Setting tariff prices for 2022/23

7 September 2021

NHS England and NHS Improvement

About this webinar

- This webinar is part of our engagement on potential policies for 2022/23.
- It is intended to support the series of engagement workshops that are running throughout September.
- It is focussed on explaining the technical processes used to calculate prices for 2022/23. This will be the first time that prices are calculated using patient-level cost (PLICS) data, rather than reference costs.
- You can ask questions using the chat box and we will address as many of them as we can.
- The session will be recorded and will be available to view after the event.

Speakers:

- Jonas Akuffo, Head of Pricing Delivery
- Jarvis Punsalan, Pricing Analysis Lead
- Martin Hick, Pricing Delivery Manager
- Matthew Marsh, Payment Policy Manager

Calculating prices using PLICS

- The last time tariff prices were fully recalculated, using new cost and activity data, was in 2019/20 (using 2016/17 reference costs). For the 2020/21 and 2021/22 tariffs, these prices were rolled over – this meant that the same price relativities were used, with efficiency and inflation factors applied.
- For 2022/23, we are considering recalculating prices using more recent activity data. As reference costs are no longer collected, this would mean using the national cost collection patient-level cost (PLICS) data.
- We are considering using 2018/19 PLICS data and HES 2018/19. This would allow us to use a full year's worth of data, unaffected by Covid.
- As with the 2021/22 tariff, the vast majority of prices would be 'unit prices', rather than national (ie mandated). However, we would continue to set prices for the full range of currencies that have had national prices in previous tariffs. National prices would continue to be set for unbundled diagnostic imaging only.
- The currency design used for national and unit prices would be 2018/19 HRG4+.

Calculating prices using PLICS

- Price relativities are currently being shared with National Casemix Office Expert Working Groups (EWGs). These relativities are the initial outputs from the model, before inflation and efficiency have been applied. They have also not yet been adjusted to reflect feedback from the EWGs to identify potential illogical relativities and prices that don't meet clinical expectations.
- Feedback on the draft relativities is expected by 1 October 2021.
- Prices will be needed for a number of reasons and we are committed to ensuring they continue to be calculated in a robust and evidence-based way. They are likely to be a key piece of information to be considered in agreeing blended payment fixed elements and also have a role in both activity outside the scope of blended payments and the blended payment variable element.
- Under the aligned payment and incentive (API) blended payment model, the variable element for elective activity will adjust the fixed payment by +/-50% of tariff prices for elective activity above or below what is agreed.

Price calculation timeline

June-August 2021 – modelling of initial price relativities

September 2021 – gather feedback on relativities and manual adjustments

October/November 2021 – calculate prices for statutory consultation, including cost adjustments

December 2021/January 2022 – statutory consultation on the 2022/23 national tariff

February 2022 – publication of final tariff (subject to consultation), to come into effect from 1 April

Price calculation: key steps & minor changes

1. Pre-processing spelling and grouping of activity (HES data)
2. Price relativities calculation – this runs concurrently with steps 3-5 and includes:
    I. Minor changes to cleaning, HES linkage and spelling calculations
    II. Smoothing/cash in cash out implementation (current policies)
    III. PSS top-up payments top-slicing
    IV. Smoothing/cash in cash out implementation (revised policies)
    V. Changes to high cost drugs and devices lists
    VI. Calculating best practice tariff (BPT) prices
3. EWGs and sector feedback and manual adjustments
4. Forward-looking adjustments, including inflation, efficiency, CNST and cost uplift
5. Final price for consultation and publication of the final tariff.

Overview of what is different under PLICS

- Costs are collected, linked to HES at patient level and the average cost is used as the basis of the prices. Rather than a weighted average of provider level average costs being linked to HES at HRG level.
- The below example shows the calculation for a single HRG:

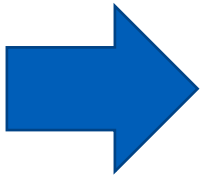
PLICS DATA		
Patient 1	450	Provider 1
Patient 2	400	Provider 1
Patient 3	550	Provider 2
Patient 4	500	Provider 2
Patient 5	600	Provider 2

Reference Cost Data	Average Cost	Number of Cases
Provider 1	425	2
Provider 2	550	3

Overview of what is different under PLICS

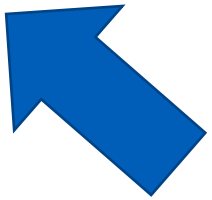
- In most cases this will result in the same price
- There can be slight differences in multi episode spells, because the actual cost are used rather than averages

PLICS DATA		
Patient 1	450	Provider 1
Patient 2	400	Provider 1
Patient 3	550	Provider 2
Patient 4	500	Provider 2
Patient 5	600	Provider 2



Total Cost = 2500

Average Cost = 500



Reference Cost Data	Average Cost	Number of Cases
Provider 1	425	2
Provider 2	550	3

2*425 = 850

3*550 = 1650

Advantages of PLICS

- The advantage of having the data at patient level is that it helps to understand whether the price generated is indeed indicative of the typical cost of treating a patient
- In the example below the reference cost data would have been identical to the previous example the PLICs however shows a very different distribution of underlying costs
- This could prices which are more indicative of typical costs to be set in future.

PLICS DATA		
Patient 1	420	Provider 1
Patient 2	430	Provider 1
Patient 3	325	Provider 2
Patient 4	325	Provider 2
Patient 5	1000	Provider 2

Reference Cost Data	Average Cost	Number of Cases
Provider 1	425	2
Provider 2	550	3

Prices and Impact Analysis

- We have been investigating the impact of setting prices based on PLICS data, rather than reference cost data, and comparing it to the effect on prices of updating reference costs in previous years.
- To do this, we have compared the prices proposed for the 2021/22 tariff with prices calculated from 2018/19 PLICS data
- This level of change is similar to the types of variation seen when updating reference cost data in previous years (illustrated in the following slides)
- To perform this comparison we looked at the impact analysis produced at the same stage of the 2019-20 tariff calculation cycle. In this case there was also a change in currency design from HRG4 to HRG4+

Prices and Impact Analysis

Comparing impact analysis of the 2019-20 and 2022-23 proposed tariffs at the same stage

2019/20 (HRG 4 -> HRG4+)

- 2 year gap between cost collections 14-15 ->16-17
- POD
  - OPROC - down 6%
  - Maternity - down 3%
  - Unbundled - down 5%
- Provider
  - Increases of up to 5% decreases of over 10%, biggest changes in Specialist providers

2022/23 (Reference costs -> PLICS)

- 2 year gap between cost collections 16-17 ->18-19
- POD
  - OPROC - down 6%
  - Maternity - down 3%
  - A&E - up 10%*
- Provider
  - Increases of up to 5% decreases of over 10%, biggest changes in Specialist providers
  - 121 of 144 within 2.5% of national average

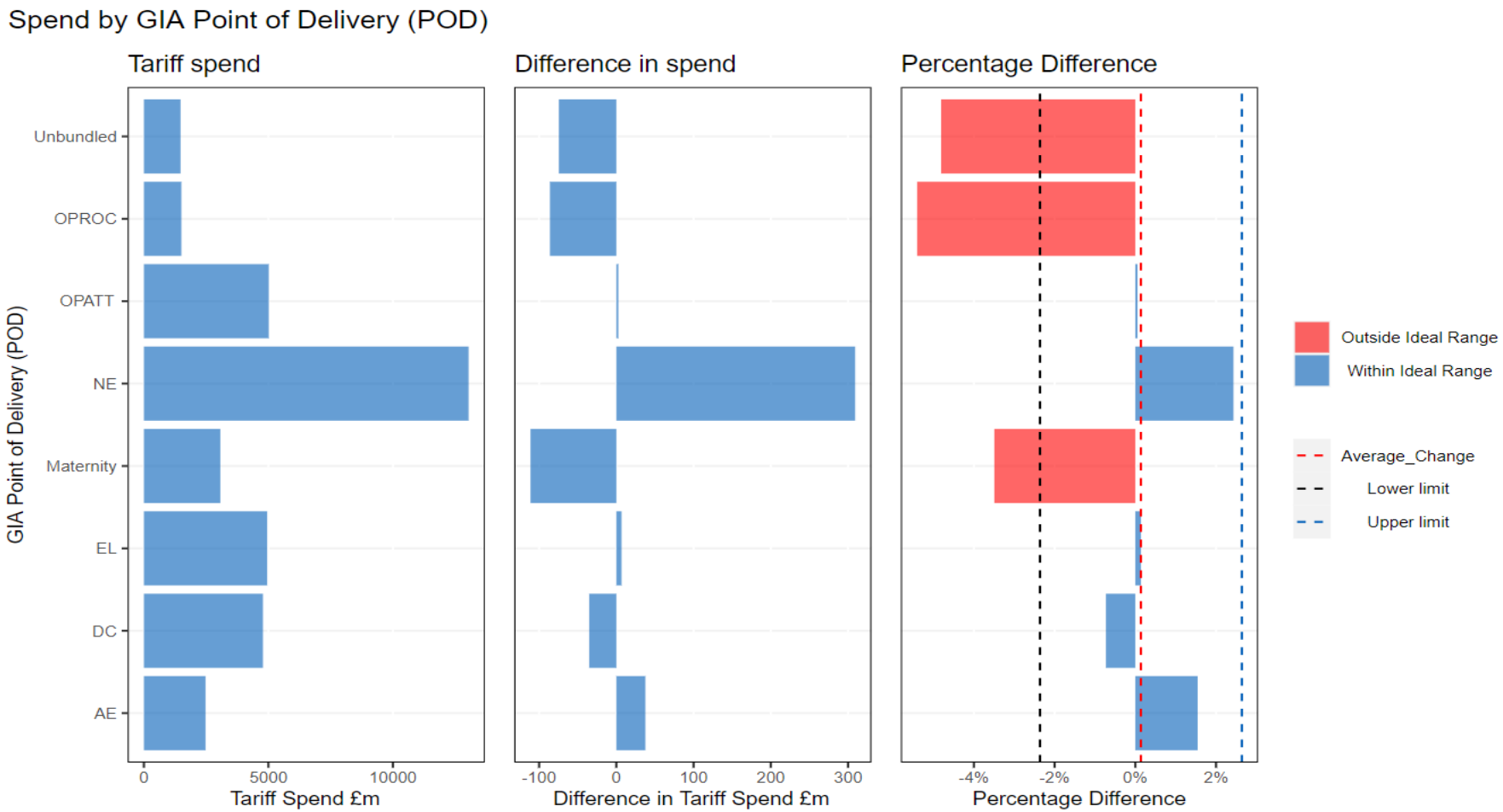
*A&E is a special case as 6.9% was added, this has been replicated in PLICs but will be reviews

Summary indicative prices and impact analysis

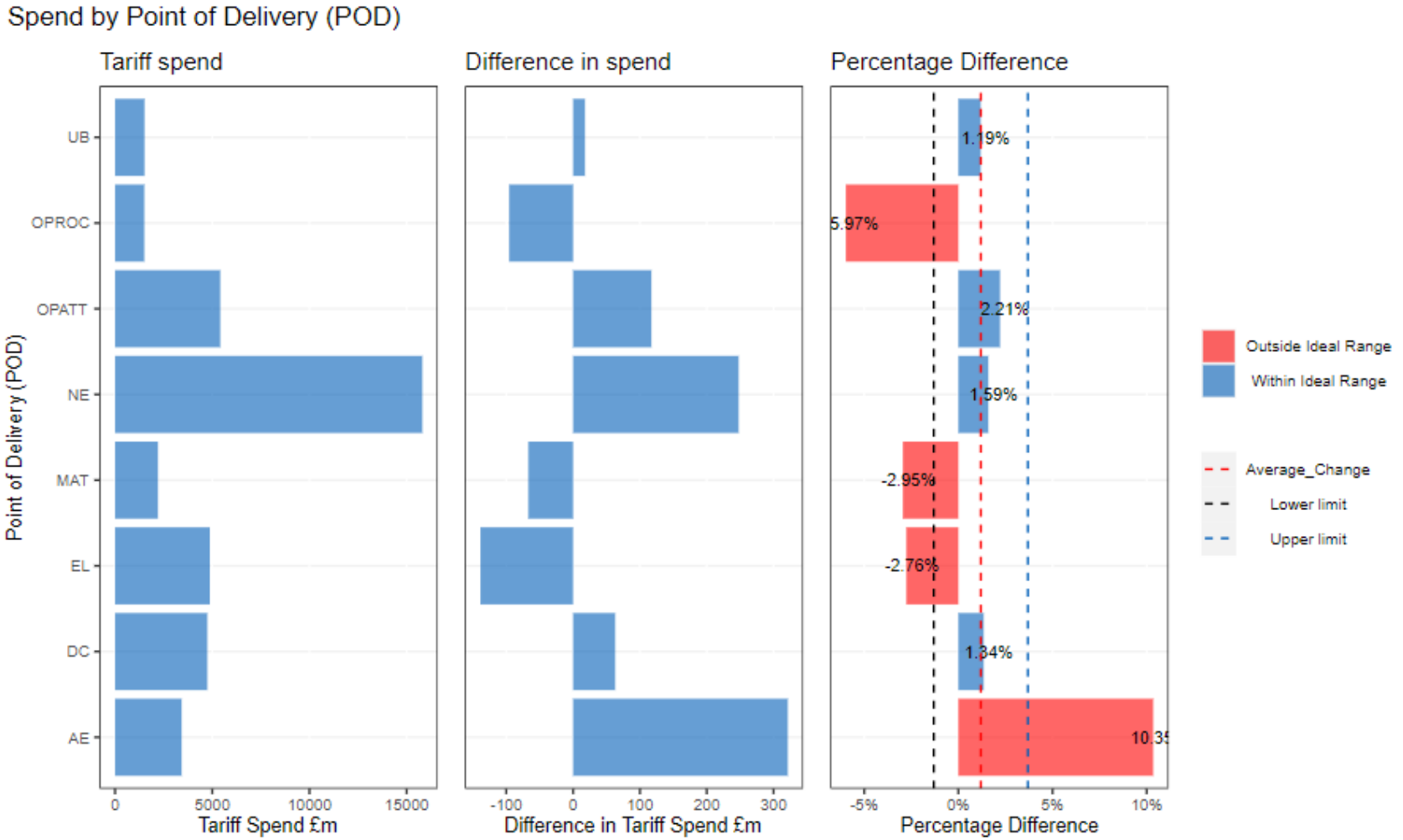
Main effects of the changes

- The overall amount covered by tariff prices gives a net positive change of 1.2% compared to proposed 21-22 tariff prices. This is due to differences in the scope of the currency design and the inclusion of activity in the independent sector.
- MFF net payments would change by -14.5% from proposed 21-22 tariff prices to PLICs prices (based on moving to the fourth step of the MFF glidepath – although other options are also being considered)
- Long stay payments increase by 38% when the PLICs prices are used. This is likely to be due to updated activity and cost data (the data suggests an increase in the number of excess bed days of 18.2%). However, we are undertaking further analysis to understand the reasons for this change.
- PSS top up payments anticipated revenue decrease by 2.5%.
- Most of the volatility indicated in the initial price outputs would be addressed using the existing tariff policies, such as smoothing, manual adjustments (following clinical advice) and other cash in/cash out processes.

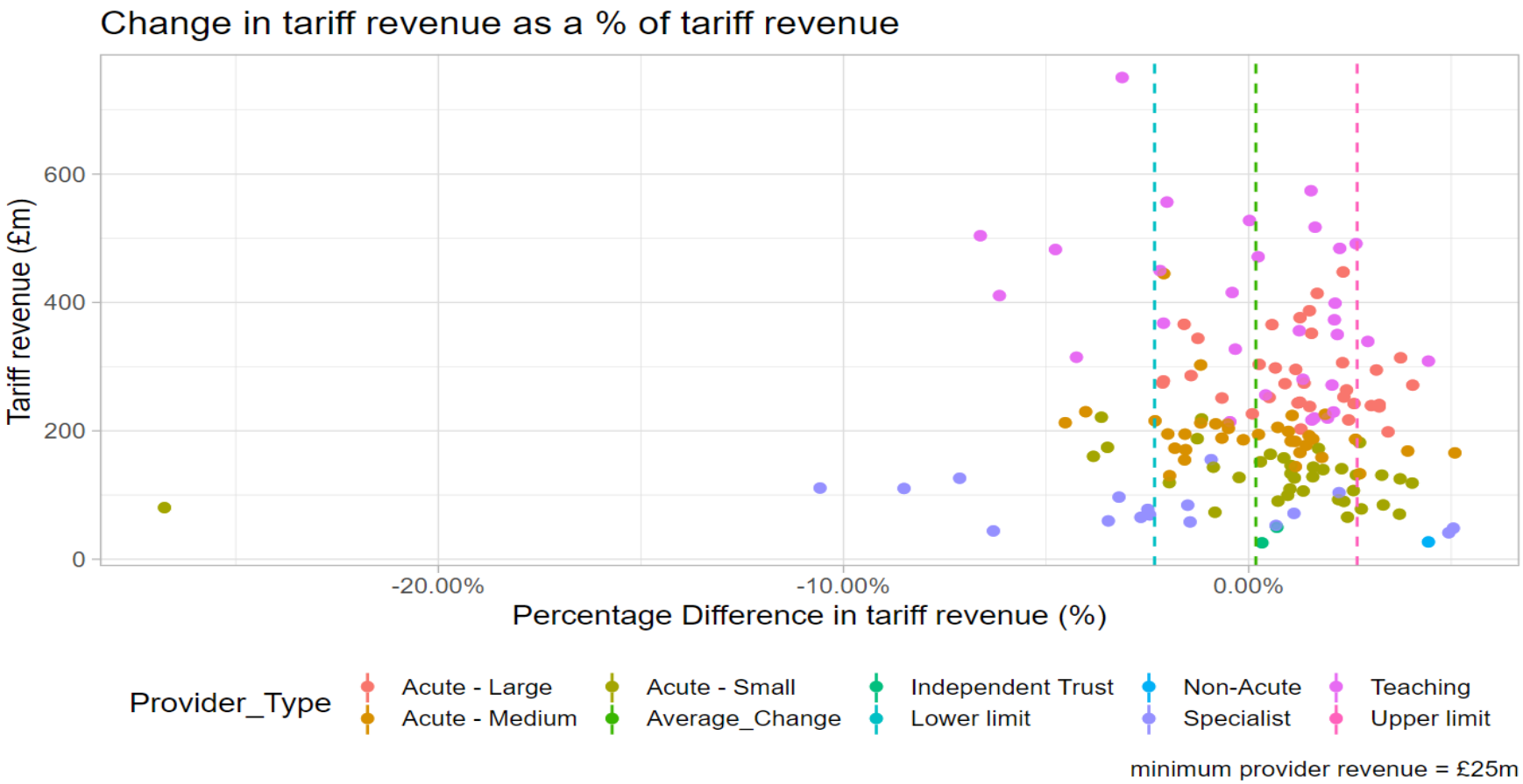
2019/20: Impact of HRG4 to HRG4+ change



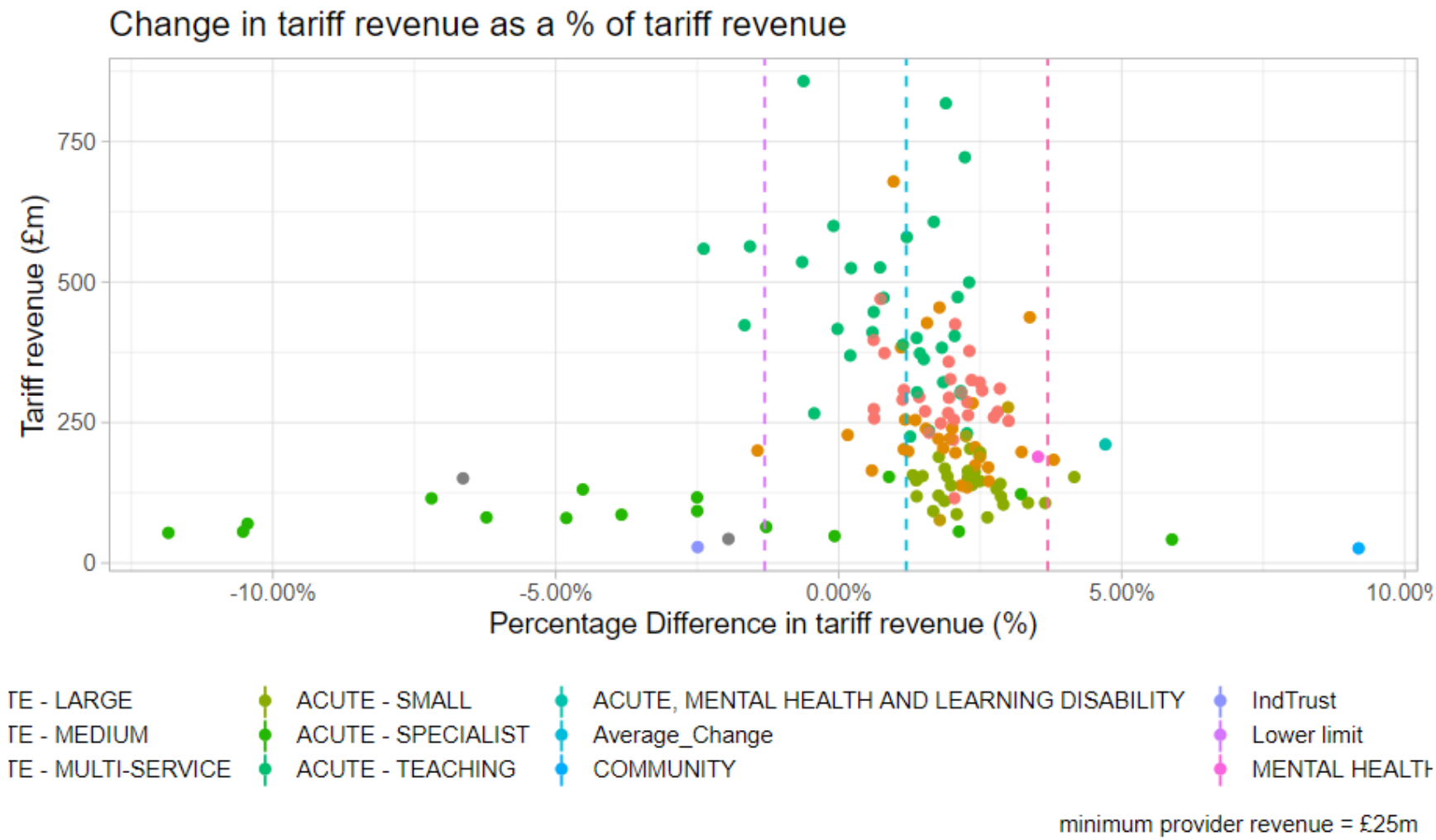
2022/23: Impact of change from reference costs to PLICS



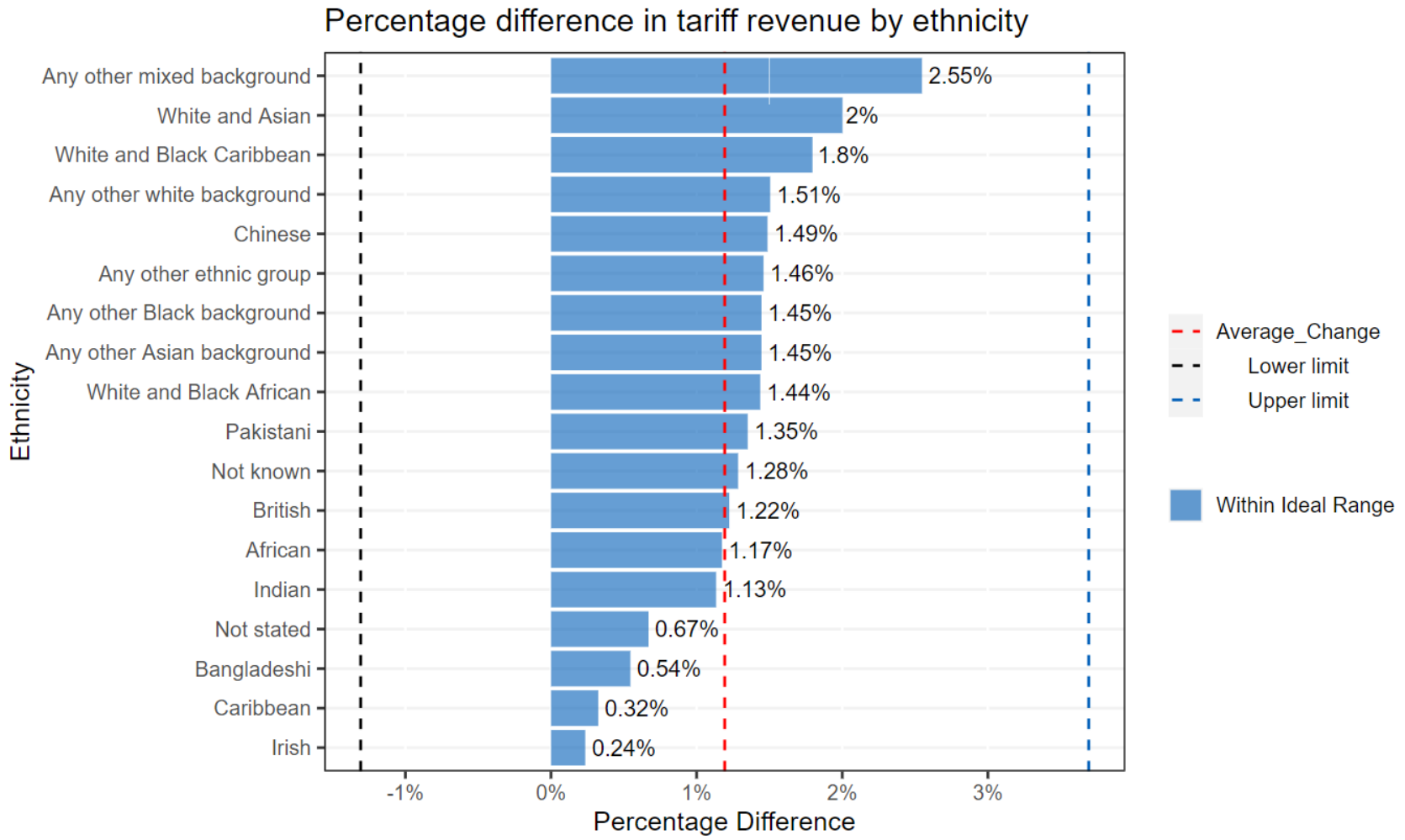
2019/20: Provider Revenue Impact of change from HRG4 to HRG4+



2022/23: Provider Impact of change from reference costs to PLICS



Impact on Health Inequality, 2021/22 vs 2022/23 tariff



Reviewing draft price relativities

- We are planning to share **initial** draft price relativities generated by the national tariff model.
- The price relativities do not reflect the cost uplifts and efficiency adjustments that will be applied to the cost base for 2022/23.
- There have also been no manual adjustments made as a result of clinical feedback on illogical relativities (for example, where a complex procedure has a lower price than a more straightforward one). These price relativities are being shared with clinical experts (EWGs) to identify such relativities and provide advice.
- The price relativities will also be subject to further quality assurance before they are used to propose tariff prices for 2022/23.

- If you would be interested in finding out more about these initial prices, please contact pricing@england.nhs.uk.
- For general comments on the approach to price setting for 2022/23, and any other policies being considered for 2022/23, please respond to the online survey. This closes on 1 October 2021.

Questions?