

Meeting of
Lanarkshire NHS Board
28 November 2007

Lanarkshire NHS Board
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SUBJECT: NRAC

1. PURPOSE

The Board has an opportunity to respond to the SGHD on the recommendations of the National Resource Allocation Committee (NRAC) before the Cabinet Secretary considers whether the recommendations of the Committee should be accepted and implemented.

2. CONTENT/SUMMARY OF KEY ISSUES

The attached report provides the Board with a summary of the NRAC report against its stated aims and identifies the impact of these changes for NHS Lanarkshire.

If implemented NHS Lanarkshire's share of the funds available for the NHS in Scotland increases to 10.98% from 10.8%, an annual increase in its allocation of circa £20m.

3. ACTIONS

The NHS Board is asked to approve the recommendations set out in the paper.

4. FURTHER INFORMATION

The full NRAC report is available on the website www.nrac.scot.nhs.uk.

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NRAC

1. INTRODUCTION

In 2007/08, the total NHSScotland Budget was £10.26 billion. Of this, £8.08 billion (79%) was allocated directly to the 14 territorial Health Boards in Scotland to fund health care for the populations they serve.

The NHSScotland Resource Allocation Committee (NRAC) was set up to review how the NHS budget is shared among the territorial Health Boards and ensure that the methods used are evidence based and equitable.

The aims of NRAC's review were to:

- Improve and refine the Arbuthnott Formula, which is used to allocate resources for hospital and community health services and GP prescribing.
- Review the information used in the Arbuthnott Formula and consider the inclusion of new data (e.g. on ethnicity).
- Advise on the use of formulae to allocate resources in areas of health expenditure not currently covered by the Arbuthnott Formula (such as primary care services).
- Consider adjustments to the Arbuthnott Formula in light of the unmet need pilot projects that are underway to encourage the most deprived populations to use hospital services when they need them.

To fulfil this remit, NRAC has undertaken an extensive programme of research and consultation over the last two years. The report contains its recommendations for improving the way the NHS budget is shared among Health Boards in Scotland and NHS Boards have been asked to comment by the end of November.

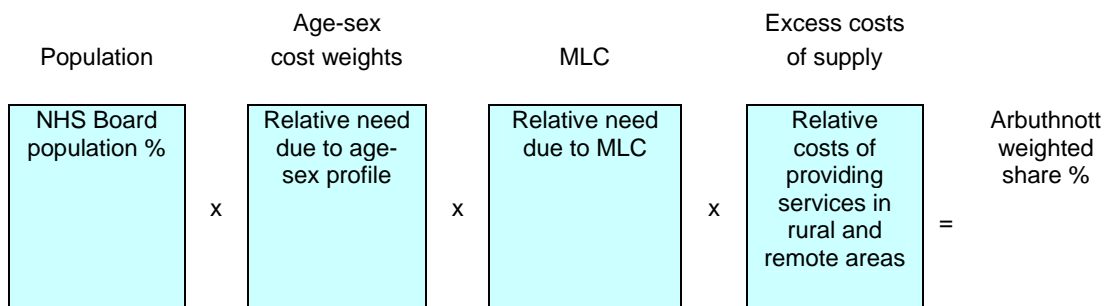
2. BACKGROUND

The Arbutnott Formula is based on the size of the population (capitation) in each NHS Board area. This is adjusted to take account of the needs of the Health Board population and any additional costs associated with the supply of services in that area, relative to the rest of Scotland. Relative needs are determined by the age, sex, health state (morbidity) and life circumstances (such as deprivation) of the NHS Board population. The additional costs of supply are the excess costs needed to deliver health services in remote and rural communities compared with the national average. An unweighted capitation method would, for example, give a Board with 10% of the Scottish population, 10% of the funds.

In summary the Formula works in sequential stages:

- (i) share of the Scottish population living in the NHS Board area;
- (ii) age structure of the population and relative number of males and females;
- (iii) morbidity and life circumstances (e.g. deprivation); and
- (iv) additional costs of delivering healthcare in remote and rural areas.

Figure 1 The Arbutnott Formula



3. REASONS FOR CHANGE

Since the introduction of the Arbutnott Formula in 2000 there have been changes in the way healthcare services are delivered (more care in the community), new challenges faced by the service (ageing population) and new information about the needs of the population (2001 Census, Scottish Index of Multiple Deprivation).

NRAC has improved and refined each element of this formula to bring it up to date, using the best available evidence with rigorous, objective research processes.

The report summarises its overall proposals as follows:

- a) Be built up from **smaller** geographical areas within NHS Boards, to improve the accuracy of predicting needs and allow it to be used for planning purposes below NHS Board level (e.g. Community Health Partnerships).
- b) Use a **timely** form of population projection to determine NHS Board population shares.

- c) Take better account of the higher relative needs of the elderly and the very young, and the impact on resources of lengthening life expectancies.
- d) More accurately reflect the increased need for healthcare services in areas of deprivation and poor underlying health, taking account of different patterns of need in different service areas (e.g. cancer vs. respiratory conditions).
- e) Compensate for the under use of health services for circulatory diseases (such as coronary heart disease) in more deprived areas.
- f) Take better account of the unavoidable excess costs of delivering hospital and community health services in different urban-rural areas.

4. DIFFERENCES BETWEEN THE ARBUTHNOTT AND NRAC FORMULA

Geography

The revised formula is created from small area geography based on datazones and IDZs, which are smaller and more homogeneous than the previous Arbutnott areas.

NHS Board populations

Research showed that re-based population projections are more accurate and stable than MYEs of populations and so NRAC recommends that re-based population projections become the starting point for the revised allocation formula for HCHS.

Resources for GP prescribing will continue to be allocated based on the CHI population (deflated to the same total population as the re-based projections).

Age-sex cost weights

For HCHS the age bands are refined and **extended** from **eight** to **twenty** categories to make them more sensitive to the needs of different age groups. For GP prescribing, the current annual samples of prescriptions that are matched to the CHI database will be pooled over three years.

Additional needs due to MLC

The Arbutnott index will be replaced by three separate indices for: (a) acute, care of the elderly and GP prescribing; (b) mental health & learning disability & (c) maternity.

For community services, a cost weighted average of the three indices is used. This will be reviewed when better community data become available.

An adjustment for unmet need is applied for provision of acute hospital services for circulatory disease (e.g. coronary heart disease). Importantly for NHS Lanarkshire there is no specific adjustment for unmet need applied for either cancer or respiratory disease, despite this being explored as part of the Committee's work.

The Committee does not recommend specific adjustments for ethnic minorities, asylum seekers or migrant workers. This recommendation should be reviewed when the data improve.

Unavoidable excess costs of supply

For hospital services, the current crude adjustment based on road kilometres per 1,000 people is replaced by an adjustment based on the difference between local and national average costs within different urban–rural areas.

For community travel based services, an adjustment is made for the extra time required to undertake visits within rural areas.

For community clinic based services, the current adjustment is retained with the component indicators updated. An alternative adjustment should be created once the SAF review is complete.

Funding Allocation - Overall effect of NRAC Formula

5. IMPLICATIONS FOR NHS LANARKSHIRE

The table below presents the actual 2007/08 NHS Board allocations along with Arbuthnott and NRAC target shares applied to the 2007/08 budget. Since the introduction of the Arbuthnott Formula most NHS Boards appear to be gradually converging towards their Arbuthnott share (NRAC Technical Report A), and most are within 2% of target. However, parity for all Boards has not yet been reached.

Health Board allocations and target allocations, 2007/08 (£million)

NHS Board	2007/08				
	Actual unified budgets	Arbuthnott Formula shares	Arbuthnott target allocations	NRAC Formula shares	NRAC target allocations
	£million	%	£million	%	£million
Ayrshire & Arran	530.2	7.76%	533.4	7.50%	515.2
Borders	154.1	2.26%	155.4	2.09%	143.7
Fife	462.4	6.88%	472.9	6.87%	472.2
Greater Glasgow & Clyde	1737.3	24.64%	1693.2	24.77%	1701.7
Highland	445.8	6.52%	447.7	6.21%	426.5
Lanarkshire	735.0	10.80%	742.0	10.98%	754.6
Grampian	625.0	9.22%	633.4	9.31%	639.7
Orkney	28.7	0.42%	28.8	0.42%	28.9
Lothian	930.9	13.70%	941.6	14.40%	989.0
Tayside	549.4	7.98%	548.4	7.83%	537.9
Forth Valley	363.0	5.37%	368.7	5.47%	375.5
Western Isles	53.6	0.74%	50.8	0.64%	44.1
Dumfries & Galloway	221.2	3.24%	222.6	3.07%	210.6
Shetland	33.9	0.46%	31.5	0.45%	30.7
Total	6870.4	100.00%	6870.4	100.00%	6870.4

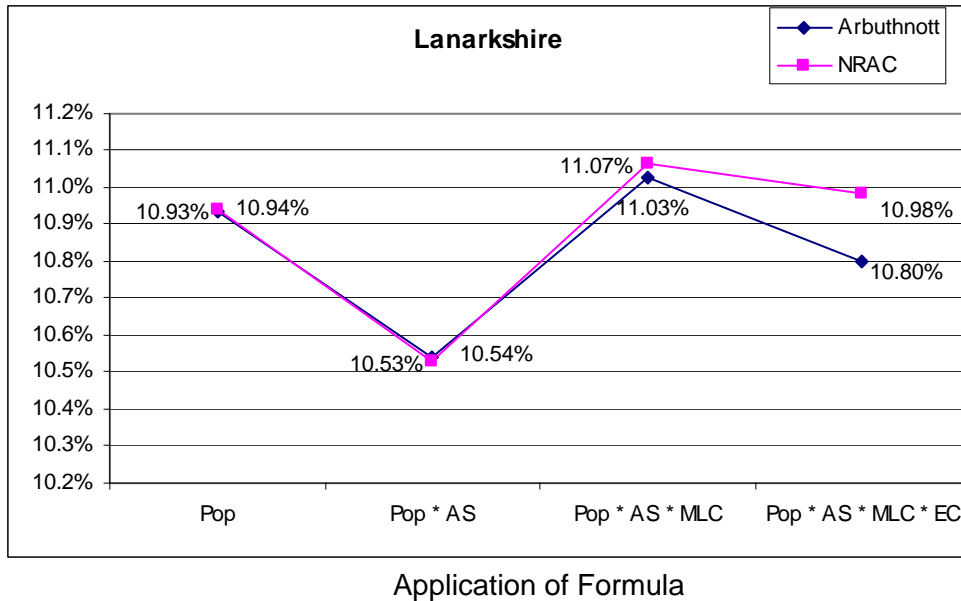
Note: Since the Arbuthnott Formula was implemented, NHS Board allocations have been moving towards their target Arbuthnott shares, which are updated on an annual basis.

Impact of Arbuthnott and NRAC on NHS Lanarkshire

Figure 3 demonstrates the movements in shares for NHS Lanarkshire due to different elements of the formula, again the comparison is made between Arbuthnott and NRAC.

Figure 3 shows the share of the HCHS and GP prescribing budget that a NHS Board would receive if distribution was based on the different stages of the formula.

Figure 3 - Impact of Arbuthnott and NRAC on NHS Lanarkshire



Surprisingly there is only a marginal improvement in NHS Lanarkshire's funding position in relation to the adjustment for MLC, with the greatest gain arising because the excess costs adjustments reduces its share by less under the new formula.

This is as a consequence of the change from Road km per 1000 people to an adjustment based on the difference between local and national average costs within different urban rural areas.

6. SUMMARY

NRAC identify the improvements they consider their recommendations will bring if they are implemented.

These are as follows:

- Ensure that the allocation formula for HCHS and GP prescribing is constructed from smaller, more meaningful geographical units to give better overall precision in the prediction of needs, greater coherence with administrative boundaries, and greater flexibility in presentation of outputs at a variety of levels below NHS Boards.

- Allow the formula to keep pace with changing populations and better reflect the populations requiring services in the allocation year.
- More accurately take account of the higher relative needs of the elderly and the very young, and the corresponding impact on resources of lengthening life expectancy.
- Bring up to date the data sources feeding into the formula to ensure that the formula remains relevant to healthcare needs today.
- Use new indices that more accurately reflect the underlying need for healthcare services due to morbidity and other life circumstances among the population today.
- Ensure that under use of health services for circulatory diseases in more deprived areas is compensated for within the formula. This will ensure that the formula more accurately reflects underlying need rather consolidating current patterns of service use.
- Ensure that the adjustment for the cost of delivering hospital services to meet the needs of the population is now based on a much more rigorous evidence base and is a much better reflection of unavoidable excess costs.
- Ensure that the particular circumstances affecting the delivery of services on islands is recognised and accounted for in an objective and transparent way.
- Improve and update the model used to predict the costs of travelling to deliver services in the community, by including the activities and travel times of a variety of community staff.
- Propose for the first time, formulae for the allocation of resources for services in the primary care sector. In this area resources have traditionally been allocated based on historical expenditure patterns.

Without the detailed technical analysis being made available it has not been possible to test the sensitivity of the revised formula, and this is important if we are to get a better understanding of the potential impact of the formula overtime.

In addition due to the very technical nature of the formula, the absence of some of the Board's specific detailed technical analysis, and the appropriate expertise it is extremely difficult to provide a critical appraisal of the NRAC recommendations.

However a high level review of the report specifically against the aims of the review and the improvements NRAC indicate are achieved if the recommendations are implemented suggests that the aims ought to be delivered. There are 2 exceptions to this for NHS Lanarkshire. The first relates to extending the use of the formula to allocate resources for primary care services. Despite the development of a formula the Committee recommend further work in testing this. This is disappointing given that NHS Lanarkshire's current funding baseline for primary care services, based on historic costs, is considerably below average. This disadvantages NHS Lanarkshire in taking forward its plans to develop primary care. The second area is the lack of an adjustment for

unmet need for either cancer or respiratory disease. both of which are prevalent in NHS Lanarkshire. This may account for the fact that there is no improvement in the revised MLC adjustment which might have been anticipated for Lanarkshire.

7. RECOMMENDATIONS

The Board is asked:

- to support the recommendations of NRAC
- to support the requirement for the changes to the formula to be implemented in as short a timeframe as possible
- to request the Committee to take forward the testing of the formula for primary care services as rapidly as possible
- to ask the Committee to review alternative options for a needs adjustment for cancer and respiratory disease.

Susan Goldsmith
21 November 2007