**TAGRA Remote & Rural Sub-group**

**NRAC formula - Excess costs adjustment**

**Executive Summary**

**Scottish Government (Health Analytical Services Division)**

##### December 2012

**EXECUTIVE SUMMARY**

**Introduction**

The NRAC (National Resource Allocation Committee) formula is used to allocate funding to the 14 territorial NHS Boards. In 2011/12, the formula was used to allocate £7.6bn out of a total health budget of £11.4bn.

In Spring 2011, the Remote & Rural sub-group was established to address issues identified by the Technical Advisory Group on Resource Allocation’s (TAGRA) report: The Impact of the NHSScotland Resource Allocation Committee (NRAC) Formula on Remote and Rural Areas of Scotland[[1]](#footnote-1) (2010).

The remit of the group was to recommend to TAGRA (Technical Advisory Group for Resource Allocation) changes to the excess cost adjustment within the NRAC formula, with regard to TAGRA’s core criteria. This will improve the ability of the formula to allocate funds between the territorial NHS Boards on a fair and equitable basis.

The group reported on its progress at each meeting of TAGRA and sought views on the analysis as it progressed. All TAGRA papers and minutes, and the papers for the sub-group, are available on the TAGRA website at <http://www.tagra.scot.nhs.uk/>.

**The excess costs adjustment within the NRAC formula**

The key objective for the NRAC formula is to measure relative need for healthcare services, so that resources can be allocated accordingly. Relative need is based on an area’s population and other indicators – the age and sex profile of that population, as well as ‘morbidity and life circumstances’ – those factors over and above age and sex which influence an individual’s need for healthcare services. The formula then assesses the differential, unavoidable costs of providing these services across different geographical areas.

The unavoidable excess cost of supply adjustment is intended to account for variation in the cost of delivering health services in different urban-rural geographies. It is defined as a pure unit cost effect, separate from any expenditure variation generated by differences in case-mix and length of stay etc. These latter are captured by the additional needs adjustment in the morbidity and life circumstances element of the formula. The adjustment is estimated for each of the 10 Scottish Government Urban-Rural Categories (SGURC) and each data zone within a SGURC will have the same value.

There are four elements within the unavoidable excess cost adjustment: hospital services; clinic-based community services; travel-based community services; and, prescribing.

The analysis

The work of the sub-group centred round 3 main areas:

1. Developing a feasible adjustment which explicitly recognises GP Out of Hours services.
2. Examining the pattern of costs with respect to the Scottish Distant Islands Allowance (SDIA) areas and developing an adjustment to the urban-rural categories.
3. Exploring the extent to which the excess cost adjustment adequately captures the fixed costs of health service provision and the robustness of the current urban-rural categorisation.

**Out of Hours Services**

Currently health boards provide funding for Out of Hours (OOH) Services from their general allocation. The Remote and Rural sub-group explored the possibility of explicitly recognising out of hours services in the NRAC formula. The sub-group sought to devise anindicator of need for Out of Hours Services based on the characteristics of the local populations, and which is adjusted for the costs of service provision across different geographies.

The sub-group concluded that the existing Scottish Allocation Formula (SAF) provided a feasible basis for an OOH services allocation instrument. The SAF is designed to allocate funds for core GP services. The sub-group decided that enhanced weights should be used in the remote and rural element of the SAF to reflect the lack of economies of scale in OOH services. It is proposed that the adjustment should be integrated into the NARC formula by combining the board shares with the NRAC unified board shares using weights calculated from expenditure on Out of Hours services, recorded in the Costs Book, net of the retained element from the Global Sum.

**Scottish Distant Islands Allowance**

SDIA is paid to staff on particular islands in order to assist in maintaining staff levels in the remote areas of Scotland. The level of SDIA varies, but is in the region of £1,000 to £1,500 per staff member.

In addition, the sub-group demonstrated that even after controlling for SDIA costs, there are differences between the cost of delivery on SDIA versus non‑SDIA islands, thus leading to the recommendation to retain the allocation of SDIA costs as part of the NRAC formula.

The Remote & Rural sub-group considered whether adjusting the urban-rural classification within the Unavoidable Excess Costs Adjustment could lead to better reflecting the higher costs in SDIA areas within the formula.

Finally, the sub-group found that even if all the SDIA islands were to provide services in the same manner, using the same number of staff, there would still be differential costs between the different islands. These would not be reflected in the current approach, which assumes that SDIA islands can be treated as a homogenous group. Therefore, the sub-group recommend that an uplift factor to the specific NHS Boards, based on their relative rates of SDIA should be applied.

**Unavoidable Excess Costs**

The sub-group explored the detail of the methodology and data used in the excess cost adjustment to assess whether there were cost factors which are not fully captured. In addition, the sub-group carried out analysis around de minimis costs, engaged with HERU around their Hospital Costs Function analysis and undertook further statistical analysis of the Urban-Rural classification. The sub-group did not identify further cost factors in the hospital sector which are not presently captured within the existing Unavoidable Excess Costs Adjustment.

There was however some concern expressed about the extent to which the variation in the unit costs of the provision of community care services were fully reflected it the excess cost adjustment. This is an issue that TAGRA is asked to build into the future work programme.

**Recommendations for TAGRA**

Recommendation 1: There should be an adjustment, based on the Scottish Allocation Formula, which explicitly recognises Out of Hours Services.

Recommendation 2: With regards to SDIA costs:

* There should be an adjustment to the urban rural categories used within the Unavoidable Excess Cost Adjustment element of the NRAC formula.
* There should be NHS Board – specific adjustments included to take into account the different rates of SDIA in place in the different boards.
* SDIA costs should be compensated through the NRAC formula.

**Recommendation 3:** TAGRA should include a review of the community element of the excess cost adjustment in its work programme, when a reliable national dataset for community services activity and costs becomes available.

**TAGRA: Remote & Rural Sub-group**

**December 2012**

1. <http://www.tagra.scot.nhs.uk/research.html> [↑](#footnote-ref-1)