NHS England

Elective Recovery Fund technical guidance 2024/25

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Contents

Introduction

1. This guidance relates to the operation of the Elective Recovery Fund (ERF) for 2024/25.

2. It should be read in conjunction with the following:

   - supplementary information on FutureNHS, which will include, when available, commissioner and provider baseline and target values, the code used to generate value-weighted elective activity and commissioner ERF funding splits by provider and holdback values
   - 2024/25 priorities and operational planning guidance
   - 2023/25 NHS Payment Scheme (NHSPS)
   - revenue finance and contracting guidance for 2024/25

3. This guidance sets out how funding for elective services will flow for 2024/25 and the funding rules associated with commissioner allocations and provider payments.

Changes to the ERF from 2023/24

4. Largely the ERF will operate in the same way as in 2023/24. This means:

   - commissioners will be allocated their fair share of the ERF funding and will be expected to deliver their individual elective activity target
   - providers will be paid for the elective activity they deliver, at 100% of published NHSPS unit prices
   - NHS England will hold back the last part of a commissioner's ERF funding and release this when the necessary level of elective activity has been delivered
   - NHS England will make additional funding available on top of an integrated care board's (ICB's) ERF allocation where the activity target has been exceeded
   - using the adjusted 2019/20 baselines that were agreed in 2023/24. There will be no further significant baseline adjustment process

5. The small changes to the scheme in 2024/25 support systems in the context of the delegation of specialised services and also further simplify the scheme where appropriate. They are:

   - removing low value activity (LVA) relationships from the scope of the ERF

- revising the method used to calculate default provider to commissioner level targets, such that these will now reconcile to the overall commissioner target
- splitting baselines and targets, such that services NHS England is delegating to ICBs can be identified and monitored
- removing specialist top-ups from the ERF calculations and paying these centrally via NHS England, even where the core activity they are attached to has been delegated

Commissioner funding and activity targets

6. In total, £3.2bn of ERF funding will be allocated to commissioners to support elective recovery in 2024/25, up from £3.1bn in 2023/24. With this, and the funding allocated as part of core allocations, the NHS is expected to deliver the elective recovery operational requirements set out in the 2024/25 priorities and operational planning guidance with the funding made available for 2024/25.

7. As in 2023/24, each commissioner is being set a value-weighted elective activity target and is expected to deliver this with the funding made available. The value weighting uses the same method as in 2023/24 but 2024/25 price levels. The code used to generate the weighted activity values is available on FutureNHS.

8. At the national level, the NHS is expected to deliver 107% of the 2019/20 levels of value-weighted elective activity: the same level as required in 2023/24 before adjustments were made for the impact of industrial action. Each commissioner is being set the same target as 2023/24, prior to industrial action adjustments.

9. The targets take into account both NHS and independent sector delivered activity, as well as pathways diverted as a result of specialist advice.

10. Funding allocations will be used to fund activity within scope of the value-weighted elective activity targets (see Appendix 1) as well as wider elective pathway activity. This includes outpatient follow-ups, diagnostics, chemotherapy, radiotherapy and critical care related to elective spells. Funding will also be used to continue to fund and expand specialist advice services.

11. The total funding allocations are designed to fully fund the set elective activity targets, as well as the wider elective care pathway costs required to deliver these targets and waiting list reduction objectives.

12. Where commissioners exceed their activity target, additional funding at 100% of NHSPS unit prices (plus market forces factor [MFF]) will be made available to them to fund additional elective activity in their providers.

13. Commissioners will only receive additional funding if they are above their target overall. Therefore, if their contracts with NHS providers are below target but the activity provided by the independent sector is ahead of plan, this will need to be funded from the commissioner's existing allocations until the commissioner position overall is above target.

14. NHS England will hold back the last 18% of an ICB's ERF allocation and release this when the necessary level of elective activity has been delivered. Providers and commissioners should agree activity targets for contracts on the basis of having all ERF funding available.

15. NHS England will consider the level of unbundled diagnostic imaging activity being delivered when determining whether an ICB may be eligible for additional funding over and above that earned as described above. Systems should not assume any automatic overperformance funding in their plans.

16. Commissioners must agree contracts with their providers in the usual way, using the NHS Standard Contract. The rules around payment to providers for elective activity in 2024/25 are set out in the NHSPS.

Baselines

17. The commissioner targets will be applied to a 2019/20 baseline of value-weighted elective activity. This will be the baseline agreed for 2023/24, adjusted for the profile of working days in 2024/25 and valued using 2024/25 NHSPS unit prices.

18. A 2019/20 baseline adjustment exercise took place for 2022/23 and 2023/24, and no further exercise will operate for 2024/25, apart from any changes required for the implementation of same day emergency care (SDEC) recording in ECDS, which has a full conformance date of 1 July 2024. Where such changes are required, organisations should discuss them with their regional team. Any counting and coding changes submitted as part of activity planning will not be incorporated in 2024/25 ERF baseline values.

19. This approach is intended to give systems as much certainty as possible over their baselines and reduce the time needed to understand the 2019/20 baseline position ahead of April 2024.

20. For 2024/25 the LVA relationships are being removed from ICB baselines and from the count of activity delivered in 2024/25 to simplify the operation of the ERF. This will impact on around 0.7% of ICB baselines.

Provider payments

21. For almost all NHS provider/commissioner relationships (as noted at paragraph 20, LVA are excluded from these arrangements), payment for activity in 2024/25 will be on the basis of aligned payment and incentive (API) fixed and variable elements:

    - the **fixed element** will cover funding for the expected level of activity for all services **outside** the scope of the variable element
    - the **variable element** will fund all activity within scope of the ERF (see Appendix 1), chemotherapy delivery and unbundled diagnostic imaging and nuclear medicine activity

22. This will apply at the **individual commissioner to provider level within the contract**, meaning each commissioner will agree a different level of fixed payment and a different elective activity target with each of its NHS providers.

23. The 2024/25 fixed payment should be determined in a similar way to in 2023/24; that is by deducting the value of agreed elective activity (within and outside the scope of the ERF) from the contract baseline. A full description is given in Appendix 2.

24. NHS providers will be guaranteed this 2024/25 fixed payment for the contract, irrespective of the level and mix of activity delivered.

25. NHS providers will then earn 100% of NHSPS unit prices, adjusted for MFF values, for all elective activity delivered within scope of the variable payment. This is uncapped, and will include activity within scope of the activity target and the wider elective pathway activity that is payable on an activity basis. Other wider pathway costs (such as outpatient follow-up activity) are part of the fixed payment and not subject to change.

26. The NHSPS sets the default payment for advice and guidance (A&G) services to be agreed as part of the fixed payment, but providers and commissioners are encouraged to agree a payment by activity model for the level of A&G delivered where this will help increase the availability and use of the services.

27. Non-NHS providers will continue to be paid purely on an activity basis for all activity an ICB or NHS England commissions directly.

Delegation of NHS England commissioned services

28. For 2024/25, NHS England is delegating some specialised services to some ICBs.

29. In 2023/24 NHS England agreed ERF payment arrangements on a provider basis, meaning each provider had one ERF agreement with NHS England relating to

specialised services provided to all patients at that provider irrespective of where they resided.

30. To retain simplicity for 2024/25 in the context of some, but not all, ICBs taking on specialised delegated services from NHS England, the ERF for specialised services will continue to operate on a provider basis, meaning:

    - where specialised services have been delegated to an ICB, the ICB will agree ERF arrangements with all providers within its system for all the specialised services it delivers to all patients (including patients from other ICBs)
    - where specialised services have not been delegated, the arrangements will continue as in 2023/24 – that is, NHS England will agree ERF arrangements on a provider basis

31. Further detail is given in Appendix 3. ERF allocation flows and targets relating to specialised activity will be released on FutureNHS to support these arrangements.

32. To support the delegation of specialised services, NHS England is separating the payment of specialist top-ups from the core activity to which they apply, such that NHS England will pay top-up income to providers even where ICBs are paying for the core activity. Full details can be found in the NHSPS.

33. This change to top-ups will not affect the total payment to NHS providers. All that is changing is who pays for the different elements. As a result, NHS England is removing specialist top-ups from ERF baselines (as well as targets and actuals) and paying for these via a separate payment stream.

Operational arrangements

34. NHS England will publish a breakdown of individual provider to individual commissioner activity baselines and targets. This is intended to help providers and commissioners agree their activity targets for 2024/25. These values will form the default target values for all inter-system relationships and should be used unless it is explicitly agreed to do otherwise. If cross-system providers and commissioners cannot agree an activity target, or they have different views about what the target should be, the published default target values must be used. Cross-system providers and commissioners should not use the failure to agree an activity target as a reason not to sign contracts. All cross-system relationships must factor in the fair share of ERF allocation as set out in the published default targets.

35. In 2023/24 overall commissioner targets and default individual provider to commissioner targets were set using the same method. As this method used a floor and a ceiling for low and high values, the sum of the provider to commissioner level targets did not always sum to the overall commissioner level, although the differences were not large. For 2024/25 NHS England is scaling the provider to commissioner relationships such that the baseline and target levels of activity now reconcile, with the exception of A&G adjustments, which only operate at the commissioner level.

36. A commissioner and its individual providers may agree elective activity targets different from those published. However, all agreements must result in a neutral position at the commissioner level, such that the overall commissioner activity target is maintained. NHS England will monitor and require additional assurance where there are large variations in the targets assigned to individual providers relative to the 2023/24 position.

37. Once agreed, the fixed payment and expected level of variable payment as a result of the target elective activity being achieved should be documented in local contracts. The transacting of the variable payment should be managed locally, in accordance with the terms of the NHS Standard Contract. NHS England will issue, on FutureNHS, the relevant month's ERF performance, based on SUS data, to aid any local discussions and transactions.

38. NHS England will monitor, on a monthly basis, the overall cumulative position of the commissioner and publish these on FutureNHS. On a quarterly basis, where performance exceeds the commissioner's target, additional funding will be made available to pay for the additional activity delivered. Similarly, NHS England will release the funding that is being held back nationally as and when this is required. This means ICBs will be notified of Q1 2024/25 adjustments in September 2024.

Contact

If you have any queries about this guidance or the information on FutureNHS, please contact england.erf@nhs.net

Appendix 1: Scope of the ERF

1. The scope of the ERF remains unchanged from 2023/24. Activity within scope of the ERF includes:

   - elective spells
   - first outpatient attendances
   - outpatient procedures that group to a non-WF HRG with a published HRG price
   - A&G activity that results in a diverted pathway

Elective spells (day case and ordinary) and outpatient procedures

2. For elective spells and outpatient procedures, only HRGs in the 2023/25 NHSPS Annex A with a published day case/ordinary elective or outpatient procedure non-zero unit price are within scope of the ERF. In addition, termination of pregnancy services (HRGs MA50Z, MA51Z, MA52A, MA52B, MA53Z, MA54Z, MA55A, MA55B, MA56A, MA56B) are out of scope as the majority of this activity is not submitted to SUS. Any activity recorded with an NZ subchapter HRG is also excluded.

3. Other elective activity (both that with and without guide prices) is outside the scope of the ERF and in general forms part of provider fixed payments unless indicated otherwise in the NHSPS payment rules.

4. In addition, the following treatment function codes are excluded, even when the activity groups to a spell or procedure with a published price: 501, 560, 700, 710, 711, 712, 713, 715, 720, 721, 722, 723, 724, 725, 726, 727, 199, 499.

First outpatient attendances

5. All first outpatient attendances – WF01B, WF02B, WF01D, WF02D – that do not group to an HRG with an outpatient procedure unit price published in Annex A of the 2023/25 NHSPS are in scope of the ERF, apart from those with the following treatment function codes: 501, 560, 700, 710, 711, 712, 713, 715, 720, 721, 722, 723, 724, 725, 726, 727, 199, 499.

6. Where the outpatient attendance has a published unit price, this will form the basis for valuing the activity. Where an attendance does not have a published unit price, a weighted average of attendances with a price is used.

7. Outpatient follow-up activity is outside the scope of the ERF and forms part of provider fixed payments

Other activity

8. Where advice and guidance leads to a diverted pathway as counted in EROC, this is valued using an average first outpatient price.

9. Some other activities form part of provider variable payments but are out of scope of the ERF, either because the activity does not flow in SUS or local agreements around prices need to be made. These are set out in the NHSPS and include:

    - chemotherapy delivery activity
    - unbundled diagnostic imaging and nuclear medicine activity

Appendix 2: Setting the 2024/25 fixed payment

The following table is also included in the 2024/25 Revenue finance and contracting guidance. Providers and commissioners are advised to consider the following guidelines in establishing their 2024/25 fixed payment values.

Item	Guidance
Opening baseline	The opening baseline should be calculated as: • **2023/24 fixed payment value** – this value should not include the value of services on variable terms as defined in the 2023/25 NHS Payment Scheme (NHSPS). It should be adjusted for any non-recurrent and full-year effect items, as well as the items stated in the baseline adjustments section (for example, IFRS 16) • **2023/24 full variable value** – this value should include the relevant proportion of the 2023/24 ERF allocation, which was incorporated into 2023/24 baselines, plus the 2023/24 planned value of chemotherapy delivery, unbundled diagnostic imaging and nuclear medicine Note that this value should not include high-cost exclusions[1] or the 2023/24 value of SDF.
Baseline reset for public health services	The limited public heath baseline contract amendments agreed through the baseline reset exercise must be applied as an adjustment to the opening baseline, such that the funding flows back through the API fixed payment to the trust on a net neutral basis and in line with the processed commissioner allocation adjustments. These adjustments should not result in any additional performance expectations. These values have been pre-populated in planning templates.
Service changes from 1 April 2024	The cost of service changes from the point of setting the opening 2024/25 baseline should be reflected in amendments to the API fixed payment. The value of such changes should be locally agreed based on a reasonable phasing of expenditure changes. For elective service changes, the value of any service change should be agreed and adjusted for in this step but will require a consistent and documented locally agreed elective activity target[2] different from the default value published by NHS England.
Growth: activity	Commissioner allocations include growth funding for 2024/25. Agreed levels of growth, including for elective services, should be applied against the

1 High-cost drugs, devices and listed procedures, and MedTech Funding Mandate products as set out in Annex A of the NHSPS. These are reimbursable outside of API arrangements, which means they are not included in the fixed or variable element.

2 While commissioner to provider targets can be locally adjusted, the overall commissioner target must remain as defined by NHS England and any service changes should still enable achievement of this target overall.

Item	Guidance
	opening 2024/25 baseline for relevant intra-system, inter-system and NHS England API arrangements.
Growth: inflation net of general efficiency	By default, commissioners and trusts should adjust the opening 2024/25 baseline value by the cost uplift factor (CUF), general efficiency factor and CNST, as set out in the NHS Payment Scheme, unless a view of inflationary pressures and efficiency requirements has been locally agreed.
Additional allocation funding	**Continued support to underlying capacity recovery** Commissioner allocations include funding to support the existing acute and ambulance capacity as recovery from the COVID-19 pandemic continues. All commissioners will need to reflect this in their API fixed payments value with all trusts providing acute and ambulance services (not just those within their system). The uplift should only be applied to the fixed payment value of the relevant services (for example, acute and ambulance) and not to the total value of the fixed payment where this includes other services. To minimise negotiations and expedite the flow of funding to trusts: • ICB inter-system and NHS England contract arrangements should be uplifted by 0.6% (to the value of the relevant services within that contract). • For intra-system contract arrangements, systems should work collaboratively to understand local service and cost requirements and flow funding appropriately. **Ambulance funding** In 2023/24, additional capacity funding of £200m was issued to ambulance trusts through their lead commissioner (ICB). For 2024/25, this funding has been recurrently added to ICB core programme allocations on a population basis. This is determined by each ambulance trust's total funding issued to its commissioning ICBs based on the weighted population of the ICBs. A separate schedule has been issued on FutureNHS setting out the required amendments to contracts to ensure that the allocation change has a neutral impact on ambulance trust income. **Other adjustments** Include other relevant allocation baseline adjustments, as set out in the 2024/25 revenue and finance contracting guidance.
Additional efficiency (convergence adjustment)	In addition to the general efficiency factor, additional efficiency ('convergence') has been applied to allocations to move ICBs towards a fair share distribution of resource at the levels affordable within the settlement. This additional efficiency requirement may be applied as a generic additional efficiency to the opening 2024/25 baseline, or targeted to specific trusts for specific efficiency opportunities.

Item	Guidance
	• For significant contracts (for example, with trusts in the system or those outside where the relationship is material to both parties), NHS England would expect convergence to be considered in relation to the relative cost of services and addressing situations where services are costing more than is reasonable or justifiable. • Where the contract is small to both parties and the contract is in excess of reasonable levels for the provision commissioned, both parties could agree a pragmatic solution to apply convergence at the level of the commissioner convergence percentage.
Adjustment to remove the variable payment element	The payment value should then be adjusted to remove the 2024/25 value of variable payment elements, comprising: • 2024/25 variable baseline being the value weighted 2024/25 ERF target of elective activity (as published by NHS England) • 2024/25 planned value of delivering chemotherapy, unbundled diagnostic imaging and nuclear medicine
Service development funding (SDF)	Having removed the 2023/24 value of SDF to form the opening baseline value, the API fixed payment should now be adjusted to include the confirmed level of 2024/25 SDF funding. This should be identified as the full value in the contracts planning tab, split between mental health and non-mental health service expenditure.

Illustrative example

Item	Calculation	Illustrative value
Opening baseline	2023/24 fixed payment = £175m 2023/24 SDF to be removed = £25m 2023/24 target ERF (variable) = £45m 2023/24 planned chemotherapy = £2m 2023/24 planned unbundled diagnostic imaging = £3m = £175m – £25m + £45m + £2m + £3m	+£200.0m
Baseline reset for public health services	The public health baseline exercise identifies an additional £5m of costs to include in the fixed payment.	+£5.0m

Service changes from 1 April 2024	An agreed change to a commissioned pathway results in an agreed reduction to the API fixed payment of £2.5m.	-£2.5m
Growth: activity	A general assumption of 2% is used for the purposes of this worked example.	+£4.1m (2% of adjusted opening baseline of £202.5m)
Growth: inflation net of general efficiency	Cost uplift factor (CUF) of +1.7% General efficiency factor of -1.1% Appropriate growth in CNST between 2023/24 and 2024/25. The change for each individual trust will reflect its relative risk factors.	+£1.7m (0.6% net CUF of £206.6m plus £0.5m CNST)
Additional allocation funding	Action adjustment to reflect the additional allocation funding items described in the baseline adjustments section, and the 0.6% uplift for acute and ambulance capacity support.	+£7.5m
Additional efficiency (convergence adjustment)	An example level of additional efficiency requirement of -1.2%.	-£2.6m (1.2% of £215.8m)
Variable payment adjustment	Target level of ERF performance plus agreed other variable elements £52m.	-£52.0m
Service development funding (SDF)	Add confirmed 2024/25 SDF values to the fixed payment.	+26.0m

Total fixed payment for 2024/25 = £187.2m

Appendix 3: ERF arrangements for delegated specialised services

1. In 2023/24, each provider agreed one ERF target with NHS England for the delivery of specialised activity.

2. In 2024/25, NHS England has delegated responsibility to ICBs for some specialised services. To simplify how the ERF operates for specialised services in 2024/25, each provider will continue to have one ERF target covering all its specialised activity and this will be transacted with either the provider's ICB on a hosted basis (if specialised services have been delegated to that ICB) or with NHS England (if specialised services have not been delegated).

3. To transact on that basis, a number of variations to the NHS Payment Scheme and ERF rules need to be made:

    - Where specialised services have been delegated to an ICB, that ICB will agree fixed payments covering all delegated specialised services with all out of system providers. The fixed payment will be set at a level consistent with the published provider to commissioner level targets, and the 'fair share' proportion of specialised ERF allocation. No variable payment will operate between these ICBs and providers for ERF activity.

    - Where specialised services have been delegated to an ICB, the providers within that ICB will agree fixed payments with NHS England for the delivery of non-delegated specialised services within scope of ERF. No variable payment will operate between NHS England and providers within these ICBs for ERF activity.

    - This will mean each provider has a relationship with a single commissioner that has a variable component for all ERF activity delivered, irrespective of the responsible commissioner for that activity. NHS England will flow funding to ensure that the relevant commissioner has the correct amount of funding to both agree fixed payments consistent with published ERF targets and pay for any overperformance above target.

4. Full details, including targets, allocations and baselines will be available on FutureNHS.