

MEETING: Trust Board – 23rd November 2011**TITLE:** Service Line Report (SLR) – Month 6 2011/12**SUMMARY:**

This report shows service line performance for Month 6 of 2011/12 by division, as calculated from the patient-level information and costing system (PLICS) – showing both contribution and profitability.

In addition, it provides an update on the current role of PLICS/SLR data within the Trust and future objectives.

ACTION: For information / discussion**REPORT FROM:** Guy Dentith, Head of Finance**SPONSORED BY:** Richard Martin, Director of Finance**Financial Validation**

Lead: Director of Finance

N/A

Compliance with statute, directions, policy, guidance

Lead: All directors

Reference:**Compliance with Healthcare Commission Core/Developmental Standards**

Lead: Director of Nursing & Clinical Development

Reference:**Compliance with Auditors' Local Evaluation standards (ALE)**

Lead: Director of Finance

Reference:**Compliance with requirements of FT application and monitoring regime**

Lead: Director of Strategy & Performance

Reference:

1. Month 6 SLR Report Summary

1.1. Summary of report contents

This report covers cumulative year to date SLR financial performance to September 2011, calculated from a combination of actual costs and income allocated at patient level and top down apportionments of the community costs/income. Consistent with previous months the report covers performance two months in arrears due to the timing of activity being fully coded on the Trust's information systems.

The SLR reports have been split to reflect the new divisional structure of the organisation.

The following appendices have been included for further understanding of the monthly position:

- Appendix 1 shows the summarised income and expenditure Trust position split by division.
- Appendices 2-4 show the detailed SLR position within each division disaggregated by service line.
- Appendix 5 shows Trust wide service line performance in the portfolio matrix.

1.2. Headline Observations

Overall the position has remained broadly consistent with that reported in previous months. The total expenditure is equal to that reported in the Month 6 finance board report, whilst income is £0.7m lower; this difference is described in detail in section 1.3.

Figure 1: M6 divisional summary

| Division | Income (£000's) | Direct and Indirect Costs (£000's) | Contribution Margin (%) | Overhead Costs (£000's) | Profit Margin (%) |
|------------------------------------|-----------------|------------------------------------|-------------------------|-------------------------|-------------------|
| Integrated Care and Acute Medicine | 55,474 | 44,947 | 19.0 | 10,884 | -0.6 |
| Surgery and Diagnostics | 36,063 | 26,484 | 26.6 | 7,916 | 4.6 |
| Women, Children and Families | 42,412 | 35,723 | 15.8 | 8,715 | -4.8 |
| Trust Total | 133,949 | 107,155 | 20.0 | 27,515 | -0.5 |

Integrated Care and Acute Medicine

The overall contribution margin for this division is 19.0% which is a reduction from the month 4 position of 19.6%. Significant positive contributors are the Respiratory Medicine, Acute Medicine and Community service lines. Within Respiratory medicine both outpatient attendances and emergency inpatients provide the greatest contribution to the service's profitability. Pain Management is currently producing a negative contribution, this is predominantly due to daycase procedures where it appears that the tariff is not covering the direct/indirect theatre and medical costs associated with treating these patients. This issue will be further investigated by the business planning team to establish whether there are potential efficiencies which can be enabled to ensure the service line delivers a positive contribution.

The income position within this division is most affected by the emergency marginal threshold whereby the Trust only receives 30% tariff for activity over 2008/09 levels in line with PbR guidance.

Surgery and Diagnostics

The overall contribution margin for this division is 26.6% which is the highest divisional margin. All of the 11 Service lines are generating a contribution towards the Trust's overheads with a total year to date divisional contribution of £9.6m. Drilling down to the service lines (shown in **Appendix 3**) the highest net contributing services include General Surgery, Critical Care and Direct Access diagnostics.

Women, Children and Families

This division generates the lowest contribution margin of the three divisions at 15.8%, this is an increase from the month 4 report which showed a divisional contribution margin of 14.4%. As shown in **Appendix 4** all of the service lines are generating a contribution towards the Trust's overheads. The service line contribution of Obstetrics is the lowest within the division at 6.2%. Key factors contributing to the low divisional contribution margin are the high cost of CNST premium relative to tariff reimbursement, high maternity staffing levels compared to other trusts and proportionally high levels of staff absence through sickness and maternity covered by agency staffing.

Following the integration of Haringey children's services the Community service line is the largest in terms of income/expenditure and has generated a cumulative year to date £3.4m contribution towards the Trust's corporate overheads.

1.3. Financial reconciliation

As described in figure 2 the total expenditure in the SLR report is equal to that reported in the month 6 finance board report, whilst income is £1.1m lower. This difference is due to the exclusion of income relating to prior year performance, which is not relevant for patient level costing in this year.

Figure 2: Reconciliation to Month 6 Board Report

| | Income | Expenditure | Surplus/(Deficit) |
|----------------------|---------------|--------------|-------------------|
| Month 6 Board Report | £135.0m | £134.6m | £0.4m |
| M1-6 SLR | £133.9m | £134.6m | -£0.7m |
| Difference | -£1.1m | £0.0m | -£1.1m |

2. Enabling Service Line Management (SLM)

Under the new divisional structure it is important that the roll-out of SLM and using it to develop Whittington Health as a business is a priority.

The objectives of Service Line Management (SLM) are to:

- Understand the performance of the Trust's business units in SLR.
- Identify examples of best practice in high-performing service lines, that can be implemented in other areas of the Trust.
- Focus on productivity gains and improved quality to help create surpluses for reinvestment and enhance the patient experience.
- Improve clinical and operational management engagement in business planning and financial management.

2.1. Ongoing Progress

Subsequent to the September SLR Board report key progress has been made in the following areas:

Designated operational/clinical leads

In line with the objectives of Service Line Management outlined above, within the IC&AM division designated clinical and operational management leads have been identified for each of the Service Lines. Specific reports to enable financial performance information and key metrics tailored to each division are in the process of being developed and further refined in conjunction with the clinical/operational leads.

Comprehensive costing review

As previously stated, our SLR information is calculated and underpinned by the trust's patient-level information and costing system (PLICS). Our PLICS system is currently undergoing a comprehensive review whereby the fundamental costing assumptions and apportionments are being refreshed to reflect analysis and feedback from SLR users.

Training provided

A range of training sessions covering both the SLA Key Performance Indicators (KPI's) the Trust has agreed with commissioners and Service Line Reporting have been delivered to groups of Consultants, operational managers and at the divisional board meetings. The training has received positive feedback and further sessions will be delivered in the coming months.

New reports developed

A suite of reports using the new Qlikview reporting tool have been developed to show a financial snapshot of performance against a range of key metrics at both specialty and Consultant level. The Trust is working with the external provider to assess integrating all performance reporting through a central system which has proved successful at other NHS Trusts.

SLR reports have been generated for operational managers which assess the following areas:

- The profitability of sub-specialties and individual procedures, with a view to gauge the financial justification for expanding or contracting provision of the services.
- Internally benchmarking the top drug cost by volume of scripts and spend by Consultant.
- Internally benchmarking where multiple pathology/imaging tests are ordered by Consultants/junior medical staff.

Contribution margin analysis

The target contribution margin for all service lines is currently set at 30%. A review of this target percentage is being undertaken to assess if it would be more appropriate to set a specific target for each service line to ensure that challenging yet realistic goals are set to incentivise optimal performance. Once the 2010/11 reference costs information is published by the Department of Health, this will be used to determine an expected cost base and then a target service line contribution can be reverse engineered which should reflect a realistic margin for each service line.

2.2. Next steps

Following the above progress the next steps are proposed to ensure the PLICS/SLR data is utilised to fully support effective SLM:

1. Designated operational/clinical leads for each service line are to be provided with web based access to the SLR financial performance information and key metrics.
2. Continued implementation of a programme of training for users of the reporting software through face-to-face or virtual teaching aids.
3. The finance business planning team develop further reports in conjunction with the divisional leads and operational managers to ensure the divisions have the information they require to run their services as efficiently and effectively as possible.
4. Ensure an ongoing programme of information validation to improve data quality and accuracy of PLICS costing. This consists of several key objectives:
 - Ensure clinicians/managers understand the key messages from the information supplied.
 - Ensure the divisions own their data i.e. if there appears to be an error within the data the emphasis is on the division to identify the issue and ensure it is rectified.
 - Drive focus on materiality – what are the key issues affecting profitability e.g. what are the significant cost drivers.
5. Integrate the costing of community services at patient level wherever possible to enable drill down and analysis of profitable services/patient pathways.
6. In the medium term develop a comprehensive performance dashboard with information on quality/patient experience to ensure a balanced scorecard approach is taken and costs aren't driven down to the detriment of the quality of the services provided.

3. Recommendations

The Trust Board is asked to:

- **Note:** The 2011/2012 M6 financial performance of service lines as reported in the Appendices.
- **Note:** The proposed next steps for embedding SLM in the organisation in section 2.2.