

# NHS Financial Temperature Check



Finance directors' views on the financial challenges facing the NHS, December 2014

## Introduction

This is the second in a series of HFMA briefings setting out finance directors' views on the financial issues facing the NHS. It draws on the responses of finance directors and chief finance officers (CFOs)<sup>1</sup> of 119 (49%) provider trusts, 64 (30%) clinical commissioning groups (CCGs) and eight (32%) area teams from across the English NHS.

For the first time, we asked finance directors in Scotland, Wales and Northern Ireland for their views and received responses from all six health and social care trusts in Northern Ireland; five NHS Scotland territorial boards, one NHS Scotland special board and three Welsh local health boards.

A comparison of the financial performance of NHS bodies in England, Northern Ireland, Scotland and Wales and a comprehensive analysis of the English results can be found at [www.hfma.org.uk/nhstemperaturecheck](http://www.hfma.org.uk/nhstemperaturecheck)

## Financial performance

The financial performance of the NHS in England is deteriorating across all sectors. The most recent reports from national agencies and regulators show that:

- 55% of FTs were in deficit at quarter 2. Acute trusts represent the majority of the deficit. FTs reported a £254m deficit at 30 September 2014, compared with a planned net deficit of £59m<sup>2</sup>.
- NHS trusts reported a £376m deficit at 30 September 2014, compared with a planned net deficit of £317m. Some 26 NHS trusts (27%) are forecasting a year-end deficit, 24 are acute trusts<sup>3</sup>.
- CCGs forecast a year-end overspend of £21m (0.0%), with 21 (10%) CCGs forecasting overspends against plan as at September 2014<sup>4</sup>.

In all, 39% of commissioner finance directors and 74% of trust finance directors are forecasting a worse 2014/15 year-end financial position than in 2013/14 (chart 1 overleaf). And 38% of commissioner and trust finance directors are forecasting a worse 2014/15 year-end position than planned at the start of the financial year. This indicates a rapid deterioration in the finances of nearly two out of five NHS organisations in our sample.

## Quality of services

Despite the deterioration of financial performance across the NHS and pessimism about future performance, finance directors are optimistic that quality will not be affected:

- 94% of finance directors do not expect the quality of services to deteriorate in 2014/15 – 44% expect the quality to improve and 51% expect it to stay the same (rounded figures).
- 6% of finance directors expect the quality of services to deteriorate in 2014/15 and this rises to 13% in 2015/16.
- While the majority of finance directors do not expect quality to deteriorate, the most vulnerable areas identified were access to services and waiting times.
- 50% said the focus on quality helped to support transformational change, while 42% said it was made more difficult and 8% said they did not know.

1 CCGs use the terminology of chief finance officer (CFO), whereas NHS trusts, FTs and area teams generally use finance director. In this briefing we sometimes use the term finance director to mean both finance directors and CFOs together, when describing the views of all of our survey respondents collectively.

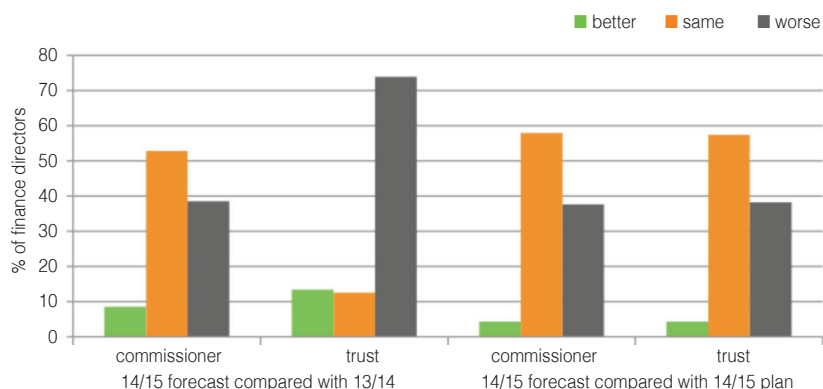
2 [www.gov.uk/government/publications/nhs-foundation-trusts-quarterly-performance-report-quarter-2-201415](http://www.gov.uk/government/publications/nhs-foundation-trusts-quarterly-performance-report-quarter-2-201415)

3 [www.ntda.nhs.uk/wp-content/uploads/2014/10/Paper-D-Service-and-Financial-Performance-Report-for-September-2014.pdf](http://www.ntda.nhs.uk/wp-content/uploads/2014/10/Paper-D-Service-and-Financial-Performance-Report-for-September-2014.pdf)

4 [www.england.nhs.uk/wp-content/uploads/2014/10/item4-board-1114-fin.pdf](http://www.england.nhs.uk/wp-content/uploads/2014/10/item4-board-1114-fin.pdf)

# Summary

**Chart 1: 2014/15 year-end forecast position compared with 2013/14 year-end and the planned year-end position for 2014/15**



### Cost pressures

There is no single factor leading to the deterioration in NHS finances. Trust finance directors reported the main drivers of the worsening year-end financial forecast are unforeseen increases in pay costs and lower than expected savings from cost improvement plans. Commissioner CFOs and finance directors reported the under-achievement of Quality, Innovation, Productivity and Prevention (QIPP) savings plans and an increase in acute trust programme costs as the main driver of their worsening financial position, closely followed by prescribing costs.

### Pay costs

Increasing pay costs are a significant contributor to trusts' worsening financial performance. Trusts' pay costs and workforce decisions are being driven largely by their response to improving quality and the availability of medical and nursing staff. Chart 2 shows that, when asked to identify the main drivers of pay costs, 82% of trust finance directors say the main driver of their pay costs has been reliance on bank, agency and locum staff. And 69% report their organisation's response to quality concerns, such as those raised by the Francis and Keogh reviews, have driven pay costs.

### Integration and the better care fund

Finance directors are sceptical about the benefits of integration and the better care fund, particularly in the early years. However, the picture is more positive than in our June 2014 survey, trusts in particular are more positive:

- 12% of trust finance directors and 13% of CCG CFOs think the better care fund will help to improve their organisations' services for patients and service users in the first year, rising to 40% and 76% respectively within one to three years and to 62% and 86% respectively after three years.
- 10% of trust finance directors and 11% of CCG CFOs think their organisation will benefit financially from closer integration of services (including the better care fund) in the first year, rising to 26% and 39% respectively within one to three years and to 34% and 65% respectively after three years.
- Only 2% of trust finance directors are confident that the benefits set out

in the better care fund plans will be achieved, compared with 4% in June 2014. CCG CFOs are more confident, with 34% reporting that the benefits will be achieved, the same figure as reported in June.

- 69% of CCG CFOs reported that they have other plans for integrating services in addition to the better care fund plans.

### System leadership

Finance directors continue to have concerns about the lack of leadership in their local health economies and the impact it has on transformation and integration.

We asked finance directors which organisations provided system leadership in their health economy.

Finance directors reported all of the organisations playing a leadership role in their areas. Of the area team finance director responses, most identified more than one organisation as being the main system leader – 27% of total responses were for the area

team and 20% were for the CCG. CCG CFOs identified the CCG as main system leader (32%) and trust finance directors identified the trust (30%) and CCG (27%) as the main system leader, though 10% of trust responses were 'none of the above'.

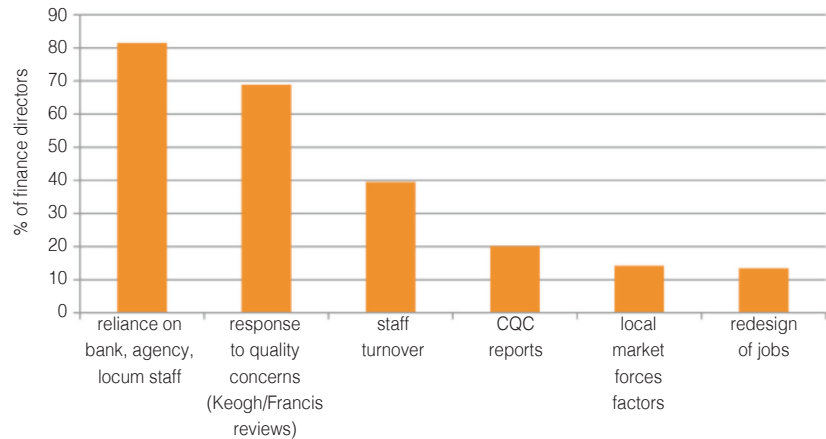
This underlines the perceived lack of system leadership in the NHS following the restructuring in 2013.

### Five-year plans

Finance directors have concerns about their organisation's plans:

- Only 14% of trust finance directors and 13% of CCG CFOs are totally confident about the assumptions underpinning years 1 and 2 of their five-year plans. The picture worsens for years 3 to 5 of the plans.
- Just 11% of trust and 30% of CCG strategic plans have been agreed by all parties within the health economy. Most were partially agreed, with 16% of trust and 5% of CCG plans not agreed at all.
- No finance directors are very confident their organisation's

**Chart 2: What are the main drivers of pay costs in trusts?**



### Mechanisms to address the financial challenges

Finance directors told us how they plan to deal with cost pressures and meet the financial challenges ahead. The top priorities for trust finance directors are to make agency and procurement cost savings, estates rationalisation, reducing clinical variation and reducing staff costs through the redesign of jobs. CCG CFOs intend to invest in community services and primary care and to integrate and redesign care pathways.

### Main concerns across health economies

We asked respondents to outline their main concerns about the financial position of their local health economy. The concerns are largely shared by commissioners and providers and are the lack of system management across the health economy and the achievability of CCG QIPP plans and provider cost improvement plans.

five-year plan can be achieved and only 15% of CCG CFOs and 12% of provider finance directors are quite confident.

- Unsurprisingly, finance directors are more confident the first two years of the plan are achievable, with 56% of trust finance directors and 67% of CCG CFOs being either very or quite confident that the first two years of their plans are achievable.

We asked finance directors what extra support would be required to help organisations deliver their five-year plans. Responses focused on political support, proactive system leadership, faster transformation of services, better national workforce planning, reduced efficiency targets, certainty of allocations and increased revenue and capital funding.

### What can be done to help the financial pressures?

We asked finance directors to tell us what top three actions would help reduce financial pressure in their health economy. They recognised there were no easy answers. Alongside an increase in NHS funding levels the most frequently suggested points were:

- Faster progress on clinically led service transformation and integration
- Improved system leadership within health economies to help drive transformation
- A reduction in efficiency expectations
- Better partnership working across all organisations in the health economy, including economy wide integration plans
- Improved national workforce planning and training
- Less focus on competition and more on collaboration
- Changes to the payment system to support new ways of working.

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### The HFMA's views on what needs to happen

Financial pressure is being felt across the NHS and in organisations that have not experienced financial difficulty in the past. While most finance directors do not expect quality to be compromised, there are signs of strain.

There has been a swift deterioration in the financial position during 2014/15 and the picture looks even bleaker for 2015/16. It is clear that the current level of funding is not sufficient to sustain the NHS in the way it currently operates. There is a real risk that the NHS in England will be in deficit for the first time since 2005/06.

NHS England's *Five-year forward view* (FYFV), released in October, sets out the future of the NHS. It is a vision that is firmly supported by the HFMA. The NHS needs to move to new models of care in order to provide a better service for those that use it and also to provide better value for taxpayers. Doing nothing is not an option and the period following the general election in May 2015 will be a critical time to cement plans to increase the pace of change. We suggest four areas should be focused on so that the vision set out in the FYFV can be achieved.

#### ● **More funding is required to enable transformation**

It has been widely reported that unless action is taken the NHS faces an annual funding shortfall of £30bn by 2020/21. The FYFV proposes ways of reducing this shortfall and keeping the NHS a tax-funded system.

We fully support this and agree that it is possible to reduce demand by, among other things, improving health prevention and increasing efficiency, principally by moving to new models of care. However, it will only be possible to improve these areas if the NHS receives above-inflation funding. We recognise that increasing NHS funding is a difficult proposition, given the current economic climate, but it is essential to support the transformation that must happen. Finance directors are clear that a constructive debate is needed with the public and politicians about the financial challenges facing the NHS, the need for change and increased funding.

#### ● **Faster progress on large transformation schemes is essential and requires system leadership**

A key message from finance directors is that service transformation and integration need to happen faster but progress is being hampered. To move faster finance directors are calling for strong system leadership to support organisations to develop the right solution for their area, based on clinical evidence and supported by the public, politicians, patients and employees. This leadership can come from within existing organisations. Finance directors are not calling for further reorganisation but system leaders will require the support of politicians to help drive change.

Finance directors will need to work with board colleagues and clinicians to prioritise achieving the best outcomes for

patients and using limited resources for the greatest good, even if their own organisations do not benefit directly. There needs to be collective responsibility across organisations to incentivise managers to understand that if one organisation fails then every organisation fails.

#### ● **National workforce planning must be improved**

The majority of trust finance directors have reported concerns about increasing staff costs and this has been a major factor in the deterioration of financial performance. The costs are largely as a consequence of needing to recruit extra medical and nursing staff as part of their organisations' response to quality concerns, such as those raised by the Keogh and Francis reviews. However, trusts are finding it difficult to recruit to the posts and have incurred additional costs as a result of having to use agency staff. This is a widespread problem that individual trusts cannot solve. In our view the current national system of workforce planning and training is not working and needs to be reviewed.

#### ● **Payment systems need to change**

The current payment system was developed when undertaking increasing levels of activity was encouraged in order to reduce waiting times. Times have changed and the view of some finance directors is that it is no longer fit for purpose. If we are to move to the different models of care set out in the FYFV, new payment models will need to be developed. Care will be provided across organisational boundaries and in new ways as technology is increasingly used.

Different approaches will develop according to local requirements and the role of GPs and primary care is expected to significantly change. Work is already under way to develop the payment model so that it supports new models of care and is fully supported by the HFMA, but we need to move faster.

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