

**To:** The Board

**For meeting on:** 26 March 2014

**Agenda item:** 5

**Report by:** Catherine Pollard, Pricing Development Director

**Report for:** Information

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**TITLE:** Pricing Development update

**Summary:**

This report provides the Board with information about the significant developments with regard to the work being undertaken by Monitor's Pricing Development team, working closely alongside NHS England. This work includes policy projects that will contribute to the 2015/16 National Tariff, 2016/17 National Tariff and the development of a Long-Term Payment System Design strategy.

**Recommendations:**

The Board is asked to note the update on the work of the Pricing Development team.

**Public Sector Equality Duty:**

*Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In relation to the issues set out in this paper, consideration has been given to the impact that the recommendations might have on these requirements and on the nine protected groups identified by the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation).*

*It is anticipated that the recommendations of this paper are not likely to have any particular impact upon the requirements of or the protected groups identified by the Equality Act.*

**Exempt information:**

*Some of the information in this report (items 1, 2 and 4) is exempt from publication as it falls under section 36 of the Freedom of Information Act 2000. The information is exempt because disclosure of that information would, or would be likely to, inhibit the free and frank provision of advice, or exchange of views for the purposes of deliberation. In applying these exemptions, we have considered the public interest test; disclosure of this information will not enhance the accountability or transparency of Monitor as its disclosure would inhibit the free frank disclosure of information.*

## A. 2015/16 National Tariff Development Projects

1. The Pricing Development team is undertaking a number of projects to inform the policy proposals included in the 2015/16 National Tariff. Since January 2014, the team has significantly progressed two areas of work:

### Planned Care

2. 2015/16 represents a significant financial challenge and the Pricing team believes opportunities exist for innovation in the way planned care is delivered across the NHS. Monitor commissioned an analysis of acute planned care activity variation and growth to identify whether and how payment incentives could be introduced to contain costs while promoting quality for patients. The analysis suggests that most expenditure growth has occurred in acute activity without national prices, and only identified outpatient follow up activity as an area where a change to national price-setting could possibly promote value for patients.
3. Together, Monitor and NHS England have agreed to develop in more detail an *integrated outpatient tariff*, which combines first and follow up attendance payment, as it will allow providers freedom to innovate and explore alternative channels for delivering follow up care (e.g. telephone, email, group sessions). This detailed work, including preliminary sector engagement, will inform the Pricing team's recommendation to the Board in May on whether or not to include proposals on this as a mandatory policy change in the 2015/16 National Tariff. Other, more far-reaching changes to payment approaches for planned care, will be explored over a longer time-scale as part of the long-term payment system research and development work programme.

### Local Payment Design Examples

4. A further initiative to assist the sector during 2015/16 is to encourage and provide support for the uptake of new payment approaches aligned to Monitor and NHS England's joint long-term payment system design. The Pricing team is proposing to develop a series of *local payment design examples* that support service improvement and reconfiguration, that local health economies can choose to adopt in 2015/16, making use of existing conditions for local variations of national prices. The design examples will be selected on the basis of being able to deliver, in 2015/16 or over the longer term, the three aims of the payment system:
  - a) Improved outcomes for patients
  - b) More efficient use of scarce resources
  - c) Best possible placement of risk
5. The design examples will provide details on the rationale for an alternative payment design, key payment design choices (e.g. a currency specification, a mechanism for sharing financial risk) and the requisite enablers for successful implementation (e.g. data flows, leadership). Where possible, actual practice, from the NHS or abroad, will be used to illustrate particular design choices as well as setting out what alternatives exist. The current long list of topics for the design examples includes:

- i) local prices for liaison psychiatry as a way to improve the quality and efficiency of acute care costs for mental health patients;
- ii) local payment variations that test the concept of sharing financial and quality risk across providers to support integrated care for patients who are frail, elderly or have multiple long-term conditions;
- iii) local payment variations that test the concept of per person per year payments for primary and secondary care needs of patients who are frail, elderly or have multiple long-term conditions;
- iv) local payment variations that test the concept of capacity based payments to support implementation of the Keogh Review vision for urgent and emergency care;
- v) local payment variations that test the concept of alternative payment approaches that will enable a step change in planned care productivity (for example by conducting competitive procurement based on value); and
- vi) local prices for specialised services, directly commissioned by NHS England.

## **B. Long-Term Payment System Design Projects**

### **Progress towards a joint Monitor-NHS England long-term strategy engagement document**

6. Monitor and NHS England have been investigating long term options for the design of the NHS payment system, with a view to publishing a 'Strategy Document' in 2014. Before a final version for the design of the new payment system can be published, the Pricing team intend to publish a draft for engagement in May. This draft will reflect the team's early thinking regarding policy options for the long term payment system design, including:
  - i) aims for the payment system and its role in enabling service improvement over the next decade;
  - ii) the appropriate use of financial and non-financial incentives;
  - iii) design options for different payment approaches to reflect the characteristics of different groups of services or patients;
  - iv) considerations on moving towards multi-year cycles; and
  - v) suggested priorities for changing current payment approaches.
7. To inform this work, Monitor and NHS England have facilitated a series of roundtables, engagement with NHS England's clinical domain directors, and online crowd sourcing forums, to gain views on the options and priorities for payment system reform. The Pricing team will be compiling stakeholder views, independent research and their thinking during March and early April, prior to returning to the Board with the team's proposals.

## **Progress towards investigating the desirability and feasibility of adopting multi-year tariff cycles**

8. The duration of the National Tariff is a crucial determinant to the signal strength and credibility of the payment system. Choice of tariff duration may be a key lever to ensuring efficient and effective care over the longer term. Monitor has arranged an independent compilation of the evidence base, together with an analysis of available options, to inform the proposals that will be included as part of the long-term payment system design. For this, Monitor commissioned a project to assess the merits of moving to a multi-year National Tariff cycle.
9. The recommendations of this project are that the optimal duration for the National Tariff is three years, as this balances the risks and opportunities associated with longer duration. The project suggested that Monitor could move to this cycle duration as soon as 2016/17. While this proposal is likely to be viewed positively by the sector, based on feedback to date, there are key considerations that need further research before the Pricing team can propose such a policy change to the Board. In particular, the team has concerns about the extent to which the National Tariff cycle needs to be aligned with the NHS budget cycle, whether Monitor needs to wait for its prices to be more accurately reflective of efficient costs and whether Monitor should instead consider explicitly holding only some aspects of the National Tariff (the national prices or the rules) steady for a number of years at a time. A further consideration would be how to allow for mechanistic annual price level adjustments.

## **Progress towards clarifying the scope of the payment system covered by the National Tariff**

10. Key to Monitor and NHS England's work on a long-term payment system design is considering what payments fall within the National Tariff and, for those that fall outside the scope of the National Tariff, how Monitor will ensure all NHS payments work towards consistent objectives and are transparently made. The Pricing team have therefore identified five forms of payment where ambiguity remains regarding the role of the National Tariff and has agreed to work with NHS England on providing greater clarity and guidance to the sector. These include:
  - i) *Aligning payments for primary care services*: Monitor does not need to limit the potential for contracting (and paying) for integrated care services that include core general practice (or other primary care) services as well as acute, community or mental health services;
  - ii) *Supporting local health economies who are financially struggling or facing seasonal demands*: Monitor needs to establish the most appropriate legal means for NHS England or Clinical Commissioning Groups to give direct funding to providers in financially troubled local health economies (e.g. Mid Staffordshire NHS Foundation Trust, Peterborough and Stamford Hospitals NHS Foundation Trust, etc.) or for seasonal variations (e.g. 'winter' monies), non-recurrent or otherwise, to ensure essential services are sustainably and safely delivered;
  - iii) *Enabling appropriate uptake and use of personal health budgets*: Monitor does not need to inhibit the promotion of personal health budgets where

they can be a mechanism for enabling greater personalisation and control of care for some patient groups;

- iv) *Aligning financial incentives for quality improvement*: Monitor needs to identify how to secure greater alignment between different types of financial incentives, for instance between incentives for primary care (e.g. the quality and outcomes framework) and incentives for secondary care (e.g. Commissioning for Quality and Innovation, contractual sanctions) with the incentives signalled in National Tariff, in order to support system wide objectives; and
- v) *Supporting primary care closer to home*: Monitor needs to recognise that some primary care providers provide services that resemble services with national prices (e.g. general practitioners (GPs) who do minor surgery as a locally enhanced service in their GP contract) and that we should promote this where it is more cost effective.

11. Monitor and NHS England jointly propose to focus efforts on resolving the five areas in the order set out above. This prioritisation is based on a shared understanding of where clarity regarding payment rules is most needed to improve outcomes for patients. Where possible, the Pricing team will update the scope section of the 2015/16 National Tariff consultation notice (to be published in October), with the conclusions of this work.

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