



National Audit Office

DEPARTMENT OF HEALTH
NHS Pay Modernisation in England:
Agenda for Change

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SUMMARY

1 Implemented between December 2004 and December 2006, the objective of the Agenda for Change programme was to reform and standardise the pay and conditions of around 1.1 million staff in the NHS in England, representing a pay bill in excess of £28 billion a year in 2007-08 (**see Box 1**). Agenda for Change covers most staff within the NHS. Consultants and other doctors and dentists have been subject to their own pay reform programmes.

2 The key principle behind Agenda for Change was to introduce a system that would pay staff on a consistent basis by reference to the work they do and the skills and knowledge they apply. Previously, different roles in the NHS were subject to different pay scales

which had built up over time. In addition some NHS trusts had developed local terms and conditions for particular groups of staff.

3 The need for a new system of rewarding staff was set out by the Department of Health (the Department) in February 1999 in “Agenda for Change: Modernising the NHS pay system”. The Department’s stated aims for pay modernisation were to:

- enable staff to give their best for patients, working in new ways and breaking down traditional barriers;
- pay fairly and equitably for work done, with career progression based on responsibility, competence and satisfactory performance; and

- simplify and modernise conditions of service, with national core conditions and considerable local flexibility.

4 There was widespread agreement within the NHS that a new pay system was needed. The old system comprised numerous pay structures covering 54 professions plus technical, administrative, maintenance and other support staff. There were a multitude of separate allowances ranging from, for example, 'radiation protection supervisors allowance' to 'authorising clerks allowance'. Different staff groups were entitled to different amounts of leave and different length working weeks; and there were a multitude of shift patterns and on-call arrangements and payments. The lack of comparable terms and conditions across all staff groups created barriers to developing new roles for staff and new ways of team working. The lack of consistency in determining pay also led to equal pay claims.

5 National negotiations for a new reward system started in 1999, and were carried out by the Department of Health and its counterparts in Scotland, Wales and Northern Ireland; the NHS Confederation (the employers' representative body); and trade unions. Final agreement was reached in late 2004. By March 2006 the vast majority of staff in England had moved on to the new pay bands.

6 To implement Agenda for Change, each NHS organisation was required by the Department to evaluate all jobs, either through matching them to national NHS job profiles or through local job evaluation. The process is described further in [Figure 2](#), page 13. The job evaluation scores determined the pay band for each post. Trusts then had to update the payroll details of all the staff concerned with new pay rates. Once this process was complete each NHS organisation was expected to use the Knowledge and Skills Framework to review the skills of all staff to identify and address development needs to allow them to perform better (as described in [Box 1](#)).

BOX 1

NHS pay modernisation – for all staff except doctors, dentists and senior managers

The pay modernisation programme was made up of three main elements:

- 1 New harmonised terms and conditions and a simplified single pay spine.
- 2 A job evaluation scheme to assess the appropriate pay band for each post.

In this report these two elements are referred to collectively as 'Agenda for Change'

- 3 The introduction of a competency based staff development framework (known as the Knowledge and Skills Framework), which involved the creation of an outline for each post of the knowledge and skills required; an annual review to assess each post holder's knowledge and skills against the outline; and an agreed personal development plan for each employee based on skills gaps identified at the annual review.

Pay is not directly linked to the Knowledge and Skills Framework, although movement through two 'gateways' in each pay band is dependent on a satisfactory annual review.

7 This report is the third in a series of National Audit Office reports on NHS pay modernisation in England, the first looked at the new contract for consultants (published April 2007); while the other examined the new contracts for general practice services (published February 2008). This report examines the implementation and costs of Agenda for Change and the implementation of the Knowledge and Skills Framework. It also assesses whether the intended benefits have been achieved and identifies some of the barriers to fully realising them. Our analysis and findings relate to the application of Agenda for Change as a whole, but we make particular reference to the nursing profession since it is, by far, the largest pay group, accounting for 40 per cent of the total annual pay bill. Nurses' terms and conditions of employment were also used as the central reference point for the work to harmonise the terms and conditions of the many other groups of staff covered by Agenda for Change (see [Box 2 overleaf](#)). Our methodology is detailed in Annex 1 of this report.

BOX 2

Nursing and Agenda for Change

Qualified nurses are 35 per cent of the workforce covered by Agenda for Change, and their pay makes up 40 per cent of the pay bill (2007-08). Pay for qualified nurses starts at £20,225 and extends to £77,179 for consultant nurses (see Figure 1 on page 12). Agenda for Change allows for nursing roles to be paid on the highest pay band (up to £93,098) if justified for particular roles.

Other staff carry out less specialised nursing duties, in particular healthcare assistants, and their pay starts at £12,922. Healthcare assistants can progress to new assistant and associate nursing roles with a maximum pay of £20,818 (see Figure 1).

Qualified nurses' earnings have risen by 4.2 per cent a year on average since 2003-04. This rate of increase includes incremental progression for those who have not reached the maximum of their pay band as well as the annual pay award. The average annual rate of increase for nurses is lower than for other staff groups (including healthcare assistants and associate nurses) whose earnings have risen by 5.8 per cent a year since 2003-04 (see Figure 7 on page 21). Pay for nurses had been subject to



a clinical regrading review in the late 1980s and, as a result, Agenda for Change had less impact on nurses' pay than it had on pay for other staff groups.

The terms and conditions of the new Agenda for Change employment contract were based on those that already applied to nurses, for example a standard full-time working week for all staff of 37.5 hours and 27 days annual leave on appointment.

Key Findings

Implementation of Agenda for Change

8 The Department initially set a deadline of 30 September 2005 for trusts to set up the job evaluation scheme (including training staff), to evaluate posts, and to transfer staff to their new Agenda for Change pay points. The task, however, was a large one and this deadline, ten months after the final agreement had been reached, proved unachievable. The Department continued to monitor progress closely and by March 2006 ninety-nine per cent of staff in England had been transferred to their new pay points.

9 By October 2007, 41 per cent of NHS staff had received a knowledge and skills development review in the last 12 months. The process was a new experience for many staff and take up was slower than expected. As a consequence of the slow implementation of the Knowledge and Skills Framework, the Department re-launched it in November 2007; and in May 2008 the Parliamentary Under Secretary for Health Services wrote to all NHS organisations emphasising the need to use the Knowledge and Skills Framework. At the time of our fieldwork in August and September 2008, the proportion of staff who had had a knowledge and skills review had increased to 54 per cent.

Cost of Agenda for Change

10 The strategic plan for the NHS (NHS Plan 2000) set out clearly the Department's intention to increase pay in the Health Service in order to improve recruitment and retention of NHS staff. The annual cost of employing staff on Agenda for Change in the NHS (England) rose by £7.4 billion (36 per cent) from £20.8 billion in 2003-04 to £28.2 billion in 2007-08. Some 13 per cent of this additional cost is due to growth in the Agenda for Change workforce, and a further 22 per cent is due to an increase in employers' contributions to the pension scheme from 2004-05. The remaining 65 per cent reflects higher levels of pay, through pay awards, effects such as pay progression as people move through the pay system, and the impact of Agenda for Change. The Department does not believe it is possible to isolate the total cost to date of Agenda for Change from other elements of the pay bill.¹

11 We have estimated the impact of Agenda for Change for each of the five years from 2003-04 to 2007-08 by comparing the actual pay bill with a model which makes two different assumptions of what pay growth might have been without Agenda for Change resulting in two counterfactual scenarios. In 2007-08, we estimate that the annual pay bill was between £166 million (0.6 per cent) higher and £239 million (0.8 per cent) lower than it might have been had Agenda for Change not been implemented.

¹ The Department's evidence to the Health Select Committee's Enquiry "Public Expenditure on Health and Personal Social Services 2008, Uncorrected Evidence" HC28-i, November 2008.

12 Both scenarios start with a saving of £374 million in 2003-04. This saving may have been due to reduced pressures on pay while Agenda for Change was being negotiated. After 2003-04 our first scenario suggests that Agenda for Change added a cost to the NHS pay bill each year, although the rate of increase declined in 2007-08. Our second scenario shows added costs for 2004-05 and 2005-06 and savings thereafter. The costs of Agenda for Change are explored further in paragraphs 2.15 to 2.19.

The benefits of Agenda for Change

13 Agenda for Change provided NHS trusts with the opportunity to look at how their services were staffed and to think about how these services might be delivered better with different ways of working. Trusts report that because of the timetable for implementation of Agenda for Change, they did not have the capacity to fully consider how they would develop benefits locally, for example by using the job evaluation process to design new roles. Most staff are not working sufficiently differently from when they were on their old pay contracts and as a consequence staff initially received increased pay for doing their existing roles.

14 Agenda for Change was expected to help increase the numbers of people wishing to work in the NHS, but staff numbers had already peaked by the time Agenda for Change was implemented. Numbers of NHS staff working in grades covered by Agenda for Change rose from 0.92 million in 2000 to 1.13 million in 2005 when Agenda for Change was implemented and have since fallen to 1.09 million. Agenda for Change was expected to help improve staff morale and, whilst staff morale is a complex issue affected by other events, including the drive to reduce financial deficits, Healthcare Commission NHS staff surveys show that job satisfaction did not improve between 2004 and 2006 although there were improvements in some areas in 2007.

15 There is a widespread view in the Department and amongst NHS Employers and other commentators that Agenda for Change has made it easier to show that NHS pay is fair and equitable. A test case is being heard by the Employment Tribunal and is due to conclude in February 2009, though it could be prolonged if any issues are subject to appeal.

16 Agenda for Change was also intended to contribute to improvements in equal opportunity for NHS staff. The Healthcare Commission's annual surveys of NHS staff show that the proportion of staff who believe their employer does not act fairly with regard to career progression or promotion has not decreased.

Benefits yet to be realised

17 Agenda for Change and the Knowledge and Skills Framework were expected to facilitate new ways of working within the NHS, which would contribute to improved quality of care for patients and delivering services more efficiently and effectively. These changes were to be achieved by using the job evaluation scheme, to design and evaluate new roles, and the Knowledge and Skills Framework to help staff to develop competencies.

18 Around half of trusts reported to us that they have used Agenda for Change to improve clinical pathways by creating new roles for staff. This picture was supported by evidence at trusts we visited. Most commonly these were 'assistant practitioner' roles where less qualified staff take on work from nurses (or other healthcare professionals) and 'advanced practitioner' and 'nurse consultant' roles, where senior professional non-medical staff take on responsibility for tasks formerly carried out or supervised by medical staff, such as prescribing.

19 There is a perception among some managers and staff that the Knowledge and Skills Framework is complex and burdensome. In the trusts that have maximised use of the Framework, there has been a management commitment to making the system work, and staff and managers have received adequate training and are given time to carry out the process. A small number of trusts have integrated the Knowledge and Skills Framework into their performance management systems. They are better placed to use the annual review to assess performance in carrying out important daily tasks, as well as to review the application and acquisition of knowledge and skills over the year.

20 The Department expected that Agenda for Change would result in a 1.1 – 1.5 per cent year-on-year rise in productivity (the ratio between the quantity of healthcare provided by the NHS and the volume of resources being used by the NHS). This rise was planned to contribute to net savings of at least £1.3 billion over the first five years of Agenda for Change, and some of these gains were expected to be from higher quality of care, according to the Department's Business Case to the Treasury. The Department has not carried out a specific exercise to demonstrate the productivity savings resulting from Agenda for Change nor have trusts attempted to measure the resulting efficiency or productivity gains. Without the means to measure the specific impact of Agenda for Change it is not possible to determine whether the productivity savings have been achieved.

21 The more general measures of NHS productivity and efficiency that are available do not take account of changes in quality of services and cannot easily be disaggregated to show the specific impact of the programme (paragraphs 3.13 to 3.19). The best available productivity statistics for the NHS as a whole are compiled by the Office for National Statistics. This measure shows NHS productivity declined by 2.5 per cent per year between 2001 and 2005, as the growth in the amount of healthcare provided was overtaken by the more immediate growth in resources used by the NHS. Between 2005 and 2006, growth in inputs slowed more quickly than growth in output, so productivity fell by only 0.2 per cent that year. This measure of productivity needs to be considered alongside other corroborative data which suggest that productivity has declined a little less steeply than the crude measure suggests. The Department has measured efficiency gains on a project by project basis, but these do not take account of the increased resources used by the NHS overall.

22 Agenda for Change does make it easier for managers to estimate costs now there are common staff terms and conditions. It is also simpler for budget holders, such as ward managers, to understand and monitor their budgets. In addition there is now a single process for determining pay increases for all staff, except doctors, dentists and senior managers.

23 Agenda for Change is a system which aims for consistency across the NHS. It is unclear how the relevance of Agenda for Change will be affected as the NHS moves further towards greater local management, competition and choice. Foundation Trusts have the freedom to use local terms and conditions. None-the-less even if they choose to use these freedoms and flexibilities, Agenda for Change should offer a shared baseline to develop a transparent system for evaluating roles.

Conclusions on Value for Money

24 The Department and NHS, in partnership with the trade unions, successfully implemented Agenda for Change for some 1.1 million employees, doing so within a short timescale. The new system gives the NHS a single and transparent system for employing staff, and simplifies significantly the administration of pay within the NHS.

25 Achieving the benefits of Agenda for Change was predicated on staff working differently to deliver improvements to patient care and improving productivity in return for better pay. Measuring productivity benefits would have required trusts to have developed productivity measures when they introduced changes in the way staff work. The Department did not put in place the necessary arrangements with trusts, so the Department has limited evidence to show what impact pay modernisation has had on productivity. The Department's Business Case in 2002 estimated that Agenda for Change would result in net savings over the first five years of at least £1.3 billion. Specifying a level of savings in this way was unrealistic since the Department placed no requirement on trusts to achieve efficiency or productivity improvements locally as part of implementing Agenda for Change. While in this period the Department can show some efficiency savings generally, as recorded by the NAO in its report "The Efficiency Programme: A Second Review of Progress Report" (HC156, 2007), the Department cannot demonstrate the contribution that Agenda for Change has made to their achievement.

26 For most trusts, the Agenda for Change programme largely stopped at the point when staff transferred to their new pay bandings, with the Knowledge and Skills Framework being seen as a subsequent exercise, that not all trusts have completed. Consequently, the Department re-launched the Knowledge and Skills Framework in November 2007 and emphasised the need to use the Framework again in May 2008.

27 As a result we conclude that Agenda for Change cannot yet be shown to have enhanced value for money. The Knowledge and Skills Framework is key to realising many of the benefits from Agenda for Change more widely, but has not been implemented by all trusts and for all staff. The Knowledge and Skills Framework is only one part of the picture; and the opportunities presented by Agenda for Change need to be combined with clear leadership and management if trusts are now to achieve the full potential of the programme. There are, however, some examples of trusts using Agenda for Change to work differently, and these provide models for others to follow.

Recommendations

- a** **The potential of the Knowledge and Skills Framework has not been realised by many trusts, yet effective use of the Framework is essential for maximising the benefits from Agenda for Change.** Trusts should have a champion at board level to make sure that all staff have annual reviews; that managers have the training to use the Knowledge and Skills Framework effectively; and staff have the time to participate fully in reviews. The champion should work with operational colleagues to exploit opportunities where effective use of the tools within Agenda for Change and the Framework can contribute to wider organisational and service improvements through better, more productive ways of working.
- b** **Some trusts have achieved benefits through Agenda for Change by staff working differently and using the Knowledge and Skills Framework to meet organisational needs but sharing good practice is patchy.** The Department and NHS Employers should disseminate and share best practice on the use of the Knowledge and Skills Framework and how Agenda for Change can be used to improve efficiency and patient care. The Department should commission NHS Employers to identify good practice examples in trusts and share these through national conferences and local workshops of trusts.
- c** **The Knowledge and Skills Framework is viewed by trust managers and staff as too complicated, and as a consequence some trusts are discouraged from making the best use of this tool.** The Department, through NHS Employers, and in partnership with NHS trade unions, should review and simplify the guidance for using the Knowledge and Skills Framework including, for example, practical guidance on the amount of supporting documentation staff need to bring to their review and how long a review should take.
- d** **Trusts are deterred from using the electronic version of the Knowledge and Skills Framework because of a lack of clarity on the different functionality of the electronic Knowledge and Skills Framework and the Electronic Staff Record.** As the Department provided trusts with both these packages the Department should clarify the functions of both systems and help trusts rectify the shared problems they have encountered.
- e** **The introduction of a formal system of job evaluation has been an important reform for the NHS under Agenda for Change, but not all trusts are continuing to make full use of it.** Directors of Human Resources in trusts should check that the job evaluation process is applied rigorously to all new and modified roles. Strategic health authorities and trusts should regularly compare and benchmark a sample of posts with other trusts.
- f** **Agenda for Change was expected to achieve specific and measurable benefits, but there has been no formal assessment of the programme by the Department or by individual trusts.** Regular measurement of the productivity, efficiency and quality improvements attributable to Agenda for Change represents an important lever to bring about new and innovative ways of working and performance improvement.
- To motivate trusts to get more out of Agenda for Change the Department should recommend that trusts specify, within business cases for changes to the way services are delivered, how the planned improvements to patient care and/or productivity will be augmented by use of Agenda for Change, for example through the creation of new roles or a change in the grade mix of staff around a given patient pathway.
 - The Department in turn should collate information from individual trusts which shows how working differently under Agenda for Change has contributed to the changes in productivity and patient care, so that there is a picture nationally of how Agenda for Change is delivering improvement.