16 September 2020

on the day BRIEFING

NHS Providers

On the day briefing: NHS contracts and payment guidance October 2020 – March 2021

Introduction

Following the interim financial arrangements introduced at the start of the pandemic, NHS England and NHS Improvement (NHSE/I) has now published the revised contracts and payment guidance for month 7 – month 12 of 2020/21 which explains in detail the changes relating to system funding envelopes, and how block contracts and top-ups will operate until the end of the financial year. This briefing summarises the guidance and brings together NHS Providers view, and initial response. We would very much welcome further feedback on how the allocations impact your trust and wider system.

Overview

As highlighted in NHSE/I's phase 3 letter, published on 31 July 2020, providers and clinical commissioning groups (CCGs) must achieve financial balance within their ICS/STP envelope. While systems will be expected to breakeven, individual organisations will be permitted – dependent on mutual agreement within their systems – to deliver surplus and deficit positions.

System top-ups, growth funding and COVID-19 funding will now be distributed to a lead CCG within each system. As part of the move towards system-level finances, ICS/STP partners must therefore determine the distribution of funding allocated at a system level.

Broadly, we can get a better grasp of NHSE/I's proposals for system finances by distinguishing between income and expenditure inside and outside of system funding envelopes. We have briefly explained each component in turn below:

Included within system envelopes	Excluded from system envelopes
CCG allocations and block contracts	High cost drugs and devices

System top-up	Temporary COVID-19 services
Growth funding	Non-clinical services contracted by NHSE/I
COVID-19 allocation	Allocation adjustments, including national service development funding
Directly commissioned services	Elective incentive scheme and funding for IS activity

Fixed funding envelopes for systems

This section summarises what the funding envelopes for systems comprise.

CCG allocations and block contracts

Following the introduction of block contracts at the start of 2020/21, non-recurrent CCG allocations based on expected expenditure positions will continue to be distributed. This includes the national calculation of opening block contract values for trusts' activity inside and outside of a CCG's home system.

Adjustments to block payments may change provided there is agreement amongst system partners. However, in all instances, the changes must be affordable within the system funding envelope issued. The process for amending block contract values is explained in further detail in Annex 1 of the guidance.

At the national level, changes to system top-up values must remain net neutral. There will be a national tracker of contract values to support this process. For example, block contracts may be adjusted dependent on:

- Material service changes which affect expected expenditure position
- Material errors which formed part of the calculations for m1-m6, accounting for significant changes in commissioner-to-provider funding flows.

For m7-m12, CCG allocations may be non-recurrently adjusted to reflected changes in expected expenditure positions.

System top-ups and calculating system envelopes

Additional funding will be available to support systems to deliver breakeven position. Unlike the first half of the financial year, this funding will be issued by a lead CCG within each system rather than directly by NHSE/I.

As the focus of the guidance document is on calculating system envelopes, it is important to highlight that system funding is calculated as the aggregate of:

- Adjusted allocations for CCGs within the system
- NHS provider incomes inflowing from block contract arrangements with NHS commissioners outside of the system
- Non-NHS income (at 19/20 levels)

The criteria for system top-ups will be more limited than the arrangements for m1-m6. With the exception of specific COVID-19 services, national prospective and retrospective top-up funding will end on 30 September 2020. Instead, NHSE/I has now issued additional funding to those systems where expected income is calculated to exceed income. It is unclear at the moment precisely how NHSE/I have arrived at these calculations.

COVID-19 allocations

Additional funding allocations intended to cover costs incurred due to the pandemic, have been calculated based on national COVID-19 costs incurred during Q1 of 2020/21. Further adjustments have been applied to these figures to exclude one-off or time limited costs, such as the use of Nightingale facilities, or the cost of PPE equipment: These costs sit outside of the system funding envelopes, and are explained below.

NHSE/I has stated that additional funding for free car parking for NHS staff during the first peak is included within the COVID-19 funding allocations. This does however raise the question of how car parking revenues will be recovered for other groups across the remainder of 2020/21.

In 'exceptional circumstances', the NHSE/I National Incident Response Board may revisit the fixed COVID-19 allocations for systems.

Growth funding

The system envelopes include additional funding for systems to address inflated cost bases, which will be linked to the anticipated growth of CCG allocations.

Additional funding has also been distributed to systems to reflect underlying expenditure growth – accounting for higher staffing costs and service expansion – which has occurred since the end of Q1 of 2020/21 (the reference period which has set system funding envelopes). It is however unclear to what extent the growth funding will adequately account for any major surges in service demand over the winter.

Treatment of non-NHS income

Challengingly, system funding envelopes are based on NHSE/I's expectation that trusts will be able to return non-NHS income to 2019/20 level. To accommodate the challenge the loss of non-NHS income during the months of the pandemic presents to trusts individually, the impact of all other NHS income will be isolated in trusts' financial accounts to allow the national team at NHSE/I to get a clear picture of the income shortfalls against 2019/20 levels, and to inform discussions with HMT.

Directly commissioned services

Specialised services and other directly commissioned (ODC) services remain commissioned outside of the system, though system envelopes will take into account funding inflows to NHS providers for these services, and any costs incurred.

Costs currently outside of system funding envelopes

This section explains the costs and additional funding that sit outside the system envelopes.

Temporary COVID-19 costs

The guidance makes clear the intention for all future COVID-19 costs to be funded through these allocations at system level with the exception of the following, which will be reimbursed on an actual cost basis:

- Personal protective equipment
- Nightingale hospitals
- NHS COVID-19 testing services
- Hospital discharge programme
- NHS 111 first programme.

Elective incentive scheme and use of independent sector

As highlighted in the phase 3 letter, a financial incentive scheme based on recovering elective activity will be in operation for the remainder of the financial year. We await separate guidance on the detail of this scheme.

The nationally funded contract for independent sector (IS) acute services will remain in place until October 2020. NHSE/I has expressed its intention to move away from a national capacity contract arrangement to local commissioning for all acute IS services. Similarly, we expect further details on this.

As part of the elective incentive scheme, systems will be funded at 100% of national tariff prices for IS activity which is in excess of the level funded in system envelopes.

Specialised commissioning

Specialised services will continue to be covered by a fixed allocation outside of the system envelope for the remainder of the year, which includes funding for non-NHS COVID-19 related services where relevant. Some changes have been made to the way in which fixed allocations have been calculated: Cancer Drugs Fund (CDF) and Hepatitis C (Hep C) medicines will return to being funded based on usage. More information on this can be found in Annex 2. Meanwhile, expenditure related to genomic testing services has been transferred to specialised commissioning.

Other points

- CCGs are still required to achieve the minimum contribution to the better care fund in which the minimum contribution to social care should continue to grow by an average of 5.3% in cash terms.
- Through their CCGs, systems will receive funding to meet the mental health investment standard gap and be expected to deliver this.
- Those systems which have not received their full annual allocation of the mental health service development fund (SDF) through initial block contracts, will receive the remaining funding through additional SDF funding.
- No additional COVID-19 specific funding for primary care beyond September 2020 has been allocated by the government.
- Following a period of block payments from Health Education England (HEE) to NHS Providers between April to July 2020, HEE has now restarted payment by activity for postgraduate medical and dental trainees (from August 2020) and for other training activity (from September 2020).
- The guidance states that local authorities have been funded for the cost of commissioning services from NHS providers for the remainder of the financial year, including agenda for change pay uplifts.

Next steps

As per the phase 3 planning timetable, system-level activity and workforce planning submissions should be returned to NHSE/I by 21 September 2020. The deadline for final system-level financial plans is 5 October 2020. Organisation-level plans, which must be consistent with system-level plans, will need to follow by 22 October 2020.

NHS Providers' view

Mains areas of concern

We are pleased to see confirmation of the funding envelopes for the remainder of this financial year, given how critical they are in enabling trusts to plan ahead and manage their finances appropriately. However, this reflects a further step change towards ICS/STPs playing a more significant role in managing the sector's finances, alongside the added complication of trusts trying to fully restore

services during a pandemic. The details of how the envelopes have been calculated are also complex and will take time to understand. We anticipate that you may have four main areas of concern:

Recovering non-NHS income – all system costs must be met from the envelope, although this is based on the very ambitious assumption that organisations will be able to recover their non-NHS income at speed. We know this will be a significant issue for a number of trusts who are a long way off from seeing their non-NHS income return to pre-COVID levels.

COVID-19 allocations – COVID-19 allocations have been calculated by rolling over costs during Q1 of 2020/21, and stripping out one-off costs and items for which there is national funding. Trusts will want to ensure that the correct adjustments have been made and that the final allocations are sufficient, particularly given some concerns over the calculations made during the first half of the financial year.

Additional COVID-19 costs – COVID-19 may hit differentially in a possible second wave or as a result of widespread or recurrent local outbreaks and, if there are significantly higher costs than expected, they may not currently be covered. We understand that the nature of cost growth, including from changing patterns of demand, will vary considerably across the acute, mental health, community and ambulance sectors and it seems unlikely this has been fully taken into account at this point. The guidance states that, "In exceptional circumstances, the principles outlined in relation to funding for COVID-19 may need to be overruled", but we need details on how this will work.

Elective incentive scheme – under the elective incentive scheme, money will be clawed back from ICS/STPs if ambitious recovery targets are not met. We remain unclear on how this will work in practice and do not know what flexibility there will be if these targets are not met for good reason. NHSE/I suggests that further details will be set out in separate guidance, although does not provide a time frame for this.

Many of you have already told us that you are operating at risk and were reassured by NHSE/I that this risk would be fully covered. This is set against a broader context in which we understand from private conversations with various stakeholders that the NHS did not get all of the funding it asked for from the Treasury for phase 3. This could mean a need for clearer prioritisation of the 'ask' of the NHS overall going forwards, particularly as we look to 'phase 4' next year.

Press statement

Responding to the publication of the guidance, the chief executive of NHS Providers, Chris Hopson said:

"Financial allocations for the second half of the year have been issued this morning. The NHS frontline has been waiting for these for some time, so it is good that they have finally arrived.

"We will want to listen carefully to trust reactions as there is a lot of complexity here. These allocations have been made at system level for the first time and they also include some detailed calculations on individual items.

"There are four specific areas of concern that we expect trusts to raise.

"First, there are some very ambitious assumptions about recovering non-NHS income that will be a significant issue for a number of trusts who are a long way off from seeing their non-NHS income return to pre-COVID levels.

"Second, COVID-19 may hit differentially in a possible second wave, and if trusts experience significantly higher costs than expected, these may not be covered. We will need details on how any emergency "break glass" procedures in the event of localised second surges will work, if needed.

"Third, trusts will want to ensure that it is only non-recurrent costs that have been stripped out and that the covid related cost element of these allocations is appropriate.

"Fourth, trusts will want more detail on exactly how the claw back of allocations will work if ambitious service recovery targets are not met and what flexibility there will be if those targets are not met for good reason.

"Trusts are telling us this morning that it will take them time to work out the detail of what this means for them. They will need to bring together income streams from within their system allocation, from other system allocations and from direct and specialised commissioners as well as understanding adjustments which have been made for costs which will be funded nationally in the second half of the year.

"Initial, first off, reactions have generally been ones of concern that the allocations look lower than expected and insufficient to cover expected costs. We understand that the NHS did not get all it asked for from the Treasury and that this will, by definition, affect how much can be allocated to the frontline.

"NHS England and Improvement tell us that what initially might look like a large financial gap will close once trusts have accounted for all their full sources of income and the costs that will now be covered nationally. But we obviously need to be sure this occurs. If not, we risk trusts dialling back on what they are currently spending on service recovery and preparing for winter. This is the last thing we want.

"NHS England and NHS Improvement have assured us that they will carefully consider any request from a system or trust that genuinely believes it has an insurmountable problem. This will need to be followed through if required.

"So, in summary, initial reactions are – a lot of complexity, significant initial concern that the allocations look inadequate, but a hope that, when the detail is worked through, large looking financial gaps won't end up as big as they currently seem. There is therefore a lot riding on the detailed work that will be done over the next few days".