

**2015/16  
National Tariff  
Payment System:  
draft impact  
assessment  
framework**



## **About Monitor**

Monitor is the sector regulator for health services in England. Our job is to protect and promote the interests of patients by ensuring that the whole sector works for their benefit.

For example, we make sure foundation trust hospitals, ambulance trusts and mental health and community care organisations are well led and are run efficiently, so they can continue delivering good quality services for patients in the future. To do this, we work particularly closely with the Care Quality Commission, the quality and safety regulator. When it establishes that a foundation trust is failing to provide good quality care, we take remedial action to ensure the problem is fixed.

We also set prices for NHS-funded services, tackle anti-competitive practices that are against the interests of patients, help commissioners ensure essential local services continue if providers get into serious difficulty, and enable better integration of care so services are less fragmented and easier to access.

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## 1 Introduction

It is good practice to carry out impact assessments for major policy and regulatory decisions. At Monitor, we use impact assessments as a tool to ensure that our decisions support our objective: to make the health sector work better for patients. We are also required by law to undertake impact assessments for any proposals that would be likely to have significant impacts on patients, commissioners and providers of NHS services, or the general public in England.<sup>1</sup>

We are committed to decision-making that is informed by robust evidence. We view the integration of impact assessment into our policy development and decision-making process as essential to achieving this goal. Good impact assessments enhance the evidence base for evaluating the policies we propose, which in turn allows for more meaningful engagement with stakeholders. These assessments help us to identify the risks and potential unintended consequences of policies before they are implemented, and to take pre-emptive action to mitigate any issues.

We recognise the limitations of impact assessments and the need for regulators to use discretion where appropriate. Our impact assessments will inform, rather than determine, policy decisions; the extent to which they influence policy will depend on their completeness and robustness. In developing our assessments, we will draw on relevant guidance and the regulatory precedents that are available, while tailoring the approach to the healthcare sector and the specific requirements of each policy proposal. We recognise that the approach set out in this document can be improved over time, and welcome feedback on how to do this.

We will conduct impact assessments at various stages of policy development, with the comprehensiveness of the assessment being proportionate to the stage of development. In this paper we are focusing on assessments that are specific to the '2015/16 National Tariff Payment System' (the '2015/16 national tariff'). The approach we set out reflects the reality that our impact assessments for 2015/16 will be applied to policies that are at a fairly advanced stage of development. As a result, this paper focuses on assessments that are similarly comprehensive.

Stakeholder feedback is essential to our approach. Providers, commissioners, patient groups and clinicians are well placed to identify the potential costs, benefits and risks of our policy proposals, as well as their likely effects. We hope to draw on the sector's expertise through feedback on our proposals in order to improve our assessments both for the 2015/16 national tariff and for future national tariffs. We hope that by publishing impact assessments alongside our main policy proposals we will enhance the transparency of our decision-making. These publications should

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<sup>1</sup> The Health and Social Care 2012 Act (the 2012 Act), section 69.

also enable better communication with stakeholders and help them become more informed about the potential consequences of the payment policies we propose.

We will consider feedback at any stage, but there are three particular opportunities for stakeholders to contribute to our approach:

- This paper seeks stakeholders' views on our draft impact assessment framework for the 2015/16 national tariff. It is published alongside the methodology discussion paper,<sup>2</sup> as we intend to develop our approach in parallel. Both the methodology discussion paper and this paper invite your views on key issues for 2015/16. We welcome comments on all parts of the documents, and have included specific questions.
- We are planning to publish a comprehensive set of proposals for the 2015/16 national tariff in summer 2014, accompanied by our assessment of their impact. We will also publish our finalised impact assessment framework (how we calculated the impact) for the 2015/16 national tariff at the same time.
- We are planning to publish a consultation notice in autumn 2014, providing an opportunity for the sector to respond formally to our detailed proposals for the 2015/16 national tariff<sup>3</sup>. We will publish a comprehensive impact assessment of these detailed proposals at the same time, which will take into account previous feedback.

At each stage, we will follow up publications with stakeholder workshops, webinars and other forms of engagement, as appropriate.

The rest of this document is structured as follows:

- Section 2 lists the principles that we intend to apply when conducting impact assessments
- Section 3 sets out the approach that we intend to apply for impact assessments of the 2015/16 national tariff, and notes its limitations
- Annex 1 provides more detail on the main quantitative model we will use to assess proposed changes to the payment system.

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<sup>2</sup> Monitor and NHS England (April 2014), 2015/16 National Tariff Payment System: National prices methodology discussion paper', available at: [www.monitor.gov.uk/node/6272](http://www.monitor.gov.uk/node/6272)

<sup>3</sup> This is a statutory requirement of the Health and Social Care 2012 Act ('the 2012 Act'), section 118.

There are three questions for stakeholders in this paper which we hope you will answer (one in each of the following sections and a third in the annex).

Responses to this paper should be sent to: [paymentsystem@monitor.gov.uk](mailto:paymentsystem@monitor.gov.uk) by **midday on Friday 23 May 2014**. A [response form is available here](#).

Unless marked confidential, we intend to publish responses on our website.

## 2 Principles guiding our impact assessments

This section sets out the principles that will guide us as we assess the impact of our price-setting policy proposals. Our approach aims to provide a consistent framework for assessing the impact in terms of likely costs, benefits and risks, with patients at the heart of our assessments. As set out in the 2012 Act,<sup>4</sup> we will have regard to general guidance<sup>5</sup> on carrying out impact assessments, as appropriate.

Our approach to impact assessments for the 2015/16 national tariff will be guided by the following principles:

- **Proportionate** – We will carry out impact assessments that are suited to each policy proposal, and the information available for conducting the assessment.
- **Transparent** – We will strive to make our approach simple to follow and accessible to stakeholders. We will clearly state our assumptions and the limitations of our analysis. We will proactively engage with the sector, and where appropriate incorporate feedback into our assessments.
- **Evidence-based** – We will use evidence, where available, from policies that have been implemented in the past to increase our understanding of the likely impacts of new policy proposals. We will seek to evaluate implemented policies and incorporate lessons into future impact assessments.
- **Specific to the policy** – We will focus on the key issues relevant to each policy, segment of care, or group of patients, while also considering broader objectives such as equality and patient choice. Our approach will identify incentives relevant to the policy and the way the policy is likely to affect providers, commissioners and patients (the ‘transmission mechanism’).<sup>6</sup>
- **Compared to an appropriate baseline** – We will clearly define the baseline against which we assess the impact of policy changes. In most cases, we will compare proposals for 2015/16 to a baseline scenario<sup>7</sup> which retains, but projects forward, the currencies and price-setting approach used in the 2014/15 national tariff.<sup>8</sup>
- **Robust to key assumptions** – We will consider how our impact assessments change under a range of reasonable scenarios, to ensure that the results stand up to a range of potential assumptions.

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<sup>4</sup> The 2012 Act, section 69.

<sup>5</sup> For example: HM Treasury (2003, updated 2011), ‘[The Green Book - Appraisal and Evaluation in Central Government](#)’ and HM Government (2011), ‘[IA Toolkit: How to do an Impact Assessment](#)’.

<sup>6</sup> See Figure 2, p.12, for an overview of the transmission mechanism of policy proposals.

<sup>7</sup> This is often referred to as a ‘counterfactual’.

<sup>8</sup> Monitor and NHS England (17 December 2013), ‘[2014/15 National Tariff Payment System](#)’.

Question 1:

Have we identified the right principles to guide our impact assessments?



### 3 Our approach to impact assessments for 2015/16

This section sets out the approach we intend to take for assessing the impact on commissioners, providers and patients of each policy proposal or set of proposals. This section also identifies the limitations of our proposed approach.

Our impact assessments for the 2015/16 national tariff will focus on the incremental costs and benefits that may result from changes or updates to price-setting policies, as well as potential risks. Our assessments will focus on costs, benefits and risks that are likely to occur in 2015/16. There may be longer term impacts, and we will endeavour to take account of them in our assessment, while recognising that there is likely to be more uncertainty around such estimates.

We also recognise that there may be important system-wide impacts (including patient choice and competition). For example, impacts on a specific provider or commissioner could bring about indirect benefits or costs to a local health economy. By the same token, policies intended to benefit a local health economy directly could then affect providers or commissioners. In either case, there may be a consequential impact on patients, which we are interested in understanding. We will, as far as possible, aim to identify where to expect such system-wide impacts. We will work to develop our understanding of where such impacts are likely to occur through our stakeholder engagement.

The approach that we intend to take in our impact assessments is driven by our primary statutory duty to protect and promote the interests of people who use health care services by promoting provision of healthcare that is economic, efficient and effective and which maintains or improves the quality of services.<sup>9</sup> It will have the following stages:

- 1. Describing the policy proposal** – We will be clear on the issue(s) that the policy is aiming to address, and its likely transmission mechanism. This includes the economic, social and/or environmental rationale for the policy, and any changes to the incentives on providers and commissioners. We will identify the patient groups and segments of the healthcare sector targeted by the policy.<sup>10</sup>
- 2. Conducting a proportionality test** – We will take account of the scale and materiality of policy proposals, and the information available. We describe our proportionality framework in Section 3.1.

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<sup>9</sup> The 2012 Act, section 62(1).

<sup>10</sup> We will adopt segmentation consistent with that used by NHS England. For example, we might segment across: urgent and emergency care, planned care, integrated care, specialised and complex care, and mental health and community service.

3. **Defining the form of impact assessment** – Based on the type of policy proposal and our proportionality assessment, we will decide whether quantitative or qualitative assessment is appropriate, or a combination of the two.
4. **Identifying the relevant baseline** – We will consider the future conditions that might prevail in the absence of the proposed policy. We will use this as a baseline scenario (counterfactual) against which to compare our proposed policies for 2015/16. Our primary focus will be on incremental impacts. Where appropriate, we will also consider alternative policy options for comparison.
5. **Considering interactions with other policies** – We will consider whether the impact of the policy is likely to be affected by existing policies or other policy proposals. We will also present a comprehensive impact assessment of the national tariff in aggregate, where practicable, recognising that overall impacts may differ from the sum of individual impacts.
6. **Identifying likely costs, benefits and risks** – We will seek to identify material costs, benefits and risks and attribute them to the relevant parties, as well as system-wide impacts (including patient choice and competition) where possible. We will assess the implications of policy proposals on economic, social, environmental and sustainability issues that are particularly relevant to regulatory policy.<sup>11</sup> We will also aim to take into account administrative and implementation costs, including those borne by NHS England, Monitor and any other relevant organisations.<sup>12</sup>

The rest of this section provides more information on our proportionality framework, including how we will decide whether to use quantitative or qualitative analysis. We also describe our approach to identifying costs, benefits and risks.

### 3.1 Proportionality

Policy proposals may relate to several different aspects of the payment system, including currencies,<sup>13</sup> national prices, national variations or locally determined prices (local modifications, local variations or locally agreed prices).<sup>14</sup> In each case, the

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<sup>11</sup> The Department for Business, Innovation and Skills' (BIS) [guidelines](#) list ten specific impact tests that are of relevance for regulatory decisions. Of those, we consider the following four to be most relevant for our assessments: impact on competition, small firms, rural proofing and equalities.

<sup>12</sup> We will follow the guidelines set out in HM Treasury's '[Green Book](#)'. Administrative costs could include costs associated with familiarisation with administrative requirements, record keeping and reporting, including inspection and enforcement of regulation.

<sup>13</sup> A 'currency' is a unit of NHS-funded health care for which there is a price or rules for determining the price, such as a consultation or an operation.

<sup>14</sup> National prices, national variations, and locally determined prices are described in detail in the '[2014/15 National Tariff Payment System](#)'.

transmission mechanism and impact of the policy may be different, as well as whether it is possible to conduct a comprehensive impact assessment.

We will apply the guidelines set out in the government's Impact Assessment Toolkit when conducting proportionality tests.<sup>15</sup> The guidelines identify the following key considerations for determining the level of assessment required:

- level of interest and sensitivity surrounding the policy
- degree to which the policy is novel, contentious or irreversible
- stage of policy development
- scale, duration and distribution of expected impact
- level of uncertainty around likely impacts
- data already available and resources required to gather further data
- time available for policy development

It is important that our analysis does not present a false sense of accuracy. A key determinant of our ability to carry out quantitative assessment is data availability. In order to conduct meaningful quantitative analysis we require robust and relevant data, and evidence of how policy changes are transmitted. Where such data are not available, or where we have insufficient evidence to model the impact of the policy, we will carry out qualitative analysis. Figure 1 illustrates the types of assessments we would produce in different circumstances.

### **3.2 Qualitative and quantitative assessment**

We will decide whether policy impact is best assessed quantitatively (for example by modelling the financial impact on providers and commissioners) or qualitatively (for example by identifying the incentives on providers and commissioners), or a combination of the two. We will take a pragmatic approach, which recognises that it may be difficult to quantify some of the costs and benefits. We want our assessments to inform the answer to the question “is this proposal likely to be in patients’ best interests?”

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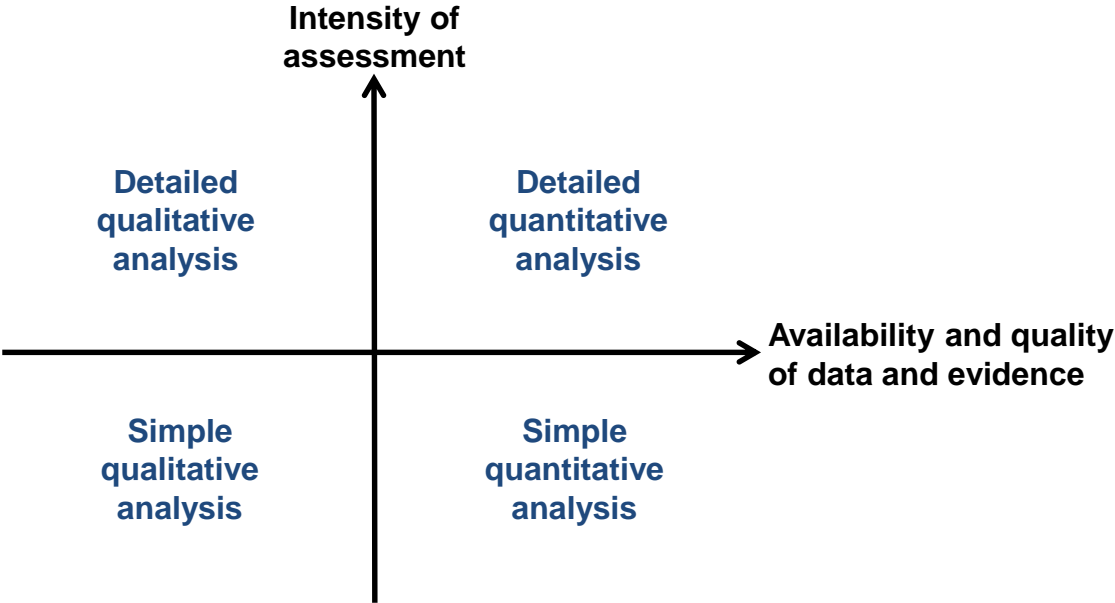
<sup>15</sup> HM Government (2011), ‘[IA Toolkit: How to do an Impact Assessment](#)’.

Our approach will have a number of levels, recognising that different assessments may require a different level of complexity and resource intensity:

- 1. Identification of who will be affected
- 2. Description of impacts (direction and order of magnitude)
- 3. Quantification of impacts where feasible
- 4. Partial valuation of the costs and benefits
- 5. Full monetisation of the costs and benefits

Where feasible, our qualitative assessments will aim to provide comparative cost-benefit analysis between the proposal and the baseline scenario (and/or between alternative proposals).

**Figure 1: Application of the proportionality framework**

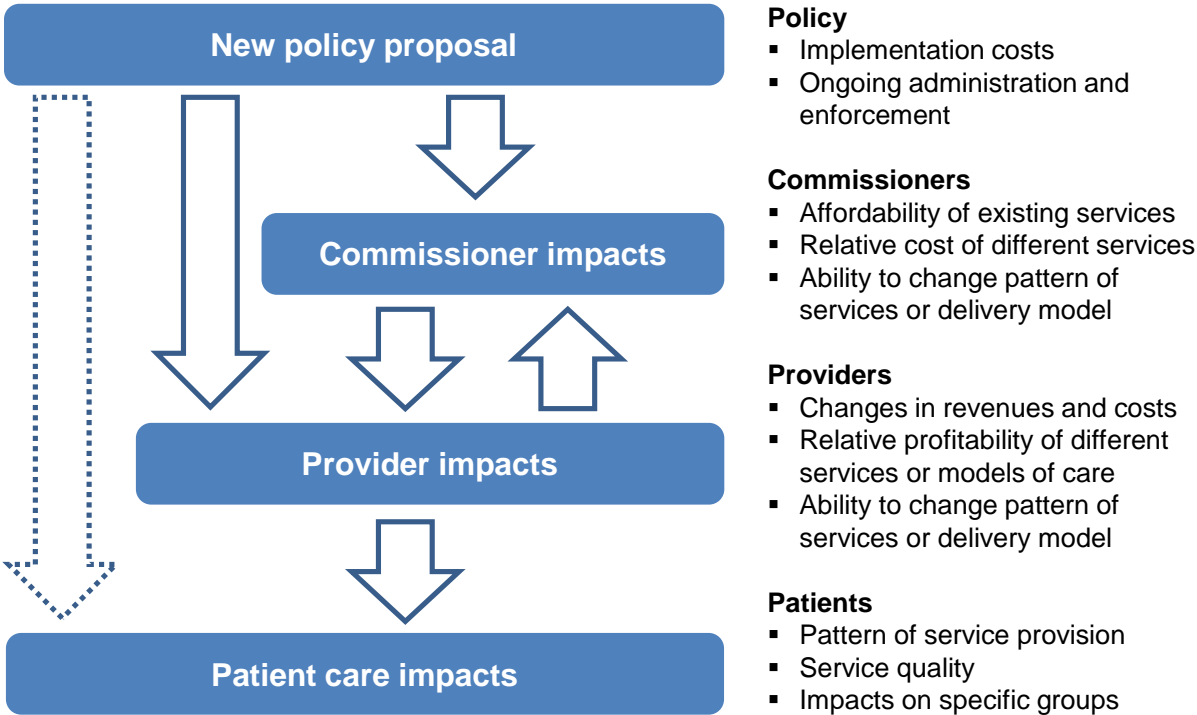


**3.3 Identifying costs, benefits and risks**

Most NHS-funded healthcare services are free at the point of delivery for patients and price-setting policies do not manifest themselves directly through an impact on the price paid by patients. Rather, the decisions we make in the national tariff impact directly on the financial position and incentives of providers and commissioners (including clinicians who are responsible for patient referrals in primary, secondary and tertiary care), which may affect the care patients receive. To understand the likely impact on patients, we need to consider the policy’s transmission mechanism,

and the incentives on providers and commissioners. The framework we will use is illustrated in Figure 2.

**Figure 2: Overview of the transmission mechanism of policy proposals**



One way of assessing the scale of impacts on providers and commissioners is to consider how their financial positions would change under our proposed policies if they continued to purchase or provide the same healthcare services they have in the past. We provide more detail on how we propose to model this type of assessment in Annex 1. This analysis needs to be supported by wider consideration of the incentives created by the policy proposals, but will provide a useful indication of the scale of change.

We currently do not have a systematic approach to linking changes in finances to impacts on patients. For the 2015/16 national tariff, we plan to use information on patient outcomes to give context to the results of our quantitative modelling and qualitative assessments, while recognising that financial impacts and changes in incentives can have a range of effects on patient care. We intend to expand our evidence base in this area and welcome feedback on how we can improve our approach to future impact assessments.

We are aware that transmission mechanisms may differ across segments of healthcare, or between policies that provide financial and non-financial incentives. We will aim to reflect such differences in our assessments. It is important that our assessments incorporate possible behavioural responses to new or updated policies

by providers, commissions and patients. We propose to look at the timing of impacts, recognising that benefits may take longer to materialise, and may be more difficult to quantify, than costs. As described above, we intend to monetise costs and benefits or provide an indication of their likely scale wherever possible. Where we can monetise costs or benefits that occur in the future, we will apply a discount rate to convert them to a present value.<sup>16</sup>

We also intend to consider the extent to which policy proposals are consistent with our broader objectives and responsibilities, and our legal duties. Government guidelines suggest a number of specific tests that should be applied when conducting impact assessments.<sup>17</sup> We consider the most relevant of those tests to be related to competition, equality, rural areas and small firms. So in addition to any other tests we consider relevant we intend to assess the impact of our policies on:

- **Competition** – does the policy adversely affect patient choice or competition and so result in worse outcomes for patients?
- **Equality** – is the policy likely to lead, directly or indirectly, to discrimination, in particular against people with protected characteristics?
- **Rural areas** – does the policy have a disproportionate impact on providers, commissioners or patients in a rural area?
- **Small providers** – does the policy have a disproportionate impact on small providers, specialists, independents or charities?

Question 2:

Have we identified the right approach to identifying costs, benefits and risks to commissioners, providers and patients?

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<sup>16</sup> We will follow guidance in: HM Treasury (2003, updated 2011), '[The Green Book - Appraisal and Evaluation in Central Government](#)'.

<sup>17</sup> Department for Business, Innovation and Skills (undated), '[Specific Impact Tests](#)'.

## Annex 1: Overview of our proposed quantitative model

This annex describes how the main model we plan to use for the quantitative impact assessment of currencies, national prices and price-setting rules in the 2015/16 national tariff will work. It also describes how we intend to consider the impact of specific price or currency changes on providers, commissioners and patients. Finally, it sets out the metrics we plan to use to assess the impact of the 2015/16 national tariff on the finances of providers and commissioners.

We plan to use a quantitative model to assess incremental impacts by comparing outputs under different policy proposals. For example, we will compare forecast financial metrics using proposed currencies and national prices to forecast financial metrics assuming a rollover of the current national tariff. The output from this approach will illustrate the financial incentives faced by providers and commissioners, but will not attempt to predict the behavioural response to these incentives. The model allows for a range of sensitivities to be calculated to assess likely impacts for a particular policy proposal, under different projections for provider efficiency and other key variables.

We will use the outputs from the model alongside our broader qualitative analysis, including our assessment of changes in the incentives faced by providers and commissioners, to assess impacts on patients.

### Structure

We propose to use a model that operates in three steps:

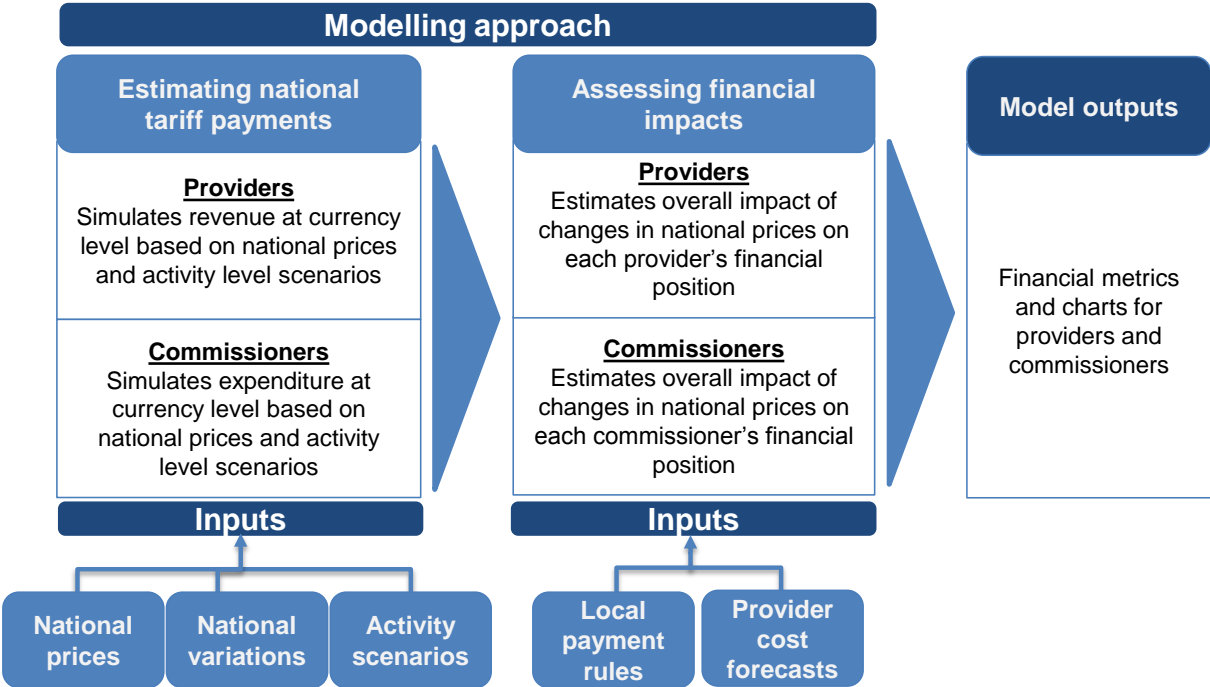
1. Estimating payments from commissioners to providers using proposed currencies and prices for 2015/16, and a forecast of activity levels. This will be compared to a scenario in which we estimate the payments that would be made if there was a rollover of the 2014/15 national tariff.
2. Projecting the financial position of providers and commissioners in 2015/16 using the outputs from step one. There are assumptions about how the rules<sup>18</sup> on local price-setting (including any proposed changes) are applied by providers and commissioners, and assumptions on how costs change over time.
3. Calculating financial metrics and producing charts to illustrate our assessment of the financial position of providers and commissioners under different policy proposals.

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<sup>18</sup> Locally determined prices must be agreed in accordance with the rules set out at section 7 of '2014/15 National Tariff Payment System'.

Figure 3 illustrates this approach.

**Figure 3: The quantitative modelling approach to assess impacts**



**Specific changes to currencies and prices**

Our quantitative model could be used to estimate the impact of specific changes to national prices on the amounts paid by commissioners to providers for NHS-funded services. It is designed to incorporate, as far as possible, the majority of national variations such as best practice tariffs and top-ups for specialised services. This means that where appropriate, we may use our quantitative models to consider specific, as opposed to systematic, changes to national prices or local price-setting rules. For example, to assess the impact of a proposed change to a best practice tariff, rather than a change related to cost uplift factors applicable to all national prices.

For currencies, we plan to compare payments under any proposed currency change to the currency used in 2014/15 (if one was in place) and quantify the impact of changing between them. We will consider these changes in the context of the wider incentives and system-wide costs and benefits introduced by changing currencies.



## Financial metrics

We are planning to use changes in financial metrics as one way of quantifying possible changes in the financial position of providers and commissioners. We are considering a range of financial metrics for providers and commissioners. For providers, Monitor already has an established set of metrics (used to assess the financial risk faced by NHS foundation trusts).<sup>19</sup> We plan to apply the same tests to both foundation trusts and NHS trusts. We currently do not have adequate data to carry out quantitative impact assessments for independent providers, but welcome your thoughts on how we can assess the impacts on independent providers more effectively in future. For commissioners, we are working with NHS England to identify key financial metrics and welcome comment from all parties, but particularly clinical commissioning groups (CCGs) and commissioning support units (CSUs).

The following list summarises the key financial metrics we plan to include in our impact assessments (it is by no means exhaustive and will be updated in response to stakeholder feedback):

- commissioner surplus/deficit
- provider operating surplus/deficit
- provider capital service capacity
- provider liquidity days.

To calculate these metrics we need to know, in addition to national prices and variations, providers' costs (including assumptions about their level of investment and whether they pay off debts) and commissioners' budgets. For providers, we will start with the latest available financial position and project it forward based on a range of assumptions on cost inflation, achieved efficiency and growth in activity levels. Depending on the findings of our work on leakage (see Section 5 of the methodology discussion paper), we may also need to include an assumption about leakage in the model. For commissioners, we will use the budgets for 2015/16, which have already been agreed and published,<sup>20</sup> after adjusting them for allocations to the Better Care Fund.<sup>21</sup>

As explained in Section 3.3, we are not planning to quantitatively assess the impact of price-setting policies on patient outcomes at this stage because we do not have adequate information. Specifically, we currently do not have adequate evidence to be able to estimate how changes to the financial incentives of providers and

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<sup>19</sup> Monitor (August 2013), '[Risk assessment framework](#)'.

<sup>20</sup> NHS England (December 2013), '[Total CCG Programme Budget Allocations 2014/15 & 2015/16](#)'.

<sup>21</sup> NHS England (10 March 2013), '[Better Care Fund Allocations spreadsheet \(revised\)](#)'.

commissioners affect patient outcomes. We intend to use available evidence on current patient outcomes to provide qualitative context to the financial impact assessment of providers and commissioners. For example, we may pay particular attention to the financial impacts on providers whose patient outcome measures are in the bottom quartile compared to the national average.<sup>22</sup>

Question 3:

What financial metrics should we use to assess the impact on providers and on commissioners, in order to understand the potential impact on patients?

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<sup>22</sup> For example the data published by CQC as part of its [Hospital Intelligent Monitoring](#) programme.



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