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Short Stay Emergency Tariff Review

A Final Report for Monitor

23 April 2014

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Contents

Important Notice from Deloitte 1

Executive Summary 2

1 Introduction 4
1.1 Background 4
1.2 Scope of the report 6

2 Approach 8
2.1 Calculation of the SSEM tariff 8
2.2 Potential issues 9

3 Recommendations 11
3.1 2015/16 tariff prices 11
3.2 Longer term 11

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Executive Summary

Monitor has engaged Deloitte to assess the quality of selected data relied upon in operating the existing tariff model. This report is in relation to the operation of the reduced short stay emergency ('SSEM') tariff for eligible non-elective admitted patient care healthcare resource groups ('HRGs').The SSEM tariff applies to 269 admitted patient care currencies in the non-elective care setting when the method of admission is an emergency admission. The effect of the SSEM tariff is that providers are paid a certain percentage of the relevant standard non-elective tariff for a short stay admission of less than two days. This is intended to take into account the lower costs incurred for short stays when the average length of stay for the particular HRG is higher.

In the SSEM tariff there are four bands for the percentage reductions, and these are calculated based on reference cost data. The applicable percentage reductions have not been updated since the 2010/11 tariff. From discussions with the Department of Health, it is understood that in the 2013/14 tariff, the decision not to update the percentage reductions was made in the interest of maintaining stability in the sector.

The review of the approach and understanding of the datasets used in calculating the SSEM tariff has identified the following potential issues:

- There is an inconsistency in the allocation of banding between the calculation of the SSEM tariff reductions and their application in the tariff prices;
- The SSEM tariff reductions do not reflect current cost differentials since they are based on 2007/08 reference cost data; and
- There is no comprehensive documentation of the processes undertaken in calculating and applying the SSEM tariff reductions, leading to a lack of transparency in the application of the approach.

It is recommended that Monitor consults the sector on the appropriateness of the following three options in relation to the SSEM tariff for the 2015/16 national tariff:

- **Option 1.** Rollover the SSEM tariff and use the same percentage reductions as for the 2014/15 tariff.
- **Option 2.** Update the calculation of the SSEM tariff in the 2015/16 national tariff, using more recent reference costs and the current methodology.
- **Option 3.** Update the methodology and the calculation of the SSEM tariff for the 2015/16 national tariff as follows:
    - The method for calculating the SSEM tariff is amended so that the calculation of the tariff reductions is based on the spell length of stay from the Hospital Episode Statistics ('HES') database, which will be consistent with the allocation of bands to eligible HRGs in the national tariff;

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  - The SSEM tariff reductions are updated using the more recent reference costs and HES activity data;

  - An impact assessment is carried out to estimate the effect on providers' payments and commissioners' budgets of the changed tariff reductions; and

  - The actual SSEM tariff reductions applied should be determined in the context of other pricing changes and policy considerations (such as reducing unnecessary admissions from A&E).

The following considerations could be taken into account in developing the policy for the longer term:

- Maintaining formal documentation of the processes undertaken;

- Use of multiple years of reference costs and activity data;

- Use of patient-level information and costing systems data; and

- Review of bandings.

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1 Introduction

Monitor is responsible for the National Tariff Payment System, along with NHS England, and this includes developing the methodology for setting national tariff prices. Monitor took over this responsibility from the Department of Health ('DH'), and has engaged Deloitte to assess the quality of selected data relied upon in operating the existing tariff model. This report is in relation to the operation of the reduced short stay emergency ('SSEM') tariff for eligible non-elective admitted patient care healthcare resource groups ('HRGs').

1.1 Background

The reduced SSEM tariff is reported in the national tariff prices for admitted patient care HRGs. It was initially introduced to ensure that reimbursement for providers for short stay admissions in an HRG that generally has a longer length of stay reflects the lower costs.[1] Short stays are defined as a length of stay of less than two days, and when the reduced SSEM tariff applies, providers are paid a certain percentage of the relevant full non-elective spell tariff, to take into account the lower costs incurred for short stays.

The reduced SSEM tariff applies when the following criteria are met:

- The HRG is eligible for the reduced SSEM tariff as indicated in the tariff information spreadsheet and a best practice tariff does not apply;
- The patient's adjusted length of stay is either zero or one bed day, that is, it is a short stay;
- The patient is not a child, defined as aged under 19 years on the date of admission;
- The admission method code is 21-25, 2A, 2B, 2C or 2D, that is, it is an emergency admission;
- The average length of non-elective stay for the HRG is two or more days; and
- The assignment of the HRG has the potential to be based on a diagnosis code, rather than on a procedure code alone, irrespective of whether a diagnosis or procedure is actually dominant in the HRG derivation.[2]

When these criteria are met, the reduced SSEM tariff applies rather than the full tariff, and any subsequent adjustments to the prices paid to providers, such as specialised services top-ups, are applied to the reduced SSEM tariff.

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[1] Department of Health, 'Implementing Payment by Results: Technical Guidance 2005/06', 2005.

[2] Department of Health, 'Payment by Results Guidance for 2013-14', 2013.

The reduced rate that is applied in the SSEM tariff is related to the usual average length of stay for the HRG based on activity data from the Hospital Episode Statistics ('HES'), with HRGs with a higher average length of stay receiving a lower SSEM tariff. In 2013/14, the reduced SSEM tariff applied to 269 HRGs (or 22% of all admitted patient care HRGs with a non-elective spell tariff). The eligible HRGs are allocated to four bands based on the usual average length of stay for the HRG, and these determine the percentage reduction to be applied for the SSEM tariff. Table 1 sets out the bands and corresponding reduced SSEM tariffs.

Table 1: Short stay emergency tariffs, 2013/14

Band	HRG with usual national average length of stay	% of full tariff
1	0-1 days	100%
2	2 days	70%
3	3-4 days	45%
4	5 or more days	25%

Source: Department of Health 'Payment by Results Guidance for 2013-14', 2013.

Table 2, on the following page, provides some examples of HRGs that are eligible for the reduced SSEM tariff.

The reduced SSEM tariff was first introduced in 2005/06, and Table 3 sets out subsequent changes to the tariffs since then. While initially there was an increase in the levels of the tariffs, they have not been updated since 2010/11.

Whilst the purpose of the reduced SSEM tariff is to take into account the cost differential for short stays, there are also other relevant policy considerations, such as reducing unnecessary admissions from the Accident and Emergency ('A&E') department (emergency admissions). Research by the National Audit Office shows that the majority of emergency admissions do not result in long lengths of stay.[3] In 2012/13, 49% of emergency admissions discharged had a short stay of less than two days. Over the last 15 years, short stay admissions accounted for the vast majority of the increase in emergency admissions, increasing by 124%, while long stay admissions increased by 14%. The introduction of the four-hour waiting time standard for A&E departments is likely to have contributed to the increase in short stay admissions.[4] The reduced SSEM tariff is also intended to serve as a disincentive on providers to admit patients when they could have been treated in A&E.

[3] National Audit Office, 'Emergency admissions to hospital: managing the demand', 2013.

[4] Ibid, p. 28.

1.2 Scope of the report

The purpose of this report is to:

- Outline the approach used by the DH Payment by Results ('PbR') team in the calculation of the reduced SSEM tariff for the different bands (Section 2);
- Review the datasets used in the estimation of the tariff (Section 2); and
- Provide an initial consideration of whether it is appropriate to update the SSEM tariff reductions, and if so, provide recommendations on the basis of the update (Section 3).

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Table 2: Examples of the application of the short stay emergency tariff

HRG code	HRG name	Non-elective spell tariff	Reduced SSEM tariff applicable?	% applied in calculation of reduced SSEM tariff	Reduced SSEM tariff
AA23A	Haemorrhagic Cerebrovascular Disorders with CC	£4,005	Yes	25%	£1,001
AA23B	Haemorrhagic Cerebrovascular Disorders without CC	£2,530	Yes	25%	£633
HA81B	Sprains, Strains, or Minor Open Wounds with CC	£1,542	Yes	45%	£694
HC29C	Inflammatory Spinal Conditions without CC	£916	Yes	70%	£641

Source: Department of Health, 'National Schedule of Reference Costs 2012-13 for NHS Trusts and NHS Foundation Trusts', 2013.

Table 3: Short stay emergency tariffs, 2005/06 – 2013/14

Band	HRG with national average length of stay	% of full tariff									
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
1	0-1 days	-	100%	100%	100%	100%	100%	100%	100%	100%	100%
2	2 days	-	50%	50%	50%	75%	70%	70%	70%	70%	70%
3	3-4 days	-	35%	35%	35%	55%	45%	45%	45%	45%	45%
4	5 or more days	40%	20%	20%	20%	35%	25%	25%	25%	25%	25%

Source: Department of Health, 'A simple guide to Payment by Results', 2012.

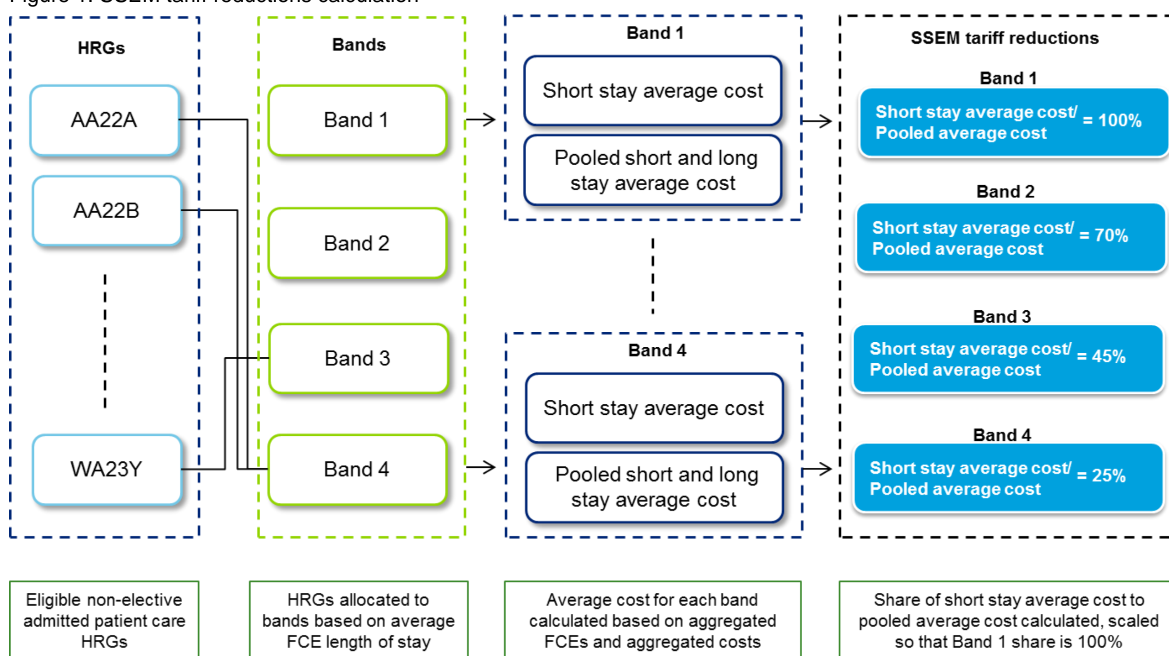
2 Approach

This section outlines the approach used by the DH PbR team to calculate the reduced SSEM tariff and identifies potential issues in the approach. This is based on a review of the DH analysis of the SSEM provided to Monitor,[5] and discussions with the team at the DH that was previously responsible for producing the SSEM tariff.

2.1 Calculation of the SSEM tariff

The SSEM tariff is calculated based on data on finished consultant episodes ('FCEs') and total costs for short stays and non-short stays by HRG from reference costs. The approach is designed to capture the cost differential between short stays and long stays across HRGs with different average lengths of stay. The steps in the calculation are outlined in Figure 1.

Figure 1: SSEM tariff reductions calculation



The SSEM tariff has not been updated since 2010/11. The SSEM tariff in 2010/11 was based on 2007/08 reference costs. In 2013, the DH undertook analysis to estimate the applicable percentage reductions based on more recent data. However, a policy decision was made not to update the reduced SSEM tariff. This decision was made in the interest of maintaining stability in the sector.

[5] Excel spreadsheet titled '01_1314 SSEM Banding Calculation.xls'.

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2.2 Potential issues

This section sets out the findings following the review of the SSEM tariff.

- **There is inconsistency between the calculation of the SSEM tariff percentages and their application.** The calculation of the SSEM tariff percentages applied allocates the HRGs to bands based on the FCE length of stay from the reference costs. However, the bands applied to HRGs in the national tariff are based on the HES FCE length of stay. This creates an inconsistency between the calculation and application of the SSEM tariff, and also with the use of activity data elsewhere in the tariff model, where HES spell data is used instead. This inconsistency arises for approximately 55% of HRGs considered in the DH analysis. Table 4 sets out the SSEM tariff percentages of the standard tariff calculated based on both the reference cost FCE length of stay and HES spell length of stay. That is, the cost information for the HRGs are aggregated based on either the reference cost or HES length of stay to calculate the cost differential for short stays. Using HES spell length of stay results in higher percentages, so that the SSEM tariff paid would be higher.

Table 4: Short stay emergency tariff analysis, 2012/13

Band	HRG with national average length of stay	% of full tariff for 2012/13	
		Based on reference cost FCE length of stay	Based on HES spell length of stay
1	0-1 days	100%	100%
2	2 days	75%	80%
3	3-4 days	45%	55%
4	5 or more days	30%	35%

Source: Department of Health analysis.

- **SSEM tariff reductions do not reflect current costs differentials.** The SSEM tariff reductions applied have not been updated since the 2010/11 tariff prices, which were based on the 2007/08 reference costs. The analysis provided by the Department of Health clearly indicates that the tariff reductions would be different if recalculated based on more recent reference costs data, as shown in Table 5, with a trend towards increased percentage shares of the full tariff prices across each of the bands. For example, the tariff reductions for 2012/13, if they had been updated based on 2010/11 reference costs, would have been 80% for Band 2, 55% for Band 3 and 35% for Band 4.

Table 5: Short stay emergency tariff analysis, 2010/11 – 2013/14

Band	HRG with national average length of stay	% of full tariff			
		2010/11	2011/12	2012/13	2013/14
1	0-1 days	100%	100%	100%	100%
2	2 days	70%	70%	75%	80%
3	3-4 days	45%	45%	45%	55%
4	5 or more days	25%	30%	30%	35%

Source: Department of Health analysis.

- **There is no comprehensive documentation of the processes undertaken.** The approach for the calculation and application of the SSEM tariff reductions is not clearly articulated in an approach document, leading to a lack of transparency. This includes the process for determining which HRGs are eligible for the SSEM tariff; the reasoning for why the SSEM tariff reductions are not updated; and any impact assessments undertaken in arriving at that policy decision.

3 Recommendations

This section details recommendations for the reduced SSEM tariff in light of the issues identified. Recommendations are provided in relation to the 2015/16 tariff prices and for potential changes in the longer term.

3.1 2015/16 tariff prices

It is recommended that Monitor consults the sector on the appropriateness of the following three options in relation to the SSEM tariff in the 2015/16 national tariff:

- **Option 1.** Rollover the SSEM tariff and use the same percentage reductions as for the 2014/15 tariff.
- **Option 2.** Update the calculation of the SSEM tariff for the 2015/16 national tariff, using more recent reference costs and the current methodology.
- **Option 3.** Update the methodology and the calculation of the SSEM tariff for the 2015/16 national tariff as follows:
    - The method for calculating the SSEM tariff is amended so that the calculation of the tariff reductions is based on the spell length of stay from the HES database, which will be consistent with the allocation of bands to eligible HRGs in the national tariff;
    - The SSEM tariff reductions are updated using the more recent reference costs and HES activity data;
    - An impact assessment is carried out to estimate the effect on providers' payments and commissioners' budgets of the changed tariff reductions; and
    - The actual SSEM tariff reductions applied should be determined in the context of other pricing changes and policy considerations (such as reducing unnecessary admissions from A&E).

3.2 Longer term

It is recommended that the following considerations are taken into account in developing the policy for the longer term:

- **Documentation.** There should be formal documentation of the processes undertaken in calculating the SSEM tariff reductions; the determination of HRG eligibility for the SSEM tariff reductions; and impact assessments where there are significant changes to the tariff reductions expected to significantly impact providers and commissioners. The content of this documentation will be determined by Monitor's decision regarding the SSEM going forward.

- **Use of multiple years of reference costs and activity data.** To reduce volatility in payments through varying tariff reductions every year, Monitor could consider using multiple years of reference costs and HES activity data in calculating the SSEM tariff reductions, particularly if the national tariff as a whole is based on multiple years of reference cost data. Owing to currency design changes, the data is currently not comparable across years. However, it is understood that work is currently under way to map cost data year to year.

- **Use of Patient-level information and costing systems ('PLICS') data.** Monitor may be able to draw on PLICS data to further inform its calculation of relevant percentage reductions for the SSEM tariff. This could include, for example, consideration of the PLICS data that was collected as part of the 2012/13 PLICS pilot.

- **Review of bandings.** Monitor could consider reviewing the number of bands used, for example, splitting Band 3 into two separate bands for 3 days and 4 days of average length of stay. Having a higher level of disaggregation would allow for more accurate reflection of the cost differential.

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