NHS

Blended payment for 2022/23

September 2021

NHS England and NHS Improvement

About this recorded presentation

- This webinar is part of our engagement on potential policies for 2022/23 and will discuss blended payment policies.
- It will cover the material presented during the September finance and payment engagement workshops.
- If you have feedback following this session, please include it in a response to our online survey www.engage.england.nhs.uk/pricing-and-costing/2022-23-engagement/
- You can contact us on **pricing@england.nhs.uk**

Please note: What we are sharing here are policies in development. They are not final and will be subject to change as we continue to receive feedback, both internally and externally, and undertake further work.

About this session

- The session will be available alongside the other webinars we have recorded:
  - Context for NHS finances and payment for 2022/23 – including discussion of ICSs, financial framework and development of blended payment
  - Tariff and payment adjustments, 2022/23 – including discussion of high cost exclusions and market forces factor
  - Setting tariff prices for 2022/23 – including discussion of setting prices based on PLICS rather than reference costs
- There will also be recorded sessions on
  - Innovation and the MedTech Funding Mandate
  - Whole system payment – from place to board and for all sectors
  - Products to support fixed payment
- All recordings will be available from the 'Developing the national tariff' web page: www.england.nhs.uk/pay-syst/national-tariff/developing-the-national-tariff/

2022/23 tariff: context

Context

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- The block payment funding arrangements brought in at the start of the pandemic are **expected to be in place for the remainder of the 2021/22 financial year**.
- Proposals for the 2022/23 payment system are intended to **smoothly transition out of these arrangements,** while also making progress on developing **the payment system to suit the evolving NHS landscape**.
- Our starting point for 2022/23 is the 2021/22 tariff and, in particular, the **aligned payment and incentive blended payment rules**. However, as they are unlikely to have been used in practice, we want to explore them in detail again as we develop our proposals for 2022/23.
- We're anticipating **setting the national tariff for one year – 2022/23.** We feel that there is too much uncertainty for to set it for longer. However, we do intend to set out the future direction for the coming years.
- In addition, if the Health and Care Bill passes through parliament, there would be some **changes to the legislation** underpinning the NHS payment system. We would expect this to be reflected in the payment system put in place for 2023 onwards.

2022/23 tariff: blended payment

Blended payment in 2022/23

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- Aligned payment and incentive (API) is a type of blended payment, introduced for 2021/22. For 2022/23, we are considering continuing with the API blended payment model, involving:
  - providers and commissioners locally agreeing a **fixed element** to deliver an agreed level of activity
  - a **variable element** to reflect quality of care (best practice tariffs and CQUIN) and address deviations from planned elective activity levels used to set the fixed element.
- API arrangements would **cover almost all secondary healthcare services**, including acute, community, ambulance and mental health.
- **All NHS England Specialised Commissioning would be covered by API blended payment (regardless of value)**. The detail of this is being drawn up by NHSE/I and we will ensure this aligns with the final payment rules and guidance.
- Should it continue, contracts under the **Increasing Capacity Framework agreement for elective activity** would again be excluded from the API blended payment.

Blended payment in 2022/23

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- The API approach would apply to all contracts for secondary healthcare services between a commissioner and providers **who are members of the same ICS**.
- For providers and commissioners in different ICSs:
  - API would apply to all commissioned activity **above a contract value threshold**.
  - Payment arrangements for contracts below this threshold would be **determined by agreement** between the commissioner and the provider. Where agreement cannot be reached, we are considering whether unit prices published as part of the tariff should continue to be the default approach, on a payment by activity basis.
- As with 2021/22, national prices would be set for unbundled diagnostic imaging services.

Blended payment threshold

- In the 2021/22 tariff, the contract value above which API would apply (for organisations in different ICSs) is set at **£10 million**. This aims to ensure that the majority of services, by value, are subject to API, while limiting the number of such agreements required.
- With the move to ICS-level commissioning, **this threshold value needs to be reassessed**.
- For 2022/23, we are considering two options:
  - **A £10 million threshold**. This maximises the scope of API and means there is no policy change from 2021/22.
  - **A £30 million threshold**. This, broadly, retains the same level of contract value as 2021/22. It also keeps a significant level of funding locally determined and simplifies things for specialist trusts and independent sector providers.
- Our analysis shows that **there is relatively small difference between a threshold of £10 million or £30 million**, with around £2bn and 100 contracts moving from the scope of API were the higher threshold used.

Low-volume activity

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- To reduce the level of invoicing and associated transactional burden in the NHS, we are working with colleagues on potential arrangements for payment of contracts for low volume activity. We are considering introducing the arrangements for contracts **below an annual threshold of £0.5 million**.
- We previously consulted on an approach involving payments being made by host commissioners, with adjustments made to respective allocations. We have considered the feedback from this consultation and revised the proposals in response.
- For 2022/23, the low volume activity arrangements would involve providers being paid a set amount for activity below the threshold, reducing the costs and burden of processing low-value invoices. The amounts paid would be based on the best available information, although the exact process for deciding them is still being established. In setting the method, we are prioritising simplicity and minimising any associated burden.
- Initially, the focus would be NHS acute services, but the same approach could also be applied to other providers where agreed.

Fixed element

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- The fixed element is the **key component of API** and comprises the majority of funding.
- The value of the API blended payment **fixed element would be agreed between an individual commissioner and an individual provider.** For NHS providers, we would expect the starting point for discussion to be based on the agreed costs of delivering a level of activity which conforms to the ICS system plan.
- We are planning to highlight a range of tools and products which can **help the construction of fixed elements,** based on different local priorities and methodologies.
- We are considering how some items **previously excluded from national prices** should be best included in the fixed payment (if at all).
- For high cost drugs and devices (HCDD), we are considering continuing with the arrangements used in 2021/22 block payments. This would involve:
    - Including funding for HCDD commissioned by ICSs, and certain other specialised drugs funded by Specialised Commissioning, in the API fixed element.
    - Funding the majority (by value) of other specialised HCDD on a cost and volume basis.
- We are considering how to ensure payment policy, and associated guidance, encourages the use of NICE-approved innovative products covered by the MedTech Funding Mandate.

Supporting the fixed element

- As the fixed element makes up the largest proportion of funding, it should be set using the best possible national and local intelligence. We intend to provide a **range of products and tools** to support systems to **develop and adjust the fixed element**.
- To support continuity for 2022/23, we expect the starting point for setting fixed elements would be **similar approach to that used for 2020-22**. Local adjustment could then be made using the guidance, tools and intelligence described below.
- We are looking to **iteratively refine, evaluate and develop** these products as required over future years. This will increasingly support systems to adapt and, where necessary, fully rebuild fixed payments to meet their population's needs.
- In 2022/23, some products may initially be made up of qualitative materials, links and guidance. However, we intend to offer more developed interactive products in future.
- More details about the products is available in the **1 October session: Products to support fixed payments.** This will be recorded and available via Developing the national tariff web page.

Products to support fixed element

Costed pathways supported by GIRFT	Programme budgeting	PLICS analysis	Population group
• From a range of medical specialities • Used for benchmarking	• One of the best opportunities to understand how resources are used across a system	• Rich benchmarking information • Detailed information on cost structures	• Move towards commissioning based on population need

With a range of options available to build the fixed payment locally, each of the products are intended to support providers, systems and commissioners explore different ways to build their fixed payment

Variable element

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- The API blended payment model contains a **variable element.** Variable elements can be used to deliver specific policy priorities.
- For 2022/23 we are considering whether to use the same design as 2021/22, in which the variable element:
  - **adjusts the fixed element by +/-50% of unit prices for elective activity** above or below what was agreed
  - reflects achievement of best practice tariff (BPT) criteria which is different to what was agreed in setting the fixed element
  - deducts payment for any CQUIN criteria not met.
- Local areas can agree to change the design of the variable element, but any proposal to reduce the level of adjustment below 50% **needs to be approved by NHSE/I**.

Risk sharing

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- Given the **expected uncertainty next year**, we are considering how the variable element could be used to help share risks over the year.
- For example, a similar approach to elective activity could be **employed in different areas and circumstances**. This could mean providers and commissioners agreeing in advance how a variable mechanism would distribute a contingency fund triggered by a localised COVID-19 outbreak.
- The powers granted to ICSs could also be leveraged, with systems drawing on the requirements around financial envelopes **to manage and jointly own risks and uncertainty**.
- To date, system financial management has relied on **voluntary** collaboration between CCGs and Trusts. For example, using the **System Collaboration and Financial Management Agreement** (SCFMA) – locally completed, based on a national template, committing the local NHS bodies to a partnership approach, with open-book working and "best for system" decision-making.

Illustration – blended payment in practice

Illustration – agreeing the contract

- The starting point for discussions to set the fixed payment for 2022/23 is likely to be the agreed costs of delivering a level of activity within an ICS. This could be based on a **similar approach to that used in 2020-22**. Local adjustment could then be made via a range of national and local intelligence and products.
- **Example**: an acute provider and commissioner agree **a fixed element of £100m** to deliver services and any changes to the care model, as required by their ICS plan.
- The fixed element **includes funding for all services**, high cost drugs, devices and listed procedures and reflects inflation pressures and efficiency requirements.
- As part of the fixed element, the provider and commissioner have jointly agreed:
  - the elective activity being funded and **what the value of this is, using the published unit prices** (eg, of the £100m fixed element, **£30m** is to deliver elective activity which has a **notional value of £28m** when valued using prices)
  - planned level of **BPT performance** (ie what the £100m is buying in terms of BPT attainment).
- The fixed element is then **uplifted by 1.25%** to reflect the funding of **CQUIN** indicator attainment to give a total fixed payment of **£101.25m**.

Illustration – in-year

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- The payment of **£101.25m** is profiled monthly across the year.
- Where the priced value of **elective activity delivered is different** to that assumed in the fixed element, a 50% adjustment is made. If the priced value of elective activity delivered is **actually £0.5m higher** than the originally agreed £28m, then **50% of this - £0.25m - would be paid** to the provider on top of the fixed element.
- Where the actual level of **BPT performance is different to that planned**, an adjustment is made to reflect actual performance. For example, if it was originally assumed that the provider **would not attain** the 50% attainment rate for the Spinal Surgery BPT but they **actually delivered above 50%**, then the commissioner would **pay the additional 10% BPT top up** on all relevant activity delivered – **adding £0.1m** to the fixed payment.
- Where the level of **CQUIN attainment is below 100%,** the **underperformance would be deducted** from the provider. Guidance will produced on appropriate deduction levels.
- For community and mental health providers, only CQUIN adjustments would usually be required in-year, unless locally developed schemes support further adjustments.

Find out more

For all engagement materials, please visit our ‘Developing the national tariff’ web page: www.england.nhs.uk/pay-syst/national-tariff/developing-the-national-tariff/

You can also contact pricing@england.nhs.uk with any questions.