Public Health England

Wellington House
133-155 Waterloo Road
London SE1 8UG
Tel: 020 7654 8090
www.gov.uk/phe
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Paul Baumann
Chief Financial Officer
NHS England
(By email)

Dear Paul

Allocation of resources to NHS England and the commissioning sector for 2014/15 and 2015/16

Following a helpful presentation by your colleagues Sam Higginson and Stephen Lorrimer to the PHE National Executive on NHS Allocation Policy, we agreed to write offering our advice on the proposed approach from a public and population health perspective. We hope this advice will be useful in relation to the NHS England Board paper above.

First we recognise the complexity of this issue, and of the background of multiple approaches to econometric analyses that have influenced NHS allocations over the past 40 years. We are very supportive therefore of the efforts of NHS England to develop a robust, transparent and above all rational formula based allocation, according to the mandate requirement. However, we also recognise that the technical analysis can only take us so far, and that NHS England will need to make some judgements about how it recognises in its allocations the various drivers of demand for healthcare and the impact that healthcare can have on population health and wellbeing.

We would like to make comments both on the proposals before the NHS England Board next week and on the future development of the approach to allocations. In relation to the latter, we have discussed PHE joining your Allocation Steering Group, we would be delighted to accept such an offer and look forward to playing our full part in helping you take this work forward.

In relation to the issues before the Board this month we would make the following points:

- we welcome the recommendation that both the CCG formula and the primary care formula should include an adjustment for unmet need due to inequalities as well as recognising the existing impact of inequalities on need and demand for care. The inequalities in health outcomes experienced between different localities across the country continue to have a highly detrimental impact on people and communities and this should be tackled as a priority. Although recognising this in the allocation formula is important, evidence from the past suggests it will not be sufficient on its own to address those inequalities. It is also very important that those funds once allocated are directed at the interventions most likely to improve health and reduce need for care among the less well-off as well as meeting demand elsewhere in the system. Local authorities and their Directors of Public Health are well placed to work with CCGs via the Health and Well-being Boards to develop local commissioning plans that do this

- We accept that the size of the adjustment is largely a matter of judgement and does not have a technically “correct” solution. It is our judgement however that the scale of the challenge of tackling inequalities justifies adjustments at the upper end of the range NHS England has considered. We also support the recommendation that a greater adjustment should be made to the primary care allocation. Effective primary care services should be at the forefront of any health care approach to tackling health

inequalities and there is evidence that this is effective, probably more so than differential investment in secondary care

- We strongly support the use of SMR<75 as the basis of the adjustment as it is one of the few measures that is truly independent of historical patterns of supply of care. This is also the basis adopted by the Department of Health to set the target allocations for the local authority public health grant. We note that SMR<75 has a shallower distribution than the DFLE measure used previously. We believe this provides further justification for pitching the adjustment at the upper end of the suggested range

- One disadvantage of dropping the DFLE is that the allocation formula no longer takes account of any objective measure of morbidity (DFLE uses the census question on health). We suggest that NHS England considers using survey data to enhance the validity of the adjustment for need, as has been done in Wales, and as recommended by the Kings Fund in their recent paper on the subject. This can only be done at larger population level but may still be valuable

- We note that the effect of bringing allocations up to date in relation to population change seems to have had a large effect in many areas. This needs to be much more clearly explained so that the process of adjusting for inequalities is not lost in these changes. Because population change has been differential between more and less prosperous areas the effect is to confuse the picture in relation to deprivation and create the impression that the allocations are regressive. It may also be difficult to be certain that the new population figures are valid as CCG populations do not relate to census defined populations. Further validation of these figures would seem to be justified before using them to allocate such large sums of money

- We recognise that a balance must be struck between the need to bring actual funding in line with assessed need on the one hand, and securing the stability of health services across the country on the other. Our view is that the "pace of change" policy should be challenging as the beneficial impact of the formula in deprived areas needs to felt. However, this should not be done at such a pace that large underspends arise in specific localities as has happened in previous years. We recognise the difficult trade-offs the Board will need to make in reaching a conclusion on pace of change. We think it is also very important that the Board takes account of relative changes in other sources of income in localities, such as changes in grants to local government, when making these decisions. The cumulative effect of changes in a number of streams of funding simultaneously can be highly destabilising.

Looking to the future development of allocation policy:

- We welcome the opportunity to work with NHS England to develop a needs based approach to allocation policy which relies on measures which are as independent as possible of supply. The Welsh experience which draws on survey data on health status may offer interesting insights

- We would encourage the development of a simple, transparent formula and underlying models. The approach must be simple if it is to be widely understood and accepted

- As integration progresses there is an increasingly persuasive case to develop approaches to allocations that consider the interaction of the different public sector funding approaches in specific localities and the implications for the resources available to the relevant communities across healthcare, public health, social care and the wider range of local authority services that support and promote good health

I hope these reflections are helpful. We in Public Health England look forward to working with you as you take forward NHS England's important work on resource allocation.

Yours sincerely

John Newton
Chief Knowledge Officer

cc: Duncan Selbie, CE, Public Health England