Today the 2016/17 National Tariff Payment System consultation notice has been published. The consultation will run from 11 February to 10 March 2016. Monitor and NHS England intend to publish the final tariff by the end of March, subject to the outcome of the consultation. This briefing summarises the headlines for NHS providers, as well as detailing our press response. If you have any questions or would like to contribute to our submission to the consultation, please contact Edward.Cornick@nhsporviders.org

**WHAT HAS BEEN PUBLISHED?**

Ten different documents and annexes relating to the tariff have been published today. The main ones of note are:

- The 2016/17 National Tariff Payment System consultation notice - main details follow in this document
- Objecting to the method for determining national prices – following changes to the objection mechanism, this document provides revised guidance on the objection for the tariff methodology
- Technical guidance for currencies with national prices - provides additional information on national currencies with and without national prices
- Engagement information – a summary of the responses to the summer engagement process that Monitor carried out

**THE CONSULTATION NOTICE**

Monitor has proposed setting national prices for 2016/17 based on the currencies and prices based on the enhanced tariff offer (ETO) for 2015/16 with adjustments for:

- Cost inflation of 3.1%
- An efficiency factor of 2%
- CNST uplift of approximately 0.7% across all prices (allocated by subchapter)
- This equals a net uplift in prices of +1.8%

To note, many changes in the prices in this year’s tariff have been widely reported already ahead of the consultation. The main item of difference is confirmation of the overall CNST adjustment of 0.7%, translating to a headline net uplift of +1.8%. We understand that there have been some marginal changes in the tariff prices since the December draft ones as CNST targeting was not targeted correctly in all cases. No price should have changed more than +/-1.5%, but this change will mean providers will need to re-model the financial impact.

The impact assessment indicates that the tariff package, will increase the operating revenue of almost all NHS providers:

- For ETO providers, the average operating revenue increase would be 1.6% (range between 0.5% and 2.3% for individual providers)
- For DTR trusts, it would be 0.1% on average, but increase to 2% if you take in to account the full reintroduction of CQUIN (range from -1.6% and 2.1% for individual providers)
The cost uplift

To reach the 3.1% cost inflation, Monitor propose to: a. forecast the rate of inflation for each category of spend for providers and b. combine these into a single cost uplift factor by weighting each category by its average share of providers’ expenditure. These weights are based on aggregate provider expenditure obtained from DH’s published 2014/15 financial accounts. The chart right shows the weights applied to each of Monitor’s proposed cost categories. Also to note the pay costs take into account changes to the cost of pension provision and results from a revaluation of required NHS pension contributions.

For CNST the approach is different. Monitor proposes to increase CNST costs across core HRG subchapters, the maternity delivery tariff and A&E services. The CNST cost increases therefore differs according to the mix of services delivered by providers, with the cost uplift differentially applied based on individual trust’s relative exposure to CNST cost growth. This is in line with the approach they have applied to CNST uplifts in previous years.

The efficiency factor

The document outlines Monitor's analysis in arriving at the 2% efficiency factor. It asserts that evidence supports a range of 1.2% to 2.5% for the efficiency factor in any given year, but that does not take into account previous efficiency factors. The efficiency factors applied in 2014/15 and 2015/16 of 4.0% and 3.5% respectively therefore included an implicit level of “catch up”.

It suggests that “it is reasonable for providers to answer some of the challenges by increasing their efficiency above the historic average. However, given previous efficiency expectations, we believe they should not be expected to increase efficiency as high as the top of the range. Taking account of these factors, we believe 2% efficiency improvement is a reasonable efficiency ask.”

It also notes that the financial settlement, including introduction of control totals, have been based on an aggregate deficit in 2015/16 of £1.8 billion, and an efficiency requirement of 2% in 2016/17. Providers that fall short of the expected position in 2015/16 would therefore “need to outperform the 2% efficiency requirement in 2016/17 to achieve their control total.” We will be following up with Monitor and NHS England to understand the practical implication of this, should this materialise.

Other key items proposed

HRG4+ delay, no change to specialised top-ups, and limited changes to best practice tariffs

Monitor had proposed to move to a revised currency design, HRG4+, designed to improve the case mix allocation to better reflect complexity and comorbidities. Although the sector has been largely supportive of the principles behind the proposals (75% were in favour according to the summer consultation exercise), there was concern among providers and commissioners about the impact of introducing a new currency design at a time of financial challenge in 2016/17. Its implementation has been delayed now until 2017/18.

Top-ups for specialised services to reflect the additional costs for providers with more specialised patients were also due to be amended - however Monitor’s review of the top-ups was based on the assumption that the currency design to which it would apply would be HRG4+. This will now also be delayed until 2017/18. Similarly, Monitor proposed a number of changes to best practice tariff (BPT) arrangements but as they now propose to retain the currency design from 2015/16, they will delay implementing several of these changes.
No specialised marginal rate, a 70% and emergency marginal rate, and removing transitional variations

The marginal rate of 70% was adopted by providers opting for last year’s ETO Tariff, meaning 88% of the provider sector used the revised rule. Monitor believe extending this to the whole sector strikes a fair balance between allowing providers to keep tariff income and commissioners to keep funds to manage demand for emergency care. It proposes to remove the special services risk share in this year’s Tariff “to reflect the need to offer the sector stability”. According to the impact assessment, this would increase the revenue of DTR providers by less than 0.1% (15 million) of their operating turnover. It would not affect ETO providers, as the 70% marginal rate already applies to them.

Monitor also proposes to remove the transitional national tariff variations for the maternity pathway, unbundled diagnostic imaging in outpatients and chemotherapy delivery and external beam radiotherapy.

Proposed changes to local variations, modifications and locally determined prices

- Change the submission date for local variation templates – deadline set of 30 June 2016
- Establish a deadline for local modification applications - deadline set for of 30 September 2016
- Clarify treatment of CNST costs under Monitor’s method for determining eligibility for local modifications - CNST costs “are controllable and [Monitor] will not consider them when assessing whether… a service is uneconomic”.
- Under existing methods, Monitor would not take into consideration non-recurrent funding such as the Sustainability and Transformation Fund when assessing a local modification. However, they were keen to ensure that there is no double counting if a “provider receives payments from the sustainability and transformation fund to address structural issues, but also seeks a local modification.” Monitor will consider funds received from the Sustainability and Transformation Fund when assessing a local modification.
- Amend Rule 7 of the local pricing rules relating to reimbursement of high cost drugs, devices and listed procedures to support the central procurement of high cost devices The document highlights that NHS England is still planning to introduce national procurement of high cost devices for 2016/17, which would mean commissioners were able to require providers to use a nominated devices supplier or framework. This means that providers would pay prices to device suppliers based on nationally procured prices, rather than locally negotiated prices. We understand further detail on this will be made available to the sector shortly.
- Clarifications around the guidance supporting Rules 1 and 2 for setting prices for services without a national price

Payment rules for mental health

For 2016/17 Monitor proposed to update the local payment rules covering mental health to help facilitate moving towards capitated, episodic or year of care models, and outline what is required from providers and commissioners in 2016/17 so they would be in a position to implement the models in 2017/18.
NHS PROVIDERS’ PRESS STATEMENT

Commenting on the publication of the statutory consultation by Monitor on the NHS tariff today, Chris Hopson, chief executive, NHS Providers, said:

“Today’s consultation confirms that there will be a 1.8% net increase to tariff prices next year, a welcome recognition of the substantial costs providers will be facing in 2016/17 with a more realistic assessment of providers’ efficiency. This increase, combined with the removal of the specialised marginal rate and changes to the emergency marginal rate, will provide a more sustainable platform for the sector to get back to balance next year. After five years of an efficiency requirement of around 4% – when the provider sector has only been able to reduce its costs at around 2% a year - these proposals represent a welcome shift in approach from Monitor and NHS England about what savings are sustainable through the tariff.

“Despite this encouraging tariff package, the task for the provider sector in 2016/17 is still immense, and the headline efficiency requirement trusts will need to deliver far exceeds the headline 2% included through the tariff.

“As providers and commissioners continue their contracting discussions for 2016/17, we urge organisations to ensure that the tariff net increase is passed on to those trusts providing services without national prices, supporting the necessary investment which is required in mental health, community and the ambulance services.”