

To: The Board

For meeting on: 29 July 2015

Agenda item: 5

Report by: Toby Lambert, Director of Pricing

Report on: Pricing Update

Pricing team Headlines (please note items 1 and 2 are policy determining)

1. Monitor and NHS England have agreed that, rather than publishing a single 'Tariff Engagement Document' a series of consultation documents on a number of proposals for the 2016/17 National Tariff will be published. It is anticipated that the first of these will be published toward the end of the summer.
2. Two (multi-lateral gain and loss share and mental health outcomes) of the four planned local payment examples have been published in July 2015. The Pricing team is working to finalise and publish the other two.
3. Monitor has approved the Local Modification for a defined set of services submitted by Morecombe Bay NHS Foundation Trust.

2016/17 National Tariff Payment System

4. The Pricing team has agreed with NHS England to publish a series of consultation documents for the proposed 2016/17 National Tariff. The first document includes policies relating to HRG4+, best practice tariffs and smoothing. The second document discusses the proposed changes to national variations and local prices. The team is aiming to publish in August 2015. Following publication of the documents, Monitor plans to conduct a series of direct engagement activities with the sector.

Costing Transformation Programme

5. Work has continued for the delivery of the Costing Transformation Programme. Case studies are being collected from trusts to show how patient level cost information can be used for the benefit of the local health economy. The team will use the case studies in a report that it is planning to publish in the autumn, on the

value that can be gained by moving from reference costs to patient level information costing.

Long term payment reform

6. *'Reforming the payment system for NHS services: supporting the Five Year Forward View'* published in December 2014 set out the joint long-term strategy for the payment system. The strategy outlined high-level transition plans. The Pricing team believes there is benefit in publishing a 'next steps' document in Q3 2015. The document would summarise the payment reform progress the team has made to date, and provide more detailed plans for implementation and a time-table for transition. The Pricing Development team is drafting a paper for the Joint Pricing Executive (August 2015) on the purpose, scope and dissemination options for the 'next steps' document.

Forward View workstreams

7. This month, the team working on the Urgent and Emergency Care (UEC) workstream assisted in the engagement and selection process for UEC vanguards, with eight vanguard localities announced on 21 July 2015. The 'Safer, Faster, Better' guidance for implementing the UEC Review is close to publication, which will enable the Pricing team to publish the local payment example on the potential new payment approach to be tested and refined with the vanguards.

Specialised and complex care working group

8. To promote value for patients, NHS England and Monitor proposed gain and loss (or risk) sharing for specialised services in the 2015/16 National Tariff consultation notice. Gain/loss sharing involves providers and one or more commissioners in a local care economy forming a network to identify and distribute financial gains and losses. This policy was developed in response to rapid growth in payments for specialised acute services without national prices. However, a high proportion of respondents to the s.118 consultation cited the risk share as a reason for objecting to the 2015/16 National Tariff.
9. In order to improve engagement with the sector on the risk share for the 2016/17 National Tariff, Monitor and NHS England established the Specialised and Complex Care Working Group. The group is advisory in nature and is independently chaired by Anita Charlesworth (Chief Analyst, Health Foundation). The group has representatives from specialist and non-specialist trusts, including the Shelford Group.

Local pricing

10. The Pricing team has evaluated tenders for the one year Costing and Coding Assurance programme and held interviews with two potential providers. This

exercise has resulted in the selection of a preferred provider. The Procurement team will be notifying all interested parties shortly of the outcome.

11. As required by section 125(6) to (8) of the Health and Social Care Act 2012 (the 2012 Act), Monitor published a Notification Decision on its approval of the Local Modifications for a defined set of services at Morecambe Bay NHS Foundation Trust in July 2015. In accordance with the 2012 Act, a copy of the notification was sent to the Secretary of State. This will mean that the Trust will receive modified prices for six services. The services are:

- Accident and emergency
- Paediatrics
- General surgery
- Trauma and orthopaedics
- Women's health services
- Non-elective medical specialities.

Toby Lambert
Director of Pricing

Making a difference for patients:

Monitor's mission is to make the health sector work better for patients. The Specialised Services and Complex Care work will promote value for patients.

Public Sector Equality Duty:

Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. The Act protects against discrimination on grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation. We have thought about how the issues dealt with in this paper might affect protected groups.

We believe the paper will not have any adverse impact upon these groups and that Monitor has fulfilled its duty under the Act.

Exempt information:

None of this report is exempt from publication under the Freedom of Information Act 2000.

ANNEX: REPORT OF THE PRICING EXECUTIVE (PE) MEETING ON 9 JULY 2015

Engagement on the 2016/178 National Tariff

1. PE members reviewed the report which set out the revised plan for sector engagement on the national tariff and different options for engaging on specialised services, efficiency factor and cost base. There was a discussion in relation to the risks of insufficient engagement and risks of delay to finalising the national tariff. PE members were of the view that engagement with the sector on efficiency factor and cost base was necessary and that Monitor would emphasise to NHS England the importance of engagement. The PE agreed that the Pricing team would engage the wider sector on specialised services through an engagement document.

Lessons Learnt from producing the National Tariff Payment System 2015/16

2. The PE discussed the lessons learnt from the process of producing the '2015/16 National Tariff Payment System: A consultation notice'. Consideration was given to the lessons learnt regarding timelines and decision making. It was proposed that the Board should consider the impact of Monitor entering the process for resolving disagreements with NHS England, including arbitration. A paper setting out dispute resolution options would be prepared and the Executive Committee would meet, as well as an ad hoc PE workshop arranged, to discuss this before the Board meeting on 30 September 2015.

Quality assessment of the University Hospitals Morecambe Bay NHS Foundation Trust request for a local price modification

3. The PE considered the report which set out the current status of the Economics team's review of the approach for assessing applications for local modifications from University Hospital of Morecambe Bay. PE noted the tension between the law and economics because the statute required modifications to be made at the Health Resources Group level which was not the level at which structural cost inefficiencies occurred.

Approach for setting specialist top-ups for 2016/17 National Tariff

4. The PE reviewed the findings of a review by the Pricing team and Economics team into the two methods (Ordinary Least Squares analysis (OLS) and Random Effects (RE)) to determine the most appropriate approach for setting specialist top-ups for 2016/17 National Tariff. PE members were content with the recommendation to use the Ordinary Least Squares analysis (OLS) model rather than the Random Effects (RE) model, as it was consistent with the methodology underpinning the existing top-ups.