Title: Infected Blood Scheme Reform Affordability **IA No:** DH3146 **Lead department or agency: Department of Health** **Other departments or agencies:**	Impact Assessment (IA)
	Date: 26/01/2017
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Other
	Contact for enquiries: Infected Blood Policy team, infectedbloodreform@dh.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Not applicable

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
£316 million	NA	NA	Not in scope	NA

What is the problem under consideration? Why is government intervention necessary?

Plans to reform the Infected Blood Scheme were announced in July 2016. The reform had to be delivered within a budget set by the government's spending review in late 2015. In July 2016, estimates suggested that the reform would be affordable. However, since that time, the process and criteria for the Special Appeals Mechanism (now termed the Special Categories Mechanism or "SCM") announced in July 2016 have been developed and as a result it is anticipated that more pre-cirrhotic hepatitis C beneficiaries will benefit from higher levels of annual payment than the previous assumption suggested. Under new assumptions, the reforms would lead to an estimated overspend of between £76 million and £123 million over the remainder of the Spending Review period.

What are the policy objectives and the intended effects?

The policy objective is to ensure that more stage 1 beneficiaries benefit from increased support by implementing the SCM while reducing the risk of a resulting overspend during the Spending Review period. In doing so, the Department intends to honour the objectives that underpinned the reforms announced in July 2016.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 would continue with the full package of scheme reforms that was announced in July 2016, and accept that demand for payments would substantially outstrip the allocated budget.

Option 1 would reduce the risk of a substantial budgetary overspend by
a) No longer offering a £50,000 lump sum to Stage 1 hepatitis C recipients who successfully apply to receive higher payments through the forthcoming SCM on the basis that the £50,000 payment is a recognition of reduced life expectancy.
b) Dropping plans to introduce a fixed uplift to all annual payments from 2018/19 onwards but payments will have their real value maintained through CPI-indexation.
c) Reducing the budget available for discretionary payments

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 04/2021

Does implementation go beyond minimum EU requirements?		NA		
Are any of these organisations in scope?	**Micro** No	**Small** No	**Medium** No	**Large** No
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded: 0**	**Non-traded: 0**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: ***Date:***

Summary: Analysis & Evidence — Policy Option 1

Description: a) no longer offering a £50,000 lump sum paid to Stage 1 hepatitis C recipients who are successful in their SCM applications to receive higher payments; b) dropping plans to introduce a fixed uplift to all annual payments from 2018/19 onwards but payments will have their real value maintained through CPI-indexation; and c) reducing the budget available for discretionary payments

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2017	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			Low: 279	**High: 353**	**Best Estimate:** 316

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**89.0**
High	Optional		Optional	**113.0**
Best Estimate				**101.0**

Description and scale of key monetised costs by 'main affected groups'

The main affected groups are

i) Successful applicants under the Special Categories Mechanism who would receive higher annual payments but not the £50,000 lump sum (which would be reserved for Stage 2 hepatitis beneficiaries). Estimated undiscounted cost £57.3 million to £80.3 million
ii) Scheme beneficiaries who are infected with HIV and/or hepatitis C virus who would not receive uplift in annual payments from 2018/19. Estimated undiscounted cost £18.6 million to £20.7 million
iii) Beneficiaries of discretionary payments. Estimated undiscounted cost £18.5 million

Other key non-monetised costs by 'main affected groups'

None

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**368.0**
High	Optional		Optional	**466.3**
Best Estimate				**417.2**

Description and scale of key monetised benefits by 'main affected groups'

Reducing or eliminating the overspend will make more money available for expenditure by the NHS on its patients. The social value of these benefits over the whole Spending Review period is estimated as follows:

i) Removing the £50,000 lump sum from the SCM package - £229.2 million to £321.3 million (undiscounted)
ii) Dropping the 2018/19 uplift in annual payments - £74.4 million to £82.9 million (undiscounted)
iii) Reducing the budget for discretionary payments - £74 million (undiscounted)

Other key non-monetised benefits by 'main affected groups'

None

Key assumptions/sensitivities/risks — **Discount rates %** 1.5 & 3.5

Uncertainty remains over the proportion of scheme beneficiaries who will qualify for higher level payments. There may also be a risk that legal challenge could in future force the Department to reconsider the scheme reform proposals including some or all of the elements of Option 1.
In line with standard DH practice, health impacts have been discounted at 1.5%, while all other impacts have been discounted at 3.5%.

Problem under consideration

Background

1. As a result of treatment with NHS-supplied blood or blood products in the 1970s and 1980s, many thousands of people in the UK were infected with hepatitis C and/or HIV. Over 5,500 affected individuals have accessed dedicated financial support through several government funded ex-gratia payment schemes.

2. By 2014 there was a widespread view that the payment schemes required reform to address criticisms that they were over-complicated and failed to meet the needs of some beneficiaries adequately and fairly.

3. A budget within which the reforms had to be delivered was announced by the Department of Health in November 2015. In addition to the money that was forecast to be spent under the old schemes, the Government announced that up to an additional £125 million would be available over the Spending Review period of 2016/17 to 2020/21. This additional expenditure was to be allocated evenly across the five year Spending Review period so that an additional £25 million would be available annually.

4. A public consultation on reform options took place between January and April 2016. An Impact Assessment (IA) formed part of the consultation documentation.

5. Once the consultation responses had been reviewed, the Department finalised the reform plans, which were announced in July 2016 by Prime Minister David Cameron in Parliament. This announcement was accompanied by a consultation response and a final IA

Description of the problem

6. Readers of this IA will require an understanding of how the infected blood scheme classifies hepatitis C sufferers. Recipients whose infections are pre-cirrhotic and therefore have not reached the most severe stages are called Stage 1 recipients, while those whose infections have reached the most severe stages are called Stage 2 recipients.

7. Part of the reform package announced in July 2016 introduced an assessment (the special appeals mechanism) that Stage 1 hepatitis C recipients could voluntarily undertake in order to determine whether they qualified for higher payments. If successful, applicants would receive a higher annual payment at the same level as that received by Stage 2 recipients and HIV recipients. Applicants would also receive a one-off payment of £50,000 paid to hepatitis C beneficiaries when they reach Stage 2.

8. The July 2016 announcement of the reformed scheme made clear that the details of the appeals process were yet to be determined. Nevertheless, for the sake of estimating how affordable the reformed scheme would be, the Department was required to make an estimate of the proportion of Stage 1 recipients who would qualify for the higher payments via the special appeals mechanism. The Impact Assessment that accompanied the July announcement reported considerable uncertainty over the likely proportion of successful applicants but proceeded on the basis of a working assumption that 10% of Stage 1 recipients might qualify. This level was forecast to have been broadly affordable within the reformed scheme’s budget for the Spending Review period. However, the Impact Assessment stated that even a modest increase in successful Stage 1 applicants would create a significant problem of unaffordability.

9. Since July 2016, work on designing the special appeals mechanism (since renamed the "Special Category Mechanism" or "SCM") has progressed, taking into account the Department's obligations under the Equality Act 2010. As policy has developed, it has become clear that a much greater proportion of Stage 1 recipients are likely to benefit from the higher annual payments than the original 10% estimate anticipated. Although uncertainty remains, the Department now expects that 50% to 70% of Stage 1 recipients could qualify for higher payments through the SCM. If this happened, under the reform plans announced in July 2016, the estimated overspend over the remainder of the Spending Review period (2017/18 to 2020/21) would be between £76 million and £123 million.

Intervention rationale

10. Intervention is required to reduce or eliminate the reformed infected blood scheme predicted overspend during the Spending Review period.

Policy objectives

11. The policy objective is to ensure that more stage 1 beneficiaries benefit from increased support by implementing the SCM while reducing the risk of a resulting overspend during the Spending Review period. In doing so, the Department intends to honour the objectives that underpinned the reforms announced in July 2016. The reformed scheme should therefore:
    - Be acceptable to a majority of scheme recipients
    - Be value for money for taxpayers, in terms of economy, efficiency and effectiveness over the SR period
    - Not financially disadvantage existing scheme recipients in terms of what they could reasonably have expected to receive under the old, unreformed scheme
    - Lie within the Department's tolerance of legal risk, as defined by Ministers
    - Be affordable within the budget set for the current Spending Review (SR) period

Description of options considered

12. The Department is considering two options.

13. **Option 0** would continue with the full package of scheme reforms that was announced in July 2016, and accept that demand for payments would substantially outstrip the allocated budget.

14. **Option 1** comes in three parts:

    a) Reserve the £50,000 lump sum only for those hepatitis C recipients who reach Stage 2 but do not pay it to any Stage 1 hepatitis C recipient who successfully applies for higher annual payments under the SCM. No longer offering the £50,000 lump sum to successful SCM applicants is justified on life expectancy grounds – it is reserved for those who suffer reduced life expectancy as a result of Stage 2 hepatitis C infections.

    b) Drop plans to introduce a fixed uplift in annual payments for all eligible recipients from 2018/19 onwards. Under the reforms announced in July 2016, all recipients who are eligible for annual payments would receive an uplift of their annual payments in 2018/19. **Option 1b** would remove this uplift on the justification that it would not financially disadvantage existing scheme recipients compared with what they could reasonably

have expected to have received under the old, unreformed scheme. Annual payments, however, would rise in line with the consumer price index throughout the Spending Review period.

c) Reduce the budget available for discretionary payments. The reformed scheme that was announced in July 2016 contained a budget for discretionary payments that individual recipients could receive in exceptional circumstances. The original budget assumed that £30.5 million would be available over the remainder of the Spending Review years (2017/18 to 2020/21). The proposal under Option 1c is to reduce this budget to £12 million.

Monetised and non-monetised costs and benefits of each option

Option 0 – Do nothing

15. Option 0 is the "do nothing" option. It sets out the overspend that would occur if no action is taken to reduce it, and as such, Option 0 is the counterfactual against which the costs and benefits of Option 1 are measured.

16. Under Option 0, the proportion of Stage 1 recipients who would qualify for higher SCM payments would be expected to be between 50% and 70%. This expectation is based on advice received through the Infected Blood Reference Group[1]. If nothing is done in mitigation, the Department estimates that expenditure during the remainder of the Spending Review period would exceed the allocated budget by between £76 million and £123 million.

17. The overspend would not be distributed evenly over each of the Spending Review years. Annual estimates of budgetary surplus and deficit are shown in the table below:

	2017/18	2018/19	2019/20	2020/21	Total
Surplus/Deficit with 50% SCM success	-58.0	-7.1	-6.0	-5.0	-76.1
Surplus/Deficit with 70% SCM success	-86.5	-13.2	-12.0	-11.0	-122.8

18. Note that the greatest overspend would occur in 2017/18. This arises because of the need to pay the £50,000 lump to successful SCM applicants in that year.

19. In previous Impact Assessments on the reform of the Infected Blood Scheme, the Department assumed that the additional £125 million of funding that was being made available for the reformed scheme would not deprive the NHS of funds. In this Impact Assessment we assume that under Option 0, any overspend could only be financed by reducing funding for the NHS budget on a pound for pound basis. This assumption reflects the severe pressure that the Department's budget will be under for the foreseeable future.

20. The effect of reducing NHS funding should be measured in Quality Adjusted Life Years (QALYs), which reflect both length of life and the quality of health in which life is led. A QALY is the standard health metric used in NHS resource allocation decisions. Recent research[2] has led the Department of Health to conclude that at the margin, every £15,000 of foregone NHS funding leads to a loss of patient health of one QALY. The opportunity cost of NHS

[1] The purpose of the Infected Blood Reference Group is to provide expert advice, insight and input to support and advise the Department on developing the decisions following the outcomes of *the Infected Blood: Reform of Financial and other Support* consultation.

[2] http://www.york.ac.uk/che/research/teehta/thresholds/

budgetary reductions should therefore be calculated by dividing the reduction by £15,000 to determine the number of QALYs that the NHS can no longer deliver to its patients.

21. Each foregone QALY should be monetised at its social value, which, under standard Department of Health practice, is rated at £60,000.

22. The logic outlined above implies that the opportunity cost to NHS patients of the Option 0 overspend would be valued at between £304 million and £491 million over the remainder of the Spending Review period[3].

Option 1a – Remove the £50,000 lump from the SCM package

Benefits

23. The following table provides the Department's estimates of the budgetary balance if Option 1a alone were implemented.

	2017/18	2018/19	2019/20	2020/21	Total
Surplus/Deficit with 50% SCM success	-0.7	-7.1	-6.0	-5.0	-18.8
Surplus/Deficit with 70% SCM success	-6.3	-13.2	-12.0	-11.0	-42.5

24. If 50% of current Stage 1 recipients were successful through the SCM process, Option 1a would reduce the overspend created under Option 0 from £76.1 million to £18.8 million (an improvement of £57.3 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £229.2 million[4].

25. If 70% of current Stage 1 recipients were successful through the SCM process, Option 1a would reduce the overspend created under Option 0 from £122.8 million to £42.5 million (an improvement of £80.3 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £321.3 million[5].

26. Note that Option 1a would do nothing to reduce the deficit in the years 2018/19 to 2020/21. This is because the Department has assumed that the under Option 0 the £50,000 lump sum would be paid to all eligible Stage 1 recipients in 2017/18.

Costs

27. Option 1a would impose costs on the Stage 1 recipients who would no longer receive the £50,000 lump sum on successfully passing the SCM assessment. The financial costs of these losses is the counterpart of the budgetary savings reported above (£57.3 million to £80.3 million). In financial terms, for every pound that would be gained by the NHS, scheme recipients would lose a pound.

28. The social value of the costs to recipients is difficult to assess. However in the absence of evidence to the contrary, the Department has assumed that on average, £1 of income lost to scheme recipients is valued as a £1 welfare loss by those individuals.

[3] £76 million or £123 million divided by £15,000 and then multiplied by £60,000.
[4] £57.3 million divided by £15,000 and multiplied by £60,000.
[5] £80.3 million divided by £15,000 and multiplied by £60,000.

Balance of costs and benefits

29. The estimated (undiscounted) net social benefits of Option 1a to scheme recipients would be between £171.9 million and £241.0 million.

Option 1b – Drop plans to introduce a fixed uplift to annual payments in 2018/19

Benefits

30. The following table provides the Department's estimates of the budgetary balance if Option 1b alone were implemented.

	2017/18	2018/19	2019/20	2020/21	Total
Surplus/Deficit with 50% SCM success	-58.0	-0.8	0.2	1.1	-57.5
Surplus/Deficit with 70% SCM success	-86.5	-6.2	-5.2	-4.2	-102.1

31. If 50% of current Stage 1 recipients were successful through the SCM process, Option 1b would reduce the overspend created under Option 0 from £76.1 million to £57.5 million (an improvement of £18.6 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £74.4 million.

32. If 70% of current Stage 1 recipients were successful through the SCM process, Option 1b would reduce the overspend created under Option 0 from £122.8 million to £102.1 million (an improvement of £20.7 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £82.9 million[6].

33. Note that the deficit reductions do not start until 2018/19 when, under Option 0, the annual payment uplift would have occurred.

Costs

34. Applying the logic and assumptions described in paragraphs 27 and 28, the Department estimates that the (undiscounted) costs of Option 1b to scheme recipients would be between £18.6 million and £20.7 million.

Balance of costs and benefits

35. The estimated (undiscounted) net social benefits of Option 1b are between £55.8 million and £62.2 million.

[6] This calculation assumes that any annual budget surpluses are diverted to the NHS expenditure. In practice, no decision has yet been made on what would happen to any annual surpluses.

Option 1c – Reduce the budget for discretionary payments

Benefits

36. The following table provides the Department's estimates of the budgetary balance if Option 1c alone were implemented.

	2017/18	2018/19	2019/20	2020/21	Total
Surplus/Deficit with 50% SCM success	-56.0	-1.6	-0.5	0.5	-57.6
Surplus/Deficit with 70% SCM success	-84.5	-7.7	-6.5	-5.5	-104.2

37. If 50% of current Stage 1 recipients were successful through the SCM process, Option 1c would reduce the overspend created under Option 0 from £76.1 million to £57.6 million (an improvement of £18.5 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £74.0 million[7].

38. If 70% of current Stage 1 recipients were successful through the SCM process, Option 1c would reduce the overspend created under Option 0 from £122.8 million to £104.2 million (an improvement of £18.5 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £74.0 million.

Costs

39. Applying the logic and assumptions described in paragraphs 27 and 28, the Department estimates that the (undiscounted) cost of Option 1c to scheme recipients would be £18.5 million.

Balance of costs and benefits

40. The estimated (undiscounted) net social benefit of Option 1c is £55.5 million.

Option 1 in Aggregate

41. Sub-options 1a, b and c can be implemented individually or as a package. The following table provides the Department's estimates of the budgetary balance if Option 1 in aggregate was implemented as a complete package.

	2017/18	2018/19	2019/20	2020/21	Total
Surplus/Deficit with 50% SCM success	1.3	4.7	5.7	6.6	18.3
Surplus/Deficit with 70% SCM success	-4.3	-0.7	0.3	1.3	-3.4

42. If 50% of current Stage 1 recipients were successful through the SCM process, Option 1 as package would generate a budget surplus of £18.3 million (a budgetary improvement of £94.4 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £377.6 million[8].

[7] This calculation assumes that any annual budget surpluses are diverted to the NHS expenditure. In practice, no decision has yet been made on what would happen to any annual surpluses.

[8] This calculation assumes that any annual budget surpluses are diverted to the NHS expenditure. In practice, no decision has yet been made on what would happen to any annual surpluses.

43. If 70% of current Stage 1 recipients were successful through the SCM process, Option 1 would reduce the overspend created under Option 0 from £122.8 million to £3.4 million (an improvement of £119.4 million) over the SR period. This reduction would yield a health benefit to NHS patients valued at an estimated £477.7 million (see footnote 8).

Costs

44. Applying the logic and assumptions described in paragraphs 27 and 28, the Department estimates that the (undiscounted) costs of Option 1 to scheme recipients would be between £94.4 million and £119.4 million.

Balance of costs and benefits

45. The estimated (undiscounted) net social benefits of Option 1 are between £283.2 million and £358.3 million.

Risks and Uncertainties

46. There exists a risk that legal challenge could in future force the Department to reconsider the scheme reform proposals more generally including some or all of the elements of Option 1. If 100% of Stage 1 recipients were awarded the higher annual payments together with the £50,000 lump payment, the reformed scheme would be overspent by an estimated £166 million over the SR period. This would represent a QALY opportunity cost of £663 million to NHS patients.