

Hospital finances and productivity: in a critical condition?

Sarah Lafond, Anita Charlesworth and
Adam Roberts

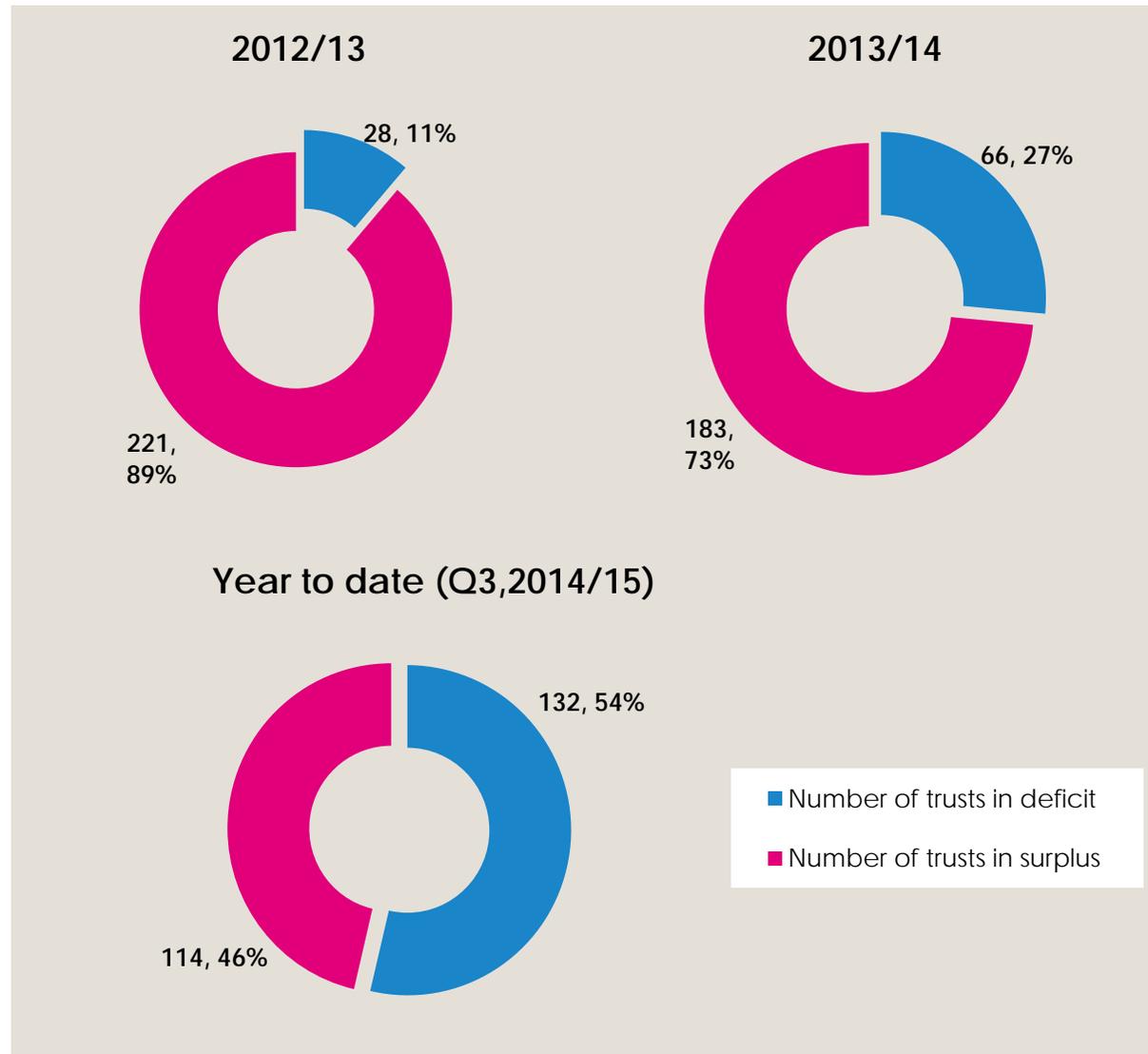
April 2015

Introduction

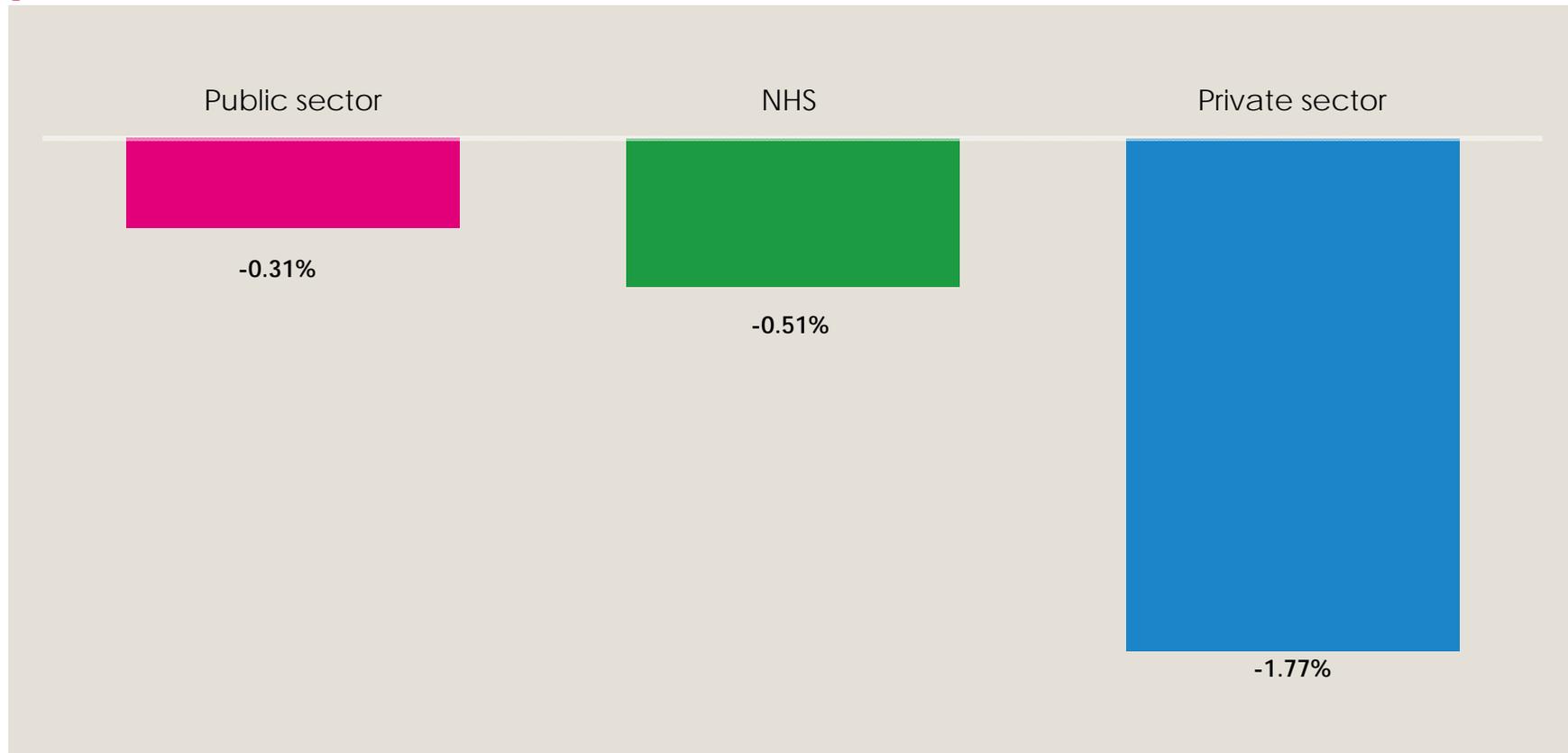
- NHS providers are the 247 NHS organisations which are responsible for delivering and managing hospital and community nursing care, ambulance and mental health services.
- NHS providers can be foundation trusts or NHS trusts.
- In this analysis we examine the audited accounts and reference cost returns for the NHS providers to explore:
 - Their financial performance
 - The efficiency and productivity of the 160 acute and specialist hospitals
 - The productivity of 51 mental health providers

The analysis covers the period 2009/10 to 2013/14 and data for the first 9 months of 2014/15

Number of NHS trusts in deficit in 2012/13, 2013/14 and Q3 2014/15



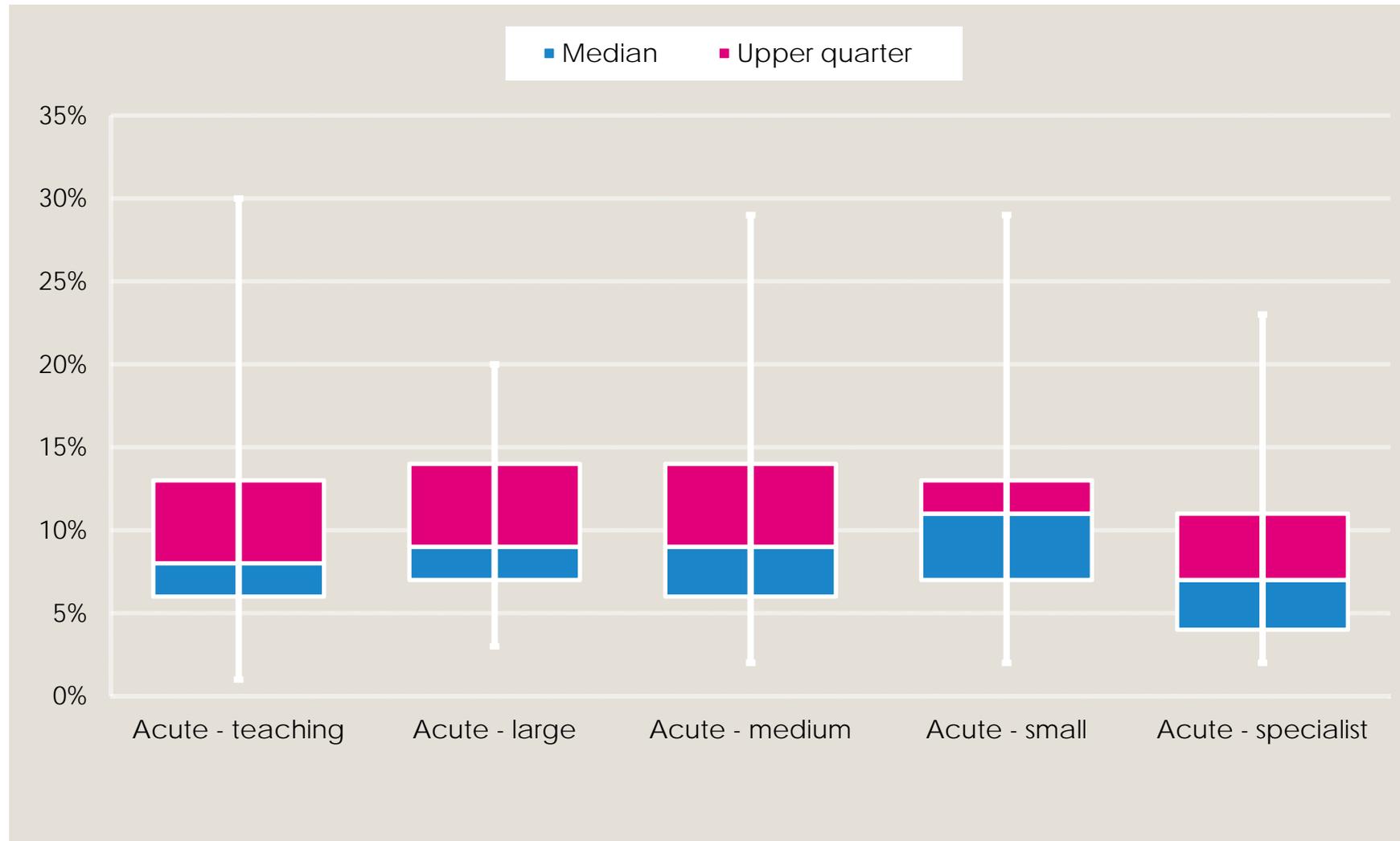
Annual average real terms change in average earning per person from 2009/10 to 2013/14



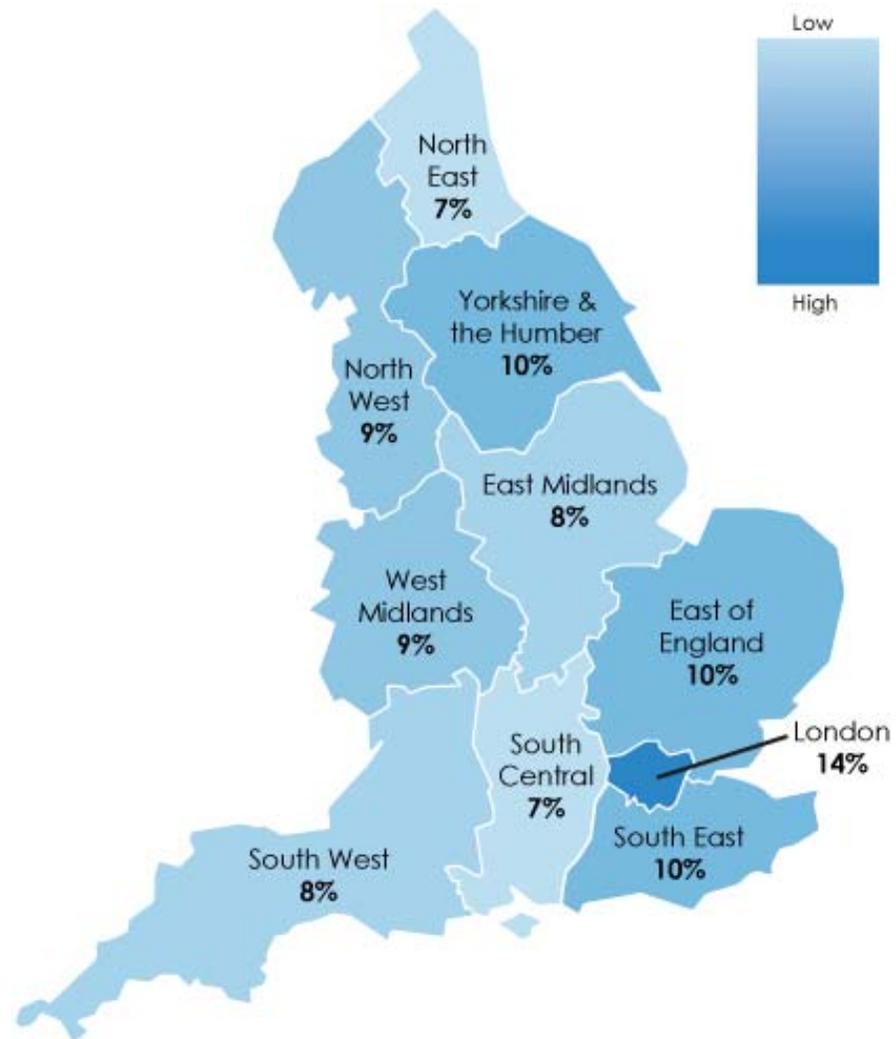
Source: HSCIC NHS Staff Earnings Estimates to January 2014; Provisional statistics, ONS Annual Survey of Hours and Earnings

Note: Average earnings for NHS staff in England exclude earnings of staff employed under bank and agency contracts. Public and private sector pay refers to average annual gross pay per person for all UK employees, while NHS pay refers to average earning per employee of the English NHS

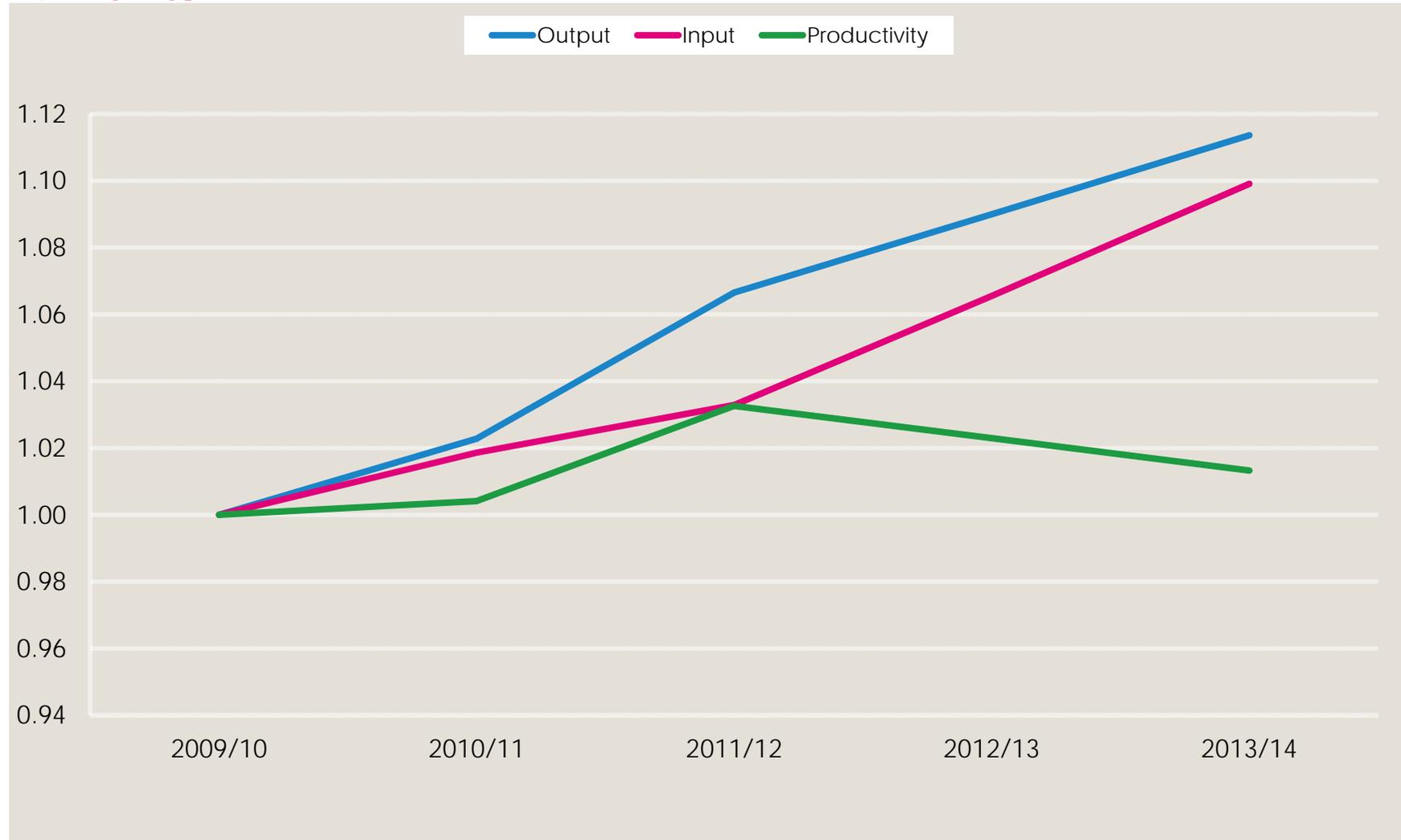
Use of temporary staff by acute trust, 2013/14



Temporary staff costs as a percentage of total staff costs in England, 2013/14



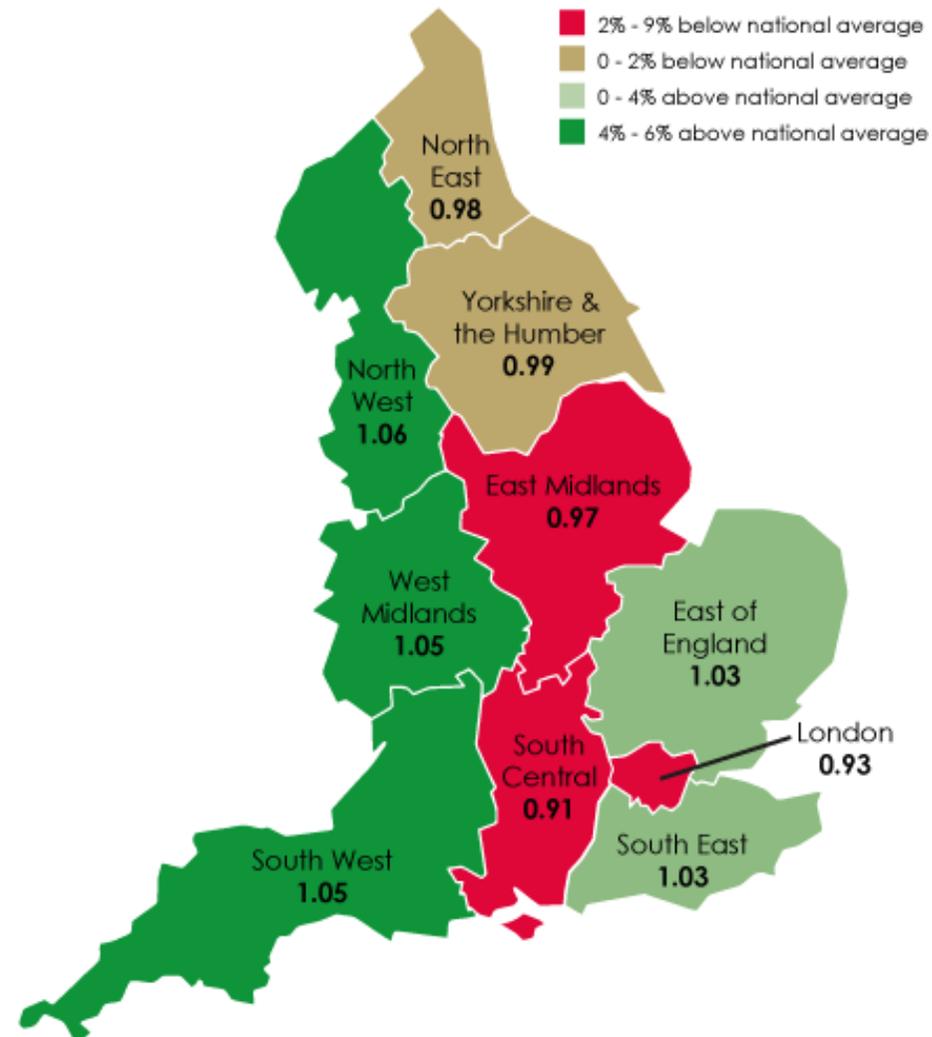
Change in hospital productivity from 2009/10 to 2013/14



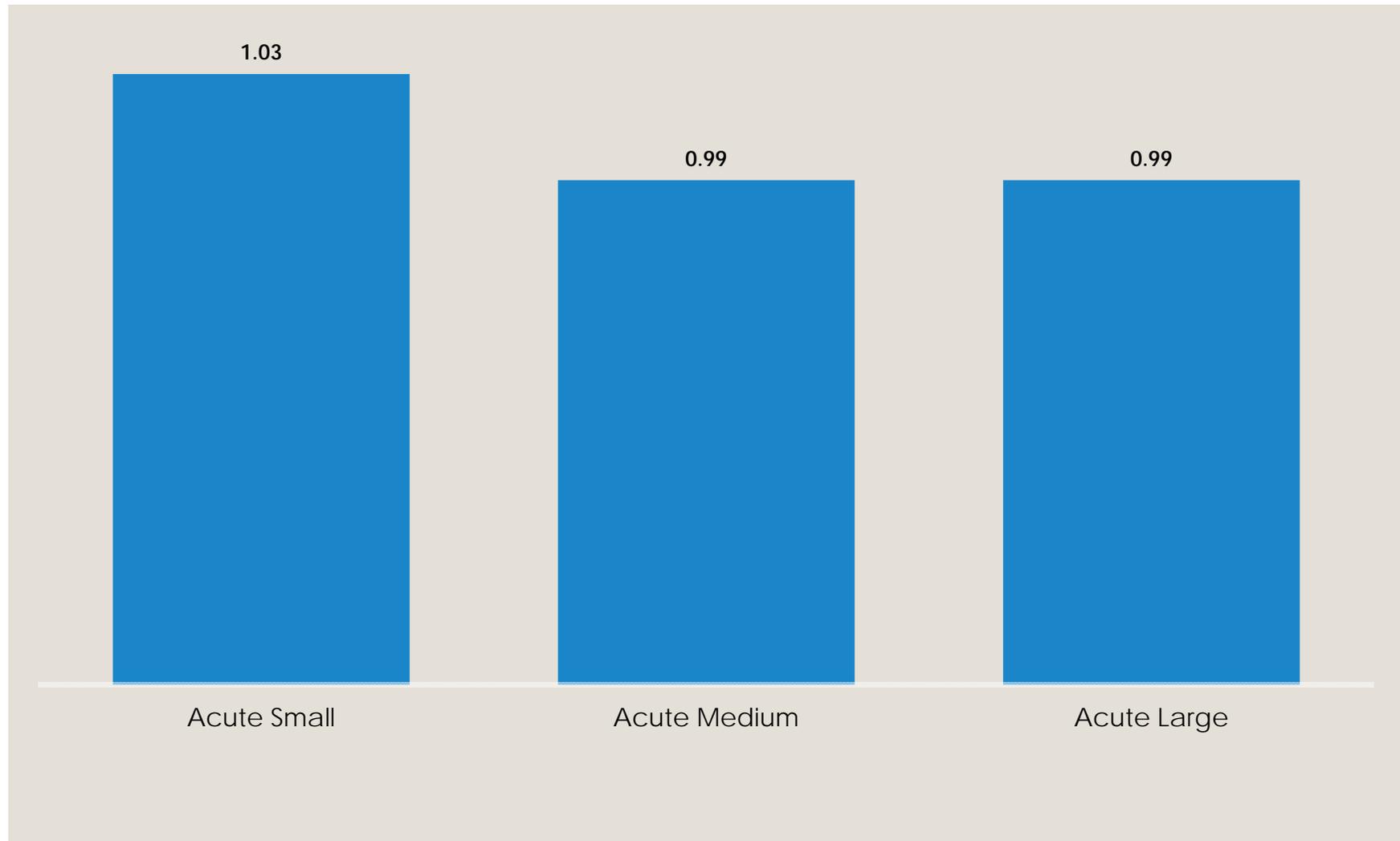
Annual change in hospital productivity index from 2011/12 to 2013/14



Average hospital productivity by region in England, 2013/14



Variation in productivity index of hospitals by size



The rate of efficiency improvement

- NHS hospitals improved their efficiency between 2009/10 and 2013/14.
- Our analysis finds that the rate of efficiency improvement averaged just 0.4% a year.
- This is substantially below previous estimates.
- Work by Deloitte for Monitor and NHS England looking at efficiency between 2008/09 and 2012/13 found that efficiency improved by 1.2% a year.

Mental health productivity

- Analysis examines productivity of 51 NHS mental health trusts.
- Mental health hospitals' activity increased by 0.7% between 2012/13 and 2013/14.
- Mental health hospitals costs fell in real terms by 2.9%
- Crude productivity (outputs / inputs) show an annual improvement of 3.7%

Conclusion

- The NHS has become more efficient over the last 4 years.
- But it is clear the system is under considerable strain – with a projected deficit of over £600 million in 2014/15.
- The biggest strain is in the acute hospital section where after improvements in productivity in the early years of this parliament, crude productivity fell in 2012/13 and 2013/14.
- This appears to be driven by unplanned increases in staff cost largely as a result of rapidly increasing spending on temporary staffing.
- NHS leaders are seeking to deliver 2-3% a year productivity improvements over the next 5 years as part of the Five Year Forward View – thereby limiting the additional funding required for the NHS to £8 billion by 2020.
- Delivering productivity growth at this rate will be a huge challenge and will almost certainly require a very different approach to – and focus on - productivity improvement over the next 5 years.