**Development of the NRAC Formula – discussion note**

*Christine McLaughlin – TAGRA Chair – August 2016*

1. This discussion note sets out issues relating to the implementation and maintenance of the NRAC formula in the context of:
* the desire to provide a more stable funding perspective for boards, to assist with financial planning; and,
* the potential impact on funding arrangements of transformational change, including funding for primary care and social care as well as the review of board governance arrangements.
1. The proposal to provide a more stable funding perspective for boards implies the early adoption of the findings of the Acute MLC review and this is discussed in Section 1. Transformational change raises the issue of how best to ensure the formula remains relevant and is proportionately maintained in the interim period (Section 2). TAGRA is asked to provide feedback on these issues.

**1. Early implementation of the Acute MLC Review findings:**

1. At present the NRAC formula is run each year and decisions on actual allocations to territorial boards are informed by the formula run undertaken approximately six months before the start of that financial year. The annual process makes it difficult for boards to plan services over the medium term as small shifts in target shares may have a disproportionate effect on boards’ ability to deliver services.
2. One proposal, previously discussed at TAGRA, was to reduce volatility in target shares by using a 3-year rolling average of target shares to inform the actual allocations. However, there are some drawbacks with this approach: whilst this would dampen the year-on-year changes in target shares it would not eliminate them and it would slow down the response of the target shares to changes in relative boards population shares. This latter effect would disadvantage boards with expanding populations.
3. An alternative proposal is to provide boards with firm allocations for the next three-year period. This would be achieved by running the formula now to produce target shares for 2017/18 (consistent with previous practice) and also for 2018/19 and 2019/20, using National Records of Scotland (NRS) population projections. This approach of giving firm allocations for future years has also been adopted by NHS England, who have provided Clinical Commissioning Groups with three years’ of firms allocations and an additional two years’ of indicative allocations.
4. The findings of the Acute Morbidity and Life Circumstances (AMLC) Review were not due to be incorporated into the formula run until next year (the formula run for target share year 2018/19). However, given the intention to take a three-year approach it would be preferable to incorporate the review findings into the formula now. This would ensure that the three-years’ target shares were calculated on the best statistical basis and avoid delaying the introduction of the review findings until 2020/21.
5. Immediate implementation of the AMLC review would truncate the customary process of bringing an impact assessment of the review recommendations to TAGRA for discussion. However, given the modest changes recommended by the review this should not raise concerns. In particular, the key recommendation of the review, after very extensive research into possible alternatives, is the retention of the existing set of indicators of need. There are some adjustments to the specification of the small area population data: the substitution of data zones for intermediate geographies and the three-year averaging of cost ratios but, these are not substantial enough to require an impact assessment. It is also intended to shift the geographical basis of the formula from the 2001-based data zones to the new data zones derived from the 2011 census, but this is necessary in any case as population data is no longer produced by NRS for the 2001 data zones.
6. There is a small risk that it will not be possible to implement the AMLC Review findings and run the formula in time to meet the requirements of the Spending Review / Budget process. In that event the fall-back position would be to use target shares derived by the current formula specification.

**2. Programme for formula runs and formula development:**

1. The publication this autumn of target shares for the following three financial years raises the question of the timing of the subsequent formula runs and the shape of the work programme. In addition, there is the potential impact of transformational change, including funding for primary care and social care as well as the review of board governance arrangements on the structure and role of the formula.
2. In principle it would not strictly be necessary to run the formula again until target shares are required for 2020/21. However, that would limit the benefit to boards of having future shares determined in advance as they would only be aware of the future shares for the three year period. An alternative would be to run the formula annually for the third year ahead – allowing boards two years notice of the target shares. Effectively this would provide boards with a rolling three year time horizon for planning purposes.
3. Annual runs of the formula would also serve to retain the skills and knowledge base necessary to run the formula, which could otherwise be lost and compromise ISD’s ability to undertake this work.
4. The annex sets out a summary of the areas of the formula which the Analytical Support Team have previously identified as being candidates for future development work. These need to be considered in the light of the changing context for the formula.
5. TAGRA are invited to provide feedback on the issues raised in this discussion note.

**Annex: potential areas of maintenance**

This annex notes aspects of the NRAC formula for which possibilities of improvement have been identified by the analysts responsible for running the formula.

**1. Work in current workplan:**

* investigation of instabilities in the Excess Costs component for Care of the Elderly in Scottish Distant Islands Allowance (SDIA) areas;
* potential methods for the incorporation of Community Health Activity Data (CHAD) on district nursing into the NRAC formula;
* review of the allocation instrument for the Change Fund.

**2. Potential additional work:**

* rebasing of population projections at a lower geographical level (local authority) to improve the estimation of the future data zone populations within the NRAC formula;
* review of Maternity care programme which currently only partially covers maternity activity and costs;
* incorporation of new A&E data from the expanded A&E data mart;
* adoption of PLICS costs in Acute care programme;
* Excess Costs – improve consistency in the care programme definitions and costing details.