PROVIDER REFLECTIONS: *TOWARDS AN EFFECTIVE NHS PAYMENT SYSTEM*

Phillippa Hentsch
Head of Analysis

1 November 2017

1. The payment system: ripe for reform?

Perspectives on the current payment system

It makes no sense to systematically underfund the tariff (prices set 12% below reference costs due to scaling factor) but then to issue some of this funding back as sustainability funding

Finance Director, acute trust

I think it was originally designed to reimburse the costs of care - given the provider sector deficit it has clearly failed. I have no idea why the marginal rate for emergency admissions is still in place other than to allocate system deficits to providers, who have little/no control over this aspect of their business

Finance Director, acute trust

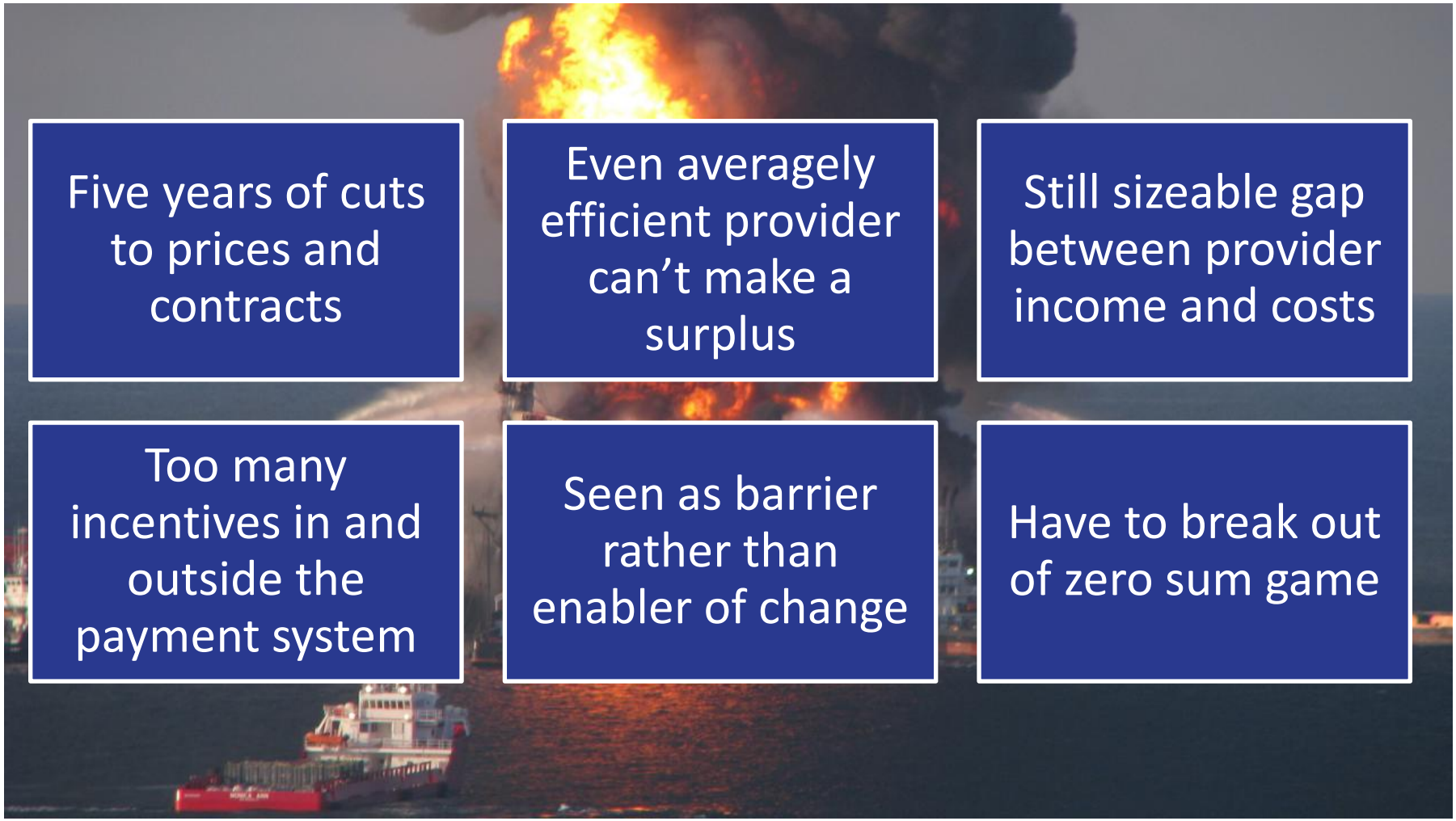
The 500 pages of additional rules make it unwieldy to use and that complexity has weakened its credibility…changing the tariff doesn't, in itself, save money in the NHS overall…it is the operation of the contract/risk/payment mechanisms that might incentivise different behaviours that would do so.

Chief Finance Officer, acute trust

...it [the STF] is just a sticky tape solution over the tariff inadequacies – whole system needs reform in line with improved incentives to get things right first time.

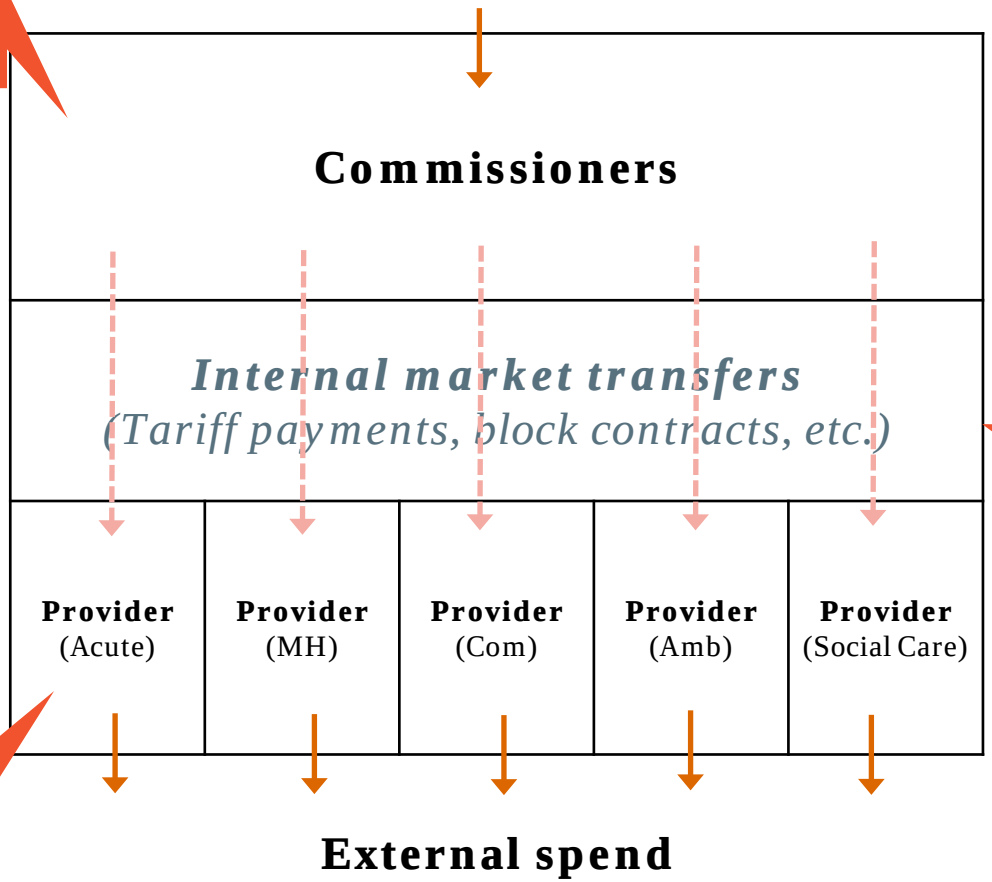
Finance Director, acute trust

A burning platform for reform?



Internal market transfers ≠ system saving

Is it a 'win' to get more money from commissioners through increasing activity?



The real ("system affordability") gap

Is it a 'win' to pay providers less?

- ***The commissioner efficiency challenge***

Is it a 'win' to focus so much on the internal money transfer?

- ***The provider efficiency challenge***

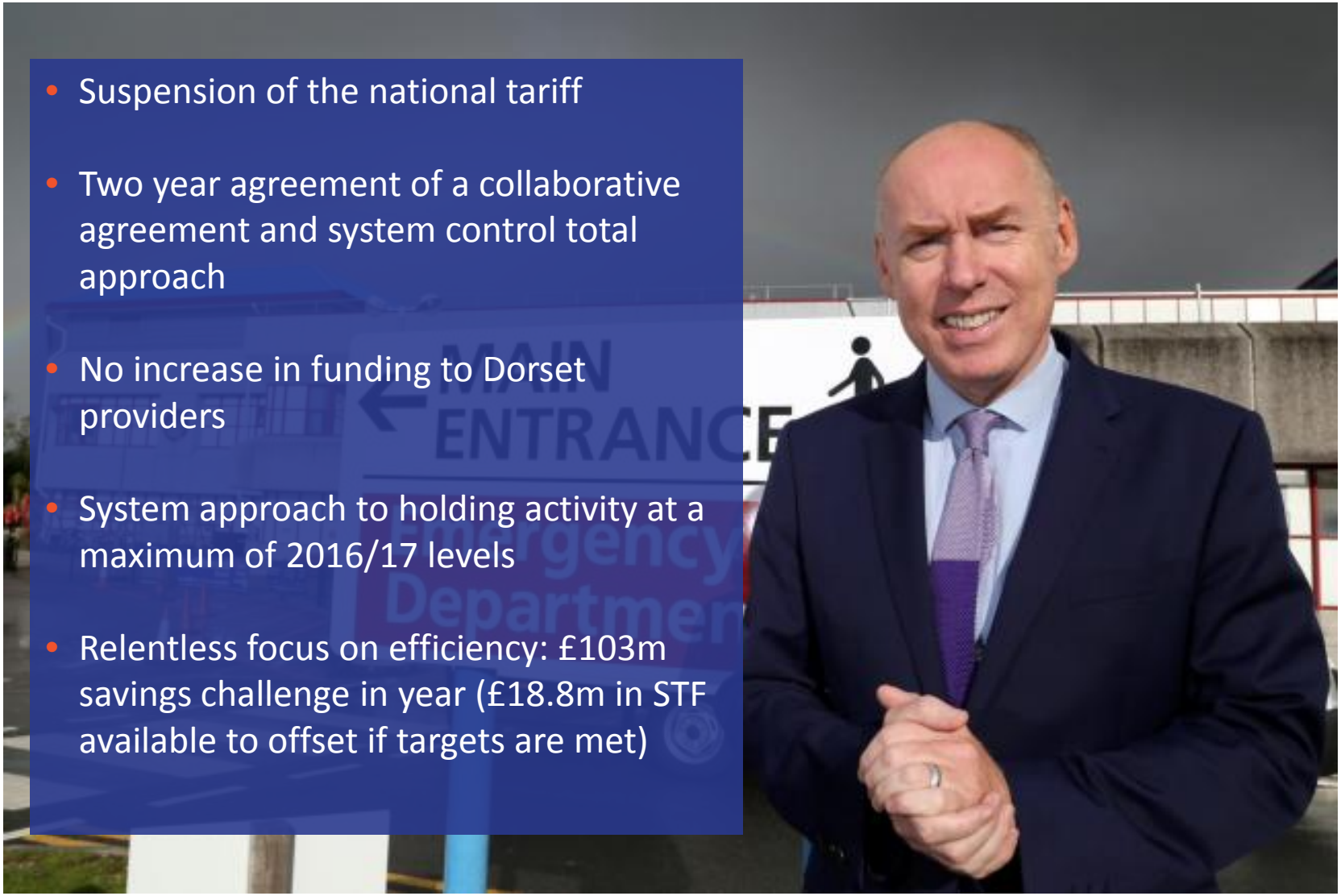
Source: Adapted from PwC

But we still need some form of national tariff

- Has had a **positive impact on efficiency**, more so than block contracts…but need to be careful of multiple layers of incentives and impact on activity growth
- **Relationships are developing at different speeds**, and some/most will still need a strong rules based system for many years to come
- It can **be compatible with local flexibility** – local prices and variations permissible although some cite it as a barrier…
- Often **required for local payments/innovations –** would have been difficult to design any of the innovative/outcomes based contracts without consistent measures of activity and unit cost
- Has **helped to improve data quality** and has led to **substantial investment in clinical coding, costing and info systems**; benchmarking service delivery costs and outcomes has been essential. This might falter on progress if not properly planned…
- We need **evolution not revolution…**in line with principles outlined in NHSP/HF report

2. Trends within the sector

Dorset: simplicity over complexity



- Suspension of the national tariff
- Two year agreement of a collaborative agreement and system control total approach
- No increase in funding to Dorset providers
- System approach to holding activity at a maximum of 2016/17 levels
- Relentless focus on efficiency: £103m savings challenge in year (£18.8m in STF available to offset if targets are met)

Source: Dorset STF

Mid-Nottinghamshire: new look capitation

- New capitated budget for 2017 for MSK services, where savings potential high.
- 15/16 baseline budget used, adjusted for:
  - Planned activity changes (e.g. reduction in acute inpatient services
  - Additional costs of new model e.g. new triage service)
  - Stranded costs for the acute provider
- Total spend £34m, but aim to reduce by £2m in 18/19; community provider will see more than 40% cash increase.
- Additional activity is responsibility of the 'system' and attracts a marginal rate which goes in to risk/reward pool.

Source: Mid-Nottinghamshire better Together vanguard

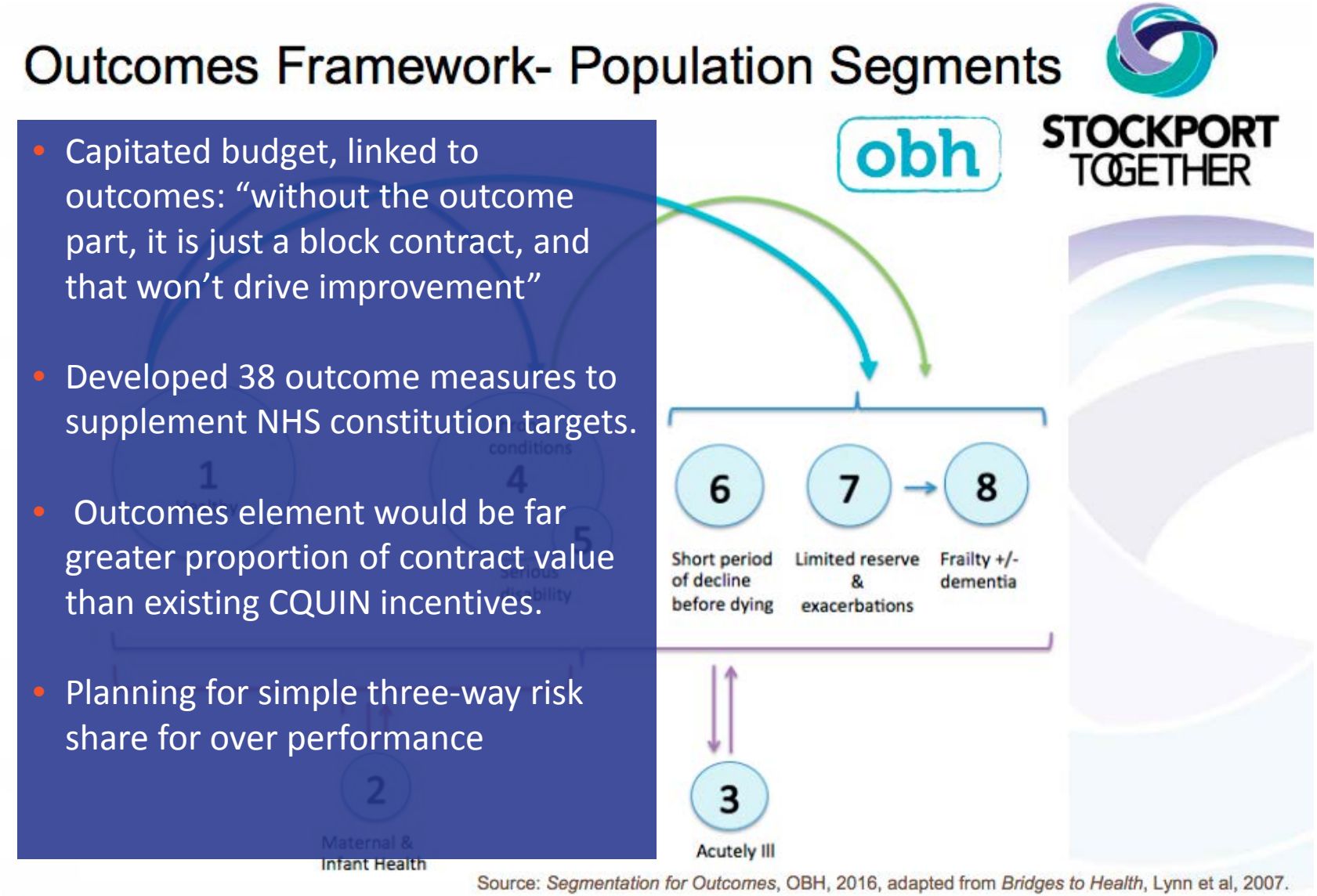
Morecambe Bay: pathways before payments

- Focus on getting the pathways right in ACS first; conscious decision to keep contractual issues to one side.
- Currently paid a mix of tariff payments and block contracts.
- Will operate under the principle of "one system, one budget".
- Want to be light on contracting overheads with focus being on incentivising right behaviours to mobilise clinical model.

Source: Better Care Together

Stockport: outcomes at the heart of payment

- Capitated budget, linked to outcomes: “without the outcome part, it is just a block contract, and that won’t drive improvement”
- Developed 38 outcome measures to supplement NHS constitution targets.
- Outcomes element would be far greater proportion of contract value than existing CQUIN incentives.
- Planning for simple three-way risk share for over performance



Source: Stockport Together/Outcomes Based healthcare

Emerging themes: similarities and differences

Similar aims and principles but very different execution

Some still using payment to incentivise behaviours

No one size fits all approach, but will they all work…?

Pathways before payments

National tariff prices still used as basis for contract

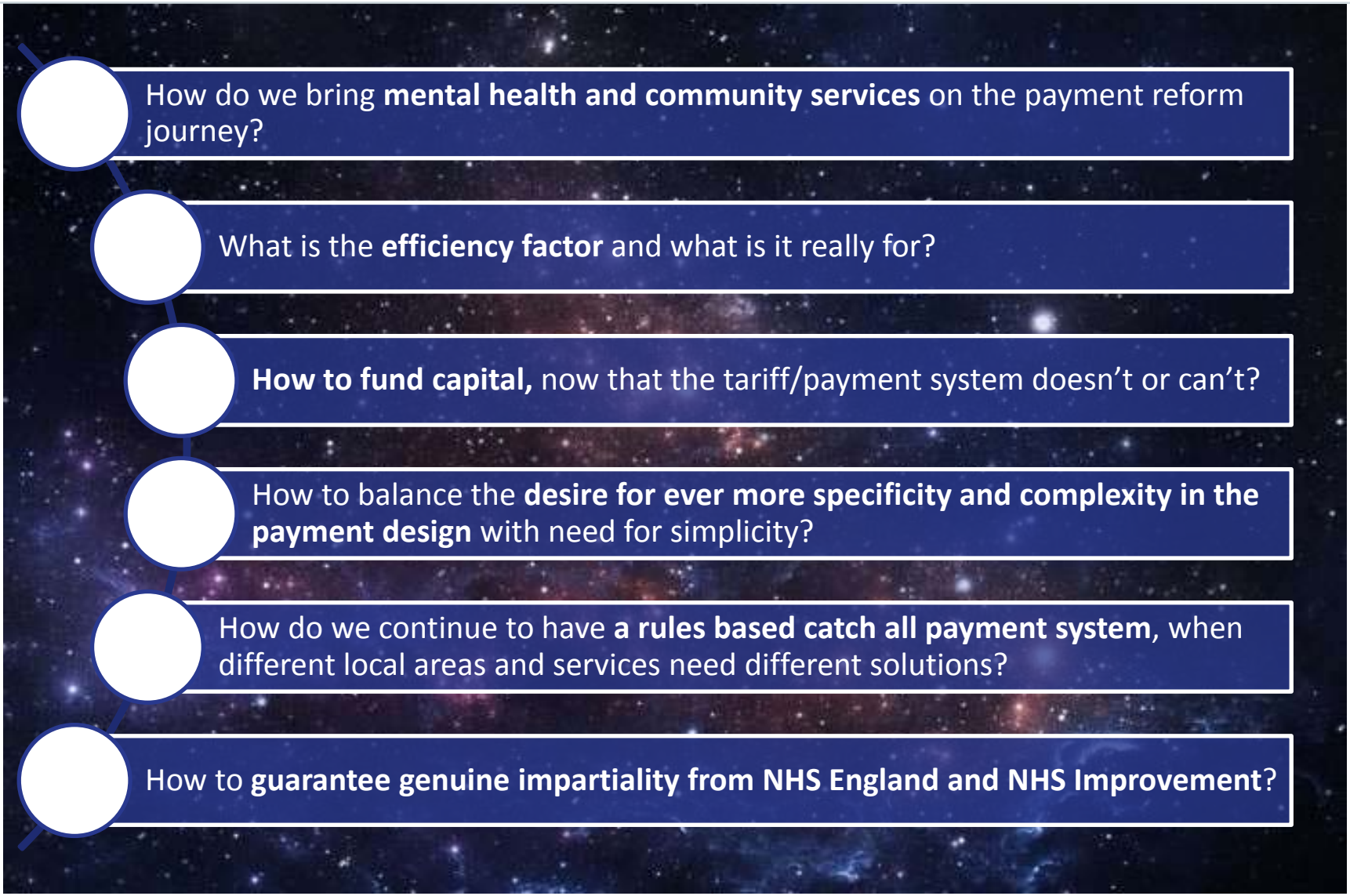
The role of outcome payments?

To what extent do they meet the eight principles?

1. Clear purpose
2. Realistic expectations about impact
3. National consistency with local flexibility
4. Appropriately, aligned incentives
5. High-quality data
6. Balance between complexity of design and ease of use
7. Independent oversight and support
8. Time to embed and evaluate systems

3. Looking to the future

The big unanswered questions…



Conclusions

- Sector is starting to head off in different directions, and the **new principles provide a helpful grounding and coherence.**

- **Aims underpinning the payment system are changing**, and therefore the tools and incentives built in to them need to change too e.g. competition and choice used to be imperatives, now might be less meaningful in an STP world yet the national payment system has stayed the same.

- We might need to **let different parts of the system head off in different directions but quickly need to understand what works** through supporting evaluation and where promising approaches emerge, support spread across the sector. NHS England and NHS Improvement have key role here…

- Some form of **national tariff and national payment system will continue to be required**, but need to adapt this to meet current requirements.

- Need to **get language absolutely right.** Unhelpful to be talking about binary/artificial choice between tariff vs suspension of the tariff – both will continue to have a place.