HFMA briefing
December 2022

NHS financial temperature check

Finance director survey results

The CPD Standards Office
CPD PROVIDER: 50137
2022-2024
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Summary

At the NHS England board meeting on 6 October 2022, Julian Kelly, chief financial officer, stated that inflationary pressures coupled with the level of efficiency savings required to break-even could impact the level of service that the NHS can provide.

In order to understand the reality of the financial pressures that NHS organisations are facing, the HFMA surveyed finance directors at the end of October and the beginning of November 2022. The survey asked questions about the financial pressures and the strategies that are being employed to attempt to address them.

The key messages are:

- Almost all finance directors who responded to the survey rate the financial challenge in 2023/24 between eight and 10, on a scale where one is achievable and 10 is impossible.
- The ratings for the current financial year are lower – more finance directors expect to meet their own organisational plan in year. However, they are less certain that system wide plans will be achieved.
- Organisations are taking action as a result of these concerns. When asked what national bodies could do to help, the key messages were to be transparent about available funding and realistic about what can be achieved with that funding.
- There is still concern about achieving various targets in 2022/23:
  - some organisations rate more than half of their efficiency plans as high risk
  - all except one respondent did not expect to achieve the elective recovery target.
- Actions taken to meet efficiency targets are varied but the overall theme of responses was the reintroduction of pre-pandemic financial governance arrangements and additional grip and control.
- Finance directors are concerned that longer term measures in relation to prevention, population health and health inequalities will be delayed as resources are spent on more immediate concerns.
- Almost half of finance directors were concerned that quality will be impacted by financial constraints. This is already being seen in longer waiting times and restricted access to services.
- Capital programmes remain a concern, particular issues raised include the lack of clarity as to when permission to spend capital money will be received and the possibility of the release of capital funds in early 2023 that will have to be spent by the end of the financial year.
- Working on a system wide basis to resolve issues was mentioned by respondents, but they are also aware that there needs to be a cultural shift to working on this basis and there is still silo working in some places.

The survey was carried out before the *Autumn statement* on 17 November 2022. Finance directors welcome the additional funding for both the NHS and social care. However, the funding does not directly address the workforce crisis and is not sufficient to put in place longer term solutions for the continued financial sustainability of the NHS.

Background

We received 62 responses to our survey covering all seven regions in England. Responses were received from finance directors working in 28 of the 42 integrated care board (ICB) areas. Respondents work across all types of provider body as well as ICBs of a variety of sizes which is representative of the current structure of the NHS.

Financial position

In order to frame the responses, we asked for the forecast full year surplus or deficit that organisations had submitted in the June plans as well as their actual month six position. The general trend was that the reported position at six months is worse than the planned outturn for the year.

Overall, 28 of the finance directors (52%) that responded to this question in the survey reported that their organisation planned to break even in year while twelve (16%) reported that their organisation submitted a deficit plan in June. However, when asked about the actual position half way through the financial year, only five (12%) finance directors reported a surplus while 24 (59%) respondents reported a deficit. For some organisations, this may be expected because cost improvement programmes have been back loaded. However, this needs to be offset by the winter pressures that fall in the second half of the financial year.

Similar numbers were reported by finance directors for the systems that their organisation belongs to. Overall, respondents have more confidence that they will achieve their organisational plan than the system they belong to would meet its plan:

- 68% expected to meet their organisational plan
- only 38% expected to meet their system plan.

The key changes to planning assumptions cited as impacting on performance against plan are:

- unfunded agenda for change pay pressures
- inflationary pressures
- higher rates of Covid-19 than expected
- increased emergency department attendance
- more patients than expected who do not meet the criteria to reside in hospital beds.

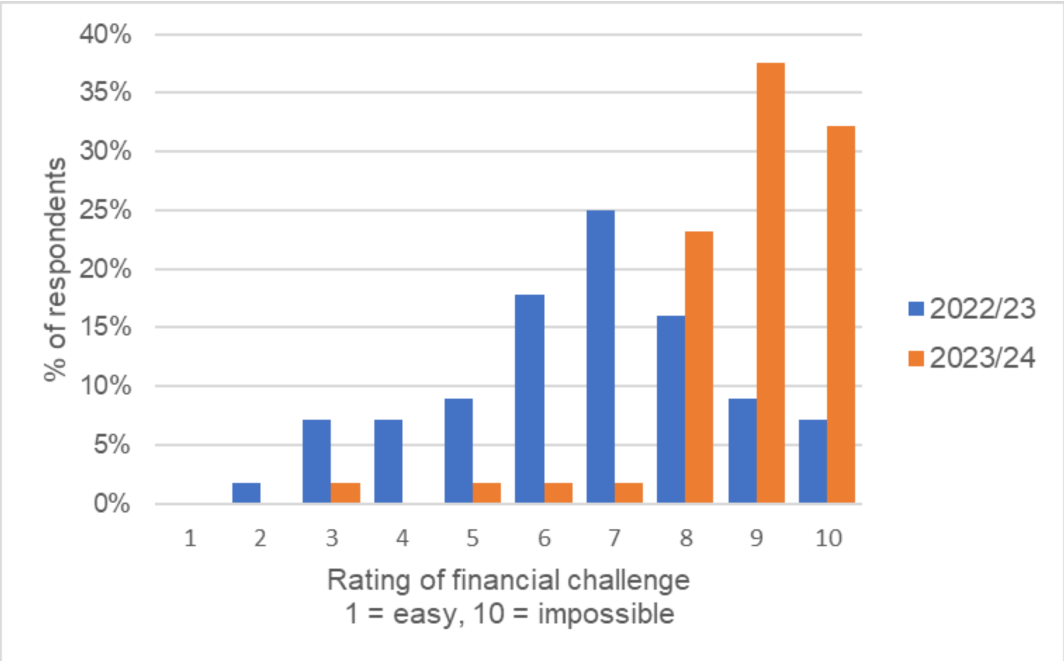
Financial pressures now and looking forward

The expectation from all respondents is that meeting the financial challenge of breaking even now, and in the future, will be difficult, if not impossible. As the NHS approaches the end of month nine, the outlook for 2022/23 can be more certain than for future years. However, there is concern that problems this year are being masked by non-recurrent savings and one-off funding, meaning that organisations and systems will be entering 2023/24 with a challenging starting point.

> 'Lack of recurrent CIP delivery in 2022/23 will further compound the 2023/24 national efficiency ask.'
> Integrated trust finance director

Graph 1 shows how finance directors have rated the financial challenge for 2022/23 and 2023/24. As might be expected, there is a slightly more positive view for the current year than for next. It should be noted that this assessment was made before the recent Autumn statement.

Graph 1: Rating of the financial challenge in 2022/23 and 2023/24



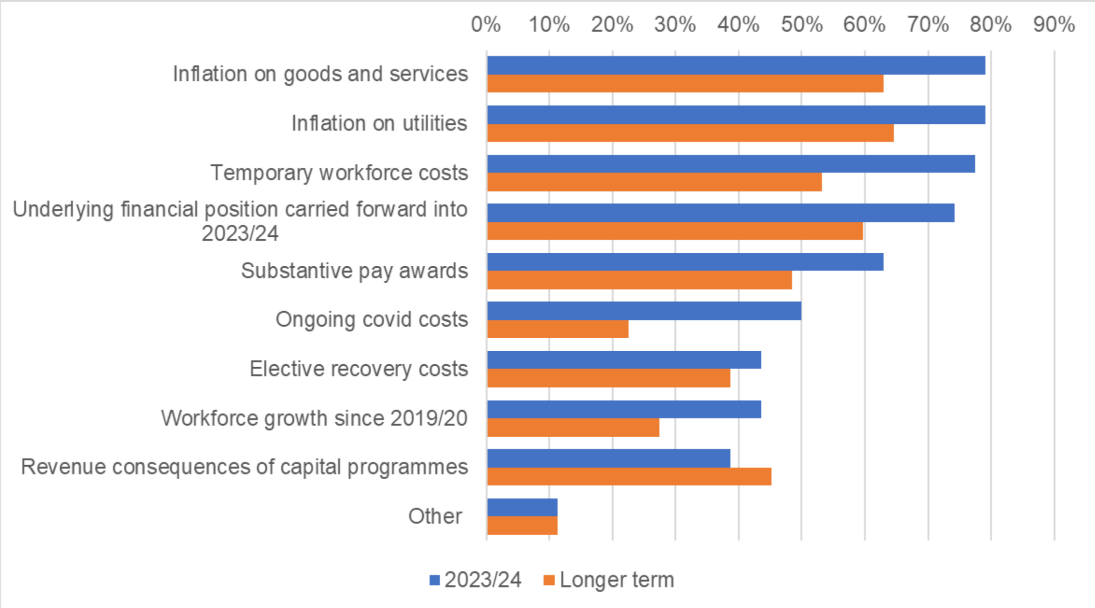
> 'There is an underlying deficit in 2022/23, driven mainly by uncontrollable factors including energy prices, Covid-19 costs, staff sickness, patients not meeting the criteria to reside in beds, inflation and drugs costs within block contracts. It is impossible to manage these pressures in a single trust without cutting back on services.' Acute finance director

There is little optimism looking ahead to 2023/24, with 93% of survey respondents from all sectors, stating that they believed the financial challenge coming, to be close to impossible. An exception to this view was in the mental health sector, with 22% of responses from the sector believing that they would be able to meet the future challenge.

Responses to the survey also indicate the pressure on finance directors themselves, with responses including phrases such as 'I am really worried', 'I have never known it so bad', and 'I can't see a way through'.

As the NHS moves towards 2023/24, a number of specific cost pressures are causing common concern across all sectors. These are shown in **graph 2**.

Graph 2: Percentage of respondents identifying specific cost pressures



Inflation is anticipated to be the most significant cost pressure for 2023/24 and in the longer term. For those with PFI assets, this impact may be greater than for others. While the impact of the majority of current cost pressures is expected to decrease in future years, the revenue consequences of capital programmes is expected to increase. This reinforces the need for the revenue impact of capital investment to be fully considered, and funded, during the business case process.

Workforce pressures are expected to continue to affect the financial position, with temporary staffing costs featuring highly in the expected cost pressures. On top of this, substantive pay awards will need to be reflected in baseline allocations going forward. The survey was completed before results of the recent vote by nurses to take strike action were announced.

> 'Temporary staffing pressures will take a long time to address, given education and training pipeline to replace aging workforce and limited progress on new roles.' Integrated care board finance director

The impact of social care pressures was also highlighted as a cost pressure for many finance directors responding to the survey. Patients who do not meet the criteria to reside as an inpatient but cannot be discharged, are increasing pressure on the NHS and absorbing NHS funding to meet social care needs.

As previously stated, the survey was carried out before additional funding for both the NHS and social care was announced as part of the *Autumn statement 2022*[1]. Finance directors welcome the

[1] HM Treasury, *Autumn statement 2022*, November 2022

funding announcement and appreciate that funding for healthcare continues to be a priority. However, they remain concerned about the high levels of need at the moment and the workforce crisis will hamper efforts to find a long-term solution to NHS financial sustainability. NHS bodies will need to work with local authorities to ensure that the additional funds are used to best effect for the benefit of patients and service users

Financial regime

Discussions with directors of finance at recent HFMA meetings and events have highlighted concerns about reports of the potential reintroduction of a payment by results (PBR) approach for elective activity in 2023/24. Tackling waiting lists is a high priority for all NHS organisations, but the ability to tackle them is often constrained by workforce supply issues and increasing unscheduled care demand that has to be met. The ability to increase elective activity is also limited by increasing numbers of patients with no criteria to reside.

Concern has also been raised that the system approach where all organisations are working towards a single break-even position across the whole system, is a very different financial environment to when PBR was last in place. Previously, providers could expect to be reimbursed for over activity and commissioners held contingency funds in case this happened. Taking a whole system approach means that this method no longer makes sense. Instead, the variable element of the aligned payment and incentive approach enables a managed flexibility in activity that remains within the system funding envelope.

Bringing back a transactional, potentially adversarial approach to addressing elective care backlogs, could undo much of the progress towards system working and, ultimately, have an adverse impact on patient outcomes.

Efficiency

Respondents reported efficiency targets ranging from £120m for an ICB to £1.8m for a small mental health trust.

As shown in **graph 3**, as a percentage of expenditure in 2022/23 the efficiency target range was from 1% to 8%, with an average of 3.7%. For five organisations (three acute, two mental health and one ambulance trust), half of the efficiency savings were as yet unidentified while over a third (nineteen) organisations had identified all of their efficiency savings.

For 28 (50%) organisations, more than half of their planned efficiencies are made up of non-recurrent elements.

Respondents reported a wide range of risk in their efficiency plans – from one integrated trust that reported that it had achieved most of its efficiencies for the year already so rated only 1% of their plan high risk, to two mental health trusts rating three quarters of their efficiency plans as high risk.

The immediate actions that NHS bodies are taking to achieve realistic efficiencies include:

- communicating the financial position, the issues coming up and the role that everyone has to play
- implementing ‘grip and control’ so that expenditure is reviewed and approved
  - using 2019/20 as a benchmark
  - focusing on non-core and corporate costs
  - line by line review of budgets
- harvesting fortuitous non-recurrent savings
- reviewing workforce and recruiting, in some cases internationally, to reduce agency and bank expenditure
- maximising income streams
- using the HFMA improving financial sustainability checklist[2] and efficiency map[3] to support work on the efficiency programme

> ‘We are considering skill mix changes, optimising contractual terms, shaving budgets, productivity, maximising VAT recovery, reducing depreciation, reducing waste, removing vacancies, procuring better, standardising consumables, medicines optimisation, rationalising estates.’ Finance director integrated trust

[2] HFMA, *Improving NHS financial sustainability: are you getting the basics right?*, April 2022
[3] HFMA, *NHS value and efficiency map*, updated December 2022

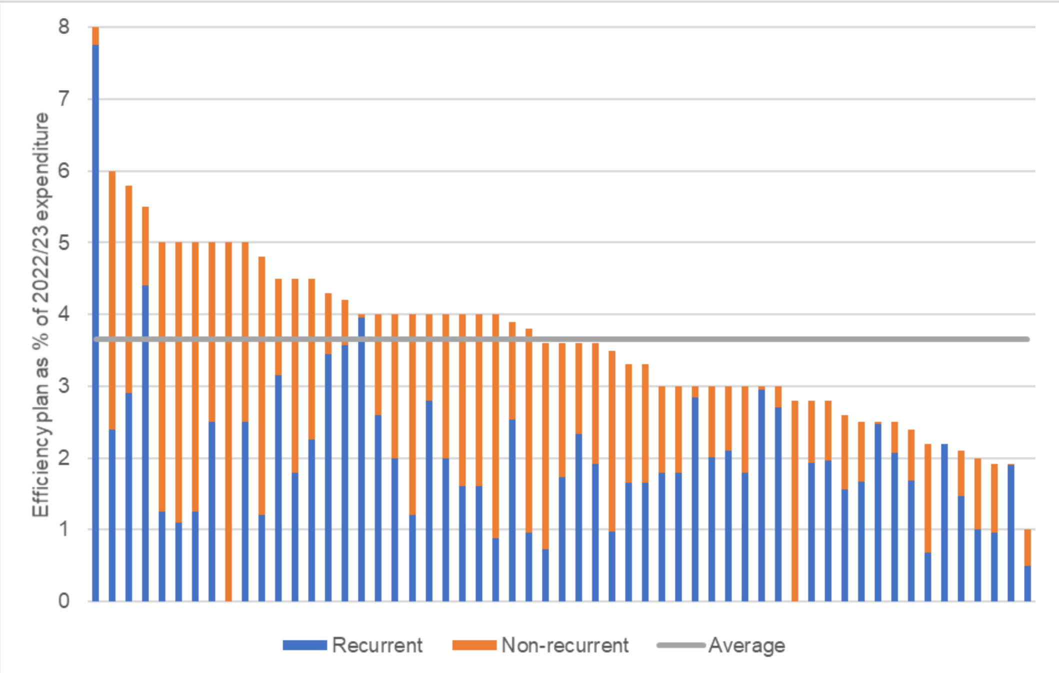
- establishment of project management offices (PMO) with clear governance to review and report against efficiency plans and gaps in the programme.

The transactional nature of this list reflects the fact that ICBs are newly created and current limited capacity limits the ability to make more transformational change. However, in the longer term, NHS bodies are transforming patient pathways across organisations in the system to ensure that there is no duplication. Organisations are also starting to work across systems in relation to making efficiency savings to ensure that there are no unintended consequences for other organisations. There is also a recognition that some of the issues are outside of the organisation's control so problems with delayed discharges need to be addressed, in part, with local authority partners.

However, finance directors are concerned about the future:

- 'There is a sizeable legacy being taken into 2023/24 and meeting that and any efficiency target is going to prove hugely problematic.'
- The challenge is as much on newly emerging pressures rather than efficiencies.'

Graph 3: Level of efficiency required to achieve the agreed organisation plan, as a % of 2022/23 expenditure



Agency ceiling

NHS England has set ceilings on agency spend based on submitted plans, intended to reduce spending by at least 10% compared to 2021/22. Target reductions that those who responded to the survey had to deliver in order to meet their ceiling varied between 10% and 90%, the average being 20% and the median 11%.

When comparing performance at month six of 2022/23 to the agency spend as a percentage of month six spend in 2021/22, 42% of respondents met their target. The percentage of respondents whose organisations met their agency target was the highest for mental health (57%) and acute providers (57%) compared with ICBs (25%) and integrated trusts (25%).

Comments from a number of those who did not provide their performance level indicated this was because they felt the target reduction was not achievable:

- 'it is impossible to achieve the cap due to workforce shortages and operational imperatives'
- another described the cap as 'a blunt tool to reduce expenditure when all organisations have significant numbers of vacancies.'

Respondents agreed about the reasons that they would not meet their targets:

- the lack of alignment between the agency ceiling and additional requirements for winter (high ward occupancy and unfunded complex packages of care)
- elective recovery delivery
- a fragile workforce with high vacancy level, sickness absences and those retiring or moving to agencies.

Respondents were clear that using agency staff is critical to ensuring patient safety.

Quality

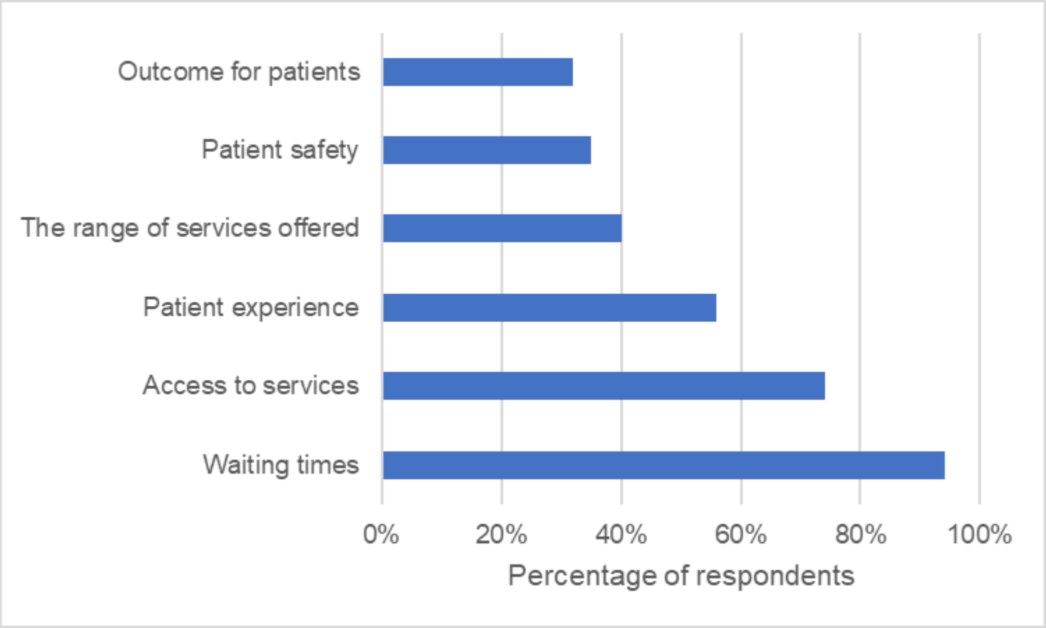
'Improving quality, safety and experience is why we are here so it's difficult to answer this question as anything less than improving these is simply not good enough. There is a concern about how we do this. So we will improve things, but to tick a box to say this without emphasising the challenge in doing so, feels wrong.' Mental health finance director

Half of respondents thought that quality[4] of services will improve or stay the same during 2022/23 compared to 2021/22. However, 45% of respondents thought that quality will reduce.

Several respondents stated that quality takes priority over finance, so the financial position would suffer before quality was compromised.

However, finance directors do expect that waiting times and access to services will decline (see **graph 4**). Some bodies are assessing whether some services will continue to be delivered in some circumstances.

Graph 4: Percentage of respondents' assessment of how quality will be affected



One of the key targets for NHS providers is to reduce waiting times for elective procedures[5]. In 2022/23, NHS providers are expected to achieve 104% of 2019/20 activity by value.

Eighty percent of respondents thought it was highly unlikely or unlikely that they would achieve the target. There were only eight finance directors from acute trusts who thought that their organisations were likely or highly likely to achieve this target.

Finance directors are concerned that wider programmes are at risk due to the financial pressures their organisations and systems are under. This is particularly the case for programmes relating to population health, prevention and tackling health inequalities, along with investment in staff (see **graph 5**). Finance directors are less sure about the longer term.

Other areas that respondents considered to be at risk include:

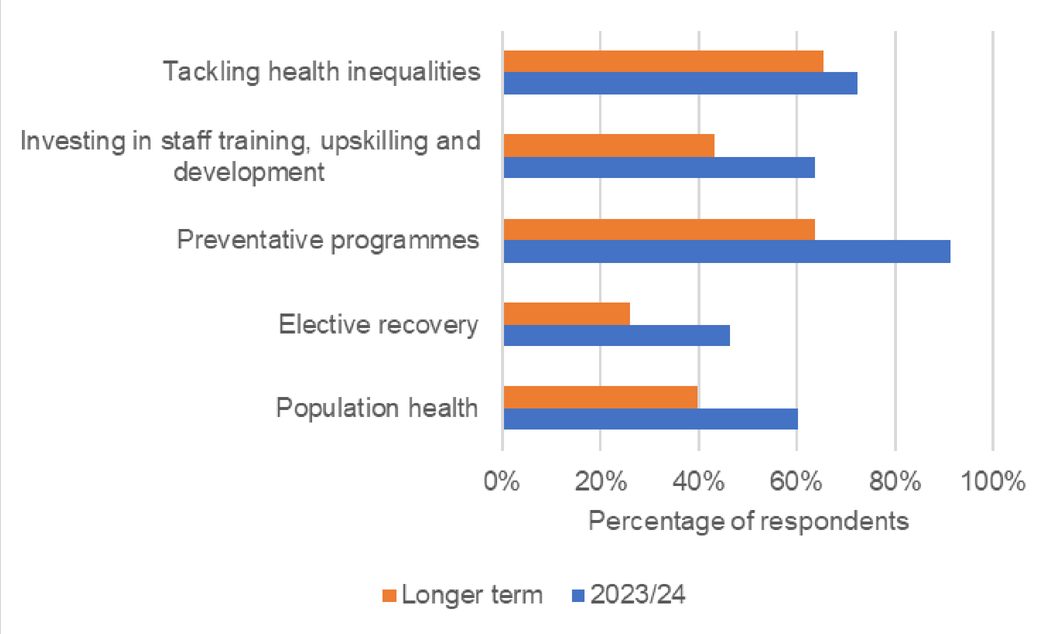
- all services except cancer waiting times and urgent care

[4] Quality is defined as services that are patient-centred, safe, effective, efficient, equitable and timely

[5] NHS England, *NHS publishes electives recovery plan to boost capacity and give power to patients*, February 2022

- digital transformation
- parity of esteem for mental health
- capital, particularly the new hospital programme.

Graph 5: Percentage of respondents who think that programmes are at risk in 2023/24



Capital

The difficulties of managing capital programmes is often raised as an issue by our members. The total capital expenditure incurred by NHS bodies in the Department of Health and Social Care (DHSC) group cannot exceed the national capital departmental expenditure limit (CDEL). Since 2018/19, the DHSC has reported expenditure within 2% of this limit.

In recent years, demand for capital programmes has significantly exceeded the available CDEL, as one acute finance director stated 'CDEL limits prevent investment in improvements and backlog. Our organisation has cash available but is not permitted to spend it'. Some 63% of respondents were not at all confident that they would have sufficient capital limit to meet the costs of backlog maintenance and replacement or renewal of equipment.

One respondent reflected that they are confident in relation to 2022/23, but are not at all clear about future investment. There is more confidence that capital programmes will be completed before the year end, with 73% of respondents indicating that they are very confident. However, there is concern about the impact of inflation on original plans as it will mean that projects will cost more than originally anticipated. This additional cost puts parts of the programme which have not yet been started at risk of slippage.

There is a tension in relation to capital between spending on existing estate to keep it useable and investing in new and transformational programmes. Eighty two percent of respondents indicated that they are slightly or not at all confident that there will be sufficient CDEL available to invest in transformation plans, including digital programmes.

The lack of certainty in relation to capital funding and the availability of CDEL is particularly frustrating for finance directors. Overall, most finance directors (69%) were clear about the amount of funding available in 2022/23 and what they are expected to spend it on (88%). That level of confidence fell in non-acute settings with only half of directors of community and integrated trusts saying they were clear about funding and 44% of mental health trust directors.

However, the level of confidence about when capital funding would be released to NHS providers was much lower (13%).

'There are often confusing messages attached to national funding with trusts having to proceed at risk to ensure that projects can be finished in year.' Acute finance director

There are particular concerns about national projects such as digital and community diagnostic centres. The lack of clarity and late allocations make planning particularly difficult. Finance directors are concerned that the national programmes do not align with their organisational plans – particularly in relation to the timing of funding being made available. This puts pressure on NHS bodies to deliver capital programmes in a short amount of time with the consequent risk to value for money.

Delivery of the four integrated system aims

ICBs have four integrated system aims to be delivered in 2022/23 and 2023/24:

- improving outcomes in population health and health care
- tackling inequalities in outcomes, experience and access
- enhancing productivity and value for money
- helping the NHS to support broader social and economic development.

Over 60% of respondents were not at all confident these would be delivered for either year. Only the finance director of one mental health trust and one ICB were confident that those aims would be achieved in 2022/23, rising to four (one acute, one integrated trust and two ICBs) for 2023/24.

There are some positive messages, including wider engagement, particularly with local authorities and a keenness to tackle the issues. However, the operational pressure on the NHS coupled with the financial position have led most finance directors to conclude that there is simply not the capacity to deal with these wider issues. The additional funding announced in the *Autumn statement* is welcome but will not eliminate these concerns. Comments include:

- ‘Unless more money is available next year, we will have to cut services if we are to stay within the current budget.’
- ‘I have significant concerns about the levels of non-recurrent flexibility this year and further cuts in Covid-19 funding. No elective recovery fund for mental health means unfunded cost pressures in addition to inflation and pay funding gaps. I am really concerned about social care and public health funding cuts impacting the NHS - delayed transfers have never been so high.’
- ‘The pressures on performance/ finances is at risk of driving wedges between organisations rather than bring everyone together.’
- ‘The focus on long waits and cancer should mean that outcomes and inequality are improved across the region, although barriers to progress are as likely to be non-financial. For example, the use of independent sector providers has a relatively low uptake from patients on the grounds of inaccessibility for those who may be required to travel long-distances. There are also estate considerations on productivity - our emergency departments have taken up significant additional footprint and demand for non-elective surgery has grown while overall capacity has reduced, squeezing the elective programme.’

Top three actions for NHS bodies

In order to understand the focus of finance directors, we asked them to identify the top three actions they need to take to meet financial and quality challenges both within their organisation and on a system wide basis.

Workforce was mentioned most often with different actions mentioned:

- controlling temporary staff costs
- improving recruitment and retention
- making sure that the workforce is the right size and type. One integrated trust director said that a ‘radical change in workforce away from traditional models’ was needed.

‘Clear focus on absolute priorities and abandoning nice to haves.’ Acute director of finance

Many finance directors are seeking to improve controls and governance over expenditure and reinstate recovery frameworks. Several mentioned that they want to return to the focus on productivity and control that was in place before the pandemic, underlining the view that the Covid-19 funding was welcome and necessary but shifted the focus away from achieving best value from available resources. The development of realistic, deliverable, recurrent cost improvement programmes is on the to do list for many finance directors. However, there is also a recognition that in order to achieve these goals, it is important to look after the workforce.

> ‘Helping everyone in the wider system to see they are part of the same problem, which we need to work together to resolve. Being clear about the cause of the challenges. Mobilising action rather than more discussion.’ Integrated trust finance director

Finance directors also understand that they need to work together both with NHS partners but also with local authority colleagues. As one ICB finance director put it, there needs to be ‘shared leadership and understanding of financial challenges.’

What the national bodies can do to help

The final question in our survey was ‘What are the top three actions that need to take place in your area or by national bodies to support your organisation to meet its financial and quality challenges?’

As expected, there were a range of answers, but the key themes were realism and transparency. There needs to be realism, throughout the system from politicians setting policy and allocations to the patients receiving services about what can be delivered within the budget available.

> ‘More honesty from politicians/ DHSC/ NHS England about the unrealistic demands being put on the NHS (and social care) - to deliver more from real terms cuts to allocations.’ ICB finance director

For system wide, integrated working to succeed then there needs to be cultural change to embrace working with partner organisations. As one director of finance put it ‘Bringing together conversations on performance and finance at regional and national level to ensure consistent messaging and avoiding silo working’.

Finance directors also want to work within a transparent financial framework. Ideally, they would like early and complete planning guidance that sets out:

- the funds available on a recurrent and non-recurrent basis
- capital allocations
- realistic efficiency requirements.

One respondent asked for a ‘focus on transformation to improve rather than planning/ reporting focus’. One ambulance director asked for more joined up working between providers and a community director asked for programmes, including acute hospital programmes, to be based on the greatest need in the system or improving the patient pathway.

Many finance directors asked for a complete, if not funded then at least costed, workforce plan that covers both the NHS workforce and social care staff. Fully funded pay awards were also raised by several respondents. Finally, many respondents identified the challenges that are being faced by social care and the impact that is having on the NHS.

Conclusion

Finance directors are concerned about the current financial year and how the pressures that they are under will affect their plans to achieve efficiency targets and remain within forecasts. However, they expect 2023/24 to be an even more difficult year. There needs to be clarity, starting at the top with politicians right the way down to NHS bodies, as to what can be achieved with the resources available. Finance directors are clear that quality of care should not suffer because of financial constraints but are expecting waiting times to increase and access to services to decline.

It is vital that the financial regime is communicated to the sector early and clearly with as few subsequent changes as possible. To achieve the best value from the available resources, NHS bodies need to know the funding (both capital and revenue) that will be available to them before the start of the financial year.

Finance directors are clear about the objectives that the NHS needs to achieve, financial incentives (such as the elective recovery fund) are a blunt tool that do not necessarily ensure that resources are spent to achieve the best outcomes for patients. There is concern that re-introducing a payment by results approach for elective activity will not improve productivity in the right places, as it cannot recognise (and may even penalise) innovative approaches to delivering care differently. Focusing on the delivery of acute activity contradicts the national intention to take a system first approach, as it is likely to hinder integration and cooperation between system partners.

There is acceptance that system working and working together is the way forward, but cultural change is needed for this to be effective, at both local and national level.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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