The HFMA's response to the NHS England and NHS Improvement 2021/22 tariff engagement survey

Who we are

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For 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.

Potential 2021/22 financial framework

Were a financial framework based on the broad principles set out to be proposed, to what extent would you support such a move?

Support

The focus on break even at system level is positive and will allow a more collaborative dialogue between parties regarding service and pathway reform. This will support the aims of the NHS long term plan and enable areas to continue to develop ICSs.

The visibility of funding proposed will give more transparency across the local system and has the potential to reduce disagreements about funding, assuming that the baselines and fixed elements of the approach are understood and agreed.

The blended approach described, should reduce transactional elements and reduce commissioner / provider conflict, thereby encouraging collaboration across the system.

How do you think financial governance in your system would need to develop in order to support such a financial framework, were it to be implemented?

Our members have reported improved system working throughout the pandemic and relationships have developed in many areas that will support this move. The shared understanding of priorities has proven to be a powerful enabler for system working and this framework should support this going forward. It was also supported by a central approach to funding that ensured that all reasonable Covid-19 costs were met. Appropriate levels of funding are key to supporting future collaboration.

However, systems would require clear and timely information from the centre for any nationally prescribed approaches. It also needs to be recognised that systems are at different stages of maturity. The improved working through the pandemic will have helped but much of this approach relies on relationships and trust. Some systems will need more support to progress this framework and assistance if contract discussions break down.

Are there any areas in addition to the key considerations that you think we should be focusing on in developing a future financial framework?

There needs to be flexible approach to the development as systems start to implement the framework and learn where changes are needed to make it work for their populations. Clarity is also required around how the performance management of both organisations and systems will be progressed.

Do you have any other comments on the potential 2021/22 financial framework?

It is important that break even at system level is the main area of focus, given that a significant proportion of CCG expenditure / Trust income will be fixed. If finances are managed primarily at system level this will promote collaboration and positive working relationships are required. Currently, individual boards have a statutory obligation to break even and a move to a system focus could cause conflict when board members need to discharge their responsibilities in this respect.

The ongoing impact of Covid-19 needs to be considered throughout this revised framework. Working practices have changed and waiting times have increased. There is a significant backlog to be addressed and understanding the starting point for many organisations, will be difficult.

Clarity is needed around how system allocations link with the revised procurement framework for independent sector activity. Members have raised concerns around the financial impact if significant additional activity is diverted to the independent sector in order to address waiting lists.

Blended payment for 2021/22

To what extent do you agree that the blended payment approach would support the objectives of the NHS Long Term Plan?

Agree

The blended approach supports a flow of funding around a system based on cost, rather than tariff. As such it no longer financially incentivises activity to be undertaken in a hospital setting which could be delivered more appropriately elsewhere, or even prevented altogether. The early implementation plans to roll forward contract values from this year are a pragmatic approach to the changes in activity and cost due to Covid-19. However, it is essential that the NHS works towards getting robust cost data across all sectors to inform the process in future years.

Care must be taken when constructing the variable element of the payment that this does not contradict the approach by re-incentivising increased acute activity. There is a danger that a nationally set variable element to address national priorities, such as increasing elective activity, could act as a PbR type tariff and encourage increased acute activity to the detriment of system transformation and changes in care setting.

The blended payment approach should also reduce transactional elements within the finance remit as there will be less dispute over the mechanics of PbR and a different approach to low value non-contracted activity. This should free up capacity to support colleagues on service redesign and patient pathway reform.

To what extent would you support setting the scope of blended payment for almost all services covered by the national tariff?

Support

Covid-19 has presented the opportunity to make significant changes quickly to the financial framework of the NHS and the payment system cannot revert to its previous form as existing tariff prices will no longer reflect the new working conditions. Therefore, if it is accepted that blended payment is the best approach, then logically it should be applied to the greatest proportion of services as possible. Failure to do so would lead to elements of dual running, and then the benefits of working under blended (focus on cost not income, reduced provider-commissioner dispute) will be diminished.

To what extent would you support a simplified blended payment model, involving a fixed payment based on the costs to deliver a level of activity which conforms to the ICS system plan?

Support

The majority of costs tend to be fixed, regardless of level of activity undertaken. Accordingly, a cost-based model seems a more appropriate mechanism. However, this relies on having good cost data

to underpin services which is unlikely to be available for all organisations across all services. It is also essential that the fixed payment is intelligent; it must reflect the activity that is needed to support the system plan and not be based on historic information or affordability criteria.

It could potentially be challenging to agree the level of activity or capacity represented by the fixed payment. Consideration would need to be given to an appropriate baseline, given that the original LTP activity and 2019/20 outturns are now outdated, while 2020/21 is an atypical financial year due to Covid-19.

What guidance would you find most useful for agreeing the fixed payment locally?

Our members have asked for clarity over the process for agreeing the cost base, in particular where the initial baseline should be taken from. They would also like clear national guidance on the approach to quantifying the level of activity associated with the fixed payment, particularly in the first year of operation.

Some CCGs and providers have longer term contracts in place, for example for patient transport. Clarity would be welcomed as to whether these contracts and associated terms will be superceded by the blended payment approach.

To what extent would you support the fixed payment including items currently excluded from the tariff, such as high cost drugs and devices and genomic tests?

Neither support nor oppose

This approach offers improved simplicity for commissioners, but it has the potential to increase risk for providers, with only a small increase in demand representing a significant financial risk.

However, centres which offer particularly specialist services are likely to be providing that service to people outside of their system catchment. Therefore, there is a need to maintain a way of managing this element as the funding cannot sit within the system total.

To what extent would do you support including a variable element for some elective activity in the blended payment approach?

Support

If there were a variable element, would you prefer it to be based on:

National methodology for helping flow money around providers in a system

Systems may not be sufficiently fully mature yet to agree local methodologies, and a locally determined approach could lead to disputes over counting and coding. Therefore, our members prefer a nationally prescribed methodology. However, the emphasis needs to remain with local systems to set the variable payment and agree the conditions around it.

As mentioned previously, care must be taken when constructing the variable element of the payment that this does not contradict the system-based approach by re-incentivising increased acute activity. There is a danger that a nationally set variable element to address national priorities, such as increasing elective activity, could act as a PbR type tariff and inappropriately encourage increased acute activity to the detriment of system transformation and changes in care setting, in the long term. However, as short-term approach to reduce waiting lists in the wake of Covid-19, it may be an appropriate methodology.

To what extent would you support having a threshold provider/commissioner contract value below which the blended payment arrangements would not apply?

Support

If there were to be a threshold, do you think £10 million would be…

Too high

Larger CCGs hold a number of material contracts with providers up to the value of £10m. It would seem sensible to include a greater proportion within the blended arrangement so that all parties have relative certainty over income and expenditure, and also reduce the volume of traditional / transactional PbR contracts – otherwise a disproportionate amount of time could be spent negotiating and managing less material contracts. Our members believe that all contracts within a system should be on a blended payment basis, regardless of value, for this reason.

It would be helpful to provide supplementary guidance to clarify that any commissioner/provider flow that was previously in a contract (i.e. where a CCG was an associate to the lead/main CCG contract with a provider) should be within the scope of blended payments.

To what extent would you support host CCGs paying for activity below £0.2m, with allocations adjusted to compensate?

Strongly support

Both providers and commissioners have welcomed the reduction in transactions processing in 2020/21, with the suspension of normal contract reconciliation and out of area activity issues reducing a large volume of nonvalue-added transactions. There is some appetite within our membership to suggest that the threshold could be set at a higher level, based on the success of increasing it to £0.5m for the second half of 2020/21.

What would be your preferred default approach for contracts valued between £0.2m and £10m?

Blended payment arrangements

An embedded blended payment approach for larger contracts would suggest that it should be the default for all contracts. The multitude of different contracting arrangements that some providers have, can cause confusion and unnecessary complexity, particularly when working across a system and system boundaries. It would seem logical that all providers and commissioners adopt a consistent approach across the country but, at the least, should adopt a consistent approach for all contracts within a system.

Members are concerned about the approach to independent sector contracts which are believed to remain on a PbR basis. There is a view that this potentially represents a material financial risk to CCGs and systems, unless further national funding is provided, especially given the current procurement framework which is increasing capacity above and beyond historic levels.

To what extent would you support retaining national prices for diagnostic imaging services?

Neither support nor oppose

It is recognised that some level of national pricing is still required under law.

To what extent would you support a Standard Contract requirement for a System Collaboration and Financial Management Agreement alongside a blended payment, to help share risk across a system?

Strongly support

Blended payments require good relationships and clear courses of action if those relationships break down. Therefore, mandation of a risk share agreement across all parties will ensure that a consensus is reached prior to any issues occurring.

Do you have any comments on the 2020/21 model SCFMA, suggestions for how it could be improved or views on whether its focus should be broadened beyond financial balance?

Not at this point, but potentially as part of further engagement.

Financial incentives and best practice tariffs

To what extent would you support a review of the financial sanctions for failure to achieve national performance standards in the NHS Standard Contract?

Support

The national performance standards may themselves require revision as a consequence of Covid-19. A financial sanctions regime that focuses on individual organisations does not support the move to collaborative system working. A good SCFMA should provide the structure to incentivise meeting the required standards.

To what extent would you support the retirement of the day case and outpatient procedure BPTs if their financial incentives are replicated in a blended payment design?

Support

If the payment model is to be simplified to a cost basis it would be unnecessary to continue to monitor and administer BPTs, if their intention can be replicated within the blended payment. However, the mechanism to do this within the fixed payment could be complex, so clear guidance will be required.

To what extent would you support BPTs becoming non-mandatory with guidance on how to capture them within any blended payment agreements?

Neither support nor oppose

Mature systems will be able to recognise the intention of BPTs within a blended payment agreement, given appropriate guidance to do so. However, for those systems where relationships need to improve, then making the BPT approach non-mandatory, may result in a reduction in quality outcomes.

If this approach were taken, what guidance would you find most helpful to support use of existing BPTs within a blended payment arrangement?

Our members would appreciate national guidance on how to include BPTs in the baseline. The current block arrangements will include variable amounts of BPT in the baseline which may need to be unpicked.

To what extent would you support the further integration and streamlining of financial incentives in future years?

Support

A simplified approach will allow focus to be placed on those elements that genuinely impact patient wellbeing and care.

What would be the key considerations for doing so effectively?

Incentives need to be linked to the elements that are within the control of the system and organisation. These should reflect appropriate and robust national metrics.

Other tariff policy areas

Length of tariff

To what extent would you support setting the 2021 tariff for one year?

Strongly support

Both 2020/21 and 2021/22 will represent exceptional years, with a high level of volatility and change. It makes sense to set the tariff for one year and take the opportunity to properly review the way forward as things return towards a more normalised way of working in the medium term.

Adjustments to prices for Covid-19

To what extent would you support a local guidance framework for adjusting prices to account for costs arising from Covid-19?

Support

Any guidance issued will need to ensure that geographical variation can be taken into account. Our members support a local guidance approach rather than a national mandate.

What types of guidance framework would you find most useful?

Looser framework that could be flexibly applied to local requirements

Our members would like guidance that is clear and concise, and specific as to when and how it should be used, allowing for the use of local data analytics to determine how it is applied.

Rolling over price relativities

To what extent would you support setting prices for 2021/22 by rolling over the price relativities and currencies from 2020/21?

Support

Our members agree that this would appear to be the most practical approach given the nature of the 2020/21 financial year.

Centralised procurement

To what extent would you support making no further adjustments to the tariff to reflect the arrangements for the central funding of overhead costs of Supply Chain Coordination Limited (SCCL)?

Support

With the proposed significant changes to the financial framework, our members would appreciate a recognition of the need for stability in other areas.

Specialist top-ups and complexity

To what extent would you support continuing to pause the specialist top-ups transition path for 2021/22?

Support

With the proposed significant changes to the financial framework, our members would appreciate a recognition of the need for stability in other areas.

High cost exclusions

To what extent would you support making no substantial changes to the high cost drugs and devices lists for 2021/22?

Support

With the proposed significant changes to the financial framework, our members would appreciate a recognition of the need for stability in other areas.

Market forces factor (MFF)

To what extent would you support moving to the next (third) step in the MFF glidepath introduced following the 2019/20 data and method update?

Support

Our members support the continued improvement in the application of MFF but request that any financial impact is assessed prior to implementation.

Future payment system development

What would be your highest priority for any future payment system?

1. **Whole system approach to payments, contracting and incentives**

2. **Improving payment building blocks such as costing and currency data**

3. **Enhancing data infrastructure and making better use of existing data.**

The three highlighted priorities are essential for the success of the blended payment approach. Pursuing one to the detriment of the others would result in an approach that did not meet the ambitions of the change to the financial framework.

What forward guidance and information on national payment policy would you find helpful to support local planning and to successfully implement any new payment approach?

Our members request that any guidance and information is issued at the earliest stage possible to give organisations and systems sufficient time to understand how it will work and raise any queries.

Impact on equality and health inequalities

If they were implemented, what impact do you feel the policies outlined are likely to have on equality and addressing health inequalities?

Neither positive nor negative impact

Any other comments

Do you have any other comments about the tariff or any other aspect of the payment system and wider NHS financial architecture?

2021/22 marks a welcome simplification of the payment structure which should reduce unnecessary transactions and reduce the level of challenge and dispute between purchaser and provider. It would make sense that future iterations retain these principles rather than reintroducing unnecessary complexity, whilst also taking a longer-term view in future years to support more effective planning.

Do you have any comments or suggestions on how we could improve how we engage with you on our proposals?

We would welcome all aspects moving to earlier points in the year, from workshops to consultations and onset of planning round. Given the simplified payment structure we would hope this might become increasingly possible.