The Health Foundation
Inspiring Improvement

CONSULTATION RESPONSE

2015/16 National Tariff Payment System: national prices methodology discussion paper

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About the Health Foundation

The Health Foundation is an independent charity working to improve the quality of healthcare in the UK. We are here to support people working in healthcare practice and policy to make lasting improvements to health services.

We carry out research and in-depth policy analysis, run improvement programmes to put ideas into practice in the NHS, support and develop leaders and share evidence to encourage wider change. We want the UK to have a healthcare system of the highest possible quality – safe, effective, person-centred, timely, efficient and equitable.

Introduction

In this response we look first at the role of the National Tariff Payment System in supporting efficiency improvement within the NHS in England. We then consider the price setting process before moving on to discuss the longer term case for reform of the system.

Setting the efficiency factor

The English National Tariff Payment System has an important role to play in shaping the incentives for providers of healthcare to deliver productivity gains and efficiency savings within the NHS. To achieve this goal, however, the system needs to be carefully aligned with other structural, workforce, financial and policy developments within the wider health and social care sector. The payment system is only one of the levers available to health policymakers and regulators and cannot in itself drive improvement.

The discussion paper acknowledges the wider contextual challenges facing providers posed by the "tightening financial squeeze" and the "latest NHS restructuring". This is the key issue for the 2015/16 tariff setting process. Monitor's annual plan review guidance indicates that the NHS faces an affordability challenge of 6.6 per cent in 2015/16. Savings on this scale would be completely unprecedented and more than double the requirement in 2014/15. Much of this challenge will fall on providers through higher pension costs and the impact of the *Better Care Fund*. If prices are set too low there is a risk that providers will be unnecessarily destabilised, quality will be put at risk and genuine productivity improvements missed as providers seek to balance their budget with short-term cost cutting.

In particular, we are concerned how the interaction between the reduction in unit costs from the tariff efficiency factor, and potential loss of income from planned reductions in activity levels as a result of the Better Care Fund, will be managed. Hospitals have a high proportion of fixed and semi-fixed costs and releasing savings will take time but at present the evidence

is that hospital costs are rising sharply as nursing staff are taken on to address quality concerns in the aftermath of the Francis Inquiry[1].

Asking acute providers to deliver an efficiency target in the region of 4 per cent, as in previous years while reducing income from planned reductions in activity as a result of the *Better Care Fund* would be extremely challenging. Indeed, some 40 per cent of acute providers are already under severe financial pressure and are struggling to balance their books. It seems likely that at the end of 2013/14 the acute sector as a whole was in net deficit[2] .

It should also be remembered that trusts are now investing considerable sums in care improvements following the Francis and Keogh reviews and the introduction of the new CQC inspection regime. Research by the Foundation Trust Network suggests that between 2013/14 and 2014/15 acute trusts will spend a total of £1.2 billion on care improvements post Francis[3].

As Monitor's *Closing the NHS Funding Gap* report states there is potential within the acute sector to achieve productivity savings but this needs to be carefully managed over time. Our own *Flow Cost Quality* programme[4] has underlined the scope for acute trusts to achieve improvements in the efficiency, quality and timeliness of patient care within existing resources by focusing on patient flow along the urgent and emergency care pathway.

In setting the annual tariff NHS England and Monitor need to consider not just the in-year incentives to reduce unit costs but also how providers can deliver sustained improvements in their productivity to address the long-term financial challenge facing the NHS.

Calculating national prices

Providers and commissioners require a stable and predictable financial environment so that they can plan ahead with confidence – uncertainty over prices militates against the delivery of productivity improvements and service innovation.

The move to keep relative prices broadly stable for 2014/15, using the 2013/14 prices as the basis for setting the tariff, rather than new reference cost data was welcome in this respect.

If there is to be a major reform of the system in 2016/17, we would strongly encourage Monitor and NHS England to begin preparing for this at the earliest possible stage and to ensure that providers and commissioners are closely involved in this process from the start. Clarity about the long-term direction of travel of the system as well as clear, transparent incentives are vital if the NHS is to plan ahead effectively.

The case for longer term reform

Our assessment of the research evidence on payment systems would support nationally priced prospective payments for units or standardised bundles of care continuing to be at the heart of the payment system developed by NHS England and Monitor. The system needs a payment system which limits competition on price and focuses on quality. Nationally standardised metrics for units of activity also provide core building blocks to benchmark

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[1] Department of Health, 'Francis Effect' on NHS care one year on from Mid Staffs Inquiry, Press Release, 6 February 2014
[2] NHS Trust Development Authority, Chief Executive's Report for Board Meeting, 15 May 2014
[3] Foundation Trust Network, The Cost of High Quality Care, April 2014
[4] The Health Foundation, Improving Patient Flow, April 2013

service delivery costs and outcomes and a reference point for the development of more innovative payment models.

However, while we believe that case based payments are likely to remain a central part of the NHS, we do recognise that there are areas in which reform is necessary in the longer term. In particular aligning with the Keogh work on emergency and urgent care[5] there is a strong case for moving towards a payment system for emergency care which is based on global budgets for capacity informed by standardised benchmarks. The cost structures of emergency care and the limited role of provider competition in some areas lessen the effectiveness of activity based payment systems.

At the same time there is a case for developing nationally priced currencies for a wider range of non-emergency services including community health services to make it easier for CCGs to commission bundles of packages of care for pathways or patients spanning hospital and community based services.

It is crucial, however, that there is long lead in period for such reforms and early engagement with providers and commissioners so that they can plan accordingly and influence the shape of the reforms.

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[5] NHS England, Transforming urgent and emergency care services in England, Urgent and Emergency Care Review, End of Phase 1 Report, November 2013