THE SCOTTISH OFFICE
Department of Health

NHS
MEL(1996)14

NHS Management Executive
St. Andrew's House
Edinburgh EH1 3DG
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Dear Colleague

COSTING OF ACUTE AND COMMUNITY SERVICES FOR 1996/97 CONTRACTING ROUND

Summary

This letter restates what acute and community providers should now have achieved in respect of costing of services in support of the 1996/97 contracting round. It re-emphasises the points made in MEL(1995)41, MEL(1994)103, and EPPIC - A Framework for Costing, issued in March 1995, and gives further guidance to Trusts with community services on requirements for 1996/97 and beyond.

Action

Trusts should read the guidance contained in:

- Appendix 1 - Costing for 1996/97 Contracting Round (Acute Activity)
- Appendix 2 - Costing for 1996/97 Contracting Round (Community Activity)

and ensure that they are complying with National Guidance.

Purchasers must be aware that costed information will be available from providers and should make use of this in the 1996/97 contract negotiations.

Other Information

Further guidance entitled "Using Costing for Effective Contracting" will be issued in Summer 1996 to encourage the use of detailed costing and pricing information to inform more sophisticated contracts for 1997-98.

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NATIONAL COSTING PROJECT FOR ACUTE HOSPITAL PROVIDERS

1. Costing for 1996/97 Contracting Round

The costing methodology as defined in the report entitled "The Foundations for Effective Contracting" applies for 1996/97 costing and pricing. By 30 November 1995 all Trusts should have costed all specialties using the resource profiling approach recommended by the National Costing Project, as a basis for all contract prices (Board, GP Fundholder and ECR).

2. Costing for 1997/98 Contracting Round

Work is planned during 1996/97 for the introduction of Healthcare Resource Groups (HRGs), and the costing thereof, as follows:

- a pilot project is planned to evaluate and compare prices based on HRGs for 6 specialties. Six Trusts in close geographical proximity will be selected and the following specialties will be evaluated:

  - ENT
  - general surgery
  - gynaecology
  - ophthalmology
  - trauma & orthopaedics
  - urology

- Work will be carried out in this project to analyse differing prices to enable purchasers to become sophisticated in purchasing on the basis of procedure costs, HRGs or other contract groups.

- Guidance on deriving HRG data and applying the existing costing methodology will be issued to enable all Trusts to produce HRG costs for the above 6 specialties as a by-product of the contracting cycle for 1996/97.

- Training and education programmes will be developed for all purchasers and providers.

In the meantime estimated "top down" HRG costs based on "Scottish Health Service Costs 1994/95" are available from ISD.

EFFECTIVE PURCHASING AND PROVIDING IN THE COMMUNITY (EPPIC) COSTING FOR 1996/97 CONTRACTING ROUND

1. EPPIC - Current Status

Costing for contracting within the community setting has been part of the EPPIC project, which has been running since June 1993. The Supporting Service Costing sub-project issued a report entitled "A Framework for Costing" to community providers in March 1995 which described progress to date in costing community activity. The issues raised in this report are relevant to costing for the 1996/97 contracting round.

Within the EPPIC Project, the Community Contract Core Dataset Project (CCMDS) was commissioned with devising a currency for contracting for community activity. This project, which was completed in March 1995, created the following principles:

- episodes should be recorded on the basis of a care description and a care aim for each patient;
- activity will then be collected and attached to a matrix created from the care description/care aim pairings;
- care matrices will initially be uni-disciplinary, but development of the concept will allow multi-disciplinary (three dimensional) matrices;
- service profiles will be created for each valid matrix cell using data collected on care inputs identified with each cell.

2. Costing for 1996/97 Contracting Round

Top down cost allocation should by now have been carried out for each community discipline, ie district nursing, health visiting, physiotherapy, to provide a fully absorbed cost for each matrix. Work carried out to date has not identified any major differences between cost allocation techniques for community activity compared to acute activity. Therefore, guidance published as part of the National Costing Project for Acute Hospital Providers, specifically the report entitled "Cost Allocation and Classification", applies.

3. Costing for 1997/98 Contracting Round

In the long term bottom up costing of service profiles will be required to create individual costs for each matrix cell. As the bulk of input to community care relates to time spent with the patient, most evidence to date suggests that a cost per patient contact hour will be the main source for costing service profiles.

As activity recording systems are not yet recording data along EPPIC guidelines, full guidance on costing community activity cannot be issued at present. Testing of the issues involved in the EPPIC care matrix concept will be required before costing of this currency can go ahead in full.

In the meantime providers should, in preparation for the 1997/98 contracting round, breakdown and analyse "whole profession" costs to identify the main cost drivers within each profession. The impact of location of care should be specifically considered.

4. Future Developments

Further work is being carried out over the coming months to test the concepts for contracting as defined above. This work will encompass:

- pulling together the results of the cost breakdown described above to determine the main cost drivers nationally;
- the creation of a number of pilot sites which are able to collect patient based data to attach to care matrices;
- testing of costed activity data through the creation of shadow contracts for specific disciplines within each pilot site;
- roll out of recommended practice to all community disciplines within each pilot site;
- publication of national guidance for costing and contracting for community activity, including guidance on the collection of patient based activity data, within a timescale achievable by all Trusts.