More for less
2009/10

Further analysis on income from tariff and non-tariff sources
April 2011

Contents

Summary 2
Introduction 2
Income 4
Activity – Inpatient and Day cases 5
Costs 7
Conclusions 8
References 8
Summary

More for Less 2009/10: Are efficiency and productivity improving in the NHS? (More for Less 2009/10) (Ref. 1), published last December, showed that over the past three years income from non-tariff activity in NHS trusts grew by some 45 per cent, significantly more than income from tariff activity. This implied growth in non-tariff income across all acute trusts of about £4 billion. This briefing further analyses the growth in non-tariff income. It confirms the level of growth identified in More for Less 2009/10. It shows the growth was not the result of a disproportionate rise in either activity or costs.

A possible cause is that prices for non-tariff activity have risen faster than costs and providers use the extra income to subsidise tariff activity. Purchasers may also be supporting providers financially through this route. A further possible cause is that some rapidly rising non-tariff costs (such as high cost drugs) are hidden in tariff activity. Both have implications for the way the tariff is set in the future, how providers analyse the costs and profitability of individual service lines and how the future economic regulator assesses costs and subsidies.

Introduction

The briefing paper More for Less 2009/10 showed that over the past three years income from non-tariff patient activity increased significantly compared with tariff income. Table 1 and Figure 1 that follow are reproductions of Table 3 and Figure 1 from More for Less 2009/10 and summarise this.

The analysis was based on the accounts of 72 non-foundation acute and specialist trusts. Foundation Trusts (FTs) do not provide a breakdown of tariff and non-tariff income. Several readers have commented on this finding, asking for further analysis to understand whether there are any explanations for this pattern in the data.
### Table 1: Tariff and non-tariff income from patient care in non-foundation acute and specialist trusts (Table 3 from More for Less 2009/10)

<table>
<thead>
<tr>
<th></th>
<th>Income (£ billion)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff income (inc market forces factor)</td>
<td>11.9</td>
<td>12.3</td>
</tr>
<tr>
<td>Non-tariff income</td>
<td>3.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Total patient care income from Primary Care Trusts (PCTs)</td>
<td>15.4</td>
<td>16.5</td>
</tr>
</tbody>
</table>

*Source: Audit Commission (data from trust [non-FT] accounts)*

Note overall income in non-foundation trust accounts is audited, information on the tariff split between tariff and non-tariff income is not.

### Figure 1: The proportion of tariff and non-tariff income from patient care (Figure 1 from More for Less 2009/10)

*Source: Audit Commission (data from trust [non-FT] accounts)*
Income

We first looked at income. The total income from the accounts of the 72 trusts has been remarkably consistent in the last three years, with a close relationship between income in one year and the next as Figure 2 shows. The same pattern is true between 2007/08 and 2008/09. Nearly all trusts saw their income increase year-on-year.

Figure 2: **Comparison of total tariff and non-tariff income (including market forces factor payments) 2008/09 to 2009/10**

![Graph showing comparison of income](image)

Source: Audit Commission (data from non-FT accounts)

Although overall income increased at a similar rate across trusts, changes in non-tariff income were less consistent.
Figure 3: **Comparison of non-tariff income 2008/09 to 2009/10**

Data quality accounts for some of the inconsistency revealed in Figure 3. Some trusts, for example, record no non-tariff income in one year and over £50 million in the next, and vice versa. The same pattern is true when comparing 2007/08 with 2008/09. In addition, some trusts have an implausibly low level of non-tariff income (£0 or £12 million out of total income in excess of £350 million).

Overall the share of non-tariff income to total income from patient activities increased from 23 per cent in 2007/08 to 29 per cent in 2009/10. At trust level the most common non-tariff income share was between 20 and 30 per cent across the three years (25 of the 72 trusts in 2009/10). However year-on-year, increasing numbers of trusts had more than 40 per cent of income from non-tariff activity. The number with less then 10 per cent non-tariff income also fell, showing a drift towards non-tariff activity accounting for an increasing proportion of their income.

**Activity – Inpatient and Day cases**

We next looked at inpatient and day case activity for FTs and non-FTs that had the same status between 2007/08 and 2009/10. Our Payment by Results (PbR) extract from the Secondary Uses Service (SUS) data allows us to distinguish between PbR qualifying and non-qualifying spells from 2008/09 onwards.
For the 72 non-FTs, the proportion of PbR non-qualifying spells increased marginally from 12.5 per cent to 12.7 per cent over the three years. Figure 4 shows a strong relationship between the percentage of PbR non-qualifying activity in one year and the following year.

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**Figure 4:** Percentage of PbR non-qualifying spells 2008/09 to 2009/10

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Table 2 summarises the PbR qualifying and non-qualifying activity (inpatient and daycase) for all non-FT and FT acute and specialist trusts (for those trusts that have had same status between 2007/08 and 2009/10). This shows the percentage of PbR non-qualifying activity has remained similar across the two years for FTs and non-FTs trusts with a higher percentage of non-qualifying activity for FTs.
Table 2: PbR qualifying and non-qualifying spells based on 72 non-FTs and FTs

<table>
<thead>
<tr>
<th>Year</th>
<th>Trust type</th>
<th>PbR qualifying spells</th>
<th>PbR non-qualifying spells</th>
<th>% non-qualifying</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>Non-FT</td>
<td>5,707,303</td>
<td>811,843</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td>FT</td>
<td>3,993,224</td>
<td>865,067</td>
<td>17.8%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009/10</td>
<td>Non-FT</td>
<td>5,807,625</td>
<td>841,663</td>
<td>12.7%</td>
</tr>
<tr>
<td></td>
<td>FT</td>
<td>4,194,106</td>
<td>861,423</td>
<td>17.0%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>Non-FT</td>
<td>1.8%</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FT</td>
<td>5.0%</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Audit Commission (from SUS [HRG4] data for National Benchmarker)

PbR activity, based on SUS PbR data on inpatient and day cases, translated into a growth in income of 1.5 per cent in 2008/09 and 2.2 per cent in 2009/10 for our 72 non-FTs. This is broadly consistent with the accounts data for non-FTs. The 55 FTs had income growth of 3.6 per cent in 2008/09 and 1.9 per cent in 2009/10.

Our conclusion is that a disproportionate growth in activity is not the cause of the rise in non-tariff income.

**Costs**

We analysed reference costs for all acute and specialist trusts for 2007/08, 2008/09 and 2009/10 to see if there had been significant differences in cost increases. There have not. If anything, tariff related costs have increased faster than non-tariff.

The share of cost-weighted non-tariff activity increased only slightly (from 25 to 26 per cent) over the three years. Total costs allocated to non-tariff activity increased by 18.4 per cent, while activity (as defined for reference costs) increased by 14.2 per cent,\(^i\) implying a 4.2 per cent rise in unit costs. The equivalent figures for tariff activities are 18.3 per cent and 7.5 per cent, implying a 10.8 per cent rise in unit costs.

\(^i\) This includes a 129% increase in recorded outpatient procedures, which is most likely to be due to improved rates of recording. Without this, the increase in non-tariff activity would be 9.5% and the implied unit cost increase 8.9%
Conclusions

We conclude this analysis confirms there has been much more rapid growth in non-tariff income than tariff income. However, that growth has not been due to a disproportionate increase in activity or costs.

This implies possibly two causes.

Either that prices for non-tariff services have been much higher than costs and the extra income has in effect been used to cross-subsidise between tariff and non-tariff activity. We might expect this trend to grow as tariff payments are lowered. This is also the route purchasers can use to subsidise their providers.

Or, that some non-tariff costs are ‘hiding’ in tariff activities and these are growing rapidly. An example might be high costs drugs excluded from tariff payments and reimbursed direct by PCTs. Costs for these drugs increased by £0.4 billion over the two years 2008/09 and 2009/10 from £0.5 to £0.9 billion. However, our findings imply a £4 billion increase in non-tariff income across all acute and specialist trusts, so high cost drugs can only be part of the explanation.

Both possible causes have implications for:
- the way the tariff is set in future, including by the economic regulator from 2013/14;
- how the economic regulator might make judgements about costs and subsidy; and
- how trusts analyse the costs and profitability of individual service lines.

References

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