9 October 2018

on the day BRIEFING

NHS Providers

Appendix 13

National Tariff Proposals 2019-20: on the day briefing

NHS Improvement and NHS England have published a summary of policies and pricing proposals for the national tariff payment system (NTPS) 2019-20. The tariff proposal paper, detailing these proposals, has been published today alongside a draft price relatives workbook and a review paper on market forces factor. This briefing draws together a summary of all the key announcements, as well as our initial view on the new proposals.

We will be seeking views from members on the proposals and formally responding to NHS Improvement and NHS England. Please get in touch with adam.wright@nhsproviders.org and david.williams@nhsproviders.org with your feedback which will help inform our response.

Key changes outlined in the documents

Approach to the national tariff

Development of the next national tariff payment system (NTPS) has been underway for some time. Previously we had expected a consultation exercise to take place over the summer; however the proposals have been delayed, not least because of the funding announcement and the work on the long term NHS plan. The document published today gives a high level summary of current proposals. The duration of the tariff has been set for one year only, primarily because of the anticipated system change over the following years that will be set out in the long term plan. NHS Improvement (NHSI) has set out a number of objectives for its proposals. These include:

- Supporting more efficient and effective resourcing and planning;
- Providing shared incentives for commissioners and providers to reduce avoidable accident and emergency (A&E) attendances and non-elective admissions.;
- Truly reflect the costs incurred from the provision of care; and
- Minimise transactional burdens to allow service transformation.

MREIn addition to this, each provider and commissioner operating under the NTPS will be sent an individual impact analysis which includes a high-level assessment of the likely impact of proposals. This analysis will likely be published alongside the statutory consultation.

Blended payments

Emergency care

A new blended payment approach is proposed for emergency care. This will consist of a fixed amount and a volume/activity related element. The blended payment model would cover A&E attendances, non-elective admissions (excluding maternity and transfers) and, potentially, ambulatory emergency care.

Under the proposals prices will still be set at an HRG level, while the marginal rate emergency tariff (MRET) and the 30 day readmission rule would be abolished. Some best practice tariffs (BPTs) may also be removed as a result of these changes. There are currently two different approaches being considered that NHSI is looking for feedback on, which NHSI estimates would have an identical impact on their financial impact on providers.

1. The first option involves a fixed element of payment (based on a locally agreed forecast level of emergency activity) for which a provider will receive 100% of costs. However any activity above this level would only be paid at 20% of the HRG price. If activity fell below the forecast level there would be a 20% deduction in payment, based on the activity shortfall.
2. Under the second option, providers would be given a fixed payment worth 80% of the cost of providing the planned level of activity. All activity would then be funded at 20% of the cost, regardless of whether it is under or over plan.

Cap and collar arrangements are also being considered, which would see financial limits to under and over payments. A 'break glass' clause would also be introduced that will trigger a review and potential renegotiation of a contract if activity is significantly higher or lower than planned.

Mental health payment proposals

A blended payment approach for mental health services is also being considered. Similar to the urgent and emergency care proposal, this mechanism would consist of a fixed element based on forecast activity, a variable element and an element linked to locally agreed quality and outcome measures. A risk share arrangement is also being considered. NHSI is also likely to publish non-mandatory guide prices for Improving Access to Psychological Therapies (IAPT) assessment and treatment.

Outpatient payment approaches

NHSI intends to incentivise changes in the delivery of outpatient activity. More specifically, there is a focus on reducing non-face-to-face and consultant-led activity. A non-mandated episodic price for non-face-to-face follow ups is therefore proposed. This would involve the existing 56 treatment function codes (TFCs) moving from national to non-mandated prices. Trusts will continue to be paid more for first outpatient attendances than for follow ups. A pilot is also planned to introduce a single price for all outpatient attendances, regardless of who leads the appointment, or whether they are face to face.

Market forces factor

For the first time in almost ten years, NHSI propose to adjust the market forces factor (MFF). The changes intend to better reflect the differences in costs incurred by providers. It is anticipated that the revised methodology will ensure that relevant unavoidable cost items are included within payment. Key changes include using travel to work areas for non-medical and dental staff, including business rates, a weaker emphasis on land costs, and utilisation of the latest available data to calculate the MFF index. The proposed changes to the MFF will be phased in over the course of four years but NHSI particularly welcomes views on transition.

A separate document on the MFF proposals has been published and can be accessed here.

Centralised procurement

NHS Supply Chain is being restructured and will be run centrally by Supply Chain Coordination Limited (SCCL), with estimated overheads reaching £250m next year. The Department of Health and Social Care (DHSC) intends to recover this money directly from the NHS England budget, and NHSI has suggested this should be funded by top-slicing the tariff. This essentially means providers will be incentivised to use central procurement rather than pay again to fund their own procurement mechanisms – although many successful procurement collaborations already exist. Under this proposal it will be providers who solely carry the risk of the central procurement failing to deliver planned savings. The alternative to funding SCCL through the tariff would be to mark up product prices individually.

Maternity pathway payments

There are a number of proposals to change payments around maternity pathways. Most important is the proposed increase in the number of payment levels for delivery. NHSI is considering moving the current payment pathways to either six or 36 levels. The proposals follow calls for a more detailed approach to reimbursing birth episodes, so that it more closely reflects the costs. At the moment there are issues around over and under reimbursing births depending on complexity. The document highlights that the options could have a negative impact on organisations providing home births or freestanding midwifery units.

Other proposals include updating postnatal complexity factors as well as some changes to specialised commissioning. NHSI may also make all maternity prices non-mandatory in the short term to address an issue around the provision of public health services.

Other price changes

Prices for 2019/20 will use the same method as those used to set the 2017/19 NTPS, with updated inputs and adjustments, particularly for high cost drugs and devices as well as changes to reflect the findings of the evidence based interventions consultation. A number of changes to best practice tariffs (BPTs) are also being proposed, and wheelchair and spinal cord injury services will now be set national rather than non-

mandatory currencies. HRG4+ will continue to be used for national currencies, moving to the version used for 2016/17 reference costs. Draft national prices have been published in an accompanying workbook. Work is also underway to develop payment approaches for community services.

Draft currencies for community services have been developed and NHSI has suggested these may be used for a blended payment approach for community services in local areas. This is a positive step for the community services sector.

NHS Providers view

We have provided our initial reflections on the tariff proposals below. However we welcome feedback on this from members that will inform our final response and submission to NHSI.

Blended payments for A&E

It is appropriate to share financial responsibility across the system when activity levels vary, and we support a system fairly that apportions risk. Urgent and emergency care has been underfunded for a number of years, and this has done little to stem the rise in demand for these services. We welcome the plans to abolish MRET and the penalties for readmission, both of which we have long argued for. The 'break glass clause' may go some way towards mitigating the risk of penalising providers for increases in activity which they can do little to influence. We will be asking for more detail to understand how robust this mechanism would work in practice.

It will be important for the fixed element of the blended payment to be based on actual costs experienced by individual providers. In addition to this, forecast activity levels should be set locally by providers and commissioners and based on evidence, rather than an arbitrary level decided centrally and driven by constrained finances.

For any new payment system for A&E our tests are: it must simplify, rather than add complexity; it should not be less transparent than existing systems; it should align health and social care; it should reduce transactional behaviours; it should address the issues driving financial failure in the provider sector.

We remain concerned that the new approach may only change the nature of the negotiations between providers and commissioners, rather than make them less likely to happen. We also note that this change only affects the acute sector, and does not align incentives between acute, primary, community and social care.

Procurement

Trusts may have concerns with the centralised procurement proposals. By embedding the overhead costs into the tariff, providers assume the risk for estimated savings failing to materialise. In addition to this, many providers will have in effect already paid to use the central scheme, whether or not it represents the

best price with suppliers. Many providers have already entered long term agreements, for example via regional procurement collaboratives, to secure good prices with suppliers.

Mental health

The blended approach taken for mental health services is a step in the right direction. Setting baselines will be difficult but important to get right. We broadly support the principle behind IAPT benchmarking as providers have said they will find it useful to have a 'line in the sand', but it would not be right to mandate its use at this time.

Outpatients

We have some concerns that the proposals attempt to use the payment system to drive efficiencies to outpatient services, and we are not convinced that the current payment system is a barrier to releasing savings.

We would encourage national leaders to be cautious in assuming that changes to the tariff, uniformly applied, will encourage services to be improved or restructured. This risks simply taking money out of outpatient services, and risking the services' stability, rather than redesigning and optimising them. The approach most likely to have the best results would address services and pathways individually, and would be based on realistic assumptions about how long improvements will take to deliver.

Market Forces Factor

The changes to the MFF are long overdue and although phasing is welcome, we are concerned about the financial impact this will have on some providers. There will inevitably be winners and losers from these changes.

The continued phasing of HRG4+ minimises some of the volatility and we welcome the new approach to the sharing individual impact analyses with providers.

We look forward to submitting a response to the proposals on behalf of our members.

Next steps

The wider sector is encouraged to complete the NTPS survey, either online or using the PDF version, and send this back to pricing@improvement.nhs.uk. There is also a separate MFF survey. The deadline for feedback for both is 29 October 2018. The statutory consultation on the proposal will be published later in the year, which will offer stakeholders the opportunity to feed back formally, as per section 118 of the 2012 Health and Social Care Act.

NHS Providers will be submitting a survey response to the proposals on behalf of our members. We appreciate any comments, views and feedback on all the tariff proposals. Please can you share these with Adam.Wright@nhsproviders.org and David.Williams@nhsproviders.org