

WEST HERTFORDSHIRE PCT**FAIR SHARES PLAN FOR PRACTICE BASED COMMISSIONERS'
BUDGETS**

Presenter at Board meeting: Alan Pond

Purpose of Paper:

To set out the current position on Practice Based Commissioners' budgets and set out principles for moving from historic levels of funding to fair shares as soon as possible.

Assurance Framework Objectives:

1. Financial Recovery, clearing debt by March 2008
3. Reconfigure health services across the economy to ensure the right care is delivered in the right place at the right time and deliver the right value for money
4. Become effective commissioners and develop a performance culture with smart productivity metrics and deliver the six must do targets

Action Required by Board:

The Board is asked to:

- 1) Discuss the principles underpinning the pace of change set out in the paper, noting the indicative outcome of applying these;
- 2) Agree these principles or any changes to these principles;
- 3) Note the further work needed on Provider Services which may impact on the indicative outcome.

Alan Pond
Director of Finance
12th September 2007

WEST HERTFORDSHIRE PCT

FAIR SHARES PLAN FOR PRACTICE BASED COMMISSIONERS' BUDGETS

1. INTRODUCTION

PCT budgets were originally approved by the Board in March. A first edition of Practice Based Commissioning (PBC) budgets was issued in April based on the approved PCT budgets and the national guidance on setting PBC budgets.

PCT budgets were revised in the light of the actual 2006/07 outturn and the emerging financial picture and were approved by the Board in May. As a consequence of this and following discussions and decisions on a number of methodological issues, PBC budgets were updated and presented to the PEC on 18th July and subsequently issued to PBC groups.

The national guidance required budgets to be set at individual practice level, even where localities were formally in existence. In creating locality budgets the figures from constituent practices were amalgamated.

Of the PCT's total allocation of £649m, less than 1% was held back from PBC budgets, mainly to create a PCT wide contingency reserve and to provide funding for those residents of Hertfordshire not registered with an NHS General Practitioner.

Of the £643m to be included within PBC budgets and against which "fair shares" has been judged, £452m (70%) has formally been included within the scope of PBC groups in 2007/08. The main areas excluded in 2007/08 are:

- ❖ Dental services (as advised by the Department of Health)
- ❖ Ambulance services
- ❖ Specialist commissioning
- ❖ Accident and Emergency services (as this is commissioned by host PCT rather than resident PCT)
- ❖ Continuing Care and Registered Nursing Care Contributions
- ❖ Primary Care contracts (except Enhanced Services which is included)
- ❖ Corporate Services

2. CURRENT POSITION ON FAIR SHARES

Along with the guidance, the Department of Health provided practice level weighted population figures. These were calculated using the same national formula as applied to PCTs.

However, the volatile nature of population data below PCT level means that the formula is limited to a +/-10% degree of accuracy when calculating a 'fair share' practice budget. On this basis it is questionable whether growth funding should be applied differentially to move individual practices any closer than to within 10% of their fair shares target funding.

Nationally it was expected that around 70% of indicative practice budgets, based on historic spend, would fall within this +/-10% accuracy range of a notional 'fair share' budget. For West Hertfordshire PCT, 90% of practices fall within this range.

It is considered that the size of the PBC groups negates the concerns over the suitability of the formula for setting PBC budgets. After grouping individual practices to their PBC groups the distance from fair shares reduces so that no PBC group is more than 0.5% away from target. This is shown in the attached appendix.

3. PRINCIPLES UNDERPINNING THE MOVE TO FAIR SHARES

Traditionally, the NHS "pace of change policy", used to move from historic funding levels to fair shares, has been to level-up funding. This has meant that all organisations received a minimum amount of growth, set at a level thought necessary not to undermine existing services. Organisations that had been receiving less than their fair share received additional growth to bring them up, over time, to their fair share of funding.

This has meant that for the most under funded organisations the move to fair shares has taken an extremely long time or indeed has never happened, with a reorganisation or change in the formula coming first.

The principles need to recognise both the requirement not to undermine or destabilise PBC groups, but move to fair shares for all PBC groups as fast as possible. Therefore the principles retain a minimum level of growth for all practices and higher growth for those PBC groups that currently receive less than their fair share of funding.

1st Principle

With inflation for NHS commissioners expected to cost 2.5% in 2008/09, all practices should receive a 2.5% increase in their budgets. Those practices more than 10% below their target funding should receive additional growth to ensure that no individual practice is more than 10% below target funding.

2nd Principle

In 2008/09 it is expected that the NHS will receive growth of around 4.5% and this has been assumed within the calculation in the attached appendix. However, in West Hertfordshire the real resource increase, compared to 2006/07 is likely to be around 9.2%. This is because the PCT will have

completed the repayment of previous deficits and will no longer have its funding reduced.

A reasonable level to set the minimum growth is this national headline figure of 4.5%. With inflation for commissioners expected to cost 2.5%, this would give all PBC groups real growth of at least 2%.

3rd Principle

All PBC groups to receive in addition the lesser of:

- ❖ the growth required to bring them to their fair shares level of funding; or
- ❖ additional growth of 4.5%.

4th Principle

Any growth funding left, to be shared by those PBC groups still receiving less than their fair share, pro-rata to their distance from fair shares.

4. OUTCOME FROM APPLYING THE PRINCIPLES

With each of the 4 PBC groups being very close to fair shares funding, applying the principles above allows each PBC group to receive their fair share of funding in 2008/09.

At individual practice level, the indicative budgets for 7 practices would be above their fair shares. This is highlighted in the appendix. Of these, 2 practices would have indicative budgets more than 10% above their fair share. Both of these are in Watcom and have unusual practice lists with higher dependency patients. This highlights the problem of applying the formula at too small a population level.

However, budgets will be allocated to the PBC group and it will be for each group to agree the allocation of sub-budgets to a practice level. In this instance Watcom will need to agree appropriate budgets for its practices, reflecting the relative needs of each.

5. OUTSTANDING WORK

The calculations in the attached appendix assume the PCT achieves financial balance in 2007/08 and are based on reasonable assumptions of growth for 2008/09. Allocations to PCTs are expected to be announced by December and the position will need to be reviewed in light of this.

The 2007/08 budgets used a combination of actual expenditure for some headings and weighted population based shares of expenditure for some others, e.g. where the information to support allocating funds on historic expenditure was not available. This latter approach was taken for Provider

Services, but since then further work has been undertaken to identify services and costs by PBC group. With the expected shift of focus from acute care to primary and community care, it is important that PBC groups receive a real budget for Provider Services and are then charged based on the services they actually commission, rather than a weighted population based charging method. With this change it is likely that the starting distance from fair shares will change and to ensure that the principles above continue to be applied, the calculations in the attached appendix will need to be updated. However, at this stage it is still expected that all PBC groups can be moved to fair shares funding in 2008/09.

6. RECOMMENDATIONS

The Board is asked to:

- 1) Discuss the principles underpinning the pace of change set out in the paper, noting the indicative outcome of applying these;
- 2) Agree these principles or any changes to these principles;
- 3) Note the further work needed on Provider Services which may impact on the indicative outcome.

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