

**How Monitor and
NHS England are
working to make
the payment
system do more
for patients
from 2015/16**



Foreword

Having published the national tariff for 2014/15,¹ Monitor and NHS England have turned to potential improvements to the payment system in 2015/16 and beyond. In particular, we are considering what changes to the national tariff will support improved patterns of care and, at the same time, help the NHS to meet the expected financial challenge of 2015/16 and make best use of the Better Care Fund.

This document sets out what we plan to do this coming year and how we are engaging the sector earlier and more actively along the way. As many providers and commissioners are busy working on their plans, we hope this forward look at potential changes to the payment system will provide a helpful steer.

The main context for our work over the next year is the need for new and sustainable patterns of care that can do more for patients. Here, we describe how we are working towards a longer-term redesign of the payment system that will help meet that need, and how locally-led innovations encouraged by the 2014/15 national tariff are a first step in that direction. We then outline the policy proposals we are exploring for the 2015/16 national tariff consultation and how commissioners and providers can point us towards the best solutions.

The need for new patterns of care

Cost, demand and budget pressures on the NHS as a whole look set to rise to unprecedented levels over the next five years. There is widespread agreement across the sector that achieving a long-term balance between growth in patient needs and expectations and largely static commissioning budgets is essential. Success will depend on NHS commissioners and providers in each local health economy planning and implementing new and better patterns of care.

NHS England's planning guidance² prioritises major changes in patterns of care that could do significantly more for particular patient groups and the public generally. The main patterns are:

- extended and scaled-up primary care, giving people with a moderate mental or physical long-term condition access to all the support and services they need;
- a model of integrated care in which a senior clinician takes responsibility (through a personal relationship with each patient) for co-ordinating all the support needed by people with multiple, often complex, mental or physical long-term conditions, ranging from lifestyle advice to acute care;

¹ 2014/15 National Tariff Payment System, available at www.monitor.gov.uk/nt

² NHS England (1023), *Everyone Counts: Planning for Patients 2014/15 to 2018/19*, available at www.england.nhs.uk/wp-content/uploads/2013/12/5yr-strat-plann-guid-wa.pdf

- a system of urgent and emergency care that gives all people with immediate, unplanned needs access to the highest quality care, including access to one of 40-70 major emergency centres across the country;
- services for people who need episodic, elective care that are designed and managed from start to finish to remove error and achieve much greater productivity; and
- specialised services for all people in need of them that maximise effectiveness by being both high volume and integrally connected to research and teaching. This pattern is likely to entail concentrating specialist service expertise in some 15-30 centres across the country.

Fundamental to making these changes is enabling patients generally to have more ownership of and power over their health and social care, with citizens included in all aspects of changes to services and their design. So active engagement with patients and the public will need to underpin all service changes, as will full development of any opportunities for patients to self-manage their care.

The requirements of the Better Care Fund³ also make clear that every health economy, including providers, commissioners and patients, will be working towards integrating health and social care. To deliver well co-ordinated, person-centred care, commissioners and providers will need to blur the boundaries between not only services based in hospital, community and primary care settings but also medical conditions, mental well-being and social needs, and give appropriate consideration to each as they plan local service changes.

Taken together, these changes in patterns of care will have significant implications for funding flows within the NHS, starting in 2015/16. We expect that commissioners will have less money available for hospital-based acute services, and will want to invest more in preventative, community-based interventions, including for mental health services. We expect their investments in coordinated care that considers all a person's care needs together will lead to fewer unplanned A&E attendances and admissions.⁴ Similarly, when hospital consultants offer direct support to primary care, fewer planned referrals and procedures may be needed.⁵ Finally, establishing specialised centres of clinical excellence, where clinical scale can improve quality and reduce unit costs for both simple and complex clinical interventions, will make

³ Better Care Fund planning guidance is available at www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/

⁴ This is supported by an emerging evidence base: NHS England (2014), *Any Town*, available at: www.england.nhs.uk/2014/01/24/any-town/; Local Government Association, *The value case for co-ordinated health and social care*, available at www.local.gov.uk/documents/10180/12193/Overarching+value+case/9ac0eca8-b083-4ff7-a35f-6acd5725f46b *Kings Fund Integrated Care Reading Room*, available at: www.kingsfund.org.uk/topics/integrated-care/library

⁵ Future Hospital Commission (2013), *Future Hospital: Caring for medical patients*, available at: www.rcplondon.ac.uk/sites/default/files/future-hospital-commission-report_0.pdf

more NHS care affordable in total. Taken together, we anticipate the financial impact of these changing patterns of care will affect each service differently, and some adversely, but in aggregate will mean commissioners are able to meet growing demands sustainably.

Towards a longer-term redesign of the payment system

One of Monitor and NHS England's most important tasks at this time of unprecedented challenge for commissioners and providers is to look afresh at the whole NHS payment system to ensure that it underpins a sustainable NHS. In May 2013, Monitor and NHS England published our early thinking about improving the design of the payment system so it can do more for patients.⁶ We are developing these ideas to reflect priorities for change emerging from responses to the *Call to Action* and the sector's forthcoming five-year strategic plans, and we have also started researching the details of alternative payment approaches. We plan to publish our latest proposals for the longer-term design of the payment system in spring 2014.

As well as exploring longer-term changes in payment design, we continue to make the regulatory process relating to the NHS payment system more transparent and rigorous. We are working to improve the integrity of the cost data available to inform national and local price-setting, including data from community and mental health settings, and we see collecting detailed patient level cost data as critical to this improvement. Alongside this work, we will continue to support greater accuracy and consistency in reference cost data. In addition, we will aim to ensure that the incentives created in the national tariff are aligned with those that exist elsewhere and with requirements that guide commissioners' and providers' decisions.

The 2014/15 national tariff supports locally-led innovation

To speed commissioners' and providers' progress in choosing and implementing new patterns of care for their populations, the national tariff for 2014/15 introduces new opportunities to vary national prices. Changes to the standard NHS contract also give commissioners and providers more leeway for change.

We encourage all parties in local health economies to start using these new opportunities to make lasting changes to patterns of care in patients' best interests, and not to "shore up" existing patterns where these may not be best for patients over the long term. We also require transparency. To create the incentives for desirable behaviour change in the redesign of the payment system, we first need reliable evidence about the likely impact of local innovations on service delivery as well as good quality, complete information about provider costs and patient outcomes. This means we need innovators to share with us and the rest of the sector the reasons for

⁶ Monitor & NHS England (2013), *How can the payment system do more for patients?* Available at: www.monitor.gov.uk/home/news-events-publications/consultations/closed-consultations/2013/how-can-the-nhs-payment-system

and evidence behind their new payment arrangements, and to monitor their effects over time, so we can all learn which arrangements work well and why. Gathering this evidence will take time, but as we collect the necessary information, our national tariffs for 2015/16 and beyond can do more to support commissioners and providers in improving the quality of patient care, using scarce resources sustainably.

Changes we are considering for national tariff in 2015/16 and beyond

Our proposed aim for the 2015/16 national tariff is that it should contain national prices, payment rules and incentives that promote changes to patterns of care in all local health economies. Our starting point is to consider how to allocate financial risk optimally across the sector. We believe that risk should reside with those organisations best placed to manage it, so we plan to develop proposals for sharing risk differently both between providers and commissioners and among providers. We have developed an initial set of hypotheses that we will be testing with evidence and feedback from the sector. We hope this work will kick-start development of the patterns of care prioritised in NHS England's planning guidance⁷ described above. Specific options we are investigating include:

- **Providing tools to support sharing financial accountability between parties in local health economies, to enable better integrated care:** we are working with the integrated care pioneers⁸ and other innovators to consider whether to design and transition towards whole person capitation and payment based on patient outcomes for defined populations. In 2015/16 we would like to develop tools and guidance that enable the majority of local health economies to share financial accountability for patient outcomes and costs among their participants, in particular for those groups that benefit most from proactive and co-ordinated clinical management, such as people with multiple long-term conditions and the frail elderly. We are considering what else NHS England and Monitor can do through the national tariff or other means to encourage and support the whole care system to move towards better integrated care for these groups in 2015/16.
- **Co-developing payment approaches to support the provision of high quality urgent and emergency care:** we are in the process of designing payment approaches that could support the implementation of the proposed new system of urgent and emergency care. We are researching the costs of the different components and will develop a model to understand the economics of the new delivery system. In 2015/16 we will consider what additional information or guidance can help to make sure that investment plans for containing urgent and emergency care are based on sufficient

⁷ NHS England (2013), *Everyone Counts: Planning for Patients 2014/15 to 2018/19*, available at www.england.nhs.uk/wp-content/uploads/2013/12/5yr-strat-plann-guid-wa.pdf

⁸ See www.monitor.gov.uk/regulating-health-care-providers-commissioners/enabling-integrated-care/integration-pioneers

evidence and balance financial risks. We would like to hear from anyone in a local health economy who is interested in co-developing payment approaches for the new urgent and emergency care system.

- **Differentiating efficiency expectations for acute providers:** for 2015/16 we are considering a more sophisticated method for estimating providers' potential to improve their unit cost efficiency. This may consider providers in peer groups or apply different efficiency factors for different types of care.
- **Containing spend growth:** alongside our work on the efficiency factor, we are also considering changes to create incentives for acute providers to deliver care more cost-effectively, while ensuring commissioners and other providers support this. To this end, we are identifying areas of high activity and cost growth and the extent of variation between providers in activity levels and costs, particularly for planned care. This analysis could result in changes to national prices or national variation rules. To ensure that any new incentives support desirable changes among acute providers, we are also considering measures to contain growth in acute providers' income for services without national prices. This has been rising significantly faster than growth of NHS spending overall.
- **Better reflecting costs in national prices:** in all likelihood we will propose updating the cost base we use for calculating national prices. However, until we are confident of how activities and patient characteristics are being classified at a more granular level, and how costs are being assigned, we are considering maintaining the HRG4 currency design. As well as needing this additional assurance, we are keen to avoid the risk of destabilising the system in a year of unprecedented financial challenge for all participants.
- **Better reflecting the costs of complex patients or specialist care:** additionally, we are reviewing the costs and prices of delivering care for more complex patients or care of a more specialist nature. Where there is evidence of systematic and enduring differences between these and average costs and prices, we will consider the case for changing the way some national prices for these types of care are determined for some or all providers. Similarly, we are considering how best to support NHS England's specialised commissioners' intention to move towards nationally standardised approaches to currencies and prices for some specialised services.

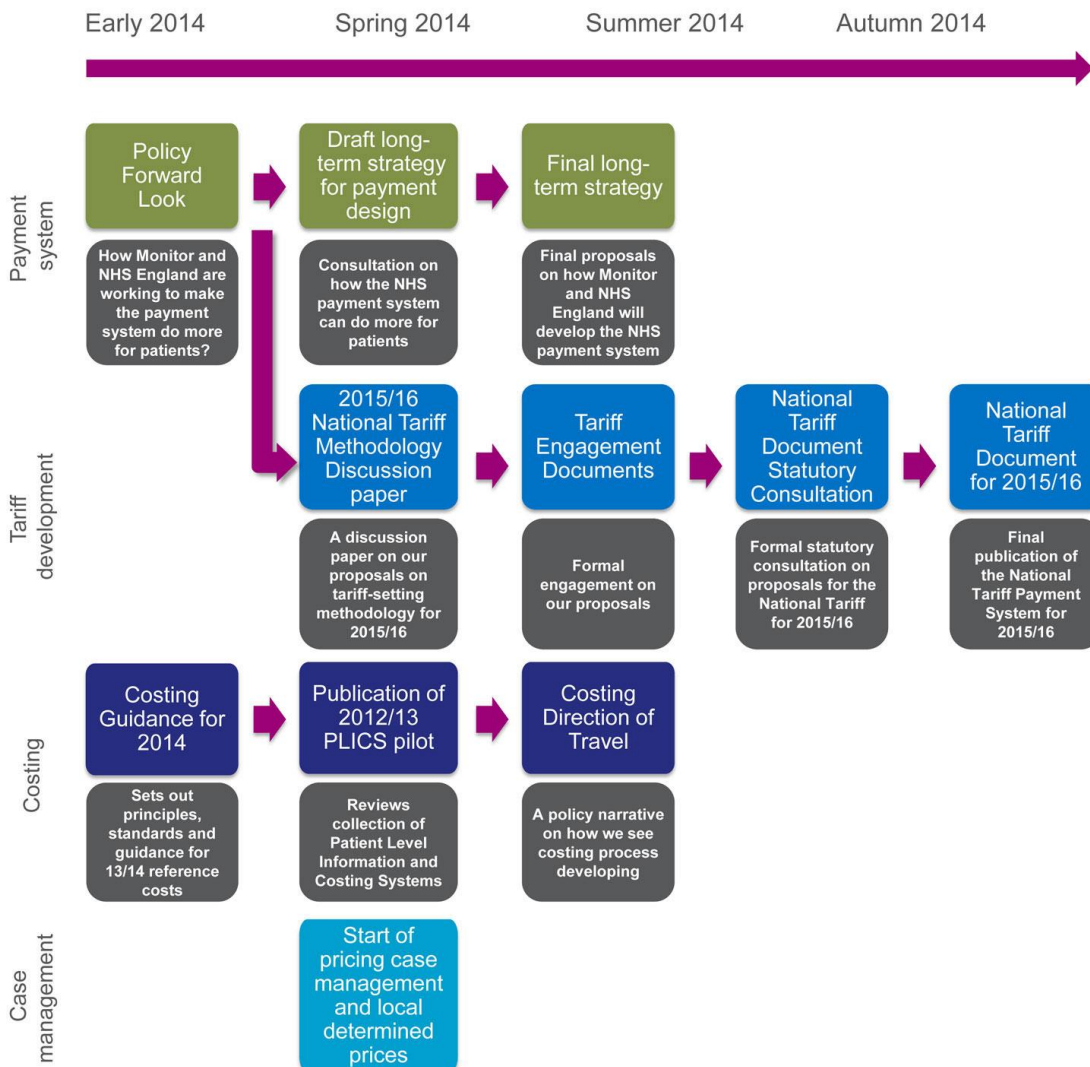
- **Providing intelligence for local price-setting:** we have already started to engage with the sector on how best to provide intelligence on the comparative performance of community and mental health providers, to support better-evidenced local price agreements. This may include extending the current requirements regarding the submission to Monitor of local price data to those services without national currencies, so we can further increase transparency.
- **Taking stock on mental health payment design:** we are reviewing progress to date and considering the available options for progressing mental health payments, aiming to reach consensus on the best way forward. We need to consider not only how best to enable and ensure parity of esteem for people with mental health needs but also how we can ensure appropriate integration of mental and physical health, alongside social care.

Help us to shape a better NHS payment system

As we have set out above, we are exploring a range of potential policy changes for the 2015/16 national tariff. Some of these options may not be ready for 2015/16, and may instead form part of the evidence base for the 2016/17 national tariff. We will also need to consider, with the sector's involvement, the scale of any impact on provider costs of new service developments arising from further updates to NHS England's mandate. So, as our work proceeds, and with the sector's help, we will identify particular changes to incentives and risk allocation that our 2015/16 national tariff proposals need to achieve.

We invite commissioners, providers and all other interested parties in the sector to take part in shaping the development of payment policy proposals over the coming months – the following diagram summarises our programme for 2014. People will be able to contribute to key decisions through a variety of channels.

Developing the NHS payment system: Our programme for 2014



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