HFMA response
January 2023

Response to the consultation on the 2023/25 NHS payment scheme

General feedback

The Healthcare Financial Management Association (HFMA) is pleased to have the opportunity to respond to this consultation[1] and is broadly supportive of the proposed introduction of the NHS payment scheme (NHSPS), replacing the national tariff payment system.

The current consultation relates specifically to the two-year period 2023/24 to 2024/25. We support the proposal to introduce alignment with the allocation timescales specified in the *2023/24 priorities and operational planning guidance*[2].

The proposals have been discussed with members of the HFMA's Payment Systems and Specialised Services Group. Their feedback has been considered in our overall response. We recognise that individual organisations will have specific queries and concerns but have endeavoured to submit a balanced response that reflects the national priorities.

We have submitted a formal response via the *NHS England Consultation Hub* which reflects comments received from the group and wider HFMA membership. This report provides details of our response.

[1] NHS, *2023/25 NHS payment scheme consultation*, December 2022
[2] NHS, *2023/24 priorities and operational planning guidance,* December 2022

Proposals applying to all payment mechanisms

Details of these proposals are set out in Section 5 of the consultation notice[3].

Duration

To what extent do you support the proposed two-year NHSPS?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

The HFMA supports alignment of the NHSPS with allocation timescales and agrees that setting the payment system rules and mechanisms for a longer period promotes certainty and stability in local systems. In turn this should encourage partner working across systems, reduce the administrative burden of the annual planning round and allow systems to take advantage of the freedoms and flexibilities outlined in the Health and Care Act 2022[4].

However, we recognise that integrated care systems and partnership working are still developing and there is variation in the scope and approach to this across the NHS in England. This is coupled with the ongoing impact of operational pressures plus economic uncertainty. Therefore, while we support the ambition of a two-year NHSPS we recognise that there may be circumstances in which a re-consultation is required for the 2024/25 payment scheme. We would encourage early notification of any intent to change and reconsult.

Payment principles

To what extent do you support the proposed payment principles?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

The payment principles outlined in the consultation are consistent with the move to a more collaborative and system partnership model. We support alignment with priorities in the *Operational planning guidance*[5], especially with regards to reducing health inequalities and that the principles address data quality.

We have previously highlighted concerns that the move away from activity-based payments will reduce the incentives to collect good quality data and therefore strongly welcome that data quality is specifically addressed. Understanding activity and costs underpins service development and transformation. It can support the identification and reduction of health inequalities and demonstrates whether taxpayer funding is being used well, or not, and therefore we see this principle as underpinning the other principles that are documented in the consultation.

[3] NHS, *2023/25 NHS Payment Scheme consultation notice*, December 2022
[4] UK Parliament, *Health and Care Act*, April 2022
[5] NHS, *2023/24 priorities and operational planning guidance,* December 2022

Cost adjustment: 2023/24 cost uplift factor

To what extent do you support the proposed cost uplift factor?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Given prices are based on 2018/19 costs, there is a concern that the uplifts in recent years do not reflect the increases in costs due to the pandemic. Taken alongside the reduction in direct Covid-19 funding and the fact that prices are not based on years when Covid-19 was present, there are concerns that the cost uplift does not fully reflect costs being experienced by NHS bodies. In order to deliver balanced plans systems are applying efficiency targets far in excess of nationally efficiency factors which also suggests that costs are higher than those reflected in income.

Based on the current economic uncertainty our members recognise the difficulty in predicting future inflation, but they are concerned that the uplift may not be sufficient. However, they note that having in-year adjustments, as has been the case in 2022/23, can be confusing and lead to differences between expected payments and transacted values. Work to understand the differences increases the administrative burden on systems.

The proposals indicate that adjustments to pay awards will be routed through prices. While this would be cost neutral across a system it could place financial risk on individual providers if they were not delivering planned levels of elective activity.

Cost adjustment: 2023/24 efficiency factor

To what extent do you support the proposed efficiency factor?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

We support long term alignment of the efficiency factor with the technical efficiency and productivity expectations set out in the *NHS long term plan*[6]. There is an increasing body of evidence to support organisations who are seeking to improve efficiency and productivity by improving value for patients and services. Integrated care systems and partnership working are at the centre of this. However, as noted above, systems are working with local efficiency targets in excess of national factors to enable them to achieve a balanced financial position. Operational pressures, limited capacity and impact of inflation on a stretched cost base continues to make any efficiency ask more challenging than usual.

[6] NHS, *Long Term Plan*, January 2019

Cost adjustments: setting factors for 2024/25

To what extent do you support the proposal to update cost and efficiency factors for 2024/25 using a formula?					
Strongly support	Tend to support	Neither support or oppose	Tend to o4ppose	Strongly oppose	Don't know

Please explain the reasons for your answer

We agree with using a formula for setting factors for 2024/25 and support the inclusion of the factors listed in the consultations.

Do you have any comments on the proposed formula?

We recommend that NHSE publish an early indicator of values against the cost uplift and efficiency factors, updated in line with any in-year amendments to the 2023/24 rates (subject to comments above re aiming to avoid in year amendments).

Excluded items

To what extent do you support the proposed approach to excluded items in the NHSPS?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

We support the consistent approach to the reimbursement of similar items regardless of whether locally or nationally commissioned. Continuing to apply a consistent approach to items on the MedTech Funding Mandate is also welcome.

Members have noted that there is an administrative burden associated with any payments that fall outside of core payment mechanisms and, therefore, that consideration is needed to ensure that data collection and monitoring is not disproportionate for low-value, non-specialised items. In addition they note potential for confusion and additional burden where drugs are listed as excluded, but also expected to be accounted for via the fixed element of API.

Best practice tariffs

To what extent do you support the proposed approach to best practice tariffs (BPTs)?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Best practice tariffs (BPTs) have played an important part in improving quality in some areas and the proposals retain a quality incentive for the identified areas. Members views are that the benefits of BPTs have now been mainly realised and that many providers will have fully implemented the required changes. Therefore there is a risk that continuing to separate out the BPT funding will result in it becoming an administrative burden with no additional benefit.

Under this proposal the burden for data recording remains unchanged for all BPTs in operation, either to inform the variable activity-based payment for elective services, or to ensure that there is data available to inform future years' fixed elements.

Therefore we would recommend that the requirements for BPT are removed and funding is rolled into allocation baselines.

If monitoring is to be continued, the administration needs to be carefully considered. Where categories are retired early notification is essential, preferably ahead of the payment scheme consultation, to ensure that data is not collected unnecessarily.

There also needs to be consideration of the impact of adding new categories or amending the criteria on existing BPTs. Requiring a full year of data collection prior to agreeing the fixed element will delay introduction of payment for a BPT and therefore potentially create disconnect between improving quality and the financial incentive.

Do you have any other comments on the proposals that apply to all payment mechanisms?

Comments

Payment mechanism: Aligned payment and incentive

Details of these proposals are set out in Section 6 of the consultation notice.

Scope

To what extent do you support the proposed scope of the API payment mechanism?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Members welcome a consistent approach and language for all sectors and recognise the intent to support collaboration and system partnerships.

The system working experienced during Covid-19 was partly enabled by a simplified financial regime and formal introduction of the aligned payment and incentive approach in 2022/23 retained the benefits of that, while supporting the return to a more structured payment system.

This is notwithstanding comments made below about application of a 100% variable element for elective activity and the potential this has to destabilise the system-first approach to contracts and payment design.

Design: fixed element

To what extent do you support the proposed design of the API fixed element?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Stability of income is an essential building block for systems looking to embrace the opportunities for collaboration and partnership working. However, it is important that the fixed element of contracts is regularly reviewed.

Where there is a culture of system-first working and transparency across partners, service design within integrated care systems can promote wise and cost-effective use of limited resources. However, there is a risk that this is diluted by continual roll-forward of historical block amounts, especially if accompanied by a blanket efficiency saving so that the system envelop remains in balance.

The proposed design of the fixed element needs to ensure that it is not allowed to become a mysterious block amount for an unknown level of activity.

There is additional risk associated with the proposals to have a fully fixed element for emergency activity coupled with a 100% variable rate for elective activity. This approach fails to account of the interdependencies between emergency demand and elective capacity. Where there is peak in emergency demand, elective activity will drop. This scenario would result in an overall drop in income for providers, despite overall activity levels remaining constant or increasing.

It is also essential that there is clarity around how priority funding areas such as the mental health investment standard and community crisis response are included and identified within the payment.

While the language of the elective recovery fund has been removed from the proposed payment scheme documentation, it remains a distinct part of the resource allocation to ICBs and their progress against targets will continue to be measured separately. Members have expressed concern about potential disconnect between ICB allocations and contractual requirements with partner organisations, which could destabilise system accountability for financial balance. System-wide elective recovery targets will need to remain within the envelope of baseline funding plus ERF allocation to the ICS to ensure that availability of funds for emergency and non-acute activity is not diluted.

The proposals discuss the tools available to support calculation of fixed elements. To be beneficial in the design of fixed elements, these tools need to be readily available, and regularly updated with high-quality information. Ideally there needs to be comparable data, using the same cost base for all sectors, and scope of the data and its limitations should be documented.

Design: variable element – elective activity

To what extent do you support the design of the elective variable element?

Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

While we understand the intention of this proposal to encourage elective activity and facilitate the targets set out in the operational planning guidance, our members have significant concerns over its implementation and the unintended consequences of what appears to be a partial return to payment by results.

Continuing to use the 2018/19 cost base to set the published unit prices will not be reflective of the cost of delivering activity at an individual procedure level. The lasting impact of Covid-19 includes direct cost increases such as additional temporary staff costs to cover for higher staff absence rates alongside less available capacity and reduced flow within hospitals. Patients may also now be presenting with higher levels of acuity, increasing the costs of care.

However, we recognise that the associated cost increases will be included in the ICBs' allocations and passed to providers via the API fixed element. The risk remains that this could affect collaboration and system working if the focus is on effective cross subsidisation of elective activity.

Members have also expressed concern that are some services included in the variable element where there is not a national currency or price. But we note that the majority of these will fall into specialised commissioning and therefore will be contracted directly with the central team in 2023/24 so there will be scope for local payment arrangements.

Design: variable element – CQUIN

To what extent do you support the design of the CQUIN variable element?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

If CQUIN is to remain a separate element of API contracts, members welcomed proposals to increase the threshold at which CQUIN is applied to the variable element. However, there is wider concern that the benefits of developing and monitoring CQUIN are outweighed by the administrative burden.

Therefore we would strongly recommend that the requirements for CQUIN are removed from the payment scheme and funding is rolled into allocation baselines.

Design: specialised services

To what extent do you support the proposed payment rules for specialised services?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

We welcome that the proposals recognise the ongoing work during 2023/24 to facilitate delegation of some specialised services to ICBs from 2024/25.

However, our members have expressed concerns about the lack of clarity regarding which services will be funded within the fixed and variable element of the contract with NHS England for specialised services in 2023/24. Providers who deliver specialised services have expressed concerns about whether there are sufficiently developed currencies and prices to inform devolution. There is also concern about income being destabilised as payments become fragmented due to the devolution of budgets to NHS regions in 2023/24 and to ICBs from 2024/25.

Design: variations from API design

To what extent do you support the design of the proposed approach to variations from the default API design?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

We support the need for a range of specific payment approaches and variation from default API models but have concerns over the need for all variations to be approved by NHS England which is not consistent with freedom to work collaboratively within systems. We would encourage inclusion of a threshold or other criteria whereby systems can vary from default API arrangements so long as all partners are in agreement.

Do you have any other comments on the proposed API payment mechanism?

Comments

Payment mechanism: Low volume activity (LVA) block payments

Details of these proposals are set out in Section 7 of the consultation notice.

LVA scope

To what extent do you support the proposed scope of LVA arrangements?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Our members welcome the continued approach to LVA which removes the pre-pandemic administrative burden associated with non-contract activity. They support a consistent approach across a wider range of services and sectors, recognising the need for the exceptions listed and welcome the clarity of approach which puts national determination on whether LVA or API arrangements apply.

Members recognise the challenge of setting a threshold that reduces the burden while not diluting the duty on ICBs to commission services that reflect the needs of their population. They acknowledge the balance between setting a low LVA threshold that could increase burden when agreeing API contracts, and a high threshold which may remove freedom to set the fixed element in line with wider system objectives.

However, a fixed value threshold is disproportionately onerous on large and specialist providers as they will need to negotiate API contracts with multiple ICBs where there is no natural local system working between the commissioner and provider. A relative value threshold, as percentage of provider turnover would address this.

LVA design

To what extent do you support the proposed LVA design?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Application of 2022/23 prices with 2023/24 cost adjustments to calculate LVA arrangements for acute services may not be reflective of the cost of delivering the activity. As previously noted, these prices are based on a 2018/19 cost base which does not take into account the impact of Covid-19 on the costs of delivering services.

However, we acknowledge that they may be the best available measures of activity and associated financial values to inform LVA arrangements, and that the resultant block values may not be sufficiently material to affect financial sustainability within providers.

For mental health and community services we acknowledge that there is limited activity and cost data available and no nationally agreed currencies to support calculations of LVA payments. Therefore the proposed methodology for 2023/25 may be the best available without increasing burden. However, we do not feel that this represents a long-term methodology for LVA design related to these services. This is because there would have been significant variation in the block arrangements driving payment data in the three reference years. Therefore a centrally enforced value may not reflect local variation. However, this will only be resolved once currencies have been developed and

implemented for a sufficient period to stabilise the quality of date recording and ensure that there is a consistent approach to costing the activity.

Do you have any other comments on the proposed LVA payment mechanism?

Comments

Payment mechanism: Activity-based payments

Details of these proposals are set out in Section 8 of the consultation notice.

Activity-based payments scope

To what extent do you support the proposed scope of activity-based payments?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
We recognise that this is a logical approach and given that the majority of non-NHS activity is elective, it will mainly align with the API rules for equivalent NHS providers.					

Activity-based payments design

To what extent do you support the proposed activity-based payment design?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
Application of unit prices may not be reflective of the cost of delivering the activity. As previously noted these prices are based on a 2018/19 cost base which does not take into account the impact of Covid-19 on the costs of delivering services.					

Do you have any other comments on the proposed activity-based payment mechanism?

Comments
We appreciate that the NHS payment scheme is designed to cover arrangements between commissioners and providers. However, the activity-based payment rules are likely to also affect agreement of provider to provider arrangements, especially when NHS activity is outsourced directly by an NHS provider to a non-NHS provider. If these arrangements are expected to follow the same rules, the NHS provider will bear the cost of administration (financial and operational) but the full income received will be passed through to the non-NHS provider. We therefore recommend that the payment system clarifies the funding flow arrangements for provider-to-provider contracts.

Payment mechanism: Local payment arrangements

Details of these proposals are set out in Section 9 of the consultation notice.

Local payment arrangements scope

To what extent do you support the proposed scope of local payment arrangements?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
The payment mechanisms proposed throughout the consultation are expected to cover most payment arrangements between commissioners and providers. Therefore our members welcome the flexibility to make local arrangements for any remaining activity without reference to, or approval from, NHS England. We see this as being consistent with the principles of system working and will be useful when applying novel solutions at a local level.					

Local payment arrangements design

To what extent do you support the proposed local payment arrangements design?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
See explanation above.					

Do you have any other comments on the proposed local payment mechanism?

Comments

Prices: role, calculation and related adjustments

Details of these proposals are set out in Section 10 of the consultation notice.

The role of prices

To what extent do you support the proposed role of prices in the 2023/25 NHSPS?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

Our members recognise the important role that prices will continue to play in future payment schemes and welcome the distinction between unit prices and guide prices, which is consistent with the payment mechanisms described in the proposals.

Having access to guide prices is key to setting appropriate fixed elements especially when focusing on setting contracts that facilitate collaboration across systems and enable delivery of pathways of care that offer value for money but may cross traditional organisational boundaries. Therefore we recommend that the design and data quality of guide prices continues to be developed and enhanced.

Our members also recognise the importance of currency development to support robust pricing, allow organisations to understand resource usage and facilitate benchmarking against others for similar activities. We welcome the work being done on community and mental health currencies which will provide a meaningful way of understanding resource usage across a segmented population and, if all sectors work to similar categorisations, a simple way to understand whole system activity.

Calculating 2023/24 prices

To what extent do you support the proposed approach to calculated 2023/24 NHSPS prices?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know

Please explain the reasons for your answer

As noted throughout our response to the proposals, our members have expressed concern about continuing to use the 2018/19 cost base to set the published unit and guide prices in 2023/24, even when updated for inflation and efficiency factors. The 2018/19 cost base does not take into account the impact of Covid-19 on the costs of delivering services. This has led to direct cost increases such as additional temporary staff costs to cover for higher staff absence rates. But it has also reduced available capacity and reduced flow within hospitals. Patients may also now be presenting with higher levels of acuity, increasing the costs of care. These higher costs at individual diagnosis and procedure level will not be reflected in the 2018/19 cost base.

While the impact of this will be more transparent in elective activity due to the 100% variable rate, the impact on non-elective and other guide prices will need to be accounted for locally when agreeing fixed elements. This could lead to significant variation across systems in their approach to setting fixed prices for non-elective activity which will, in turn, impact on the availability of funding for other services. Having a reliable, up-to-date and robust set of guide prices for acute non-elective activity will encourage parity between systems.

Our members recognise that unit cost data from 2020/21 onwards will be affected by the impact of Covid-19, both in terms of cost base and casemix. However there is also recognition that Covid-19 will be an ongoing feature of the NHS and as a result some of the cost increases introduced during the pandemic will remain in unit prices. 2021/22 cost data was submitted to the NHS England costing team in September 2022. While this has not been published we understand that data quality checks have been undertaken and therefore that these results would provide a more suitable starting point for setting 2023/24 prices.

Changes to price relativities

To what extent do you support the proposed changes to price relativities?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
We acknowledge the efforts to address the specific price relativity corrections outlined in the proposals. However, as outlined throughout our response, the ongoing impact of the pandemic is that patients may be presenting with higher levels of acuity. This is likely to affect the relative cost of patients presenting with similar diagnosis but varying levels of complications and comorbidities. Hence, while supporting the specific price relativity changes proposed, we do not feel that the scope is sufficient to address the full range of adjustments that would be required to take account of the impact of the pandemic.					

Market forces factor

To what extent do you support the proposed revision of data used to set market forces factor values?					
Strongly support	Tend to support	Neither support or oppose	Tend to oppose	Strongly oppose	Don't know
Please explain the reasons for your answer					
We support the decision to update the market forces factor (MFF) based on more up to date information. However the benefit of updating the MFF will be minimal compared with the continued use of a 2018/19 cost base and casemix to inform both unit and guide prices.					
Do you have any other comments on the proposed market forces factor?					

Do you have any other comments on prices and related adjustments?

Please explain the reasons for your answer

Future payment system development

We have no comments at this time about future development of the payment system but will continue to engage with the Pricing and Costing team through the HFMA networks to support the work.

Health inequalities and any other comments

If they were implemented, what impact do you feel the policies outlined are likely to have on equality and addressing health inequalities?					
Strong positive impact	Positive impact	Neither positive or negative impact	Negative impact	Strong negative impact	Don't know

Do you have concerns that there are distinct groups with protected characteristics that our policies may impact negatively?

Please explain the reasons for your answers
These proposals will support areas to locally determine what services are needed and where, in order to address local health inequalities. However, there is a risk that the fixed element is not detailed enough to ensure that resources are allocated correctly to these areas.

Do you have any other comments on our proposals for the 2023/35 NHS Payment Scheme?
We strongly support the implementation of the payment scheme and proposals that align with the direction of travel for integrated care systems. We are encouraged that the provisions in the scheme support collaboration and system working, but ask that there is national acknowledgment that systems and organisations are starting from different points in terms of understanding their cost base and having effective relationships to negotiate change. Some areas will need considerable support, while others need the freedom to get on with it. Which organisations need what level of support is likely to change over the coming years as the API approach matures. Members have expressed concern about the language in the proposed payment scheme document, which continue to focus on the contractual arrangements between commissioners and providers. While we appreciate that this provides clarity in respect of the funds flow, especially as system relationships continue to evolve, it is not consistent with the new collaborative approach that systems are expected to work to.

Do you have any comments or suggestions on how we could improve how we engage with you on our proposals?
Our members appreciate the engagement and ongoing discussion that NHS England offer through the HFMA's networks.

How could we improve the information you are given as part of the statutory consultation and its impact assessment?
Our members appreciated the engagement sessions that took place over summer and influenced the design of the payment scheme. They would appreciate a similar session during the consultation period, highlighting any key changes and providing an opportunity to ask questions ahead of submitting a formal response.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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