



National Audit Office

# Improving the use of temporary nursing staff in NHS acute and foundation trusts

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## EXECUTIVE SUMMARY



**1** The 173 acute and foundation hospital trusts (trusts) in England spent around £8.3 billion on nursing staff in 2004-05.<sup>1</sup> Although the nursing workforce has increased substantially over the last five years, temporary staff remain a key component of trusts' ability to be flexible in order to meet fluctuations in activity levels and to cover vacancies and short term staff absences. In 2004-05 trusts spent £790 million<sup>2</sup> on temporary nursing cover.

**2** Traditionally, trusts have met the fluctuations in demand by using staff from their own nursing banks or by procuring staff from independent nursing agencies and, since 2001, from NHS Professionals (an NHS run temporary staffing service). **Figure 1 overleaf** illustrates the main roles, responsibilities and accountabilities in relation to the recruitment and provision of temporary nursing staff. **Figure 2 on page 3** sets out the cycle through which trusts should ideally manage their demand for and procurement of temporary nursing staff.

**3** NHS trusts have to be able to respond to fluctuations in demand and staff availability through flexible staffing arrangements. The use of temporary staff forms a key part of this flexibility for many trusts. However, high levels of unmanaged use can be costly, particularly when trusts place high levels of reliance on agency staff. There are also implications for patient satisfaction: in 2005 the Healthcare Commission found that trusts with high vacancies and high use of temporary staff tend to score lower than other trusts on patient satisfaction. To be effective and control quality and costs trusts need to manage both demand and supply.

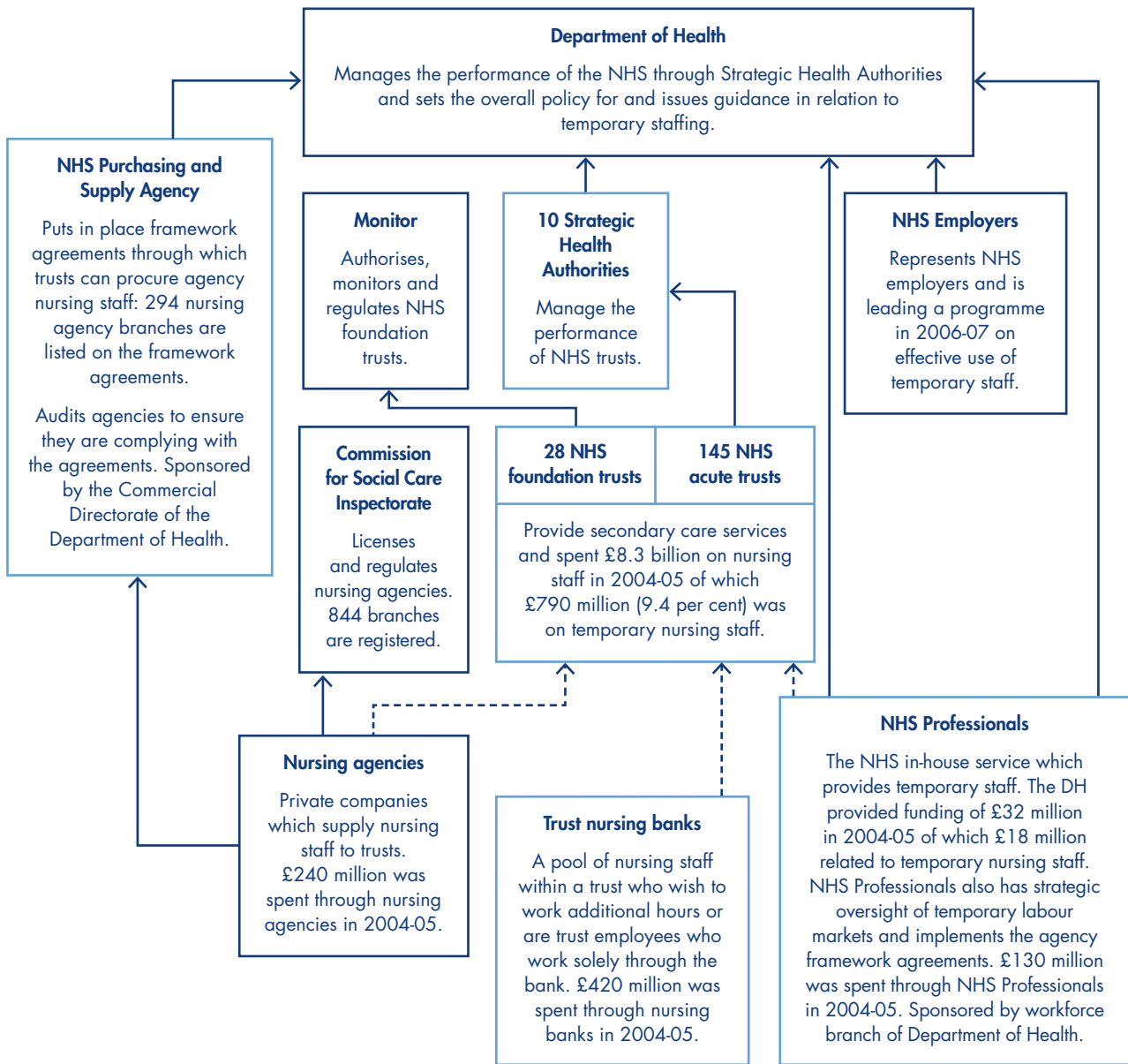
**4** The Audit Commission's 2001 report, *Brief Encounters*<sup>3</sup>, highlighted that NHS trusts' use of bank and agency staff was growing and that costs were escalating rapidly. It identified inconsistencies in the quality of temporary nursing staff and the lack of reliable information systems to help manage demand. In response to the findings in *Brief Encounters* and in recognition of the fact that some staff wanted to be able to work more flexibly within the NHS the Department launched NHS Professionals, a national temporary staffing service, with the intention that it would reduce dependence on commercial agencies and improve quality by providing safe and well trained staff. It also encouraged the NHS Purchasing and Supply Agency to set up a series of regional framework agreements to improve the quality and reduce the cost of nursing staff procured through nursing agencies.

**5** In 2005, the Department again raised concerns that trusts were failing to control their expenditure on temporary nursing staff effectively and, in December 2005, listed as one of its ten high impact workforce changes, the need for "managing temporary staffing costs as a major source of efficiency".<sup>4</sup> More recently, in May 2006, NHS Employers announced a new programme to help trusts make effective use of temporary staff.<sup>5</sup> In response to the Gershon Efficiency Review, the Department highlighted reducing demand for temporary staff as one of the methods it intended to use to achieve efficiency gains and has stated that it believes replacing temporary staff with experienced permanent staff leads to increased productivity and better patient care.<sup>6</sup>

6 Although the Department collects some data on temporary staff, for example on expenditure on agency nursing staff, it does not have sufficient data to fully understand the extent and costs of using temporary nursing staff. Nor have trusts been able to benchmark their performance in any meaningful way. We therefore

undertook a census of trusts to derive a national and trust level picture on how trusts determine demand, the extent and costs of procurement and the impact of initiatives to improve quality (further details on our methodology are at Appendix 1).

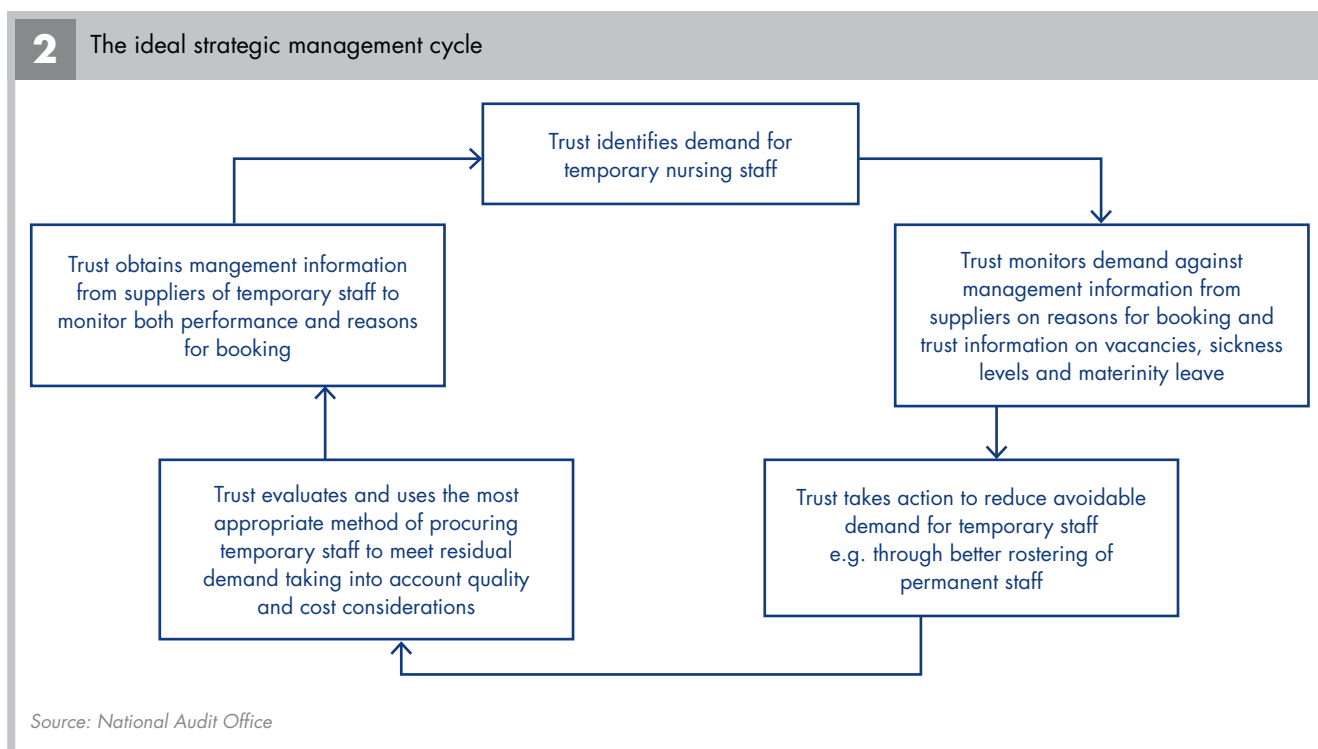
**1** The main roles, responsibilities and accountabilities in relation to temporary staff



KEY: ———> Accountability      - - - - -> Provision of service

Source: National Audit Office

## 2 The ideal strategic management cycle



## Overall conclusions

7 To date, the NHS has focussed mainly on reducing agency costs with less attention being paid to addressing the wider issues of controlling and managing the supply and demand of all types of temporary nursing staff.

In particular:

- The NHS has successfully reduced its expenditure on agency nursing staff from its peak of seven per cent of total nursing expenditure in 2001-02 to three per cent in 2004-05.
- The NHS has reduced slightly its total expenditure on temporary nursing staff from 10 per cent<sup>7</sup> of total expenditure in 1999-00 to 9.4 per cent in 2004-05. In 2004-05 some trusts were spending less than five per cent of total nursing expenditure on temporary staff and others as much as 29 per cent.
- Many trusts do not have adequate and timely information on staffing needs and therefore do not have a clear understanding of the factors driving their demand for nursing staff. The lack of benchmarking information and differing definitions of what constitutes a vacancy make it difficult for some trusts to determine what staffing levels they need to

operate safely and effectively. They are also unable to determine whether their general demand for temporary staffing is clearly supported by a demonstrable need to fill vacancies on individual shifts.

- Trusts need also to improve the management of their permanent staff, for example by introducing more effective staff rostering and flexible contracts. We consider that more effective control over demand for all nursing staff could result in savings for the NHS of between £25 million and £50 million.
- The NHS has made some progress in reducing the unit cost of employing temporary nursing staff, by consolidating the numbers of nursing banks per trust thereby cutting overheads, and by reducing reliance on commercial agencies and increasing the use of their own banks and NHS Professionals. However, agency nurses still cost trusts more than other temporary staff. (A “D” grade agency nurse cost around 29 per cent more than a permanent nurse in 2005.) We estimate that trusts could collectively make annual savings of between £13 million and £38 million by better procurement and by driving down still further the unit costs of the different grades of agency nursing staff.

**8** NHS Professionals and the NHS Purchasing and Supply Agency framework agreements have contributed to an improvement in the quality of temporary nursing staff by providing some assurance about the employment and training status of staff procured through these arrangements. But more needs to be done to ensure that all temporary staffing suppliers are operating to consistent standards. Nursing banks do not have formal quality assurance procedures in place and by May 2006 the NHS Purchasing and Supply Agency had audited only 54 per cent of agencies on its framework agreements.

## Key findings

**The NHS has reduced expenditure on agency nursing staff and the increase in nurses under the NHS Plan has led to a slight reduction in the level of use of temporary nursing staff overall.**

**9** Between 2000 and 2005 the number of whole time equivalent registered nurses working in the NHS increased by 55,000, taking the total to 322,000.<sup>8</sup> This was more than double the NHS Plan 2000 target of an additional 20,000 nurses by 2004. In 2001 the Department stated that it anticipated that the growth in the workforce under the NHS Plan would significantly reduce the NHS's demand for temporary staff.<sup>9</sup> However it has subsequently confirmed that it was only referring to demand for staff employed through agencies which it has been successful in driving down. Expenditure on temporary nursing staff as a percentage of total nursing expenditure has fallen only slightly from the Audit Commission's estimate of 10 per cent in 1999-00<sup>7</sup> to 9.4 per cent (£790 million) in 2004-05.

**10** Appendix three shows that there is wide variation in the extent to which trusts rely on temporary nursing staff both within and between regions. Trusts in the south rely more on temporary nursing staff than trusts in the north (the average expenditure on temporary nursing staff was 17 per cent in London compared to five per cent in the Northern and Yorkshire region). However, there is also significant variation within regions with trust expenditure on temporary nursing staff varying between five and 27 per cent in London and less than one and 10 per cent in Northern and Yorkshire.

**11** Variation can be caused by a large number of factors including vacancy rates, mobility of the workforce and management decisions and we would expect some variation in levels of use. However, whilst there is no generic "ideal" level of reliance on temporary staff, where a trust spends more than the regional average it may indicate that the trust is experiencing difficulties recruiting and retaining staff and managing sickness absence. These factors combined with high use of temporary staff can have a negative impact on cost, patient satisfaction and staff morale.

**12** Recent developments within the NHS such as the introduction of Payment by Results and Commissioning a Patient Led NHS will make it more difficult for individual trusts to predict their annual activity and funding levels. In the future, to remain in financial balance trusts will need to ensure that they can flex their staffing levels according to activity. The Department has stated that the use of temporary staff will play an important part in helping trusts achieve that flexibility.<sup>4</sup> It is therefore very important that trust boards take a planned approach to their use of temporary staff taking into account both cost and quality factors. Despite the recommendations in Brief Encounters that all trust boards should have a senior person to take an overall lead and have board level accountability for the use and quality of temporary staff we found that few trust boards had given the issue strategic consideration.

**NHS trusts have poor management information and a lack of understanding of the drivers of demand for temporary nursing staff**

**13** Our analysis of trusts' usage of temporary staff demonstrates that demand for temporary cover has increased or remained relatively static compared to 1999-00. Demand for temporary nursing staff is related to the total amount of nursing staff that a trust has determined that it needs (the nursing establishment). In some countries, such as parts of Australia and America, hospitals use minimum nurse:bed ratios to determine staffing levels. Other countries, including England, have not adopted this approach because they can be seen as a blunt instrument which does not take account of the numerous differences between hospitals and wards.<sup>10</sup> Instead the most common method for determining the nursing establishment in NHS trusts is a bottom-up approach determined by the professional judgement of nurse managers taking into account budget allocations, which are generally based on historical activity levels.

**14** The lack of an evidence base on minimum staff levels has led to wide variations in the average number of nursing staff per bed, particularly in some specialties such as intensive care. Furthermore it increases the risk that at times of financial pressure trusts will reduce their use of temporary staff without giving full consideration to the risks to patient safety and the impact on the morale and well being of permanent staff. Whilst this impact may not be felt immediately it is likely to result in an increase in patient safety incidents, staff sickness absence and turnover putting further pressure on the existing nursing workforce. To underpin nurses' professional judgement on setting establishment levels it is very important that trusts have access to good information, such as benchmarking, to enable them to determine appropriate staffing levels.

**15** Whilst trusts do collect information on reasons for needing temporary nursing staff (such as vacancy levels, sickness levels and activity levels) this is rarely brought together in a systematic manner to consider the most appropriate way in which to staff wards. We found that ward managers, human resource managers and finance staff can all have a different understanding of establishment levels and different definitions of what constitutes a vacancy. Consequently bank and agency staff are booked with little consideration of whether cover is actually needed or what alternatives there might be.

**16** Trusts told us that vacancies are their primary driver for booking temporary nursing staff. The Department's published figures show that vacancies which trusts are actively trying to fill and which have existed for more than three months in acute, elderly and general nursing posts fell from 4.6 per cent in 2000 to 1.7 per cent in 2005.<sup>11</sup> However, this fall has not impacted on trusts' demand for temporary nursing staff. This may be because trusts are holding vacancies which they are not actively trying to fill. In 2004 the Healthcare Commission found that between eight and nine per cent of hospital ward posts were unfilled.<sup>12</sup>

**17** More effective management of sickness and annual leave can also lead to a reduction in the demand for temporary nursing staff. The Healthcare Commission found that the average rate of sickness absence for nursing staff is 16.8 days per year and estimated that £141 million a year could be saved by cutting sickness absence levels by 30 per cent.<sup>12</sup> Our further analysis has identified that there is substantial variation in sickness levels in different grades of staff. Trusts can do more to analyse sickness patterns in their trust and apply sickness management tools to help reduce sickness absence in those grades and specialties with the highest rates.

### The NHS has made progress in reducing the unit cost of employing temporary nursing staff through initiatives aimed at improving procurement and supply

**18** Once trusts have identified a need for temporary staff they may procure them from a number of different sources. For most trusts, once they have established that they have a shift that they are unable to fill from their own permanent nurse pool, the first contact is usually the trust nursing bank (during 2004-05 75 per cent of trusts ran their own nursing bank and 22 per cent used NHS Professionals as their main provider). If this approach is unsuccessful then the next option is to use a nursing agency on a framework contract. If this fails then most trusts will try one of the other commercial agencies that are not on a framework contract. Three per cent of trusts do not use a nursing bank or NHS Professionals but rely solely on staff from nursing agencies as required.

**19** *Brief Encounters* reported that half of trusts had more than one nursing bank and lacked common standards, policies and practices. It noted that this led to higher costs and greater reliance on agency staff.<sup>3</sup> We found that most trusts have reduced their overheads by centralising their nursing banks. Some have also improved their inherent flexibility in line with the Department's Improving Working Lives Initiative, through the introduction of specialist nursing pools, annualised hours contracts and zero hours contracts. However progress in relation to the Audit Commission's recommendation to invest in information technology to modernise bank administration has been patchy, only 70 per cent of trusts who run their own bank reported that they used a bank management software package. Very few trusts use electronic rostering systems although these would help ward managers control demand for temporary nursing staff and could potentially be integrated with bank management systems and payroll systems to reduce overhead costs.

**20** Trusts use agency nursing staff because in some situations they are the only method of filling a shift. Although all British qualified nursing staff complete at least part of their training within the NHS some staff choose to work through agencies after qualification because they can earn more money by doing so. Consequently agency staff can be expensive for trusts to use on a long term basis and most trusts wish to keep their expenditure on agency staff to a minimum. The NHS has successfully reduced its expenditure on agency nursing staff from its peak of seven per cent of total nursing expenditure in 2001-02 to three per cent (£240 million) in 2004-05. Early data shows that significant further

reductions have been made in 2005-06 and the Department recently estimated that the NHS could make further savings of £78 million by reducing expenditure on agency staff across all staff groups to the national average.<sup>13</sup>

**21** Four main factors have contributed to the fall in agency expenditure:

- Trusts' improvement in the management of temporary nursing staff and encouragement of the greater use of nursing banks and NHS Professionals as an alternative to agencies;
- the NHS Purchasing and Supply Agency framework agreements with their agreed price brackets and quality requirements through which trusts are encouraged to procure agency nursing staff;
- the implementation of NHS Professionals which has helped to manage the agency market; and
- the financial pressure on trusts to break even which has encouraged them to impose stricter internal controls on their agency expenditure. In a January 2006 survey of the 35 trusts predicted to be facing the largest deficits in 2005-06, 90 per cent were using reductions in agency expenditure to try and reduce their deficit.

**22** There is scope for further reductions in the cost of agency nursing staff. The NHS can prevent wage inflation and influence the total cost of agency nursing staff by effectively using its position as a major buyer within the agency nursing market. For example a reduction of £1 per hour on the cost of 50 per cent of agency nursing staff would result in savings of around £6 million. In 2004-05 around 20 per cent of acute trust expenditure on temporary nursing did not go through the NHS Purchasing and Supply Agency framework agreements. Even where all expenditure goes through the agreements, pay and commission rates can still vary significantly. However, the NHS Purchasing and Supply Agency is currently re-negotiating its framework agreements for all areas outside London to reduce both the average level and the variation in pay and commission rates and some trusts are working in consortia to achieve savings of up to 50 per cent on commission charges.

### **NHS Professionals has helped improve the management of the temporary nursing market but could do more**

**23** The Department's launch of an NHS in-house temporary staffing service, 'NHS Professionals'<sup>14</sup>, in February 2001 was in response to the growing concerns about cost and quality of temporary staff. By 2003 the NHS Professionals service was being provided via four main host trusts and there was significant variation between them in terms both of activity and performance. In 2003 one of the host trusts, the West Yorkshire Metropolitan Ambulance Service (WYMAS), was the subject of a Public Interest report by the Audit Commission due to the trust's £10 million operating deficit. Some trusts had also expressed dissatisfaction with the WYMAS service and in particular with the number of shifts that it was able to fill.<sup>15</sup> The Department was concerned about this variability in performance and therefore decided to establish NHS Professionals as a Special Health Authority from January 2004.

**24** NHS Professionals has both an operational and strategic role. Its operational role is to supply temporary nursing staff to the trusts in which it is contracted. Its strategic role is to set the standards and policy framework for temporary staffing and to oversee the temporary labour markets. NHS Professionals is currently funded through the commission which it charges trusts that use its service and through central funding from the Department. In 2004-05 the Department provided funding of £32 million of which £18 million related to temporary nursing staff.

**25** In the Department's Arm's Length Bodies review in July 2004, the Department announced that NHS Professionals should move outside of the Arm's Length Body sector after two to three years and would be expected to become self-financing by 2007-08.<sup>16</sup> In order to meet this target NHS Professionals will need to significantly increase the number of shifts it is commissioned to fill. There is therefore a potential tension between NHS Professionals' role to make the temporary staffing market more cost effective through strategic management and potentially reducing demand for temporary nursing staff, and its financial requirement to break even.



**26** NHS Professionals aims to be the first choice of temporary staffing providers by 2008. However, trusts can choose whether or not to use NHS Professionals to manage their temporary nursing requirements and in 2004-05 NHS Professionals was operating in 22 per cent of acute trusts, employing over 50,000 nurses and accounting for £130 million of trusts' expenditure on temporary nursing staff. By May 2006 it had increased its penetration of the acute trust market to 27 per cent. The main reason why trusts had chosen not to use NHS Professionals was because they believed that their own local arrangements were adequate and that the costs, including the loss of control, outweighed the potential benefits.

**27** When NHS Professionals became a Special Health Authority it inherited a collection of regional operations of disjointed and variable quality. It has since invested in staff and technology which have led to an improvement in ability to fill shifts and an increase in operating income, which it expects to yield further future benefits in terms of both the cost and quality of temporary staff. However, some issues remain and both trusts and nursing agencies reported to us perceived problems about the operation of NHS Professionals of which the most common were a lack of effective communication and a continued reliance on nursing agencies to fill some short notice or specialist shifts.

**28** Between 2003-04 and 2004-05 (the first year of NHS Professional's existence as a Special Health Authority) there was little difference between the performance of NHS Professionals and non NHS Professionals trusts in terms of reducing expenditure on agency staff: both reduced agency expenditure by around 25 per cent. There was also little difference between trusts using NHS Professionals and other trusts in terms of reducing expenditure on temporary staff overall.

**29** NHS Professionals has made some improvements in its strategic role to set the standards and policy framework for temporary staffing and to oversee the temporary labour markets. By the end of 2005, against its strategic objectives (see paragraph 3.16), NHS Professionals had:

- helped increase competition within the temporary staffing market by contributing to the lowering of agencies' commission rates and margins;
- developed robust clinical governance standards for temporary staffing which were being applied in the 36 trusts using NHS Professionals;
- made progress in developing its strategic oversight of temporary labour markets using management information to develop a national picture of supply and demand in the NHS. NHS Professionals has also developed a clinical coding system to improve the transparency of pricing of temporary labour and to standardise the number and names of different nursing roles.

#### Improvements need to be made to assure the quality of temporary nursing staff

**30** In 2002 the Department published a *Code of Practice for the Supply of Temporary Staffing* which set out a framework for the management and performance of temporary staffing providers to ensure the delivery of high quality, affordable and safe care.<sup>17</sup> The code lays out the minimum standards required in the supply of temporary staff to the NHS and states that it expects all NHS employers to use the code when they employ temporary staff. All organisations supplying temporary staff to the NHS, including nursing agencies, nursing banks and NHS Professionals are supposed to abide by the code.

**31** Despite the publication of the Code of Practice the quality assurance procedures in place across nursing agencies, nursing banks and NHS Professionals are not standardised. For example it is a condition of the NHS Purchasing Supply Agency framework agreements that all agencies provide their staff with mandatory training and an annual performance assessment. However less than 70 per cent of bank nursing staff received their mandatory training in the 12 months prior to September 2005 and only 22 per cent received a performance assessment. NHS Professionals provides all their staff with mandatory training but not annual performance assessments.



## RECOMMENDATIONS

**32** There is scope for further improvements in the management and use of temporary nursing staff but the information available to trusts to help determine safe and cost-effective staffing levels is poor and much still needs to be done to understand demand and improve supply. These recommendations are aimed at helping to address the deficiencies we have identified. Alongside this report, in collaboration with the Audit Commission and the Department, we have published a good practice guide which features checklists and case examples and provides further help and guidance, including showing how some trusts have tackled successfully the issues raised in this report.

**33** NHS Trusts should:

- Appoint a board member with responsibility for developing and monitoring a trust wide strategy in relation to its use of temporary staff as parts of its people strategy. The board should set budgets on the use of temporary staff against which expenditure can be measured.
- Control demand for temporary staff by bringing together information on activity and dependency levels, permanent nursing staffing levels, vacancies and sickness levels. This information should be benchmarked internally and against other similar trusts using NHS Employers' proposed benchmarking group(s).
- Benchmark their nursing bank(s) against the quality standards published by NHS Professionals. Where their quality standards fall short of NHS Professionals they should undertake a detailed exercise to determine the cost of bringing them up to these standards. Where these costs are higher than those incurred by using NHS Professionals, they should

develop a business case which evaluates the costs and benefits of engaging alternative providers including NHS Professionals and nursing agencies.

- Only use nursing agencies on the NHS Purchasing and Supply Agency framework agreements.
- Draw on the work being done by NHS Employers and the NHS Purchasing and Supply Agency in relation to electronic rostering to determine the benefits of adopting such a system within the trust.
- Adopt the NHS Professionals clinical coding system for temporary staff so that all trusts have a common approach to describing roles. This should increase the transparency of pricing and allow local health economies to gain control of their temporary staffing market.

**34** NHS Employers should:

- Develop a new Code of Practice on Temporary Staffing for the NHS to clarify the current discrepancies in the checks required on nursing staff provided by nursing agencies, NHS Professionals and trust internal nursing banks.
- Share best practice in the use of temporary staff across the NHS through the use of benchmarking groups.
- In conjunction with the NHS Purchasing and Supply Agency, review best practice in relation to electronic rostering systems and work with trusts to identify cost effective products which can be integrated with trusts' existing finance and human resources systems.
- Work with NHS Professionals on behalf of trusts to ensure that NHS Professionals' business plan and pricing strategy reflects trusts' expectations.



**35** NHS Professionals should:

- Publish details of the quality assurance checks they have in place around recruitment, training and personal development so that trusts are able to benchmark their services against those provided by NHS Professionals.
- Publish details of its clinical coding system from which all trusts could benefit.
- Build on the improvements it has made to its call centres to ensure it is able to deal efficiently with all calls from trusts and nursing agencies.
- Engage positively with nursing agencies to draw on their expertise and build a mutual understanding of how temporary staff can be used effectively within the NHS.

**36** The NHS Purchasing and Supply Agency should:

- Audit all of the agencies on the agency framework agreements by March 2007.
- Obtain greater volume discounts on the behalf of trusts by consolidating its regional framework agreements.

**37** The Department of Health should:

- In light of the variability in levels of use of temporary nursing staff work with NHS Employers to develop a framework for the effective use of temporary nursing staff within trusts.

- Clarify how it expects NHS Professionals to manage the potential conflict between its strategic role to improve the quality of the temporary labour market, its operational requirement to make temporary staffing more cost effective and its financial requirement to break even.
- As part of its performance management of the NHS Purchasing and Supply Agency set clear objectives and targets for its role and responsibilities in relation to procurement of temporary staffing, and monitor against these, including ensuring that it maintains an effective programme of agency audits.
- Ensure that NHS Professionals work in partnership with the NHS Purchasing and Supply Agency to develop its clinical coding system to take account of all staff groups and that the codes are included in all future NHS Purchasing and Supply Agency contracts to help trusts understand the comparative costs of employing bank, agency and NHS Professionals nursing staff.
- Work with the Healthcare Commission to build the management of temporary staff into their performance assessment criteria.
- Work with the NHS Litigation Authority to ensure that risk management for temporary staff is appropriately built in to the Clinical Negligence Scheme for Trusts.<sup>a</sup>
- Through Strategic Health Authorities, monitor trusts performance against the recommendations in paragraph 33.

<sup>a</sup> The NHS Litigation Authority is a Special Health Authority which is responsible for handling negligence claims against NHS bodies in England. The Clinical Negligence Scheme for Trusts is a mechanism to allow trusts to pool the risk of having to meet negligence claims through making contributions. Trusts can reduce their level of contributions by up to 30 per cent by demonstrating that they have met specified risk management standards.