West Hertfordshire Hospitals NHS
NHS Trust

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Mr Alan Pond
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October 29, 2007

Dear Alan

Re: Disaggregation of the Block Contract

Thank you for your letter of 11th October addressed to David Law.

During the commissioning negotiations in February and March both PCT and Trust agreed that the Block Element of the SLA should be disaggregated as quickly as possible subject to being able to provide robust activity and costing information. It was enshrined in the SLA documentation that Pathology and Radiology Direct Access would be so disaggregated with effect from 1st October and to that effect shadow information has been provided on a monthly basis at practice and test level.

The Pathology element of the SLA had activity based on extrapolated data for 2005/06 with Reference costs updated for inflation. I attach a schedule detailing how this was derived from the old PCT groupings. Average unit prices were derived for this activity. The activity provided in shadow form had prices derived by Pathology from their own detailed costings at test level. It is fair to say that these unit prices have not been agreed with the PCT in advance and it is therefore proposed that the Trust revert back to those unit prices used in setting the baseline but would point out that these are average prices and we would expect to move to test prices for 2008/09 as a result of further joint working. As can be seen the activity is £31,300 higher than plan at Month 4.

I understand from John Sloan that there has been some discussion with East Herts Trust about their approach to Pathology and you have agreed that a baseline of 2004/05 would be used with average

costs and a marginal rate. Our proposal is similar in nature but uses 2005/06 as the baseline and therefore the PCT is thereby benefiting from a further year of growth in demand.

Radiology activity within the baseline of the SLA was that for 2005/06 with updated Reference Costs. The analysis by old PCT is attached together with a revised calculation based on actual activity for Months 1-4 using the test prices that generated the value within the SLA. As can be seen this produces an over-performance of £9,700 at Month 4.

The Trust agrees with your sentiment that it is important to identify whether the Block is funded correctly. However, in certain instances indicative tariffs are not available and that is why various approached were suggested as to how the PCT and the Trust could move forward. However, your suggestion that items such as LIS and IIYH are core services and therefore should not be paid separately is unacceptable. These funds cover both Trust and PCT services. They were never included in PbR Stage 3 Returns nor are they regarded as part of the SLA. Neither funding is deemed to be ongoing and so would not sit comfortably within an SLA for clinical services.

It does not make sense to suggest that the transition to full disaggregation of the Block should take place over four years. The discussion within the commissioning meetings was that the PbC groups would be consulted as to their immediate priorities for services to be moved to pay as you go. Without this change there would be no expectation that demand management initiatives would have any impact at primary care level. The Trust has yet to be advised of the outcome of these discussions.

It is not accepted that the transition from Block should be cost neutral as you suggest. The Trust is already absorbing demand changes from 2006/07 and in particular the spend on high cost drugs, again provided monthly in shadow form, bears no relation now to the level in the SLA. This area of spend is actual costs incurred and requires no detailed additional costing or apportionment. The Trust can no longer continue to fund this expenditure given that the expenditure to Month 6 of £1289k exceeds the annual allocation of £667k. An urgent resolution to this funding shortfall is required.

Given that we are already near the end of October, we need to conclude these discussions soon. I would be grateful if you could now confirm that the revised basis for Pathology and Radiology is acceptable. The Trust is happy to work with PCT colleagues throughout the remainder of this year to disaggregate the Block and it would request that you advise who should be involved from the PCT Finance Team.

Yours sincerely,

Andrew Moore
Head of Business Development

c.c. Andrew Parker
Peter Jones
Beverley Flowers
Trudi Southam
Nick Evans
Phil Bradley

	Radiology West Herts	Watford	Dacorum	St Albans	Hertsmere	Total	Tariff	Value	Tariff 07/0	Value	Actual Tests 1-4	Value
											708	
Code	Label	Activity										
RBA1	Band A	8581	6493	6149	1027	22250	22.17	493344.80	22.73	505678.42	6988	158817.1
RBB1	Band B1 - Mammography	82	17	8	2	109	49.49	5394.80	50.73	5529.67	4	202.9238
RBB2	Band B2 - Maternity Ultrasound	462	478	357	69	1366	39.98	54609.40	40.98	55974.64	576	23602.78
RBB3	Band B3 - Other Ultrasound	3155	3483	2718	373	9729	45.03	438116.33	46.16	449069.24	3644	168199
RBB4	Band B4 - Other Band B Tests	586	1831	1807	153	4377	40.84	178760.18	41.86	183229.19	1792	75016.38
RBC1	Band C1 - Mammary Ductography / Mammography											0
RBC2	Band C2 - Ultrasound											0
RBC3	Band C3 - CT Pulmonary Angiography											0
RBC4	Band C4 - CT Radiotherapy Planning											0
RBC5	Band C5 - CT Other	134	176	72	7	389	88.82	34549.42	91.04	35413.16	111	10105.04
RBC6	Band C6 - Other Band C Tests	167	163	137	18	485	104.24	50556.01	106.85	51819.91	109	11646.12
RBD1	Band D1 - CT											0
RBD2	Band D2 - Maternity Ultrasound											0
RBD3	Band D3 - Doppler Ultrasound	7	4	9	0	20	98.30	1966.02	100.76	2015.17	16	1612.133
RBD4	Band D4 - Other Band D Tests	29	39	29	7	104	122.01	12689.33	125.06	13006.56	7	875.4418
RBE1	Band E											0
RBF1	Band F1 - MRI	1	1	0	0	2	289.88	579.76	297.13	594.25		0
RBF2	Band F2 - Other Band F Tests						272.27	0.00	279.08	0.00		0
RBG1	Band G - Radionuclide [Isotope] Tests	1	5	9	0	15	126.70	1900.55	129.87	1948.06	5	649.3539
RBH1	Band H - Radionuclide [Isotope] Tests	63	77	65	0	205	166.71	34175.96	170.88	35030.36	51	8714.87
RBJ1	Band J - Radionuclide [Isotope] Tests	0	21	11	0	32	311.21	9958.71	318.99	10207.67		0
RBK1	Band K - Radionuclide [Isotope] Tests											
RBL1	Band L - Radionuclide [Isotope] Tests											
RBX1	Band M - PET Scan											
RBX2	Band X - DEXA Scan											
		13268	**12788**	**11371**	**1656**	**39083**		**1316601.27**		**1349516.30**	**13303.00**	**459441.18**
					2007/08 Inflation 2.5%			**32915.03**				
					Value in Block SLA			**1349516.30**				
												449838.8
	Plan Month 4											
	Variance											9602.41

Pathology West Herts

Code	Dept	Dacorum	Watford	St Albans	Hertsmere	Total	Tariff	Value	Revised 07/08	Revised Value	Activity M4 0708	Value
DAP841	CLINICAL CHEMISTRY	318127.5	272475	331027.5	55,931	977,561	1.64	1,606,327	1.68	1646486	290484	489256.4
DAP823	HAEMATOLOGY	82867.5	78394.5	78078	12,914	252,254	4.61	1,162,182	4.72	1191237	84287	398035.2
DAP824	HISTOLOGY & CYTOLOGY	12939	14035.5	15358.5	2,181	44,514	37.85	1,684,659	38.79	1726776	17462	677381.4
DAP830	IMMUNOLOGY	5695.5	5158.5	6268.5	947	18,069	4.72	85,315	4.84	87447.46	6794	32880.51
DAP831	MICROBIOLOGY	38958	37468.5	43873.5	6,890	127,190	9.15	1,164,038	9.38	1193139	49354	462980
DAP831	MICROBIOLOGY/SEROLOGY	7576.5	9015	7726.5	1,541	25,859	9.15	236,657	9.38	242573.4		0
	Total	466164	416547	482332.5	80401.5	1445445		5,939,179		6087658		2060534
						Inflation 07/08		148,479				
	Plan Month 4											2029219
						Value in Block SLA		**6,087,658**				
	Variance											31314.14
DAP842	TRANSFUSION SERVICE not included in Block in error	919.5	4362	1216.5	668	7,166	3.61	25,867				

West Hertfordshire Primary Care Trust and
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11th October 07

David Law
Chief Executive
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Hemel Hempstead
Herts Health Informatics HP2 4AD

Dear David

Re: Disaggregation of the Block Contract

I am writing in response to Andrew Moore's letter dated 7th September 2007 and the discussions at the Quarterly Review meeting of 28th September 2007.

As discussed at the Quarterly Review meeting, the PCT has a major problem with the approach suggested by the Trust. The Trust is quoting planned levels of activity against each service type and corresponding SLA values, attributed to that activity. However, it is not clear to the PCT where this information has been taken from. Activity levels and SLA values have not been agreed to this level of detail and this is precisely why we all want to disaggregate the block element of the SLA.

The figures presented by the Trust reveal some significant anomalies, e.g. in chemical pathology there is a 13% forecast underperformance on activity, but an over spend of over 100%. This is because the unit price shown under the plan is £1.68, but the actual unit price charged is £3.99.

The PCT believes that there are three objectives for this piece of work:

a) To ensure that variations in activity lead to real changes in payments due under the SLA. In this way commissioners are encouraged to

manage demand and the Trust is fairly recompensed for any increase in activity;

b) To fairly value the work that the Trust undertakes and aid performance measurement by avoiding any suggestion that overspendings are the result of under funding;

c) To aid service redesign, by avoiding perverse incentives created by the operation of the SLA.

To fulfil all three of these objectives, the whole block element of the SLA needs to be reviewed. The PCT wishes to see a fair value attributed to all the activity covered by the block element of the SLA. This would probably be by reference to the published indicative tariff or national reference costs. This value can then be compared to the total amount actually being paid to identify the amount by which the block is over or under funded. In reaching this figure, the PCT would expect other funding streams, provided historically to the Trust outside the SLA, to be taken into account. The best example of this is LIS funding which is currently supporting health informatics and related services within the Trust. The PCT view is that these are core Trust services reflected in national prices and therefore should not paid for separately again by the PCT.

Having identified the value of any over or under funding on the block element of the SLA, the PCT would propose eliminating this over a four year transition period. This is consistent with the approach to the introduction of Payment by Results and the move to the national tariff. This approach would see a premium or discount being applied, depending on whether the block element of the SLA is currently over or under funded.

An example to illustrate this is set out below. This is simplified by assuming only a single activity type and assuming inflation of 2.5% a year.

Description	Activity	Unit Price	Value	Transition Adj	Actual Payment
Baseline	1,000	10.00	10,000		
Block contract			9,500		
(Over) or Under Funded			500		
Year 1 - 2008/09	1,000	10.00	10,000	-375	9,625
Year 2 - 2009/10	1,050	10.25	10,763	-250	10,513
Year 3 - 2010/11	950	10.51	9,981	-125	9,856
Year 4 - 2011/12	1,000	10.77	10,769	0	10,769

As you can see, the unadjusted value is based on activity multiplied by price, with variations in activity being charged at the full national price. The transition adjustment is fixed regardless of changes in activity and in this case

is a discount because the baseline contract value is less than the national price.

Unfortunately what the Trust is proposing is a piecemeal disaggregation without completing this work. Added to this, the Trust's letter suggests that the activity baseline is not current and is variable in its robustness. Further work is urgently needed to achieve the vision set out by the PCT above.

To move this forward and start to achieve the objectives above, the PCT can see merits in moving some elements from block to cost per case in 2007/08, e.g. pathology and radiology. However, in the absence of the full calculations described above, the PCT is only prepared to agree to this on the basis that the move will in the first instance be cost neutral. By this the PCT means that the block element of the SLA will be reduced, for the second half of the year, by a value derived from:

recorded activity Oct-Mar 2006/07 X proposed unit price

In this way any variation in activity, compared to the same period last year, will lead to real changes in income to the Trust and costs to the PCT.

We need to agree a timescale for the full disaggregation work, but just as importantly, need confirmation that the approach set out above is agreed. This will help to avoid confusion or disagreement at a later date. This is the approach we have also proposed to and discussed with East and North Hertfordshire NHS Trust.

I do hope this clarifies our discussions to date and look forward to hearing from you following due consideration.

Yours sincerely

Alan Pond
Director of Finance

c.c. Anne Walker
Andrew Parker
Peter Jones
Beverley Flowers
Trudi Southam

Nick Evans
Phil Bradley
Andrew Moore