

# 5 QUICK METHODS FOR LOWERING NURSING COSTS WITHOUT COMPROMISING QUALITY

Using some simple metrics can help you make a significant difference



"WE'RE OUT OF SLEEPING PILLS. I'M GOING TO READ YOU A BEDTIME STORY."

In almost all NHS Trusts **nursing forms the largest single area of expenditure**. Good nursing care has been proven to have a significant impact on mortality rates and even in lowering overall cost, but managing your nursing workforce to make sure that you're maximising efficiency is a complex task. So what are the best ways to ensure that you have the **correct number of nurses** with the right skill mix at all times? Ensuring you have the

right staff on duty is significantly important to you. Are you manage the risks on your wards each minute of the day? Some of the recent failing in the NHS has been a result of having the wrong staff in the wrong place at the wrong time.

So what can be done?

Many Trusts try to manage nursing costs by equating nursing hours worked against patient numbers. This is okay, but it doesn't convey to management the whole picture - it misses out on skill mix, where any additional nursing staff actually came from (i.e. overtime, bank or agency) and also **non-productive time**. Having worked with more than 100 NHS finance departments over the last 9 years we've had a chance to observe best practice at close range and we list out our top 5 methods below:

## **Method 1). Monitor WTEs by skill mix using Net Cost Variances**

Our experience is that specialties with variable patient activity (i.e. pretty much ALL specialties) are ideally staffed at **75% to 85% of WTEs**. Employing too many WTEs will have an adverse impact on cost, whilst employing too few can lead to poor care or high agency costs.

The four factors that Trusts should be identifying here is the (1) financial impact and the (2) quality impact on having (3) too few or (4) too many nursing staff. This analysis should be carried out **over several months** and will allow managers to understand when and by how much to make changes to their staffing levels in order to reach

optimum levels.

Firstly calculate a budgeted number of WTEs to budgeted patient activity by skill mix per ward or department. This should include overtime, bank staff and agency staff. It should also have the ability to be **flexed** as **activity increases or decreases**. Once this is established it can be used every month to work out the **net cost variance** between **budgeted WTEs against activity** versus **actual WTEs against activity**. This variance then becomes the £ impact of being above or below the budgeted number of WTEs for that month's patient volume.

Whilst this provides some basic analysis on a monthly basis it is particularly important if a nurse leaves. If her or his absence is covered in the short term by overtime or bank staff the net cost variance between the budgeted employment plan and the actual pay costs will help management to decide whether to fill this post again with a WTE or alternatively **continue using (expensive) overtime or bank**.

Obviously most Trusts will be using monthly management accounts to monitor cost variance already, but the net cost variance **takes into account increases or decreases in activity** too, fitting in with best practice around Service Line Reporting.

### **Method 2). Using overtime/bank/agency effectively**

Perhaps counter-intuitively sometimes it's actually better to use overtime/bank/agency than WTEs. If monitored correctly they can provide flexibility and be a **much less expensive option**. Crucially though it's important to distinguish between the three types. Medical errors are far more likely to occur when wards or departments rely on nurses who are not familiar with policies and procedures or when **excessive overtime** stretches your WTEs too much.

Operational Managers should work out the amount of **each type** of additional employee above and beyond WTEs they expect to use for different levels of patient activity. The jump off point is to use your current budget for additional staff as your baseline and then flex it in line with increase or decreases in activity. Then compare this to actual spend every month. When you spot a variance you then need to dig into it to find out the reason for its occurrence. What's going on operationally? Is the ward manager using too many agency staff because it's the easiest way to plug holes in a hurry?

In our experience it's best to **lean towards bank staff** in this scenario as they will be most familiar with your processes and will result in a lower cost to the budget statement.

### **Method 3). How are you handling non-productive time?**

Most Trusts work on an average of 10 to 12% of their nursing staff hours as **non-productive time** - annual leave, training, offsite meetings etc. If this isn't managed in advance it can lead to both increases in the use of overtime/bank/agency and also lapses in clinical quality.

Managing this requires both a 'hard' and a 'soft' work stream. On the 'hard' side you need to track your **optimum staffing position** and work out how many nurses can be off without affecting **clinical quality**. Once you've got a clear position on this you can develop staffing policies accordingly. On the 'soft' side you may want to consider involving nursing staff in the formulation of these policies, giving them ownership of their working lives.

#### **Method 4). 2 more variances to consider**

Knowing that your overspent on nursing costs is just the tip of the iceberg. You then have to dig deeper to find out why it's happening. Here you need to differentiate between what part of your staff cost variance is due to **pay rates** – paying too much for employees – against what part is due to **efficiency** – paying for more staff than you needed. Examining both of these variances can highlight quality issues.

At a high level managers can use the following formulas to investigate these variances:

$$\text{Rate Variance} = (\text{Actual Rate} - \text{Budgeted Rate}) \times \text{Actual Hours}$$

$$\text{Efficiency Rate} = (\text{Actual Hours} - \text{Budgeted Hours}) \times \text{Efficiency Variance}$$

Whilst these formulas are useful at departmental level, they are even more valuable when you apply them to skill mix.

#### **Method 5). Involve operational managers**

As accountants we can sit and play around with these figures all day long. That's why we're accountants – **we enjoy it**. The secret to making this stuff really work is to explain how these variances work to your operational colleagues and get them to **do the sums themselves**. They're the people on the ground who'll really understand **WHY** they're getting variances and **WHERE** they're coming from. And perhaps most importantly they're also in a position to do something about it.

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CONSULTING

The UK's leading consultancy specialising in NHS finance issues

Sixth Floor, Horton House, Exchange Flags, Liverpool L2 3PF

Tel: 0845 111 8775

Enquiries@assista.co.uk [www.assista.co.uk](http://www.assista.co.uk)