Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

TRUST BOARD
30th June 2011

TITLE	**Contracts with commissioners 2011/12**
EXECUTIVE SUMMARY	There is a new 1-year acute contract for 2011/12. The core contract is written by the Department of Health (DH) and continues to take a hard line, with more financial penalties in the contract: readmissions, mixed sex accommodation and "never events". The contract is led by NHS Surrey, but covers ten Primary Care Trusts (PCTs). The Trust has agreed a "cap and collar" arrangement applying to NHS Surrey only. The planned contract value is £170.257m. Out-turn over £172.257 will be paid at standard PbR rates; out-turn under £168.257m will be similarly refunded. NHS Surrey continues to include a comprehensive schedule of quality standards and includes a number of contract challenges with financial penalties. The majority of these local challenges have been "bought out" for NHS Surrey. Best practice tariffs have been extended to a number of new areas, incentivising achievement through national tariff. CQUIN continues to have the same value (1.5% of contract out-turn value), based on meeting specific targets.
BOARD ASSURANCE (Risk) / IMPLICATIONS	The total contract value is £195 million, of which £170m relates to NHS Surrey and is covered by the "cap and collar". There are nationally mandated financial penalties for failing key performance targets, although the majority of local contract challenges for NHS Surrey have been bought out for a fixed sum.
STAKEHOLDER / PATIENT IMPACT AND VIEWS	None taken
EQUALITY AND DIVERSITY ISSUES	The terms and quality standards in the contract apply to patients from all the Primary Care Trusts included in the contract.
LEGAL ISSUES	The Trust sought legal advice during the contract negotiation process.
The Trust Board is asked to:	Note the report and financial implications for the Trust
Submitted by:	John Headley, Director of Finance and Information
Date:	23rd June 2011
Decision:	For Noting

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Contracts with commissioners 2011/12

1. Introduction

The main acute contract for 2011/12 is a new 1-year contract, replacing the previous 3-year agreement. The core contract is written by the Department of Health (DH) and continues to take a hard line, with more financial penalties in the contract: readmissions, mixed sex accommodation and "never events". The contract was signed by NHS Surrey, as co-ordinating commissioner, but covers ten PCTs.

The Trust has agreed a "cap and collar" arrangement with NHS Surrey for 2011/12, applying to Surrey activity only, with a planned contract value of £170.257m. Over-performance up to £2m above this figure will not be paid. Out-turn over £172.257 will be paid at standard PbR rates; out-turn under £168.257m will be similarly refunded. NHS Surrey continues to include a very comprehensive schedule of quality standards and a number of contract challenges with financial penalties. The majority of these local challenges have been "bought out" for NHS Surrey, for a value of £1.4m.

Best practice tariffs have been extended to a number of new areas, incentivising achievement through national tariff. CQUIN continues to have the same value (1.5% of contract out-turn value), based on meeting specific targets.

2. Summary of financial values for the main Acute contract

Surrey	£170,257,110
Hounslow	£14,810,080
Berkshire East	£5,846,475
Richmond & Twickenham	£2,015,824
Hampshire	£874,315
Ealing	£429,026
Hillingdon	£292,116
Kingston	£362,331
Sutton	£261,731
Berkshire West	£160,829
Total	**£195,309,837**

PCTs in North West and South West London are covered by two commissioning hubs, which are making final adjustments to their detailed financial activity plans. The Trust has additional contract income from smaller, specialised commissioning contracts and also receives income for non-contract activity, together totalling around £3.4m.

3. Risks to the Trust from contract terms

3.1 Changes in 11/12 national contract terms

National contract terms and PbR tariff changes impact adversely on acute Trusts again this year. As well as the general 1.5% deflation in PbR national tariff, the DH introduced penalties for readmissions within 30 days of discharge. There is no payment for readmissions after elective spells and a 25% improvement for readmission after an emergency spell.

Activity Type	Measure	Expected financial impact built into 2011/12 plan
Non-elective	Threshold based on making 25% improvement. No financial penalty if within threshold	£1,798,594
Elective	100% of readmission paid back	£2,134,931

The readmissions penalty is based on actual activity, so there is a financial benefit to the Trust in reducing readmissions below this baseline level. Trust is awaiting data from NHS Surrey to validate the figures for months 1 and 2.

The number of "never events" also increases this year to 25. The financial penalty is recovery of the cost of the procedure and no charge to the commissioner for any corrective procedure or care, up to a maximum of £10,000 per patient.

If patients are placed in mixed sex accommodation (other than excepted areas, such as ITU) there is a penalty of £250 for each patient affected – which would be all patients in a bay, for example.

3.2 Existing national penalties continuing in 2011/12

Continuation of existing penalties includes a sliding scale of penalties for non-achievement of the 18 week referral to treatment standard, *Clostridium Difficile* cases over target and failure to meet cancer targets. For example, 1-2% under-achievement of 18 weeks admitted target would result in a penalty of around £27k per month; 5-6% would be £80K per month. Details are in the appendix.

The non-elective cap also continues, with a 30% marginal rate for income over 08/09 levels.

3.3 Local contract penalties

The Trust has bought out many of the local contract penalties from NHS Surrey, with a value of £1.4 million, for new to follow-up ratios, consultant to consultant referral, caesarean section rates etc.

There are three new local penalties which will apply this year, the most significant of which is a financial penalty for activity done as a daycase rather than an out-patient procedure. The financial penalty is based on paying back the difference between a Day case tariff and OP procedure tariff, with a potential value of around £350K in 11/12 The Trust is in negotiation around mitigating clinical factors justifying day case procedures. An additional mitigating factor is that as outpatient procedures, there will be a reduction in the penalty for readmission after elective procedure.

4 Financial incentives

4.1 CQUIN

There are 7 CQUIN schemes for 11/12:

- Two National CQUINs continuing from last year: VTE assessment and improved inpatient survey scores – total value 0.3% of outturn (up to £585k)
- SEC-wide CQUIN – Enhancing Quality (EQ) continues – total 0.5% of outturn (up to £980k)
- local CQUINs – total value 0.7% (up to £1.36m):
  - Stroke and thrombolysis
  - Ambulatory care pathways
  - Staying healthy (alcohol, smoking cessation quitters, Baby Friendly initiative)
  - Dementia liaison service for older people

4.2 Best Practice Tariff

The impact on the Trust of Best Practice tariff (BPT) has been built into budget plans for 11/12. Best practice tariff incentivises providers to change practice (from elective inpatient to day-case – £136K) or to meet quality standards (£300k for stroke and £230K for fragility hip fracture). For the latter, the DH has also dropped the base tariff payable where BPT is not achieved.

5 Performance against contract

5.1.1 Contract out-turn 2010/11

The table overleaf summarises out-turn by PCT for 10/11. The final value for NHS Surrey included an agreed rebate, fixing the value at £173.25m.

Commissioner	Planned contract value	Year-end income	Variance to Plan
	£'000s	£'000s	£'000s
Surrey	167,223	173,250	6,027

Hounslow	15,795	14,350	-1,445
Berkshire East	5,657	5,941	284
Richmond & Twickenham	2,137	2,014	-123
Hampshire	927	806	-121
Ealing	445	386	-59
Hillingdon	214	367	153
Kingston	249	321	72
Sutton	176	250	74
Total	192,823	197,686	4,863
Plus other smaller contracts and non-contract activity			

Out-turn for the smaller value contracts and non-contract activity, shown in the table below was lower than plan. Specialised services are high cost and low volume and therefore subject to wider variance. The main limb reconstruction contract is a block contract, with the plan based on a three-year rolling average.

Commissioner	**Planned value**	**Year-end income**	**Variance to Plan**
	£'000s	**£'000s**	**£'000s**
South Central Specialised Commissioning Group	734	582	-152
Non contract activity	4,080	3,297	-782
Limb Reconstruction block contract	1,067	1,067	0

5.2 Contract performance at Month 2, 2011/12

After underperformance at month 1, early analysis of activity and income at month 2 is recovering to contract values.

6. CONCLUSION

This is the second year in which the DH has used the national contract and PBR tariff to shift contractual risk to acute providers, through the continuation of the non-elective cap, the introduction of readmissions penalties and 1.5% tariff deflation. Financial penalties from previous years continue: failure to meet targets for 18 week waits, C difficile and cancer targets. There are additional "never events" and fines for mixed sex accommodation. CQUIN has the same financial value this year, at 1.5% of out-turn.

Locally, a "cap and collar" £2m risk share was agreed with NHS Surrey. The majority of local contract challenges with NHS Surrey have been bought out, with a value of £1.4m. The PCT and Trust will shadow-monitor this value in year.

APPENDIX –

FINANCIAL RISKS FROM CONTRACTUAL PENALTIES – additional information

1) Delivery of the 18 Weeks Referral-to-Treatment Standard

Percentage underachievement	Percentage deduction in Elective Care Revenue	Indicative Value (75% penalty for admitted)	Indicative value (25% penalty for non-admitted)
Up to 1%	0.5%	£13,344	£4,448
1% to 2%	1%	£26,688	£8,896
2%to 3%	1.5%	£40,031	£13,344
3% to 4%	2%	£53,375	£17,792
4% to 5%	2.5%	£66,719	£22,240
5% to 6%	3%	£80,063	£26,688
6% to 7%	3.5%	£93,406	£31,135
7% to 8%	4%	£106,750	£35,583
8% to 9%	4.5%	£120,094	£40,031
9% to 10%	5%	£133,438	£44,479

Notes: (i)financial penalties based on annual elective contract value of £42.7M
(ii)Values in table above are incurred each month the target is missed.

2) C Difficile

Number of Cases	Percentage deduction in Total Contract Year Revenue	Indicative value of penalty
51	2%	£3,900,000

Note: The Trust's target for 11/12 is 33 cases. If the target is exceeded but there are fewer than 50 cases, no penalty applies. If there are more than 50 cases, the penalty applies.

3) Cancer Targets

Series of cancer access targets, including two week referrals (TWR), 31 day and 62 day.

Each missed target carries a financial penalty equal to 2% of the actual annual out turn value of the service line revenue.