4 October 2016

the association of foundation trusts and trusts NHS providers

NHS Pay Review Body
2017/18 pay round
Written evidence from NHS Providers

ABOUT NHS PROVIDERS

NHS Providers is the membership organisation and trade association for the NHS acute, ambulance, community and mental health services that treat patients and service users in the NHS. We have over 220 members – more than 90% of all NHS foundation trusts and aspirant trusts – who collectively account for £65 billion of annual expenditure and employ more than 928,000 staff. Our evidence is based on regular feedback from across our membership and a survey which we undertook jointly with NHS Employers during June 2016.[1]

KEY MESSAGES

- We recognise the need to appropriately and fairly reward staff, to support recruitment and retention and a motivated workforce. We do not oppose a 1% pay award for 2017/18, on the understanding that it is fully funded through local and national contracts for 2017/18.
- A 1% pay award should not be targeted at the national level, as in the current industrial relations climate this may be divisive and it may not take account of differing local recruitment challenges.
- Trusts consider that reform of the wider Agenda for Change agreement remains a priority. However, we recognise that reform is difficult in the current context of pay restraint.
- Incorporating the National Living Wage is likely to be the most pressing pay issue for Agenda for Change during this comprehensive spending review period. It is important that a plan for this is set out.
- Too often NHS workforce policy has been fragmented across different bodies and marginalised as an afterthought in national policy decisions. We consider that there is a need for a more strategic and coherent approach to workforce policy, including workforce planning.

PAY REMIT FOR 2017/18

We note that the government has confirmed to the Pay Review Body that following the outcome of the European Union referendum vote, it will continue to fund public sector workforces for pay awards of an average of 1% a year, up to and including 2019/20.

We also note that the government has again asked the Pay Review Body to consider targeted pay awards to support the continued delivery of public services and to address recruitment and retention pressures.

[1] The joint survey received responses from provider trusts and a small number of clinical commissioning groups. As we represent the provider sector we have not included the clinical commissioning group responses in our analysis.

CONTEXT IN WHICH PROVIDER TRUSTS ARE OPERATING

As has been widely reported, in recent years provider trusts have had to cope with increasing demand as well as rising costs. Average funding increases have flat lined at 0.9% per annum since 2010, compared to historic levels of about 4% (the amount needed in the past to keep up with demand). As a result providers' financial positions have been steadily worsening. For 2015/16, the NHS provider sector recorded an overall deficit of £2.45 billion.

For 2016/17, the provider sector has been asked by the arms length bodies to limit the deficit to £250 million. This will be extremely challenging – large amounts of the savings needed rely on measures such as back office rationalisation that are unlikely to be able to deliver savings within the financial year. However to support efforts to reduce the deficit, for the first time in several years providers have seen a (slight) rise rather than reduction in the money they get through the national tariff for the services they provide. There is also an additional pot of money – a £1.8 billion sustainability fund – that the arms length bodies can give out to providers to try and reduce the deficit, and some other one off measures.

However to access to this fund, the central bodies have said that providers need to demonstrate big efficiency savings each quarter. If trusts hit their financial targets in any given quarter they access a portion of the funding. But these targets are very stretching – the equivalent of over 5% of annual turnover over the course of a year in some cases.

There has also been a continuation of widely covered staffing shortages, notably in respect of adult general nurses and doctors in some specialties such as emergency medicine. This has put pressure on the quality of services and led many NHS providers to make greater use of bank and agency staffing, which in turn has made a large contribution to providers' deteriorating finances.

The operating context for trusts is also changing rapidly. As trusts explore new care models that blur the boundaries between primary and secondary care, mental and physical health, and social care and healthcare, NHS staff will increasing be asked to work in new ways, as part of new teams and in new care settings. These new models of working may also involve the development of new organisational forms and employment structures, such as corporate joint ventures, that will be significantly affected by the NHS pay, terms and conditions discussed in this submission.

We are conscious that, on the one hand, it must be remembered that staff pay accounts for between 60% and 85% of NHS providers' expenditures. Yet on the other hand, it is of course essential that the NHS continues to appropriately and fairly reward, and remains able to recruit, retain, and motivate, staff with the skills needed to deliver high quality patient care.

A 1% PAY AWARD FOR 2017/18

We recognise the need to appropriately and fairly reward staff, to support recruitment and retention and a motivated workforce. As we set out in our evidence last year, the affordability of the annual pay award for Agenda for Change staff is linked inseparably to the overall price adjustment set through the national tariff. If a 1% pay award is fully funded through the national tariff, then it can be affordable for providers to implement in that it will not lead to them having to take money from other budget areas and will avoid further deterioration of their finances. As such, **we do not oppose a 1% pay award for 2017/18, on the understanding that it is fully funded through local and national contracts for 2017/18.**

Based on regular discussions with our members and our survey in June, we consider, as we did last year, that a **1% pay award should not be targeted at the national level, as in the current industrial relations climate this may be divisive and it may not take account of differing local recruitment challenges.**

In our survey we asked members to rank six options as to how they would apply a 1% pay award in 2017/18 if they were free to choose. The weighted rankings for each option are shown in figure 1. The distribution of rankings for each option is shown in figure 2. The weighted rankings are calculated by awarding six points for first rank, five points for a second rank, four points for a third rank, three points for a fourth rank, two points for a fifth rank, and one point for a sixth rank. For example, the option of giving all staff 1% was the highest ranked, with a score of 224, consisting of 25 first ranks (so 150 points), six second ranks (so 30 points), four third ranks (so 16 points), eight fourth ranks (so 24 points), one fifth rank (so two points), and two sixth ranks (so two points). The advantage of weighted rankings is that it gives an idea of the strength of feeling for each option. While the

weighted rankings could be read as showing lots of votes for options that could be classed as targeting of the pay award, however, it should be noted that this is also partly because of how we framed the question. In addition, as figure 2 shows, over half of respondents selected "give all staff 1%" as their highest ranked option.

Figure 1 - What would you do if you were free to decide how to apply a 1 per cent pay award in 2017/18?

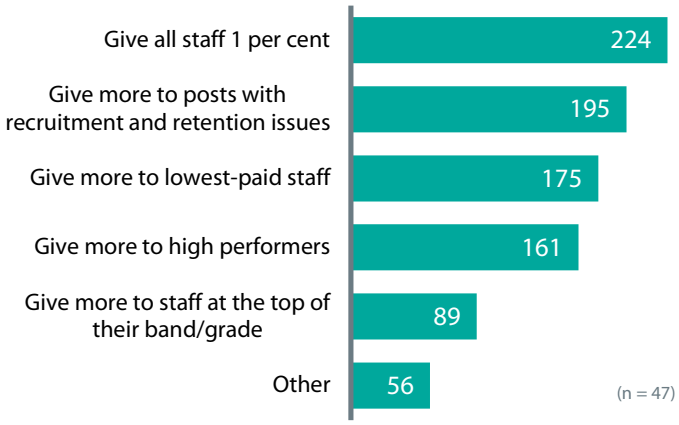
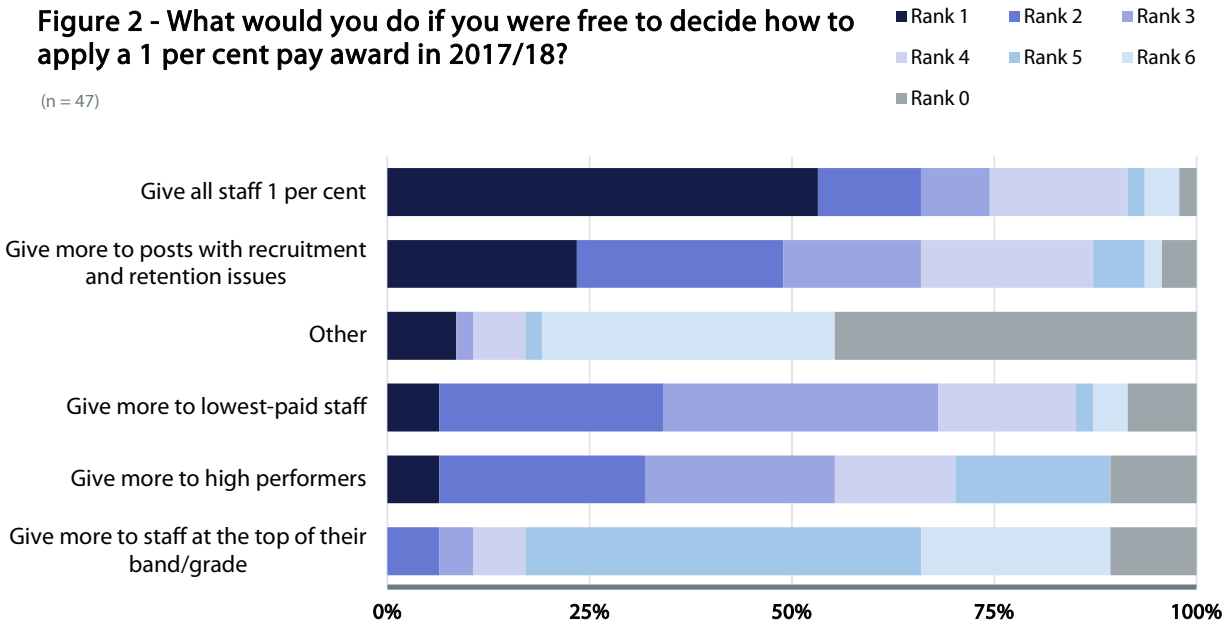


Figure 2 - What would you do if you were free to decide how to apply a 1 per cent pay award in 2017/18?

(n = 47)



Comments from members opposed to targeting revealed concerns that targeting may be divisive, particularly given the current difficult industrial relations climate. It was also noted that there would be limited recruitment and retention benefits from targeting a pay award of only 1%, and the benefit may therefore not justify the management and administrative time needed to implement a targeted approach. One member commented: "1% is not a lot of money to work with. [It's] about keeping all staff motivated during a time where we are trying to do things differently and transform our services. A blanket ban on certain grades or professions of staff is demotivating for that group and additional work then needs to be done to ensure they

understand their contribution is appreciated." A small number of members also commented that the 1% is viewed as covering a cost of living increase and should therefore be given to all staff rather than targeted, noting that there are other means, for example, recruitment and retention premia, for targeting specific staff groups.

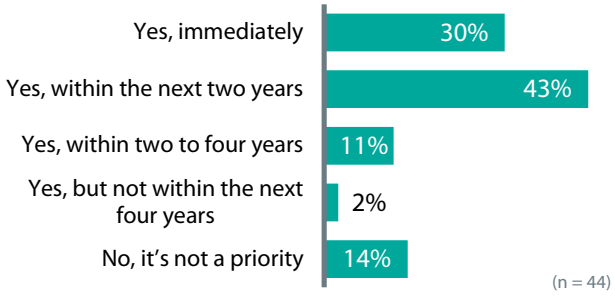
We would like to be clear that all members who responded to our survey in June told us they experience recruitment and retention issues. We asked them to select up to three options which reflect their organisations most significant recruitment and retention challenges. The results are shown in figure 3. The top selection was "national skills shortage". Members told us about a range of initiatives they are undertaking to address recruitment and retention challenges. These include: Agenda for Change recruitment and retention premia, use of "retire and return" provision within the NHS Pension Scheme, total reward statements, working with other organisations to promote the local area as a place to work, refer a friend schemes, relocation payments, international recruitment, working with universities to make most of reform of healthcare education funding to increase student numbers, development of apprenticeship schemes, and role redesign.

Figure 3 - If yes, please select up to three options which reflect your organisations most significant challenges.

REFORM OF AGENDA FOR CHANGE, THE NATIONAL LIVING WAGE, AND WIDER WORKFORCE POLICY

In our survey in June we asked trusts whether reform of Agenda for Change remains a priority. The results are shown in figure 4 and fit with feedback from our regular discussions with members. Trusts consider that reform of the wider Agenda for Change agreement remains a priority.

Figure 4 - Does reform of Agenda for Change remain a priority for you?



In terms of what reform of Agenda for Change should achieve, members continue to suggest that it is becoming unaffordable and this need to be addressed, with concern about the cost of sick pay, annual leave entitlements, and unsocial hours arrangements. One member commented: "The pay system means that we are not cost competitive in the market we operate and this has led to a loss of contracts or a recognition that we are not able to put in a competitive tender based on our staff pay structures. We compete in a market with social care, the private sector, and the voluntary sector. This is leading to many of our services transferring to the private sector in particular…"
Members are also concerned about the pay structure, notably overlap between bands, that there are too many points within bands, and that there is no mechanism to reward staff at the top of a pay band for high performance.

Last year we urged that every effort be made to take forward discussions on reform of Agenda for Change, to which unions committed as part of the negotiated 2015/16 pay deal, as a matter of urgency so that the future of an affordable and flexible NHS workforce can be secured. It is regrettable that progress does not appear to have been made. However, we recognise that reform is difficult in the current context of pay restraint.

We are also conscious that the National Living Wage (NLW) will impact Agenda for Change in the coming years. As the NHS has been told by government that the NLW must be funded from the 1% annual pay award, there seems little option other than to award lower paid staff more and other staff less than 1% in one or more of the coming years. This is likely to be a challenging message for trusts to manage. We understand from members that incorporating the NLW will also intensify the issue of overlapping pay bands within Agenda for Change. It therefore seems to us that, other things being equal, **incorporating the NLW is likely to be the most pressing pay issue for Agenda for Change during this comprehensive spending review period. It is important that a plan for this is set out.** If a 1% average pay award is to be used to support the NLW, it will obviously not be possible in those years to use the 1% to support other aims, whether those be addressing recruitment and retention challenges or transition to a reformed Agenda for Change. In any given year the 1% can only be spent once.

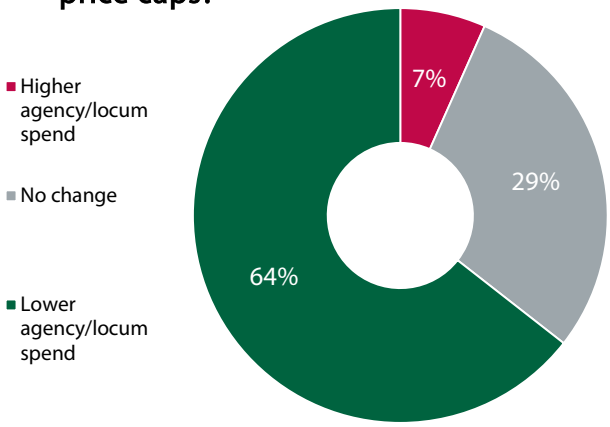
Agenda for Change is of course only one aspect of NHS workforce policy. We note that there are several important supply side developments in respect of Agenda for Change staff, most notably the move from bursary to student loan funding of healthcare education, the introduction of the apprenticeship levy and target, and uncertainty over trusts' ability to recruit from the European Economic Area in future in the light of Brexit. If, as our members report, national skills shortage are the biggest reason for current and recruitment and retention challenges, then the opportunities and risks associated with these developments are very important. There is also the growing challenge of positively engaging staff at a time when there is a clear and widening gap between what the NHS is required to deliver and the funding available, and at a time when there is pressure to deliver on sustainability and transformation plans, new care models, and more seven-day services. To take seven day services as an example, the government needs to work with providers to establish what extra staff and resources are required to ensure safe, sustainable and effective implementation of seven-day services for patients. **Too often NHS workforce policy is fragmented across different bodies and marginalised as an afterthought in national policy decisions. We consider that there is a need for a more strategic and coherent approach to workforce policy, including workforce planning.**

IMPACT OF AGENCY PRICE CAPS

We understand that the Pay Review Body is interested in the impact of agency price caps. In our survey in June we asked trusts what has happened to their organisation's overall agency/locum spend since the introduction of the price caps. The results are shown in figure 5. A majority of members that responded report lower agency/locum spend as a result of the price caps.

However, a majority of trusts, 57%, also reported that the price caps have not encouraged staff to work for their organisation on a substantive basis. 30% reported they had and 14% said don't know. Where trusts reported that the caps had encouraged staff to work for them on a substantive basis this tended to be in respect of nurses and allied health professionals, rather than doctors, who are less willing to work at capped prices and willing to travel further to get work at a higher rate.

Figure 5- What has happened to your organisations overall agency/locum spend since the introduction of the price caps?



(n = 45)

FURTHER INFORMATION

We would be pleased to respond to supplementary questions from the Pay Review Body and would welcome the opportunity to discuss our evidence further at an oral evidence session.

Contact: Paul Myatt, Policy advisor – workforce, paul.myatt@nhsproviders.org.