

2022/23 pay award: revenue finance and contracting guidance

5 August 2022, Version 1

Introduction

1. [Government has announced](#) that it accepts the recommendations of the independent NHS pay review bodies and the pay award will be backdated to 1 April 2022 for relevant staff groups.
2. This document sets out the finance and contracting actions that NHS organisations need to take in response to the pay award.

Payments to employees

3. In most cases, we expect that the first payment to employees in scope for the pay uplift, including backpay to 1 April 2022, should be actioned in the September payroll. However, further details will be confirmed in due course through usual channels.

Allocations

4. Relevant allocations will be recurrently uplifted to fund the difference between the planning assumption for pay and the final pay award for in-scope staff groups. Adjustments to published 2022/23 allocations will be actioned through in-year reporting and will be processed as baseline adjustments in generating 2023/24 allocations. The Mental Health Investment Standard will also be adjusted to reflect the additional funding. Funding will be issued on a population basis. Adjustments will be processed to the following allocations:
 - a. **Integrated care board (ICB) core programme (including Elective Recovery Funding; ERF)** – covering both NHS and non-NHS services in scope of the National Tariff Payment System (NTPS).

- b. **NHS England direct commissioning programme (including ERF)** [specialised, public health, armed forces and health and justice services] – covering NHS and non-NHS services in scope of the NTPS.
 - c. **Service Development Funding (SDF)** – where appropriate SDF funding already notified to ICBs will be uplifted to recognise the final pay award for in-scope staff groups.
5. Further information in respect to ICB running cost allocations will be issued in due course.
6. Funding will also be provided to ICBs (on the basis of 2022/23 submitted plans) to support the pay pressures on those parts of NHS providers' cost base that would usually be covered by local authority and Health Education England income. This funding will be separately identified and will be non-recurrent with the expectation that the funding is secured on a recurrent basis from 2023/24.
7. For dental contracts, once the percentage uplift is agreed and published in the Statement of Financial Entitlement (SFE), we will advise commissioners of the required uplift which the BSA will apply to the dental contracts it transacts.
8. There will be no adjustment to allocations for primary medical contracts because the GP contract is out of scope of the Government's pay award due to the multi-year contract in place.

Contracts and payments with providers

Contracts

9. Where 2022/23 commissioning contracts have been agreed and signed, and where necessary, they may now need to be varied to take account of the pay uplift.
 - For contracts operating on aligned payment and incentive arrangements, the fixed price element (including the element relating to elective recovery) will need to be uplifted appropriately, as set out below, backdated to 1 April 2022.
 - For contracts operating on the basis of national prices or unit prices (as defined in the NTPS guidance), although we are not formally reopening the National Tariff, uplifted prices will be published and should be applied from 1 September 2022.
 - For contracts operating on the basis of local prices (as defined in the NTPS guidance), eg continuing healthcare, whether any variation to those prices is required will depend on whether the agreed payment arrangements have already

made the necessary provision for staff pay for the year as a whole. If not, the scale of any local price uplift required will be for local discussion and should take account of whether staff are formally within the scope of the pay award.

- Where contracts have not yet been agreed and signed, commissioners and providers should use every effort to reach agreement as soon as possible, factoring the impact of the NHS pay award into their payment arrangements as appropriate in accordance with the principles set out above.

Distribution of pay funding

- A revised cost uplift factor (CUF) has been calculated to reflect the higher pay assumption. Table 1 outlines the changes between the CUF communicated in May 2022, which had been uplifted by 0.7% from the published CUF due to higher non-pay inflation. The 0.7% uplift for non-pay inflation should already have been actioned and therefore only the residual change of 1.7% in relation to the higher pay inflation should be outstanding to action.

Table 1: Updated cost uplift factor (CUF)

Cost	CUF revision 1 (dated May 2022)			CUF revision 2 (dated July 2022)			Change
	Estimate	Cost weight	Weighted estimate	Estimate	Cost weight	Weighted estimate	
Pay	3.0%	68.9%	2.1%	5.5%	68.9%	3.8%	+1.7%
Drugs	0.9%	2.5%	0.0%	0.9%	2.5%	0.0%	
Capital	5.3%	7.1%	0.4%	5.3%	7.1%	0.4%	
CNST	-0.1%	2.3%	0.0%	-0.1%	2.3%	0.0%	
Other	5.3%	19.2%	1.0%	5.3%	19.2%	1.0%	
CUF			3.5%			5.2%	+1.7%
Efficiency factor			-1.1%			-1.1%	
Net Tariff			2.4%			4.1%	+1.7%

Note: red text denotes where values have changed.

- By default, contract values (based on API, national or local prices) with NHS providers should be uplifted for the 1.7% CUF change described in Table 1. To apply this adjustment, 2022/23 contract values should be uplifted by 1.66%.¹ To minimise negotiations and expedite the flow of funding to providers, all inter-system contract values should be uplifted by 1.66% as set out above. We expect that all systems will implement this requirement and there will be a national collection of data from systems and providers to confirm this has taken place. For intra-system contract arrangements, systems may wish to apply a bespoke increase based on local modelling of the pay

¹ 1.66% is calculated as the percentage growth between the old net tariff (2.4%) and the new net tariff (4.1%) – that is, $(1 + 4.1\%) / (1 + 2.4\%) = 1.66\%$ growth.

impacts. The CUF is an annualised figure and therefore should be applied against the total annual contract value to fund both the backpay from 1 April and forward pay elements for the remainder of 2022/23.

13. Low volume activity (LVA) values will be uplifted by 1.66%, with updated values published on the PFMS portal. Where the uplift has inflated the values to an amount above £500k, these should still be treated as LVA, and ICBs and providers do not need to agree contract values for 2022/23.

Elective recovery funding

14. As part of increasing the fixed payment element of the API, the element relating to ERF should also be increased. To apply this adjustment, 2022/23 contract values should be uplifted by 1.66%. Adjustments above and below the API fixed price element, reflecting actual elective activity undertaken, should then be determined by reference to unit prices, as defined in the NTPS guidance. As described in paragraph 9, uplifted prices will be issued and will apply from 1 September 2022.

Contracts with NHS Wales

15. The uplift approach is intended to be replicated in Wales to ensure that appropriate funding is provided to Welsh commissioners to fund English NHS providers at the stated cost uplift factor of 1.7%. Similarly, English commissioners using Welsh providers will be expected to fund equivalent uplifts.

Cash

16. In advance of agreeing revised contracts and payment schedules, ICBs should engage urgently in conversations with providers on any backpay cash requirements. Based on a September payroll, the cash effect for both ICBs and providers should be included in the 'ICB September 2022 forecast' submitted in August 2022 and paid over in the single monthly payment in September 2022.
17. Where providers are holding relatively high cash balances, it is anticipated that providers can cover the backpay without the need to request additional cash. Where this is not the case, providers will need to identify any additional September cash requirements prior to the ICB cash request submission date.
18. The ICB cash request is per the 'business as usual' drawdown process, due on 17 August 2022 to the Treasury and Transacting team, via nhsenglandcash.management@nhs.net, for pay funding in September 2022.

Planning and reporting

19. ICB and NHS provider plans were submitted on 20 June 2022 and are used in monthly finance returns. Variances from final plans due to the pay award will be captured through the in-year reporting process. Further guidance on the in-year reporting process will follow.
20. As clinical commissioning group (CCG) ledgers have closed, for in-year reporting purposes, the additional allocation and cost should be reflected only as ICB income and expenditure. No adjustments should be made to CCG quarter 1 positions.

Queries

21. Queries on this guidance should be directed to england.finplan@nhs.net.