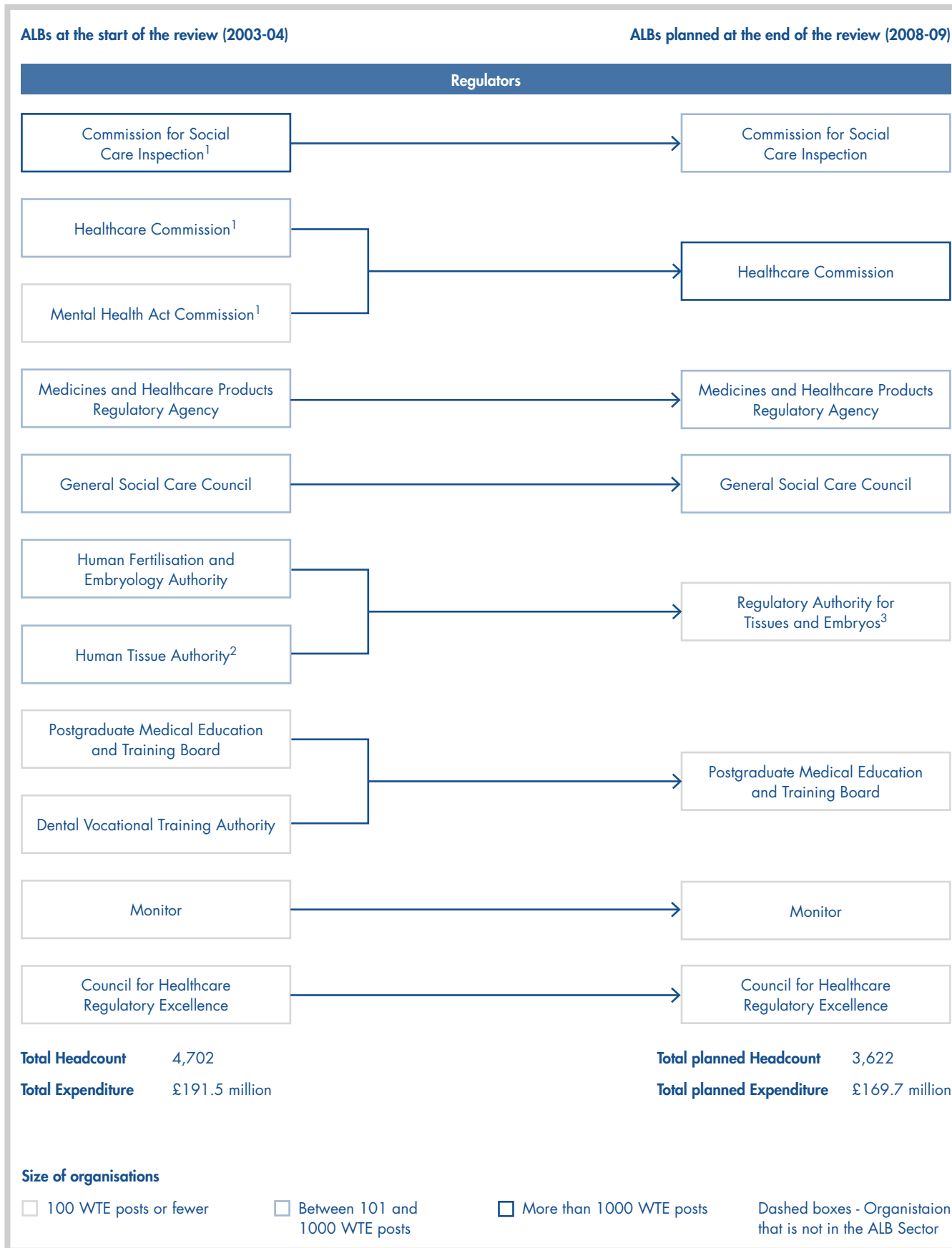
We provided the other remaining ALBs the opportunity to comment in a consultation questionnaire. Sponsors of the other ALBs were also given opportunity to comment.

We also interviewed the following key staff at the Department:

- Head of the ALB BSU
- ALB Finance Manager
- ALB BSU Programme Manager
- ALB BSU Account Managers
- Human Resource Strategy
- Head of Estates corporate services and Lyons relocations

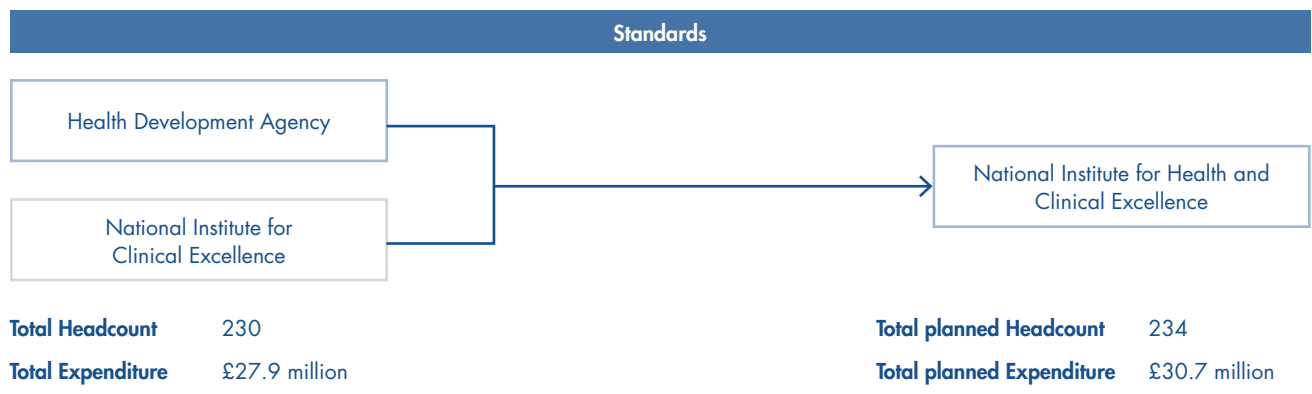
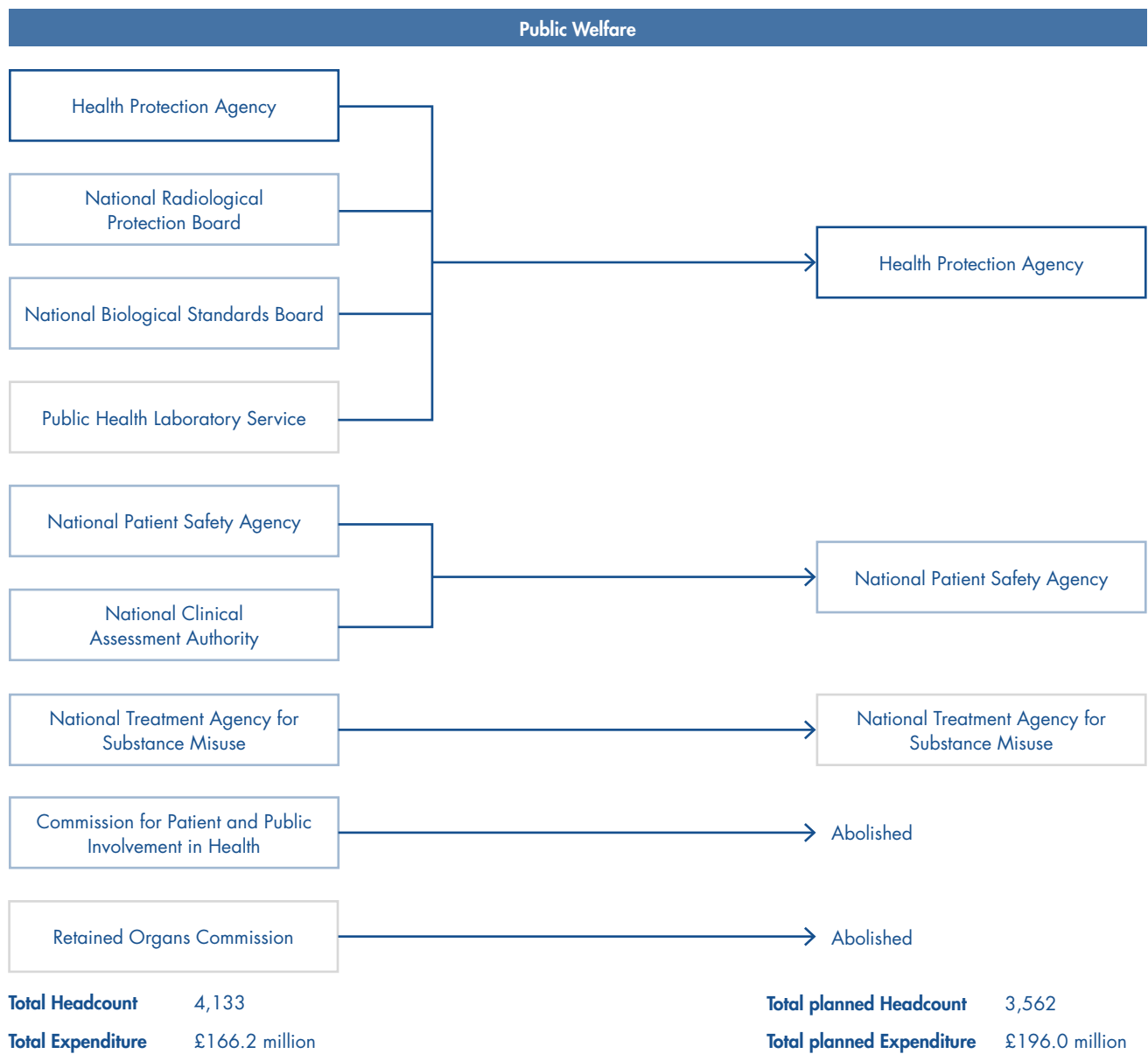
APPENDIX THREE

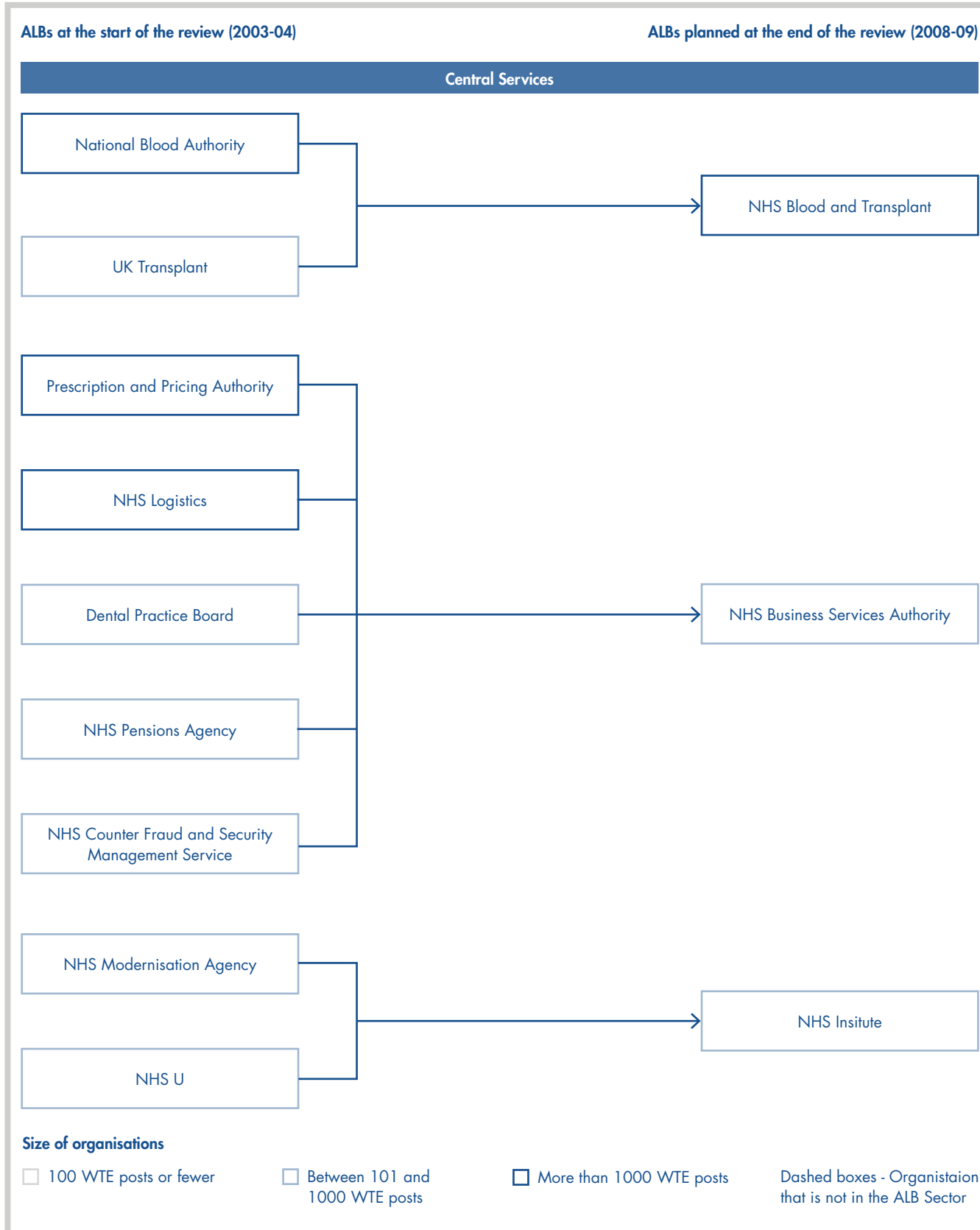
How the ALB Review planned to reduce the size of the ALB Sector



ALBs at the start of the review (2003-04)

ALBs planned at the end of the review (2008-09)



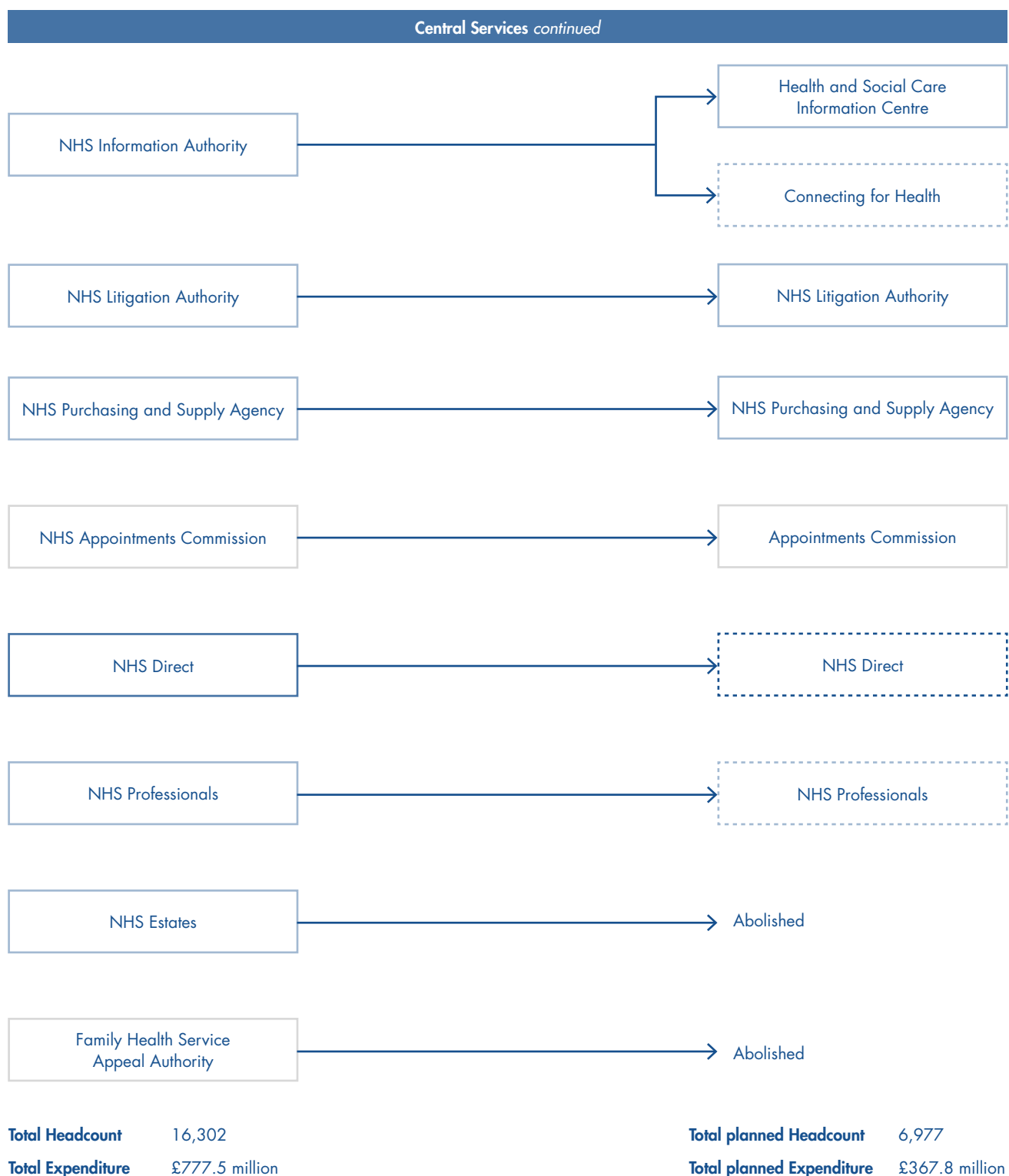


NOTES

1 These three bodies are now planned to merge to form a single, overarching health and social care regulator as part of the programme of regulatory reform being overseen by the Better Regulation Executive in the Department of Business, Enterprise and Regulatory Reform.

ALBs at the start of the review (2003-04)

ALBs planned at the end of the review (2008-09)



2 Established on 1 April 2005 – not one of the original ALBs.
 3 The merger of the Human Fertilisation and Embryology Authority and the Human Tissue Authority, due to take place by April 2008, has been cancelled.
 4 The remits of these organisations are set out in Appendix 2.

APPENDIX FOUR

Methodology for calculating operating cost savings and headcount reductions

Methodology for Calculating the Operating Cost Savings Identified in the Review

Measured against the target set by the Department, the savings are calculated as follows:

Savings = Budgets for ALB sector 2008/09 – Cost of ALB sector 2003/04 (baseline)

The general principle in calculating the operating cost savings is that the cost of funding the services provided to the ALB sector by the Department at the start of the Review is subtracted from the cost of funding the services provided by the ALB sector at the end of the Review, irrespective of funding mechanism.

Setting the baseline

The baseline for the calculation is therefore set as the grant-in-aid received by the original 38 ALBs in 2003/04. This is taken from the audited accounts of the bodies, adjusted for capital charges and one off costs.

Final position

This comes from the budgets allocated to the ALBs for 2008/09, taking into account the adjustments described below:

Adjustments through the course of the Review

There are three types of adjustments that occurred throughout the course of the Review that need to be taken account of to ensure that the savings figures is based on a like for like comparison:

- 1 Functions/ bodies transferred out of the sector
- 2 Functions/ bodies transferred into the sector
- 3 Functions/ bodies transferred within the sector

1 Functions/bodies transferred out of the sector

Transferring a function out of the sector does not result in a saving being achieved. For example, when NHS Direct became a Trust its funding was transferred from the Department to Primary Care Trusts, this did not count as a cash releasing saving. However, prior to its transfer out of the sector, NHS Direct undertook an internal reconfiguration, which achieved cash releasing savings of £18 million. These would count against the Departmental target of £250 million (see [Figure 21](#)).

2 Functions/bodies transferred into the sector

Where ALBs have been required to take on additional functions (for example transferring areas of the Office of National Statistics to the Information Centre) these have been 'ring fenced' and do not form part of the assessment of the original targets. Similarly, the Alcohol and Education Research Council, transferred into the sector, is excluded from the savings targets.

3 Functions/bodies transferred within the sector

Cash releasing savings are presented in Figure 3 attributed to the remaining ALBs. Where bodies have been merged, or functions transferred, the baseline for the original bodies have been compared with the cost of the merged body. For example, in 2005-06 the Family Health Service Appeal Authority (FHSAA) was abolished and its functions were taken on by the NHS Litigation Authority (NHS LA): (see Figure 22).

Methodology for Calculating the Headcount reduction

Headcount is taken from returns made to the Department by ALBs. It represents the number of whole time equivalent (WTE) post in the organisation. It does not include temporary workers or consultants who are not on the payroll. The baseline was set in 2005-06.

Headcount reductions are calculated and adjusted in the same way as savings. The only difference is that, where functions or bodies are transferred out of the sector, headcount reductions count towards the Department's target. This was agreed with Ministers. In the example of NHS Direct above, all headcount reductions in the ALB sector count towards the target (see Figure 23).

21 NHS Direct expenditure and Review saving

	2003-04 £m	2004-05 £m	2005-06 £m	2006-07 £m	2007-08 £m	2008-09 £m	Final Review position £m
Funded by Department	120	120	120	0	0	0	120
Transferred out of the sector	0	0	0	102	102	102	-102
Saving	0	0	0	18	18	18	18

22 FHSAA and NHSLA expenditure and Review saving

	2003-04 £m	2004-05 £m	2005-06 £m	2006-07 £m	2007-08 £m	2008-09 £m	Final Review position £m
NHS LA	5	5	3	3	3	3	2
FHSAA	1	1	0	0	0	0	1
Saving	0	0	3	3	3	3	3

23 NHS Direct healthcare and Review reduction

WTE Posts							
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Final Review position
Funded by Department	3,461	3,461	3,461	0	0	0	3,461
Transferred out of the sector	0	0	0	3,461	3,461	3,461	-3,461
Headcount reduction	0	0	0	3,461	3,461	3,461	3,461

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