

Public Board Meeting, February 2008

to receive a report on a review of WHHT reference costs

Reference Costs Review

Report by Ken Sharp, Interim Director of Finance

1. Purpose

This paper provides an update on the Trust's reference costs by specialty as compared to the national average.

2. The use of reference costs

Each year NHS Trusts are asked to return costs of their clinical services in a standard national format. These are used for a number of purposes;

- To help set the Payment by Results tariff,
- To establish a reference cost for the organisation. With 100 being average the latest published index for WHHT is 101 for 2006/07. This is an improvement from 103 for 2005/06.

The comparison with some local trusts is as follows:

ORGANISATION NAME	ORGANISATION-WIDE INDEX INCLUDING EXCESS BED DAYS*
Bedford Hospital NHS Trust	96
North West London Hospitals NHS Trust	96
Milton Keynes Hospital NHS Foundation Trust	97
Luton and Dunstable Hospital NHS Foundation Trust	99
Barnet & Chase Farm Hospitals NHS Trust	99
West Hertfordshire Hospitals NHS Trust	101
East & North Hertfordshire NHS Trust	102
The Hillingdon Hospital NHS Trust	105
Buckinghamshire Hospitals NHS Trust	107

Within the total index for WHHT, elective services (mainly surgery) are shown as 93 i.e. relatively efficient and non-elective services (mainly medicine) as 112 i.e. relatively inefficient.

These variances indicate relative efficiency rather than profitability, although there is of course a link between the two. Profitability would compare costs with income, which is largely determined by the Payment by Results (PbR) tariff. As the Trust moves towards Foundation Trust status it needs to be more 'business aware' and to understand which services in the Trust generate a contribution towards the Trust's surplus and which do not.

This knowledge can be used to manage the Trust in a different and more effective way. For example, savings targets have been applied historically as a fairly blunt instrument, in that for example we've applied the same percentage target across all divisions. Having a better understanding of an individual specialty's financial position will enable a much more informed basis on which to target changes in the level of contribution to the Trust's surplus at a service line/specialty level.

3. Specialty cost benchmarking

The following table shows the value of the variance from average for each of the Trust's clinical specialties.

	<u>Nat ave HRGs</u>		
	<u>WHHT</u>	<u>Index Post-MFF</u>	<u>Efficiency value</u>
<u>Surgery</u>			<u>(+) = opportunity</u>
General Surgery	19,950,009	110.90%	1,826,918
Urology	4,363,835	90.40%	-433,009
Orthopaedics	19,992,375	92.00%	-1,611,973
ENT	2,572,663	87.60%	-339,072
Ophthalmology	3,787,174	91.80%	-313,702
Oral Surgery/Orthodontics	1,887,508	116.10%	244,210
Plastics (now moved from WHHT)	5,255,008	79.10%	-1,296,785
Anaesthetics	498,732	90.90%	-46,417
Total Surgery	58,307,303	96.50%	-1,969,832
Surgery without Plastics	53,052,295	98.70%	-673,046
A&E	14,129,852	12,283,375	115.00%
<u>Medicine</u>			
Gen Medicine	36,519,246	101.54%	552,644
Care Of The Elderly	13,926,272	143.43%	3,936,997
Total Medicine	50,445,518	110.60%	4,489,641
<u>Womens</u>			
Gynaecology	5,838,658	74.98%	-1,806,391
Maternity	16,335,547	108.25%	-627,924
Paediatrics	3,433,442	106.88%	209,363

As can be seen above the Surgical division as a whole is generating a surplus of £673k whereas Medicine is generating excess costs of £4,490k, mainly relating to Care of the Elderly.

We are also intending to do some benchmarking with other individual trusts, particularly regarding the Medicine / Care of the Elderly reference costs.

4. The next steps

The reference cost data for each specialty will be reviewed with the specialty and any reasons for the variance, both positive and negative, understood and explained. One of the key discussions will be on data completeness and accuracy, the ownership of which must rest within the divisions.

This data will then be compared against the specialties' Service Line Reporting 'trading' information as it becomes available.

The information will be used to test the detailed implementation of the 'Delivering A Healthy Future' plans.

5. Recommendation

The Board are asked to note the information contained within this report.

Prepared by
Mark Wykes
Technical Accountant

Presented by:
Ken Sharp
Interim Director of Finance

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