

NHS Professionals

White Paper

Exposing the true cost of
managing a temporary workforce



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Executive Summary

NHS Professionals: Exposing the true cost of managing a temporary workforce

This is part of a series of papers developed by NHS Professionals to inform NHS Trust board members and help them to consider how they can make best use of their temporary workforce.

Managing a temporary workforce is something of a minefield – we know; it's what we do all day every day – but it's a minefield we have learned to navigate through experience. We hope that by sharing some of that experience, you will feel better able to make informed decisions about how to provide a temporary workforce that is effective, efficient and safe.

With extreme pressures on the substantive workforce, it is entirely appropriate for Trusts to investigate the costs of running a temporary worker bank in order to achieve best value for money. There are many examples of good practice in achieving efficiencies and just as many false premises.

It takes a lot of coordinated effort to run an effective bank. The people working behind the scenes recruiting, checking, auditing and paying are just as important as the ones placing shifts and managing budgets. Yet, superficial business cases might suggest that savings could be made by simply investing in software applications to run in-house banks. In many cases, these prove to be ineffective as they fail to expose many of the underlying costs.

This paper exposes some of the hidden costs of running a bank, both in terms of financial cost and the potential risk to quality of care and patient safety. It suggests a cost-effective solution that Trusts may wish to consider, and identifies automatic structural cost savings that can only be delivered by working with a third party.

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Chief Executive's Foreward

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To meet productivity targets, ever greater pressure will be brought to bear on Trusts to be both innovative and efficient. NHS organisations must continue to focus on identifying how efficiencies can be driven and services redesigned to achieve the aims of quality, productivity and patient outcome. Given the size of the budget, staff deployment – including the use of the temporary and flexible workforce – is certain to be a key area to make efficiencies.

Since 2012, we have been tracking a steady increase in demand for additional hours. Some of this is due to additional pressures on the NHS overall and some of it almost certainly stems from Trusts increasing their nursing establishment to maintain safe staffing levels as a consequence of the Francis Report.

All of this has put more pressure on the Bank to perform, increase productivity and support an increasingly stretched substantive workforce. Needless to say, agencies have played their part both in providing staff but also in increasing cost to the NHS.

This paper draws on NHS Professionals' experience of working with more than 100 Trusts to explain the true costs of running a bank and how Trusts can manage them most effectively. It is one in a series of papers that aims to help NHS Trust Executive Boards consider how they develop and utilise a flexible workforce that is safe, efficient and productive.

I hope it will be of interest to all NHS Trust board members and welcome your comments.

Stephen Dangerfield
Chief Executive, NHS Professionals

† Audit commission 'Successful savings programmes are not just about cutting costs - NHS Trusts must ensure they transform services too' - January

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Introduction

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Payroll accounts for up to 70%[†] of costs in the NHS and efficient deployment of staff is essential to ensuring optimal productivity. Historically, as much as 29% of total workforce cost may be spent on temporary and flexible working, including overtime, bank staff and expensive agency workers (NAO, 2006). There can be no doubt that management and fulfilment of unfilled shift demand is a major burden for Trusts.

When looking to achieve efficiencies there are three aspects to consider:

- Driving down shift demand
- Driving out expensive agency staff, and
- Reducing the cost of providing an effective bank service, including minimising the “on-cost” of the flexible workforce

Other papers in this series address the first two items whilst this paper deals specifically with managing the cost of running an effective bank service.

Almost all NHS Trusts now have a bank process from which they can fill shifts with either their existing staff or staff who work only for the bank. Trusts across the country are pro-actively assessing their flexible worker banks and considering ways in which they might be handled more efficiently.

One innovative option being considered by some is to invest in bank management software applications to better organise their in-house bank. The business cases supporting this option usually indicate that savings can be made.

Whilst there is no doubt some excellent work being undertaken, Trust boards are often surprised when a software-only solution fails to deliver the anticipated savings and benefits. More often than not, this is because the proposal hasn't considered all of the true costs involved in setting up, running and maintaining the bank - the people who actually deliver the service.

[†] Health Service Journal 'Spending Review Roundtable' - Chief Executive, Healthcare Management Association, November 2010

Introduction

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This paper is intended to help you identify some of the 'bear traps' and look at practical alternatives. It sets out some of the true costs involved in running an effective bank and outlines the potential for efficiencies.

Staff banks are an essential element in the workforce strategy and the decisions Trusts make about the bank can have serious implications for both efficient operation and patient safety.

Key Points

- Managing a bank to ensure that both 'value for money' and quality are maintained is a complex challenge
- Trusts need to be fully informed when it comes to driving down the cost of the bank service
- One of the benefits of outsourcing the requirement is that all true costs are exposed and accounted for
- There are automatic and immediate savings from using an external service provider

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The true cost of running a bank

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NHS Trusts operate flexible worker banks in a variety of ways, from the fully-managed 24/7 outsourced solution through to a small in-house team armed with a Blackberry and a PC, operating nine-to-five, weekdays only. The business case for the smaller, streamlined in-house bank is often superficially attractive, but don't be surprised if the reality differs considerably from expectation.

In-house banks can be effective at filling shifts, by calling staff at short-notice during their off-duty time. But do they really have the tools, experience or information to help identify superfluous demand, recommend policy changes and reduce excessive agency spend?

Are they able to identify oversupply in one area that can be safely redeployed to meet short falls in another?

In our experience the business case for an in-house arrangement can underestimate annual costs by as much as 40%. This section looks at some of those costs and in the next section we give an illustrated example with figures drawn from our work with Trusts.

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Costs that slip through the net

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Outlined below are aspects of operating an efficient and safe bank that have been regularly omitted from business cases we have seen.

24 Hour Operation

Effective banks operate 24 hours a day to respond to emergency demand and therefore incur out-of-hours costs; the alternative to a 24 hour bank is emergency use of agency staff – a costly option where fees can amount to thousands of pounds a night for specialist nurses and Locum doctors.

The key challenges that have historically impaired the delivery of effective and efficient back-office functions are well understood; namely the fragmented nature of the NHS, with almost all organisations developing their own back-office operations, an absence of robust and consistent management information to evaluate and compare spend, and limited review mechanisms to examine the operational effectiveness of back-office functions. All organisations will be aware that the setting of a future tariff will reflect assumed efficiencies in this [shared services or out-sourced provision] and other QIPP areas.

(QIPP, 2010)

Duplicated Back-Office Functions

Operating in-house banks across the NHS also duplicates a number of back-office functions and expensive systems at a time when the NHS is requested to make significant reductions in management and administration costs. This negates opportunities for economies of scale.

Recruitment

Because of the transient nature of the role, turnover of temporary staff is notoriously high. Trusts must continuously recruit to maintain a good supply of bank workers. That means planning and organising recruitment campaigns. All necessary pre-employment checks have to be carried out and all mandatory training must be appropriate and up to date. Not forgetting occupational health clearance, professional registration and reference checking as well as payroll, pensions and uniforms.

HR service

A HR service is also required to address issues arising from direct employment such as complaints against bank workers and attendance at Industrial Tribunals.

Costs that slip through the net

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Demand Forecasting and Management Information (MI)

One stumbling block to an accurate business plan is that in order to manage agency costs, wards must accurately forecast future demand for temporary staff. To budget effectively they must provide the Trust Executive with relevant and timely management information.[†]

Fraud Prevention and Detection

Flexible workers have to be paid the right amount at the right time, supported by fraud detection and prevention systems. They need accurate timesheet information, verified by Ward Managers. They need support from payroll and the finance department, reconciling agency invoices with actual hours worked.

“We used to spend a lot of time calling bank staff and agency workers. It would then take me hours to cross-reference both the timesheets and pay records against the wards. Now with NHSP, shift costs are automatically charged to the ward that registered the request.”

Cath Battrick, Matron, Child Health Unit, University Hospital Southampton NHS Foundation Trust

Systems and Processes

Running an effective bank requires input from many departments. It also requires dedicated I.T. systems – and therefore software licences, I.T. support, administration, maintenance, back up and recovery.

An Integrated Service

A bank is not simply a system for booking shifts but rather an integrated service that recruits and develops the flexible workforce, forecasts and manages demand and provides management with vital information. Any step not carried out to a high standard compromises quality and patient safety.

Lack of planning is likely to mean too few bank workers without the necessary skills, qualifications and compliance to support the Trust, leading in turn to higher usage of expensive agencies.

The cost of failing to plan is not easily measured and can result in damage to the bank’s reputation by compromising on quality, reliability and patient safety (Flexible Nursing: IES, 2010).

Key Points

- Running an in-house bank has many hidden costs associated
- An inefficient bank compromises quality and patient safety standards
- QIPP requires back-office functions to be consolidated and shared with other Trusts to gain economies of scale. New income tariffs will anticipate reduced expenditure on back-office functions (QIPP, 2010)
- Retaining employment of bank workers leaves all the employment risk with the Trust.

[†] NHS Professionals White Paper ‘Managing demand: best in class approach to reducing shift fill demand’

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Cost centres in running an efficient bank

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Not surprisingly, the costs of managing an effective bank fall into the usual categories:

- Direct pay costs
- Non-pay costs
- Non-recurring costs

However, many of the real costs of the bank are buried in other departmental budgets.

Direct Pay Costs

Running a bank requires a wide range of skills and manpower from several departments in addition to the pay costs of the bank management staff. Typically, these include:

- Bank administration staff
- Recruitment staff
- Clinical governance, audit and complaints team
- Management information analysis and reporting
- Management accounts and finance team
- Payroll and pensions administration
- Occupational health
- Agency procurement
- Timesheet validation and authorisation
- Agency invoice validation and authorisation
- Administration and delivery of mandatory training
- HR service for directly employed bank staff
- I.T. development and support staff

- Management overhead
- Out-of-hours and on-call service costs
- Administration of uniforms
- Administration and support for IT systems

Most business cases get the payroll costs right for the people in the front-line managing the bank. But they often fail to recognise the costs associated with good governance and recruitment to NHS Employment Check Standards. They also fail to consider the potential risks associated with retaining employment of bank workers which require significant HR involvement.

Non-Pay Costs

These include:

- Payroll processing (pay slips, for example)
- Agency invoice processing
- Mandatory training courses
- Recruitment advertising
- Mandatory employment checks (registration, DBS, Right To Work, visa expiry)
- Uniforms
- NHS Smartcards
- Application software licence and support
- eRostering system licence and support

Naive business cases often fail to allocate any real cost to the essential back-office support functions required to operate an effective in-house bank.

Cost centres in running an efficient bank

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Non-recurring Costs

- Trust systems implementation project team
- Bank system procurement
- Bank system infrastructure (e.g. servers, storage, power, cooling)
- eRoster system purchase
- eRoster system hosting and infrastructure

Non-recurring costs are generally visible in the business case as they are subject to procurement policy.

An Alternative Approach

As an alternative, an outsourced, fully managed service consolidates many of these costs at a stroke, replacing them with a managed service fee and transaction based charges. Services such as recruitment, payroll and I.T. infrastructure, admin and support are delivered efficiently utilising industry best practice and realising economies of scale from shared services.

Source: Back office efficiency and management optimisation, 2010

Table 13: Advantages and constraints of outsourcing model

Advantages	Constraints
Substantial capital resource and expertise to help exploit e-technology and so ensure that the benefits of simplification and standardisation are realised	The need to establish partnerships via OJEU can take time and frustrate organisations seeking ready solutions (this is the subject of further proposals identified in Section 12 of this paper)
Reduction in overhead cost. Traditionally costs for back office functions have been extremely high, and space can be used for core activities, particularly where this space is limited	Lack of experience and track record in working with the NHS
Provides greater staff flexibility and efficiency to meet demand peaks	Organisations should be aware of security and confidentiality issues and ensure that the correct data protection level is in place
Economies of scale are clearly evident in this model	Historically many outsourcing relationships have been structured as win-lose relationships. This must be avoided in any partnerships going forward
Provide greater operational control to areas that may have costs that exceed their contribution to the organisation by enabling management to prioritise critical activities	An absence of strategic fit between the provider offering homogenous solutions and hitherto typically heterogeneous clients
Providers can focus on their core activity of providing patient care	Subject to negotiation the trust may need to bear restructuring costs
QIPP national workstream: Back office efficiency and management optimisation	

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Pay and benefits costs

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Benchmarking Pay and Benefits

An in-house bank may incur higher pay costs than necessary. A managed service has a separate engagement contract for each flexible worker and can pay bank workers Agenda for Change rates. The Trust can decide to pay additional hours at an agreed rate for the role rather than the overtime. In current market conditions it is good practise to maintain bank rates in line with local market conditions. This will allow the Bank to recruit against the pressures of staffing agencies poaching NHS workers for work elsewhere.

The hourly and daily costs of using nurses, is shown on the table below:

	Standard day shift rate	
	Healthcare Assistant	Registered Nurse
NHS Professionals	£100.55	£146.38
Typical Trust Internal Bank Only	£97.77	£144.80
Typical Trust Multi-Post holder	£101.07	£156.78
Typical Trust Substantive	£108.41	£157.81
Typical Trust Substantive + O/Time	£136.74	£212.11
Average Agency Framework rate ¹	£126.27	£256.47

The rates above are correct at time of printing.

¹: Calculated between Jan - March 2015

Pay and benefits costs

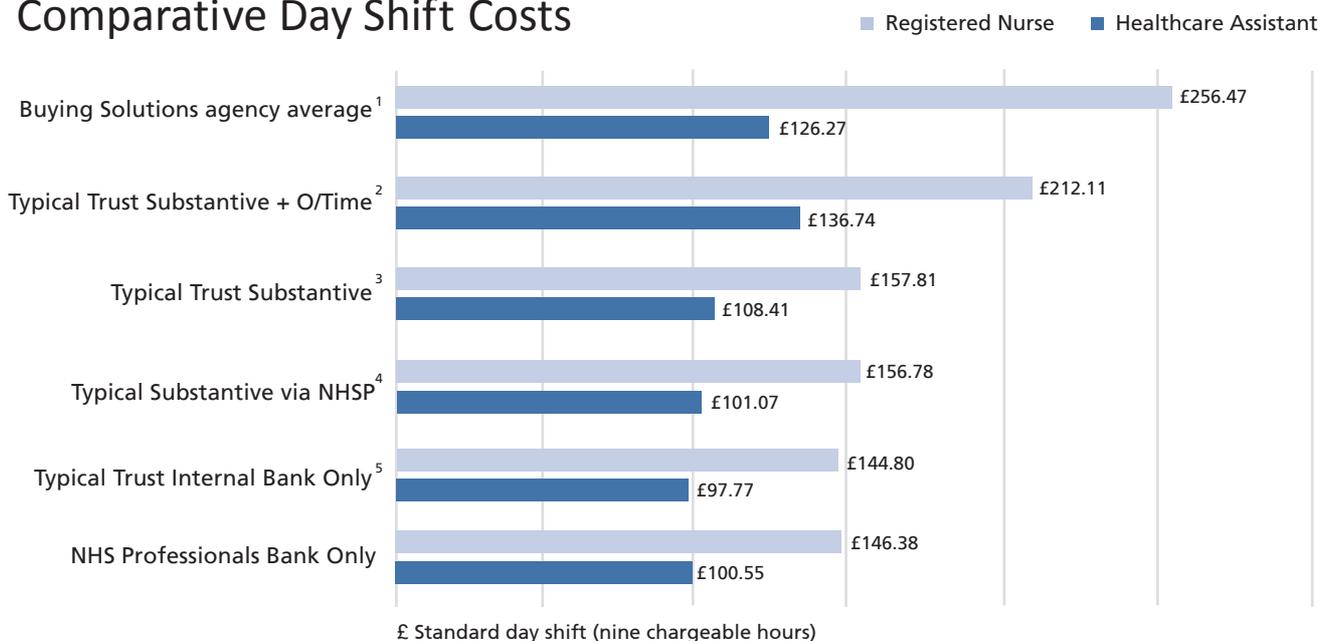
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There is an additional saving to be made by the Trust from outsourcing its bank. When a Trust employee with a substantive contract works a shift for the in-house bank, the employer incurs National Insurance Contributions (NIC) at full rate. However, when the same member of staff works for a separate employer, NIC is not payable on the first £155 that the employee earns, saving up to £19 per shift. The Trust makes an automatic saving on most shifts worked by substantive employees, who typically work no more than one extra shift per week. NHSP takes this saving into account in its on-cost charges.

Key Points

- Examination of the true costs proves outsourcing to be highly cost effective, delivering real savings on pay-related costs
- An outsourced fully managed solution delivers not just on cost effectiveness but also on quality and patient safety. Exactly how, is explored in another paper in this series on patient safety and the temporary workforce

Comparative Day Shift Costs



¹ Agency average (Framework) rate for a standard day shift (July 2015)

² Assume an employee working full time, 37.5 hours per week on AfC SP 5/20 with 50% overtime premium plus allowance for typical NHS employment costs (NI)

³ Assume an employee working part-time, zero-hours contract, on AfC SP 5/20 plus allowance for typical NHS employment costs (NI, Pension)

⁴ Assume an employee working part-time, zero-hours contract, on AfC SP 4/18 plus allowance for typical NHS employment costs (NI, Pension)

⁵ 'Agenda for Change' (AFC typically point 5/20), plus an allowance of 14.75% to cover employment costs, and 2.5% NHSP transaction fee

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Savings from a managed service

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An example of savings are shown on page sixteen. This example has been developed from our experience with NHS Trusts that have explored moving to an in-house bank. It is based on a bank spend of just over £5 million per annum including Agency spend.

The first column is the typical cost estimate from the Trust. An Activity Based Costing estimate (ABC) suggests that non-pay elements, estimated at around £57k, are seldom included in the business case. The overhead costs associated with premises, I.T. support and management time, though real, are generally irrecoverable. The business case underestimates the true cost by around 30%.

If outsourced to NHS Professionals, dependency on expensive agencies will normally be reduced by around £658k p.a. and overall temporary spend reduced over a 24 month period.

By outsourcing the temporary worker bank, most pay and non-pay costs of managing the bank are absorbed by the service provider. The residual costs shown are where savings may not be easily derived by the Trust such as management overhead and fractions of recruitment and occupational health staff costs which are less

likely to be attained. On a like-for-like basis we would expect the Trust to save £331k p.a. from 'day one' based on reduced ERS NI alone.

During the first 24 months, we would expect the Trust to realise a number of other important savings, detailed below:

- Reduction in shift demand from increased awareness and tighter authorisation control (saving £281k p.a.)
- Reducing dependency on staffing agencies by developing the Bank (£430k p.a.)
- Additional savings from validating agency invoices, enforcing statutory breaks and agency cascade (£142k p.a.)

Potential savings of more than £1.5 million are available to the Trust from improved efficiency and optimisation.

On-Costs

One important aspect shown in the table relates to on-cost reduction. This represents an automatic saving to the Trust simply by outsourcing the temporary worker bank and ensuring all shifts are operated through the outsourced bank. The saving comes from reduced ERS NI contributions and reduced employers' pension contributions.

Savings from a managed service

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Assuming a Bank spend of £5 million per annum (incl. Agency costs)

Expenditure (£'000s)	In-House Perceived Cost	True Cost	Realisable Savings
Pay Cost (bank management, OH ¹ , CG ² , recruitment etc)	237	237	237
Payroll Processing & Finance	94	94	94
Overhead Allocation (property, I.T., management etc)	50	50	50
DBS, OH & Mandatory Training		43	43
Staff Bank system		7	7
Working Capital (payroll funding)		7	7
	381	438	438
Less: Net Out-source Charges (Fees less ERS NIC & pension saving)			(75)
Net Operating Cost/(Saving) of Temporary Staff Bank	381	438	363
<i>Trusts under-estimate cost of bank operation by over 30%</i>			

Potential Efficiency Savings for Trust:

	£'000s per annum
Demand Management	281
On-Cost Savings	331
Agency Migration	430
Agency Invoice Accuracy	25
Statutory Breaks	32
Agency Cascade Savings	85
	1152
Net Cost/(Saving)	1515

¹ Occupational Health

² Clinical Governance

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Conclusions

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Initiatives to investigate the costs of operating an effective nursing bank are essential to driving best value for the Trust. However, the Trust Board should recognise the risks involved. The danger is two-fold: compromising patient safety from an ineffective bank and failing to estimate the true cost of operating an effective in-house bank.

The overwhelming body of evidence suggests that an outsourced service, such as that provided by NHS Professionals will deliver very significant efficiencies for Trusts without any compromise to quality and patient experience.

At the very least, the Trust benefits from on-cost savings in ERS NI and pensions contributions for every flexible worker employed by the Trust and working extra hours through the bank.

References

Flexible Nursing: Institute for Employment Studies, Mercer, Buchan & Chubb; 2010

National Audit Office: Improving the use of temporary nursing staff in NHS acute and foundation trusts; 2006; HC1176

Use of temporary nursing staff: Audit Commission, May 2010

QIPP, Back office efficiency and management optimisation, 2010

About NHS Professionals

NHS Professionals: Exposing the true cost of managing a temporary workforce

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Also available in the series:

- Flexible Staffing: Delivering more for less
 - Delivering efficiency: exposing the true cost of managing a temporary workforce
 - Patient safety: addressing temporary worker clinical standards, governance and compliance
 - Managing demand: best in class approach to reducing shift demand
 - A partnership approach: collaborative working with agencies
 - Medical Locum expenditure: treating the disease, not the symptoms
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