

# 2022/23 pay award and employer national insurance contribution rate changes: revenue finance and contracting guidance

17 November 2022, **Version 2**

Changes to Version 1 of this document, published on 5 August 2022, are highlighted in yellow.

## 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.
3. After this document was first published, [government announced](#) in September 2022 the 1.25 percentage point rise in national insurance contributions (NICs) will be reversed (subject to the passage of the proposed legislation) from 6 November 2022. We have added information on the finance and contracting actions that NHS organisations need to take in response as an [appendix](#).

## Payments to employees

4. 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

5. 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. **ICB core programme (including ERF)** – covering both NHS and non-NHS services in scope of the National Tariff Payment System (NTPS).
  - b. **NHSE 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.
6. Further information in respect to ICB running cost allocations will be issued in due course.
  7. 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 which 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.
  8. 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 they transact. We expect this to be in the autumn and to be backdated to take effect from 1 April 2022.
  9. There will be no adjustment to allocations for primary medical contracts because the GP contract is out of scope of the pay award due to the multi-year contract in place.

## Contracts and payments with providers

### Contracts

10. 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 on the basis of 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.
11. 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**

12. 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) to reflect the pay award from 1 April 2022**

Cost	CUF revision 1 (dated May 2022)			CUF revision 2 (dated July 2022)			Change from CUF1
	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%	
<b>CUF</b>			<b>3.5%</b>			<b>5.2%</b>	<b>+1.7%</b>
Efficiency factor			-1.1%			-1.1%	
<b>Net Tariff</b>			<b>2.4%</b>			<b>4.1%</b>	<b>+1.7%</b>

Note: red text denotes where values have changed.

13. 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%.<sup>1</sup> 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 impacts. The CUF is an annualised figure and therefore should be applied against the total annual contract value to fund both the back-pay from 1 April and forward pay elements for the remainder of 2022/23.
14. 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 integrated care boards (ICBs) and providers do not need to agree contract values for 2022/23.

## Elective recovery funding

15. As part of increasing the fixed payment element of the API, the element relating to elective recovery funding (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

<sup>1</sup> 1.66% is calculated as the percentage growth between the old net tariff (2.4%) and the new net tariff (4.1%), i.e.  $(1 + 4.1\%) / (1 + 2.4\%) = 1.66\%$  growth

described in paragraph 10, uplifted prices will be issued and will apply from 1 September 2022.

## Contracts with NHS Wales

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

## Cash

17. 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.
18. 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.
19. 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](mailto:nhsenglandcash.management@nhs.net), for pay funding in September 2022.

## Planning and reporting

20. Final 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.
21. 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

Queries on this guidance should be directed to [england.finplan@nhs.net](mailto:england.finplan@nhs.net).

## Appendix A: further actions required in response to the employer national insurance contribution rate changes

1. [Government announced](#) in September 2022 plans to reverse the 1.25 percentage point rise in national insurance contributions (NICs) from 6 November 2022. This appendix provides information on the additional finance and contracting actions that NHS organisations need to take in response to this.
2. The actions set out in this appendix are based on the current drafting of the [Health and Social Care Levy \(Repeal\) Bill](#), and so remain subject to the passage of the proposed legislation.

### Allocations

3. As far as possible, allocations need to be adjusted to reflect any material funding changes that emerge in-year.
4. As the employer NIC (ENIC) change applies from 6 November 2022, the impact in 2022/23 is only 40% of the full-year effect. To reflect this, relevant allocations will be adjusted negatively by 0.15% to reflect a national calculation of the benefit from the reduction on the relevant cost base. The full-year impact will be adjusted in baselines as part of setting 2023/24 allocations.
5. For clarity, adjustments will be processed to the following allocations:
  - a. **ICB core programme (including 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 adjusted to recognise the ENIC change.

## Contracts and payments with providers

### Contracts

6. Where 2022/23 commissioning contracts have been agreed and signed, and where the CUF is used or taken into account, they may now need to be varied to take account of the ENIC change.

- For contracts operating on aligned payment and incentive arrangements, the fixed price element (including the element relating to elective recovery) will need to be reduced appropriately, as set out below, from 6 November 2022.
- For contracts operating on the basis of national prices or on the basis of unit prices (as defined in the NTPS guidance), while we are not formally reopening the National Tariff, revised prices will be published and should be applied from 6 November 2022.
- For contracts operating on the basis of local prices (as defined in the NTPS guidance), the scale of any local price reduction will be for local discussion.

7. No further updates to published LVA schedules will be made in 2022/23 due to the requirement that all LVA values will have been transacted during Q2 and any change in value is not material enough to warrant the administrative expense.

## Payments

8. A further revised CUF has been calculated, applicable from 6 November 2022, to reflect the ENIC change. Table 2 outlines the changes between the CUF communicated in July 2022, which had been uplifted to reflect the pay award, and the new CUF.

9. A revised set of tariff prices should be applied from 6 November 2022.<sup>2</sup> The prices have been reduced by 0.5% to reflect the change to ENICs.

**Table 2: Updated cost uplift factor (CUF) to reflect the pay award from 1 April 2022 and the change in the employer contribution rate from 6 November 2022**

Cost	CUF revision 2 (dated July 2022)			CUF revision 3 (from 6 November 2022)			Total full year change
	Estimate	Cost weight	Weighted estimate	Estimate	Cost weight	Weighted estimate	
Pay	5.5%	68.9%	3.8%	4.7%	68.9%	3.2%	-0.6%
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%	
<b>CUF</b>			<b>5.2%</b>			<b>4.7%</b>	<b>-0.5%</b>
Efficiency factor			-1.1%			-1.1%	
<b>Net Tariff</b>			<b>4.1%</b>			<b>3.6%</b>	<b>-0.5%</b>

Note: red text denotes where values have changed.

<sup>2</sup> Revised tariff prices will be published on our [website](#).

10. ICBs and NHS England direct commissioners should reflect this further change through reduced contract values or prices (as set out above) from 6 November 2022 onwards for contracts where the CUF is used or taken into account. As the impact in 2022/23 is only 40% of the -0.5% full-year effect, the required adjustment will need to be agreed locally and depend on the nature of the contract. The full-year impact should then be adjusted in 2023/24 baselines.

### **Contracts with NHS Wales**

22. The ENIC approach set out above is intended to apply to cross-border flows, to ensure that appropriate adjustments are made by Welsh commissioners paying English NHS providers from 6 November 2022. Similarly, English commissioners using Welsh providers will be expected to reduce payments by 0.5% from 6 November 2022.