Reference Costs 2004-05

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Contents

	Page
Foreword	**2**
A Overview and Summary	**3**
General	3
Reference Cost Data	4
The Reference Cost Index (RCI)	5
National Schedule of Reference Costs	6
Cost to the NHS of Purchasing Care from Non-NHS Providers	7
B Reference Costs 2005 Appendices	**8**
Appendix RC1 - Reference Cost Index (RCI)	
SRC - Reference Cost Schedules	

Foreword

1. Accurate and timely data on cost is fundamental to the provision of effective, efficient and equitable healthcare. The 2005 Reference Costs publication is the richest source of financial data on the NHS ever produced. Year on year the depth and breadth of information has improved and this year is no exception. Two key changes were the collection of Walk in Centre information and the inclusion of Chemotherapy services for the treatment of non-solid tumours.

2. Reference Costs and the Reference Cost Index provide a basis for comparison between organisations, and data at the level of Healthcare Resource Group. Trusts and PCT Boards will want to understand any significant variations affecting their organisations and to take appropriate action.

3. In particular, Reference Costs form the basis of calculating the national tariff for Payment by Results. The tariff for 2006/07 has been derived from these reference costs, with appropriate adjustments for pay and prices increase, reform, quality and efficiency.

4. Looking ahead, we will continue to develop reference costs collection and analysis, working with NHS and other stakeholders to refine and improve the information we rely on to help improve care for patients.

IAN CARRUTHERS
Acting NHS Chief Executive

A Overview and Summary

General

1. This document describes how and on what over £36 billion of NHS expenditure was used in 2004-05.

2. This year's Reference Costs publication shows details of unit cost, length of stay and activity levels for a wide range of services. Because of its comprehensive nature, it also allows monitoring of service shifts from the traditional to new service providers. Where possible, changes in technical and medical advances are reflected in these figures.

3. The volume of information and available analysis is vast. To give easier access to the information, the document and appendices have been sub-divided into areas of particular interest, and by service and provider type. In keeping with our commitment to open government, all of this information is available on CD-ROM and through our website:

www.dh.gov.uk/refcosts

Reference Cost Data

4. Reference Costs are the average cost to the NHS of providing a defined service in a given financial year. They resulted from a requirement in the 1997 White Paper “The New NHS”, which stipulated that detailed cost information would be collected and unit costs would be produced and published.

5. They have been collected annually since 1998 (financial year 1997-98). The 2006-07 Payment by Results (PbR) tariff is based on the 2005 Reference Cost data, i.e. financial year 2004-05.

6. There are many uses of Reference Cost data. It is used by the NHS to performance manage and benchmark their services.

7. It is also increasingly used by other government departments, for example, it is used in the NHS efficiency measure produced by The Office of National Statistics (ONS).

8. Reference Costs can be used to measure the cost of providing treatment across a range of services.

9. They can also be used to determine NHS providers’ relative efficiency by assigning a Reference Cost Index (RCI) to each provider. The lower a Trust’s RCI score, the higher its relevant efficiency.

10. Reference Costs along with the Reference Cost Index are published each year

11. The 2004-05 Reference Costs cover:

    - £36 billion of NHS expenditure, an increase of £3 billion over 2003-04
    - Over 600 NHS provider organisations and
    - Over 35,000 different categories of treatment

12. Any comparison of outputs between 2003-04 and 2004-05 will be distorted. This is because of the change in the accounting treatment for the increase in pensions indexation between 2003-04 and 2004-05.

13. In 2003-04 pensions indexation increased from 7% to 14% and was accounted for centrally by the Department of Health.

14. In 2004-05, funding was allocated to the NHS to cover this increased cost and so reflected in the 2004-05 reference costs.

The Reference Cost Index (RCI)

15. The RCI shows the average cost of an organisation's aggregate activity, compared with the same activity delivered at the national average cost. By comparing with the national average for each type of treatment, the complexity of care that organisations provide is taken into account in the index. An organisation with costs equal to the national average will score 100, with higher cost organisations scoring above 100 and lower cost organisations scoring below 100. A score of 125 means that the costs are 25% above the average whilst a score of 92 shows costs are 8% below the average.

16. Providers based in some areas of the country e.g. London and the South East have higher costs for staff, land and/or buildings due to external market forces. The PbR tariff compensates for this by paying additional funds to organisations for these costs using the Market Forces Factor (MFF). The RCI is also adjusted by the MFF.

17. This adjustment is made by dividing each organisation's index by its MFF to ensure a fair comparison between organisations from different parts of England. Organisations that are located in areas with higher than average staff, land and/or building costs have an MFF greater than 1, so their index values will be reduced. Those in lower than average cost areas will have an MFF of less than one, so their index values will increase. For example:
    - the RCI for Royal Cornwall Hospitals NHS Trust increases from 92 to 102 (MFF value of 0.9)
    - the RCI for University College London Hospitals NHS Trust decreases from 129 to 101 (MFF value of 1.27).

18. All comparisons of RCIs are therefore on the basis of MFF adjusted RCIs.

19. The *Index* is presented in two different ways: (a) the Adjusted Index, where the MFF has been applied and; (b) the Non-Adjusted Index i.e. the index based on raw data before the MFF adjustment has been made.

20. The MFF that is being used is consistent with that used for Payment by Results in 2005-06 and 2006-07. The figures differ in two respects.

21. Firstly, the MFF scores do not incorporate the financial impact of the revaluation of the NHS estate. This resulted in a change to the land and buildings component and took effect from 2005-06.

22. Secondly, because the Reference Cost Indices are centred around an average of 100, the MFF adjustment is undertaken using the MFF values centred around an average of one. The MFF used in Payment by Results has been re-based so that the lowest value is equal to one.

23. In the Appendices, Index scores are shown grouped by the various type of provider, i.e. NHS Trusts, PCTs, PMS+ pilots. The index is based on the average for the provider type, rather than for all NHS organisations. This allows for meaningful comparison by similar organisations. Index scores are not available for health services provided by non-NHS organisations.

National Schedule of Reference Costs

24. The Schedule shows the national average cost for a range of treatments and procedures for the 2004-05 financial year. It covers services provided in hospitals, in the community and in a number of other settings, as well as covering paramedic services provided by Ambulance NHS Trusts. Thus, services included range from a visit by a district nurse to the provision of high-level secure placements for mental health patients, and from X-rays to renal dialysis and transplant surgery.

25. The figures included in the relevant Appendices, have not been adjusted by a Market Forces Factor (MFF).

26. All inpatient elective and non-elective schedules are based on the established statistical technique known as data truncation. This truncated data is derived by excluding bed days that fall outside of nationally set lengths of stay (trimpoints). The costs of any days beyond these trimpoints are excluded from the analysis. This assists in giving a like-for-like comparison of activity and costs.

Cost to the NHS of Purchasing Care from Non-NHS Providers

27. As with the *Index*, separate Schedules are provided for each provider type. As with the 2004 collection, schedules have been prepared for activity purchased from non-NHS providers. The latter combines both services directly commissioned by PCTs and where care is sub-contracted by NHS providers. In addition, a combined NHS Trust/PCT schedule has been prepared.

28. These Reference Costs indicate that the prices that the NHS pays for the treatment of NHS patients by non-NHS providers can be quite high, although there is substantial variation between different service areas.

29. For all services reported within the current Reference Costs collection, the NHS pays a premium of approximately 9% outsourcing healthcare services to non-NHS providers. The overall percentage premium that the NHS pays for services commissioned from the Independent Sector can be seen in the table below:

TABLE 1: Non-NHS Provider 'Premium': trend analysis

	2004-05		2003-04	
	Premium (£m)	Premium %	Premium (£m)	Premium %
Mental Health	33	20%	27	19%
Admitted patient care*	9	8%	22	18%
Other	-11	-26%	-19	-38%
Total	**32**	**9%**	**30**	**10%**

*The 04-05 Admitted Patient Care Premium includes £127K for funding direct from the DH to Independent Sector Treatment Centres.

30. Admitted patient care includes a range of elective and non-elective activities. The premium paid partly reflects the higher costs associated with spot purchasing when NHS providers need to call on extra capacity at short notice. It also reflects the multiple purchases by individual trusts of very small volumes of services that by their nature tend to be more expensive. The significant reduction in the premium paid for admitted patient care reflects a reduction in the amount of spot purchasing, and an increase in bulk purchasing through the ISTC programme. The ISTC programme purchases at prices significantly lower than the historical NHS practice of spot purchasing. Since the ISTC programme was launched in 2002 there has been a considerable drop, year on year, in the cost of IS operations.

31. The "Other" activities category contains a wide variety of activities ranging from community to paramedic services. These services have been procured through this route because it is cheaper than the NHS.

B Reference Costs 2004-05 Appendix

RC - Reference Cost Index (RCI)

Appendix RC1 - Reference Cost Index (RCI)

SRC - Reference Cost Schedules

Appendix NSRC1 - NHS Trust Reference Cost Schedules

Appendix NSRC2 - Primary Care Trust Reference Cost Schedules

Appendix NSRC3 – PMS + Pilot Reference Cost Schedules

Appendix NSRC4 – NHS Trust and PCT Combined Reference Cost Schedules

Appendix NSRC5 – Non NHS Providers Schedules