

To chief executives of providers of NHS-funded care

Cc CCG Clinical Leaders

Gateway Reference Number: 03050

Wednesday 18 February 2015

Dear Chief Executive

FOR ACTION – TARIFF ARRANGEMENTS FOR YOUR 2015/16 NHS ACTIVITY

We are writing to provide you with new information on next year's NHS funding and contracting round, and to set out decisions you now need to take in the next fortnight.

The context is this. Since the 2015/16 national tariff payment system consultation was launched last year, there have been four important developments:

- 37% of provider organisations, representing more than the threshold of 51% of supply, objected to the method for calculating national prices proposed in the consultation;
- On 3rd December the Chancellor's Autumn Statement increased frontline NHS funding for 2015/16;
- On 17th December the Board of NHS England made the resulting formal NHS allocations to CCGs, specialised services, primary care and other priorities for the coming year;
- On 23rd December we jointly issued 'The Forward View into Action: Planning for 2015/16' setting out NHS-wide priorities for next year.

The effect of the objection threshold being reached is that Monitor has now to decide whether to refer the matter to the Competition and Markets Authority or whether we should develop further proposals on which to re-consult with the sector. In deciding on the way forward, we are carefully considering responses we received in our consultation. However, this process, and resolution under either option, will take time, which means that a new tariff will not be in place by 1 April 2015. In the interim, the 2014/15 national tariff, including the 2014/15 national prices, continues to have effect.

Taken together, these developments have introduced some uncertainty as well as some new opportunities to ensure the NHS is as well-positioned as possible going into 2015/16. Our aims are therefore now to:

- reduce the funding pressures on acute hospitals, without raiding necessary investments in mental health, primary care and other services;
- support wider action to unlock provider and commissioner-led efficiencies, while ensuring the orderly management of the overall NHS budget within the cash limit set by Parliament;

- enable the timely completion of the annual NHS contracting round by 31st March and give some certainty to commissioners and providers for 2015/16.

We have therefore decided to offer providers the choice of an *enhanced alternative* (the Enhanced Tariff Option – ETO) for the full year ahead, worth around £500 million more to providers than the tariff proposals consulted on last year. The majority of these extra costs will ultimately be borne by NHS England, who will offer targeted additional funding support to CCGs to help offset some of the pressures arising with their element of this package. NHS England will be writing separately to CCGs to set out how this new option will work from a commissioner point of view.

To give both providers and commissioners certainty, and to reduce administrative complexity, providers who opt for the ETO will do so for the full year 2015/16, with no ability to move from the ETO back to the Default Tariff Rollover (DTR) option and on the basis that it would be continued under any subsequent national tariff for 2015/16. Likewise providers who stick with the DTR or its eventual successor will not be able to switch to the ETO mid-year.

In both the ETO and DTR, the extra primary care funding allocated by NHS England for 2015/16 is preserved, as is the requirement on CCGs to increase in real terms their investment in mental health services.

The choice between ETO and DTR applies to activity with national prices and should also be used as the basis for local price negotiations.

You will need to notify us by Wednesday 4th March whether you want to opt for the ETO option; otherwise the DTR (Option B) as detailed in this letter will apply. Your choice will apply to all NHS contracts held by your organisation with all commissioners, including all CCGs and NHS England. Based on your choice, Monitor and NHS England will facilitate a process by which this can be reflected in local variations in agreement with your commissioners.

Your two options are, therefore:

Option A: Enhanced Tariff Option ('ETO')

NHS commissioners will collectively offer any provider that wants it the option of choosing an enhanced version of the originally proposed 2015/16 tariff.¹ Compared with the original 2015/16 tariff proposals, these enhancements are estimated to **improve providers' revenues by approximately £500 million** if all providers choose this option. This is achieved by modifying the original 2015/16 proposals in three ways:

- the marginal cost reimbursement for emergency hospital admissions is increased from its current 30% to 70%, compared to the originally proposed increase to 50%. This 70% payment covers all volumes above the agreed local baseline, not just increases over the 2014/15 outturn. (A&E attendance growth is already paid at 100%.) This adjustment provides an additional approximately £130 million to providers, which should be used to support ongoing winter resilience schemes, over and above those being funded by the volume-related funding increases from CCGs.

¹ The ETO would be a package of local variations and local prices for the period from 1 April 2015 to 31 March 2016, during which a provider agrees with the relevant commissioners to vary the current 2014/15 prices to incorporate the changes proposed on 26th November 2014 for the 2015/16 tariff as modified by the three elements mentioned in this paragraph of this letter. Based on the choices made by each provider, this package would have to be transacted as agreed local variations and prices in accordance with the national tariff rules.

- the marginal cost reimbursement for specialised services is raised from the originally proposed 50% to 70%. In addition, all contract variations agreed as at the end of January 2015 are incorporated into the baseline. Mental health services continue to be exempt from the marginal cost provision. The combined effect is to provide a benefit versus the original proposal of approximately £170 million to providers of specialised services alongside the additional contributions already realised as specialised revenues have grown, by over £1 billion, over the past two years across the sector.
- the gross tariff deflator (excluding uplifts for pay & price inflation) is reduced by approximately £200 million in providers' favour, from 3.8% to 3.5%.

Furthermore, this ETO is advantageous to providers in three other ways compared with the DTR as detailed below in that:

- providers on the ETO will continue to have access to up to 2.5% of CQUIN, while those on the DTR will not;
- under ETO, providers will benefit from prices that incorporate additional funding for CNST premium increases, while those on the DTR will not;
- the ETO incorporates the 2015/16 proposed uplift for early intervention mental health services, while the DTR does not.

Given the vital importance of collective action across the NHS to continue to improve provider efficiency and reduce inappropriate cost variation, any provider opting into the ETO will also be required to join a sector-wide collaborative cost data sharing and joint efficiency initiative.

Option B: Default Tariff Rollover ('DTR')

The default position for any provider not opting for the ETO is that current 2014/15 national prices will remain in force until such time as they are formally superseded. Any changes in the rollover 2014/15 tariff that occur at that time will not be backdated. If the CMA route is taken, one possible outcome is that the original tariff package proposed for 2015/16 takes effect, without the enhancements available in the ETO. Providers opting for this DTR track will therefore for the time being:

- continue to be paid a 30% marginal rate for emergency hospital admissions, versus the 70% rate on offer through the ETO option;
- not benefit from prices that incorporate additional funding for CNST premium increases;
- not benefit from the 2015/16 proposed service uplift for mental health;

Providers opting for the DTR will not be eligible for CQUIN for the entirety of 2015/16 in recognition of the lower efficiency implied in the DTR and the statutory need for commissioners to live within the funding Parliament has allocated. Continuing with 2014/15 prices even on an interim basis without making this adjustment to CQUIN is not financially sustainable for commissioners.

Next steps

In order to keep the annual contracting round on track for completion by 31st March, you are asked to decide if you want to opt for the ETO or stay with the DTR by Wednesday 4th March at 6pm. You need to inform us of your choice by email to localvariations@monitor.gov.uk using the attached

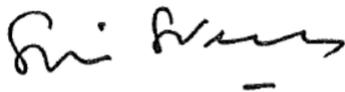
notification. Failure to do so will mean you will automatically default into the DTR and its successor and you will not be able subsequently to opt into the ETO. These choices can then be implemented as local variations in agreement with your local commissioners.

Of course, where local areas have agreed a specific alternative payment arrangement in line with the principles for local payment variation (for example a capitated budget), these arrangements will also remain allowed and will have to be notified to Monitor in accordance with current rules.

Having listened carefully to frontline NHS leaders we believe this is a pragmatic response that aims to strike a fair balance between the funding needs of hospitals versus primary, community and mental health services and other parts of the National Health Service. It also strikes a balance between the challenges facing both providers and commissioners – each of whom will need to take substantial action during the coming year to manage costs and contain demand increases.

Undoubtedly next year is once again going to be financially challenging, but we believe this new package gives us collectively the best chance of preserving high quality services today while also beginning the more fundamental changes in care delivery set out in the Five Year Forward View.

Yours sincerely



Simon Stevens
CEO, NHS England



David Bennett
CEO, Monitor

RETURN THIS FORM TO US BY WEDNESDAY 4TH MARCH 6PM

FORMAL PROVIDER TARIFF SELECTION DOCUMENT FOR 2015/16

NAME OF PROVIDER ORGANISATION _____

NAME OF CHIEF EXECUTIVE COMPLETING FORM _____

CONTACT ADDRESS, EMAIL AND PHONE _____

My organisation in respect of all its NHS contracts for 2015/16 hereby notifies Monitor and NHS England that we select:

Option A 2015/16 Enhanced Tariff Option *or* Option B 2014/15 Tariff Default Rollover

SIGNATURE _____

NB Option B will apply to any provider not making an affirmative choice by 6pm on Wednesday 4th March.

Email this completed form to localvariations@monitor.gov.uk