

3 October 2005

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To: SHA Finance Directors

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cc: SHA Chief Executives

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Dear Director of Finance,

### **Commissioning a Patient-Led NHS – Streamlining Savings**

The document “Commissioning a Patient led NHS” published on 28 July sets out a timetable to develop commissioning and ensure that organisations are properly configured for their role. This letter sets out guidance on plans to deliver the associated requirement for £250 million management cost savings, which must be delivered recurrently for re-investment in services in 2008-09 in accordance with those priorities set out in the Manifesto commitment. SHAs must be in a position to evidence savings made from SHAs, PCTs and Ambulance Trusts.

### **Distribution of Savings Target**

The “Top Team” has agreed that the target £250 million savings will be distributed on a “fair share” basis across Strategic Health Authorities. It is for each SHA to determine a methodology for distributing their target saving between the SHA and the PCTs in its area. A “fair share” approach for distribution to SHAs has the advantages of simplicity and it ensures that re-distribution of savings to clinical services will be spread evenly across the country. The distribution of savings required is set out in the table at the Appendix to this letter.

### **Principles**

- The £250 million saving represents **real recurrent reduction** in the cost of management and administration, the savings from which are to be re-invested demonstrably in patient services recurrently from 2008/09. Savings can be sourced from both pay and non-pay costs;
- Management and administration cost savings will score against the £250m target if generated from PCTs (commissioner and provider functions) and SHAs. Savings from other sectors are encouraged, but these will not score against the £250 million target. Savings may include the management and administration element of the NPET budget and devolved Modernisation Agency budgets. SHA savings will be re-distributed to PCT baselines;

- The “Top Team” agreed that savings from the merger of Ambulance Trusts should not score against the £250 million but should be re-invested in the new Ambulance Services. Savings and re-investment from Ambulance Services will however be tracked along with those savings scoring against the £250 million target;
- In Local Development Plans, SHAs and PCTs have already demonstrated a commitment to an increase in capacity and capability to secure delivery of "Choosing Health." Whilst the HR framework will be subject to consultation, the “Top Team” agreed that it is important to highlight expectations early to ensure that the NHS maintains capacity to deliver. For this reason, SHAs and PCTs should not identify for savings, those posts working on “Choosing Health.” This would exclude from the target all consultant and specialist public health posts and posts working on frontline services, for example health protection, smoking cessation services and other health improvement services outlined in “Choosing Health”. PCTs will be expected to appoint an executive director of public health but as the number of director posts is reduced, savings may be sourced from the extra supplements paid to consultant/specialist staff if they are no longer acting as director. Savings may be made in administrative posts and other back office functions supporting the public health function where organisational merger brings opportunity for economies of scale and efficiency savings, but any such savings should not detract from the delivery of “Choosing Health”;
- The baseline for savings is the 2004/05 cost of management and administration. This means that only those savings made from 2005/06 to 2007/08 will score against the target. SHAs will be required to provide an audit trail from 2005/06 costs through to the recurrent target savings from 1 April 2008;
- Savings will be at 2005/06 prices (using GDP deflator);
- There will be no central fund to finance any cost of redundancy. Redundancy costs should therefore be minimised and where possible, financed from in-year management cost savings in 2005/06, 2006/07 and 2007/08 in order that the full saving is recurrently available from 2008/09;
- SHAs should maintain a comprehensive record of redundancy and associated costs across each organisation in their area and these costs will need to be reflected in plans once reconfiguration plans are approved;

## Plans

As part of the submission outlining reconfiguration proposals (due to be submitted on 17 October), SHAs should provide an outline narrative of how the reconfiguration proposals will generate their share of the £250 million management cost savings. This narrative will form part of the public document for consultation. This letter asks Directors of Finance to **separately** submit a pro-forma providing the detail as to the proposals. The pro-forma is attached to this letter. The pro-forma should be sent to me by email at [kevin.orford@dh.gsi.gov.uk](mailto:kevin.orford@dh.gsi.gov.uk) by 17 October. We are keeping to a minimum the requirement for this further detail and the pro-forma requires only the information, which we think may be required by the Independent Panel established to review reconfiguration proposals. The pro-forma requires the total aggregate savings per SHA by 31 March 2008. This will need to be apportioned over each year in due course in a timescale to be agreed with SHA finance directors at their meeting in October. Please submit with the pro-forma a narrative to provide clarification on the figures.

### **Assessment of savings proposals**

An initial assessment of cost reduction proposals will be undertaken by the two lead Chief Executives for this project (David Sissling and David Flory) and myself. Savings plans will not be formally approved until reconfiguration proposals are finally agreed after the public consultation process.

### **Monitoring of Progress against savings targets**

Monitoring of progress of savings against agreed trajectories will commence during the first quarter of 2006/07. We will in due course agree with SHA Directors of Finance a process for monitoring savings. Monitoring of the savings will be through the new SHAs.

I hope that this letter provides clarification on the exercise to identify the £250 million savings. If you require further clarification, please do contact me directly.

Yours sincerely



**KEVIN ORFORD**  
**DEPUTY DIRECTOR OF FINANCE (STRATEGY)**