

WELSH HEALTH CIRCULAR



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Parc Cathays
Caerdydd CF10 3NQ

Cathays Park
Cardiff CF10 3NQ

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Title: Costing and programme budgeting results 2005-06

For Action by:

Directors of Finance, NHS Trusts, Local health boards and Health Commission Wales

Action required *See paragraph: 13*

For Information to: Regional Heads of Finance and core list

Sender: Mr Jeff Buggle, Director of Resources, Department for Health and Social Services

National Assembly contact(s) : Mr Steve Elliot and Mr Nigel Gaen - see queries section

Enclosure(s): Annex 1 – Selected costings from TFR2 2005-06; annex 2 – Comparison of HRG costs for Hip procedures; annex 3 – Final HRG Cost Index 2005-06; annex 4 – Wales Programme Budget results 2005-06; annex 5 - graph showing % expenditure by LHB on mental health and Welsh average.

Tel: 029 2082 5111 GTN/WHTN: 1208 1000

Llinell union/Direct line: 029 2082 3850

Ffacs/Fax: 029 2082 5429

Minicom: 029 2082 3280

<http://howis.wales.nhs.uk/whcirculars.cfm>

Dear colleague,

Costing and Programme budgeting results for Wales 2005-06

Summary

1. This circular notifies health bodies in Wales of the publication of the final costing and programme budgeting results in Wales for financial year 2005-06.
2. It also shows how the Assembly considers this information should be used. The results are published on HOWIS and contact details are given below.

Costing results 2005-06: TFR2 – specialty and programme cost return; HRG – healthcare resource group cost return.

3. NHS trusts in Wales submitted the TFR2 in September 2006 and the results were published on HOWIS on 1 December 2006. The HOWIS link is:
<http://howis.wales.nhs.uk/microsite/page.cfm?orgid=307&pid=9643&sort=name>
4. ‘Spending by Design: A Financial Information Strategy for Health in Wales’ identified the TFR2 specialty cost return as one of the key building blocks in reporting detailed financial cost information as it analyses expenditure for 87% of Trust net operating expenses on a fully absorbed basis. By comparison, the HRG procedure cost return covers 41% of Trust net operating expenses. Changes were introduced in the 2005-06 costing manual to ensure that activity recorded in the TFR2 and used for calculating specialty unit costs equals the cleansed activity data held on EPEDW. This requirement has encouraged a more detailed review of activity data in 2005-06. A selection of TFR2 costs is given in **annex 1**.
5. The **HRG** return data provides a more detailed report on 610 inpatient and daycase procedures. For comparison, the costs for a sample of HRG codes for hip procedures are shown in **annex 2**.
6. The HRG data shows more detail in 2005-06 as it is the first year that the data has been grouped by HRG grouper version 3.5 (compared to the 572 codes in version 3.1). HRG grouper 3.5 provides better analysis of certain procedures. Please note that some Trust submissions for 2005-06 contained obsolete HRG grouper 3.1 codes. As these codes were invalid from 1st April 2005, HRG 3.1 codes have been excluded from the cost index file and calculations. The HRG data file is sorted by HRG code and the total submitted HRG data file which is sorted by Trust name is on HOWIS on the following link:
<http://howis.wales.nhs.uk/microsite/page.cfm?OrgID=307&PID=15025>

Trust cost index

7. The HRG returns are summarised and the Assembly Government has produced a cost index that combines the HRG and TFR2 data and that ranks trust’s costs against an index of 100. This cost index is shown at **annex 3**.
8. It should be noted that some trust finance directors have expressed some concerns about the methods used to calculate the index, and the consistency of activity data recording between trusts that has an impact on the calculations of the unit cost data that the index is derived from. **Potential users of this index should note that the methodology used to calculate it, and the quality of the cost data that underpins it, are subject to continual review.** The Welsh Assembly Government works closely with trust finance staff to improve the robustness of the index, and this continues to be an evolutionary process. This does not, however, invalidate the index as a basis for reviewing the relative efficiency of trusts.
9. A summary of the concerns raised by trusts with the Welsh Assembly Government are as follows:

- Relative costs for Regular Day and Night Admissions form part of the overall cost index. Some trusts are concerned that activity recording for these currencies are not consistent between trusts, and may distort the overall index.
- Costs which are specific to one trust are included, which may distort the comparison of a trusts total cost relative to others. For example, where a trust manages the continuing care budget on behalf of commissioners.
- The exclusion of version 3.1 HRG codes: some trusts are concerned that the exclusion of these codes from the cost index does not reflect the total costs and activity for 2005-06.
- The combined inpatient and daycase index is calculated using a combined inpatient and daycase All-Wales average cost for each HRG. This may disadvantage those trusts with proportionately more inpatient activity than the All-Wales average for some HRGs.
- The inpatient HRG costs used to derive the All-Wales average HRG costs include critical care activity. This may disadvantage trusts with proportionately more critical care activity than average.

Programme Budget returns 2005-06

10. The **Programme Budget** project returns report 100% of LHB, HCW and Dental Practice Board total expenditure over 23 programme budget categories. This totalled £4.27 billion in 2005-06. The returns were submitted in November 2006 and published on HOWIS on 20 December 2006. The results are on the following link: <http://howis.wales.nhs.uk/microsite/page.cfm?OrgID=307&PID=15104>
11. The All-Wales position over the 23 programme budget categories and some selected subcategories is given at **annex 4** and an example of how expenditure patterns vary for mental health is shown at **annex 5**.

Action

12. The Welsh Assembly Government is committed to increasing the use of cost information to inform commissioning and service provision processes in the NHS. The general principles and intentions were set out in “Spending by Design”. Further developments are set out below. The publication of detailed cost information on HOWIS, and the consolidation of summary cost information in this circular, are intended to support this process.
13. All NHS organisations are encouraged to take the following actions with the cost information covered by this circular:
 - Compare this information with any local costing or programme budgeting initiatives undertaken (NB total figures include HCW spend in LHB area);
 - For NHS trusts, review with boards the trusts costs relative to other organisations, both at individual specialty and procedure level and overall. Consider what action should be undertaken within trusts to improve cost efficiency;
 - For local health boards, review with boards local spending patterns on programme budget categories relative to the Welsh average. Consider reasons for potential reasons for variances and how these might be addressed through commissioning plans;
 - Identify any anomalies with the information that need to be addressed;
 - Consider how to address the information ‘gaps’ in your organisation;
 - Consider how this information can assist performance management within the organisation;
 - Consider how this information could be used as part of the public involvement process.

Stakeholders should:

- Note that the Assembly Government may use this information for taking forward development of national strategies.

Future developments

14. The strategy for improving the quality and use of NHS cost information was set out in “Spending By Design”, and has been taken forward by the Financial Information Strategy Board (and also in part by the NHS Resource Allocation Expert Group). To support this process, a Financial Information Strategy Development Programme has been established within the Programme Management Unit. This Programme will lead the work on costing, programme budgeting and other aspects of the Financial Information Strategy on behalf of the Assembly Government from 2 April 2007. New contact details are set out below.
15. To take forward more detailed action on improving the quality and use of cost information, including considering the potential for increased use of reference cost information to support commissioning developments, a Reference Cost Task and Finish Group has been established, which is currently chaired by Steve Elliot. The Group includes representation from trusts, LHBs and Health Commission Wales, as well as the Delivery and Support Unit and the National Leadership and Innovation Agency for Healthcare. The work programme of the Group is currently being finalised, with two main workstreams having been established to take forward technical information and cost issues, and design and implementation issues. Project management arrangements for the Group will be provided by the Financial Information Strategy Development Programme.
16. Work on developing guidance for the 2006-07 costing round will be taken forward by the Financial Information Strategy Development Programme. A workshop for staff involved in costing has been arranged for 1st March to initiate work on 2006-07.

Contacts

17. Queries on costing and programme budgeting should be addressed to:

Policy issues

- Steve Elliot, Head of Finance (Hospital Care and Budgetary Control),
Tel: (029) 2082 3245 email: steve.elliott@wales.gsi.gov.uk

Technical Issues on 2005-06 returns and draft guidance for 2006-07

- Nigel Gaen, Tel: (029) 2082 3850 email: nigel.gaen@wales.gsi.gov.uk

Financial Information Strategy Development Programme

- Mark Bowling, Programme Manager, Tel: (029) 2020 7604 email: mark.bowling@pmuw.wales.nhs.uk

Jeff Buggle
Director of Resources
Department for Health and Social Services

Annex 1

Selected costings from TFR2 2005-06

Specialty	Average cost per in-patient day £	Cost per finished consultant episode £	Cost per daycase £
General surgery			
Average cost	460	2,253	926
Maximum cost	543	2,751	1,489
Minimum cost	368	983	459
Urology			
Average cost	449	1,902	437
Maximum cost	541	2,428	1,298
Minimum cost	376	1,347	255
Orthopaedics			
Average cost	469	3,359	920
Maximum cost	543	4,181	1,515
Minimum cost	343	1,693	553

Cost of a bed 2005-06

	Patient days	Expenditure	Cost per patient day
		£	£
2005-06			
In patients	4,299,269	1,449,202,118	337.08
Day cases	118,890	87,619,608	736.98
Cost of a bed	4,418,159	1,536,821,726	347.84

Annex 2

Comparison of HRG costs for Hip procedures

HRG Code	Hip procedures	X NHS Trust HRG costs £	Wales HRG costs £	English National Average Unit Cost £
	Inpatients			
H29	Congenital Hip Dislocation with Open Procedures	8,023	6,247	4,348
H70	Resurfacing of Hip	6,134	4,578	5,233
H71	Revisional Procedures to Hips	9,584	8,058	7,858
H80	Primary Hip Replacement Cemented	7,831	6,059	5,521
H81	Primary Hip Replacement Uncemented	6,933	5,669	5,516
H86	Neck of Femur Fracture with Hip Replacement w cc	9,059	7,209	5,779
H87	Neck of Femur Fracture with Hip Replacement w/o cc	8,098	6,901	5,707
	Day cases			
H29	Congenital Hip Dislocation with Open Procedures	-	-	1,077
H71	Revisional Procedures to Hips	-	-	1,644
H80	Primary Hip Replacement Cemented	-	-	1,810
H81	Primary Hip Replacement Uncemented	2,900	918	2,330
H86	Neck of Femur Fracture with Hip Replacement w cc	-	476	2,240
	Source: HRG cost returns, Welsh NHS Trusts and National Schedule of Reference Costs - English NHS Trusts Day Cases HRG Data			

Annex 3

Final cost index 2005-06

NHS trust	IP excl cc	IP (incl cc)	DC	Combined IP & DC	OPP	OP	RDA/RN A	Total
Bro Morgannwg	78.7	75.7	87.9	75.3	103.7	110.4	85.2	84.3
Cardiff & Vale	107.4	109.6	97.0	108.4	85.0	94.1	111.9	105.3
Carmarthenshire	96.5	100.3	80.5	97.0	99.5	96.3	88.4	95.9
Ceredigion & Mid Wales	111.5	108.7	126.5	109.8	129.0	112.8	95.4	107.0
Conwy & Denbighshire	95.0	91.3	80.7	91.3	180.1	73.3	82.1	92.0
Gwent Healthcare	101.8	100.6	135.1	103.0	124.7	117.4	166.3	107.8
North East Wales	113.3	109.2	108.6	110.3	57.0	92.6	122.7	98.7
North Glamorgan	112.8	113.8	87.0	114.0	65.3	69.0	0.0	98.7
North West Wales	95.9	97.0	107.4	97.8	183.9	108.3	93.7	106.8
Pembrokeshire & Derwen	102.4	103.3	133.1	105.2	110.1	108.3	129.6	102.2
Pontypridd & Rhondda	93.3	94.0	99.4	94.3	87.6	105.8	86.9	95.4
Swansea	99.1	101.8	89.8	102.4	86.2	105.3	89.6	101.0

Range Min	78.7	75.7	80.5	75.3	57.0	69.0	85.2	84.3
Max	113.3	113.8	135.1	114.0	183.9	117.4	166.3	107.8
Total cost (millions)	1,094.8	1,196.1	85.7	1,281.9	33.5	355.9	19.2	2,207.2

Source: HRG & TFR2 returns from Welsh NHS Trusts 2005-06

Annex 4 – Summary of programme budget results for Wales 2005-06

	Programme budget categories	Total 2005-06	Percentage 2005-06	Total 2004-05	Percentage 2004-05
		£0	%	£0	%
1	Infectious diseases	58	1.4%	57	1.4%
2	Cancers & tumours	266	6.2%	245	6.1%
3	Blood disorders	38	0.9%	41	1.0%
4	Endocrine, nutritional & metabolic problems	142	3.3%	123	3.1%
5	Mental health problems – of which:	510	11.9%	470	11.8%
	Adult mental illness	220	5.1%	188	4.7%
	Elderly mental illness	135	3.2%	126	3.1%
	Child & adolescent mental health (CAMHS)	37	0.9%	19	0.5%
	Other (including unallocated mental health costs)	118	2.8%	138	3.4%
6	Learning disability problems	87	2.0%	79	2.0%
7	Neurological system problems	132	3.1%	116	2.9%
8	Eye/vision problems	87	2.0%	82	2.1%
9	Hearing problems	25	0.6%	25	0.6%
10	Circulation problems	429	10.1%	417	10.4%
11	Respiratory problems	273	6.4%	249	6.2%
12	Dental problems	156	3.7%	142	3.5%
13	Gastro intestinal problems	276	6.5%	262	6.6%
14	Skin problems	89	2.1%	87	2.2%
15	Musculo skeletal system problems (exc. Trauma)	225	5.3%	208	5.2%
16	Trauma & injuries (inc burns)	294	6.9%	253	6.3%
17	Genito Urinary system disorders (exc infertility)	193	4.5%	173	4.3%
18	Maternity & reproductive health	161	3.8%	151	3.8%
19	Neonates	36	0.8%	33	0.8%
20	Poisoning	48	1.1%	40	1.0%
21	Healthy individuals	124	2.9%	121	3.0%
22	Social care needs	45	1.1%	52	1.3%
23	Other – of which:	575	13.5%	568	14.2%
	General medical services	312	7.3%	301	7.5%
	Open access	54	1.3%	47	1.2%
	Continuing care	46	1.1%	41	1.0%
	Invalid/uncoded data	31	0.7%	39	1.0%
	Valid/'other' data	133	3.1%	139	3.5%
	Total	4,270	100.0%	3,993	100.0%

Source: programme budget returns from NHS Wales 2005-06

Figures include expenditure by Health Commission Wales and Dental Practice Board

Annex 5 Programme budget results – percentage spend on mental health by LHB 2005-06

% Spend on Mental Health by LHB 2005-06

