To: The Board

For meeting on: 25 March 2015

Agenda item: 5

Report by: Ric Marshall, Director of Pricing

Report on: Pricing Update

Introduction:

1. In relation to the Pricing team's work the Board is asked to note the following progress:

    a. A letter was sent to the sector setting out the interim arrangements until a new 2015/16 National Tariff is published;
    b. Work is underway to ensure that the Costing Transition Programme is supported by appropriate governance groups.

2. Otherwise, work within the Pricing Team continues as planned.

2015/16 National Tariff Payment System: section 118 consultation notice

3. Monitor and NHS England issued a joint letter offering a choice to the sector of either continuing with a 'Default Tariff Rollover' (DTR) or moving to an 'Enhanced Tariff Option' (ETO) as an interim arrangement, given that the 2015/16 National Tariff will not be finalised by 1 April 2015. Responses from providers were due by the 4 March 2015, otherwise they were deemed to have chosen the DTR option. Pending a new National Tariff, the 2014/15 National Tariff continues in force from 1 April 2015. Local commissioners and providers are therefore expected to implement the ETO through local variations and local pricing arrangements.

4. Broadly, the ETO reflects the proposals for the 2015/16 National Tariff, as set out in s.118 consultation notice with the following modifications:

    a. Marginal cost reimbursement for emergency hospital admissions is increased to 70% (compared with 50% in the s.118 notice);
    b. The specialised services risk share is changed from 50:50 to 70:30 in favour of providers, and the baseline for the risk share is updated to reflect contract variations as agreed at the end of January 2015; and

c. The efficiency factor is reduced from 3.8% to 3.5%

5. The DTR is the default position that providers continue to use the 2014/15 prices from 1 April 2015 without variation to reflect the 2015/16 proposals. However, due to the need to provide care within their funding allocations, commissioners will not pay providers who choose this option any Commissioning for Quality and Innovation (CQUIN) payments for the whole of 2015/16, nor will they pay any additional funding for mental health to mental health providers who choose this option.

6. The letter prompted queries from the sector. In response the Pricing team developed and published with colleagues at NHS England, a set of questions and answers aimed at supporting providers in making their choice.

7. 221 providers opted for the ETO (this represents 88% of providers) with 29 providers choosing or defaulting to the DTR.

8. The above figures include providers from the following key stakeholder groups (some key stakeholders will belong to more than one group):

   - The Shelford Group – all (10) opted for or defaulted to the DTR
   - Association of UK University Hospitals – 22 of 43 opted of or defaulted to the DTR
   - Project Diamond – 11 of 13 opted for or defaulted to the DTR

9. For NHS mental health providers, all NHS foundation trusts and NHS trusts (51) opted for the ETO allowing for the additional funding for mental health services to be paid.

10. The implementation of the ETO for providers will involve the submission of local variations. This will result in a significant number of local variation submissions to Monitor in 2015/16 however, at the current time the exact additional workload cannot be defined. NHS England is due to release further guidance for commissioners regarding the implementation of the ETO which will provide further clarity.

2016/17 National Tariff Payment System work programme

11. The Pricing team continues to work with NHS England to develop the proposed 2016/17 work packages and overall programme. Further information about this is available at agenda item 12 (ref: BM/15/37(P)).

12. Planning has also commenced to engage with and involve the sector about the proposed 2016/17 work programme. The aim is to improve dialogue with key stakeholder groups by better forward planning and scheduling of engagements, as well as following up and resolving of any particular issues raised. This early engagement with the sector is aimed to provide a better understanding of the rationale behind the method proposed as part of the work programme.

Costing Advisory Group (CAG)

13. Following the publication of the 'Improving the costing of NHS services proposals for 2015 to 2021' (Costing Transition Programme – CTP) and the responses received from the sector regarding the proposed timeline for the introduction of patient level costing information systems (PLICS), new governance arrangements for the CTP are needed to ensure the programme delivers the required and expected benefits to the sector. Previously, whilst the costing programme was being developed, there were two advisory groups. These groups do not now reflect the advice and work required for the CTP. The proposed new groups combine existing Monitor governance arrangements as well as partnership working with NHS England and other key stakeholders to deliver the costing change programme.

Design principles for pay for performance

14. When the long-term direction of travel for payment system redesign was published in December 2014, there were a number of policy areas where Monitor and NHS England needed to seek further clarity (and so the redesign paper discussed them in very general terms). Since then, the Pricing team is in the process of establishing work plans for four of these areas:

    a) How Monitor intends to support local areas to co-design and demonstrate new payment approaches;
    b) Aligning various financial incentive regimes Commissioning for Quality and Innovation (CQUIN) and penalties, Quality Outcomes Framework (QOF), Best Practice Tariffs, local outcomes-based payments) by using a single set of pay-for-performance design principles to review existing incentives and develop new ones;
    c) If and when to adopt multi-year cycles for consulting on the National Tariff; and
    d) How Monitor will ensure the data building blocks required will be developed (including those outside of Monitor's control, such as quality indicators)

15. This support strategy (a) is a key opportunity for Monitor to contribute to the successful development of new models of care. Work on implementation of multi-year tariff consultation cycles (c) and on an implementation plan for the data building blocks (d) are at an early phase and are currently being scoped.

16. While the second area of work is progressing well, it is likely to expose a number of strategic questions for Monitor, NHS England and the Care Quality Commission (CQC). These concern:

    a) the future of Commissioning for Quality and Innovation (CQUIN), sanctions and the Quality Outcomes Framework (QOF) as separate financial incentives to the National Tariff payment system; and
    b) how national bodies best combine financial and non-financial incentives to change behaviours among providers and commissioners.

17. It is therefore proposed to secure time for a Board workshop on this later in the spring, so as to establish a clear corporate view on the evidence, the questions this raises for payment design and other aspects of regulation (including improvement), and how to navigate this with Monitor's partners. In the meantime engagement will continue with partners at a working level, including planning workshops with experts and opinion formers on this topic (academics, the royal colleges, think tanks).

Local payment examples

18. The Pricing team remains on track to publish four local payment examples by the end of April 2015. Three cover payment for types of service (secure and forensic mental health, urgent and emergency care (UEC) and liaison psychiatry) and the fourth (multi-lateral gain and loss sharing) describes a feature that can 'sit on top' of a variety of payment approaches. Publication of this UEC payment example will also launch a sector engagement exercise on UEC payment, one of Monitor's key policy proposals for the 2016/17 National Tariff.

Ric Marshall,
Director of Pricing

Making a difference for patients:

Monitor's mission is to make the health sector work better for patients. The user guide addresses one of the most immediate barriers providers and commissioners face in improving care 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.