

# OBSERVATIONS

## HEALTH AND SOCIAL CARE ACT

### Counting the cost of England's NHS reorganisation

Health secretary Jeremy Hunt's claims of savings of £1bn or £1.5bn a year seem unlikely

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Politicians sometimes find themselves having to defend the indefensible. Recently England's health secretary, Jeremy Hunt, was put in the unenviable position of having to counter criticisms of his predecessor Andrew Lansley's NHS reorganisation. The charges were made by unnamed sources in Downing Street, who allegedly called the reorganisation the worst mistake of the coalition government and "unintelligible gobbledygook."<sup>1</sup>

In defending the NHS changes to the press, Hunt claimed that they had cost £1.5bn (€1.9bn; \$2.4bn) to implement but had saved £1bn a year in NHS administrative costs.<sup>1</sup> Asked for verification of these figures, the Department of Health press office pointed towards Hunt's own words in Hansard on 22 July 2014,<sup>2</sup> when he said that the expected final costs of the NHS overhaul brought in by the 2012 Health and Social Care Act were "no higher than £1.5 billion" and that "annual savings are still expected to be £1.5 billion from 2014-15." It is not clear why Hunt this month reduced his claimed annual savings from £1.5bn to £1bn a year.

Let's take these two claims in turn. The first, about the cost of the actual reorganisation, was carefully examined by the National Audit Office in 2013.<sup>3</sup> The NAO found several problems with the way that the Department of Health had predicted the costs of the reorganisation in the impact analysis that accompanied the bill<sup>4</sup> and also with the way it measured them subsequently, which meant that its estimates were probably inaccurate and too low. Most importantly, the NAO noted that the department made no allowance whatsoever for the labour costs associated with the reorganisation: the time that managers and other staff spent on the whole huge exercise from the white paper in 2010, after the coalition government was formed, to 2014.

#### Claims of zero costs of reorganisation

The NAO found that the department relied on cost returns from strategic health authorities and primary care trusts to measure costs but did not check those returns, even though in 2013 9% of organisations reported zero reorganisation costs, which simply cannot have been correct. It found that the cost of setting up the new clinical commissioning groups had been £299m, or more than three times what the health department had estimated

originally. A large part of the cost of the reorganisation was expected to be redundancy payments—estimated at £858m in the impact analysis but reported as only £456m in Hunt's statement in Hansard. The likely reason for this is that substantial redundancy costs were simply deferred when large numbers of staff were "lifted and shifted" from primary care trusts into NHS England, which hosts the unloved commissioning support units and is now engaged in its own downsizing exercise.<sup>5</sup>

Overall, the NAO concluded that when estimating the costs of the reorganisation in 2010 "the Department [of Health] had little reliable information on which to base its estimates and had to make broad assumptions" and that at the time of the report the department did "not have robust up-to-date data on the costs that are expected to be incurred in 2013-14 and beyond."<sup>3</sup> In that light, Hunt's statement that the expected final cost of the NHS reorganisation was "no higher than £1.5bn" seems at best unjustifiably optimistic.

The second claim, concerning the £1bn (or £1.5bn) a year savings in NHS administrative costs, also deserves scrutiny. The NAO's report shows that the health department estimated the baseline administrative costs of strategic health authorities and primary care trusts, abolished in the reorganisation, as £4.29bn in 2010-11. The department then projected that without the reorganisation the administrative costs would rise by about 2.6% a year. The department then compared this baseline with the actual administrative spend in each year—for example, £3.5bn in 2012-13—to calculate the "savings" of more than £1bn a year.

#### Artificially high baseline

There are several problems with this. Firstly, the baseline estimate used unverified reports from primary care trusts, which had to disentangle the costs of commissioning from their other functions (service provision, public health, and so on). Secondly, as the NAO highlighted, actual spending in 2010-11 was already £240m below the estimated baseline. The department claimed this was a result of strategic health authorities and primary care trusts starting to implement the reforms as soon as the white

paper was published, but it seems more likely that by setting the baseline artificially high, the department made the “savings” appear more. The allowance of 2.6% a year inflationary growth also seems generous, given that for two of these years a wage freeze was in place. By 2013-14 that allowance for inflation added £331m to the baseline from 2010-11 and so again makes the “savings” seem more. Thirdly, these calculations do not take full account of the displacement of work, and associated costs, to other bodies (such as to new national quangos and to local authorities). Overall, the claimed savings seem very unlikely.

Another way to examine this issue is to use the figures for the NHS management workforce collated by the Health and Social Care Information Centre to see how they have changed over time.<sup>6</sup> These show that the number of NHS managers across the system fell from 41 438 whole time equivalent (WTE) positions in July 2010 to 34 776 WTE in June 2014, a reduction of 16% or about 4% a year. But before we get too excited about this, we should note that the number of NHS managers fell by 1284 WTE (or 3%) in the 12 months before the reorganisation was even announced and that this annual rate of reduction of about 4% is simply in line with the cost improvement targets over this period for the NHS. So, Hunt’s claimed savings of £1bn or £1.5bn a year from the reorganisation seem pretty unlikely, to say the least.

Of course, focusing on the costs of reorganisation and the claimed savings is a distraction from the larger issue: that this catastrophic “redisorganisation” of the NHS was a huge waste

of time, resources, and effort for almost four years and has left the NHS with a Byzantine organisational structure more complex and fragmented than the one it replaced. The challenge for the next government will be to find ways to evolve an organisational structure that is more fit for purpose, without embarking on another set of expensive and highly risky “big bang” changes.

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