

Developing the approach to setting the 2018/19 national tariff

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1. Summary

1. In our review of the future direction for pricing, *Reforming the payment system for NHS services: supporting the Five Year Forward View*, we discussed the possibility of fixing all or parts of the national tariff for more than one year.
2. Our work with providers and commissioners shows that the sector is interested in this issue and would like more predictability on the national tariff to aid long-term planning and investment. In response to this, we have looked at what is possible under the legislation to identify what we could do.
3. This paper discusses three options we considered for giving the sector greater certainty on the national tariff in 2018/19.
4. The first option is that we provide information on our planned work programme for the 2018/19 tariff alongside the 2017/18 tariff. This would explain where we are considering proposing changes in the 2018/19 tariff engagement document.
5. The second option is that we publish our intentions for the 2018/19 tariff alongside the 2017/18 tariff.
6. The third option is that we set the tariff for two years by publishing a national tariff, including national prices, which covers both 2017/18 and 2018/19.
7. We discuss the advantages and trade-offs of each of these options below.

Table 1: Options for the 2018/19 tariff

	Flexibility ←			→ Certainty
Option	Keep the status quo	Provide information on planned work programme for the 2018/19 tariff	Publish our intentions for the full 2018/19 tariff	Set the tariff for two years
Advantages	Keeping the annual tariff cycle means we can adjust the tariff to reflect the latest information, for example to incorporate innovative practices or new national policy initiatives.	This would provide earlier information on new policy areas, and give the sector more time and opportunity to feed into the development process, while retaining the flexibility of an annual tariff.	Sufficiently detailed guidance may help the sector to make investment and planning decisions over more than one year, while still allowing annual flexibility.	This would provide stability and certainty for the two year period, which should support longer term planning or investment.
Trade-offs	No additional certainty, so	Would not give much additional	Will not be a binding	Removes our flexibility during

	Flexibility ←			→ Certainty
	no changes to planning and investment decisions.	certainty or predictability, particularly at an overall provider or commissioner level.	commitment, so the extent to which the sector benefits unknown.	the tariff period to make adjustments to prices or respond to new policies or external shocks.

8. Taking this assessment into account, our preferred option is to set the tariff for two years. We have included a proposal to this effect in the [tariff engagement document](#).
9. We think that a two year tariff would give the sector the most certainty and stability, by setting out upfront all tariff prices and policies for 2017/18 and 2018/19. This should support providers and commissioners to make longer term plans and investments, and contribute to better quality of care for patients.
10. This is also the only option that would remove the annual tariff consultation cycle. This could reduce the burden associated with annual planning and contracting, and support longer term contracting between providers and commissioners.
11. This option would reduce our flexibility to make changes to the tariff each year, but we consider that the benefits of providing certainty outweigh this. There are also ways that we can mitigate the impact of this within the fixed tariff period, for example, through the use of local price variations or non-mandatory prices (outside the national tariff).
12. We would like to hear your views on this approach. We have included questions on this proposal in the tariff engagement document. We will review your feedback before making a final proposal when we publish our statutory consultation on the national tariff later this year.

2. Context

2.1 Why we are looking at a longer term tariff

13. The annual cycle of consulting on and publishing the national tariff has been identified by stakeholders as a barrier to effective planning and contracting.¹ Stakeholders believe that this causes uncertainty over prices, and volatility, which encourages annual, rather than longer term, planning and contracting.
14. Moving to a longer term tariff is one way we can support the sector to achieve stability and financial balance in the short term, while pursuing long term

¹ Monitor (2014), *Review of multi-year national tariff cycles*, produced by FTI Consulting.

transformation described in the Five Year Forward View and *Reforming the Payment System for NHS Services: Supporting the Five Year Forward View*.²

15. We have considered what we could do to provide greater certainty for the sector. We have proposed a two year tariff as this aligns with the remaining two years of commissioner allocations.
16. If this proposal is adopted for 2017/18 and 2018/19, and it proves successful, we could consider the same approach from 2019/20, and possibly over a longer period, for example a three year national tariff.

2.2 Factors affecting our decision

17. Our approach to setting the national tariff must be consistent with the following:
 - a. Our regulatory pricing principles – the principles that guide the development of all pricing policy:
 - i. Prices should reflect the costs that a reasonably efficient provider ought to incur in supplying healthcare services at the quality expected by commissioners.
 - ii. Prices should enable commissioners to make the best decisions about the mix of services likely to offer highest value to patients, and incentivise providers to reduce unit costs by finding ways of working more efficiently.
 - b. The Five Year Forward View – the broad strategy and direction of travel for the NHS. It is expected that we will move to a wider range of care models that better meet the needs of patients.
 - c. Reforming the Payment System – the approach proposed by NHS Improvement and NHS England to reform the payment system to support delivery of the Five Year Forward View.
 - d. The legal framework, in particular the pricing provisions of the Health and Social Care Act 2012 – NHS Improvement is required to publish a national tariff setting out the currencies for which national prices are to be payable for the provision of NHS services, the national prices, the method(s) used to calculate those prices, national variations to those prices and local pricing rules.³

²www.gov.uk/government/uploads/system/uploads/attachment_data/file/381637/ReformingPaymentSystem_NHSEMonitor.pdf

³ In this context, 'NHS Improvement' refers to Monitor, the body on which statutory national tariff functions are conferred by the Health and Social Care Act 2012. Sections 116 and 118 of that Act require Monitor to publish the national tariff, after proposals have been agreed with NHS England and consulted on.

18. We were also influenced by the wider environment. At present there is widespread uncertainty as a result of the UK's decision to leave the European Union. This could have significant implications for the national tariff. For example, it is not yet clear what effect currency fluctuations may have on inflation in the healthcare sector. This type of environment may make it more important to have stability and certainty from the tariff. However, it could also make it more important for the tariff to be able to respond to changes. The uncertainty also makes it difficult to forecast what will happen over the next two years and beyond.

2.3 The criteria that we have used to assess the options

19. Table 2 shows the criteria that we used to assess the three options.

Table 2: Our proposed criteria

Criteria	Description
Predictability	Provides the sector with reliable information, helping providers and commissioners to plan.
Stability	Ensures prices remain as steady as possible over time.
Credibility	Sector has confidence in the information we've provided and buys into the approach. The information is as accurate as possible and is a reliable indication of what will be in future tariffs. Low risk of having to revisit the information we have set. Management/political commitment to the content of the tariff or intentions.
Incentives	Strengthens efficiency and quality incentives as well as creating other incentives.
Flexibility	Relative flexibility of options for a tariff component to react to unexpected events (noting that intentions would not be binding).
Execution risk	Approach is viable to implement, there is a clear method and sufficient capacity in the team to deliver (eg for modelling). Does not place restrictions on other future pricing decisions.
Alignment with national objectives	Approach is consistent with NHS Improvement and NHS England objectives, in pricing and more widely, such as supporting the sector to return to financial balance.
Administrative burden for sector	Minimises the administrative time required for tariff-related activities. Facilitates multi-year contracting or reduces contracting burden. Creates headspace to concentrate on strategic objectives (eg vanguards).
Administrative burden for central bodies	Reduces administrative time for NHS Improvement and NHS England, freeing up resources for other work that supports strategic objectives.
Other	Anything else pertinent to decision.

3. Approaches to providing more pricing certainty

20. As we have discussed, we considered the following options for providing greater certainty on the 2018/19 tariff:
- i. providing information on our planned work programme for the 2018/19 tariff alongside the 2017/18 tariff
 - ii. publishing our intentions for the 2018/19 tariff alongside the 2017/18 tariff
 - iii. setting the tariff for two years.
21. We propose to set the tariff for two years. The sections below contain more information on the advantages and trade-offs associated with each option.

3.1 Provide information on the planned work programme for the 2018/19 tariff

How would this work in practice?

22. We would keep an annual tariff, with separate tariffs for 2017/18 and 2018/19.
23. We would publish information on the planned work programme for the 2018/19 tariff alongside the 2017/18 tariff. This would set out the areas of tariff that we are considering changing in 2018/19, and the potential policies that we may include in the 2018/19 tariff engagement document.

What are the advantages?

24. This gives the sector earlier information on our plans for the tariff, and allows more opportunity to input and shape the proposals before they are published in the 2018/19 tariff engagement document.

What are the trade-offs?

25. As we would only set out work areas and possible policies, this would not provide much additional certainty to providers and commissioners, and is therefore unlikely to support substantial changes in planning.

3.2 Publish our intentions for the 2018/19 tariff

How would this work in practice?

26. We would keep an annual tariff, with separate tariffs for 2017/18 and 2018/19.
27. We would publish our intentions for the 2018/19 tariff alongside the statutory consultation on the 2017/18 tariff. This would effectively mean that we start engaging on the 2018/19 tariff earlier. We would then publish a firmer set of intentions for 2018/19 alongside the final 2017/18 national tariff.

28. The intentions that we publish for 2018/19 would not be binding and we would have to reconsider the position when agreeing and consulting on our proposals for that year's tariff. This would mean that, for example, we could propose different prices or policies to respond to large fluctuations in inflation since the original forecasts or to reflect new policy developments or information.

What are the advantages?

29. This approach could provide some certainty on the likely content of the 2018/19 tariff. This information would be available much earlier than under the current process. NHS Improvement and NHS England may be able to publish indicative prices for 2018/19 based on the intentions. This would still allow us to make changes to respond to clinical innovation or new information and events.
30. Publishing our intentions alongside the 2017/18 tariff may allow us to bring the timeline for the 2018/19 tariff forward, which could help us to publish the final 2018/19 tariff earlier in the year.

What are the trade-offs?

31. The information that we publish in our intentions document would explain what we are minded to do, but would not be binding. Under the legal framework, when we come to make our decisions about the proposals to include in the 2018/19 tariff, we would have to retain an open mind and give genuine consideration as to whether or not to proceed with the proposals published in the intentions document.
32. The consultation and engagement process for the annual tariff must be genuine, with the opportunity for the sector to raise matters and influence our final decision. The decisions on the appropriate prices and rules for 2018/19 would have to be reasonable, taking into account relevant matters and the sector's feedback, not just our earlier stated intentions. This could mean that we alter or depart from those original intentions.

3.3 Setting the tariff for two years

How would this work in practice?

33. We would publish one tariff with prices and policies that would apply in 2017/18 and 2018/19. The prices and policies could be different for each year, but would need to be set out upfront in the tariff document published before the start of that period. Prices would have to be fixed at the point the tariff is published, as the statutory framework does not allow us to specify prices using a formula which involves data available only after the tariff is published. Prices could of course be locally varied, as now, by agreement between commissioners and providers in line with the local pricing rules.

What are the advantages?

34. Prices and policies would be set for two years, providing stability and certainty that could support long-term planning and investment. This approach would also remove the need to conduct a separate consultation on the 2018/19 tariff.

What are the trade-offs?

35. The tariff prices and rules would be fixed for the second year and couldn't be amended unless a replacement tariff is introduced. This means that there is less scope for changing the prices or rules if there is a change of circumstances, or for introducing new mandated provisions (such as new best practice tariffs). It also means a risk that prices are less reflective of actual costs than originally intended because, for example, the original forecasts were not accurate. A replacement tariff is possible, but it would require us to carry out another statutory consultation. This would likely only happen for serious cases where NHS Improvement and NHS England judge that it is necessary to replace the existing tariff.
36. During this period we would be able to publish non-mandatory prices to support the development of local prices. Any local prices agreed would be subject to the rules for local pricing within the national tariff.
37. Before implementing a two year tariff, we need to be clear on how this would affect tariff policies that we review on an annual basis, such as the high cost drugs and devices lists, how we treat the Clinical Negligence Scheme for Trusts (CNST), or our policies on best practice tariffs (BPTs), to continue to provide the right incentives for providers and commissioners.

3.4 Applying the options to the different tariff policies

38. The tables below show our thinking on the implications for different policy areas of the 2018/19 tariff, against each of the three approaches we have considered. The tables are structured as follows:
 - a. policies that affect the design of prices (Table 3)
 - b. policies that affect final price levels (Table 4)
 - c. national variations, local pricing and other policies (Table 5).
39. If we set a two year tariff, although prices and policies would be fixed for the second year, prices could still be varied at a local level by agreement between commissioners and providers, following the local pricing rules.

Table 3: Policies that affect the design of prices

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		
		Set tariff for two years	Publish intentions for the 2018/19 tariff	Provide information on the planned work programme for the 2018/19 tariff engagement document
Currency design – the units of healthcare that are used to inform prices	We propose to adopt HRG4+ phase 3	Continue with the same currency design as that adopted in 2017/18. We would not be able to make technical adjustments from year to year	We intend to retain the same currency design as that adopted in 2017/18, but may make technical adjustments if required	We would set out the currency design we are considering for the 2018/19 tariff engagement document
Currency scope – the list of currencies that are included for the purposes of pricing	We propose to add four new prices	Continue with the same currency scope as that adopted in 2017/18. We would not be able to change the scope	We intend to retain the same currency scope as that adopted in 2017/18. But we would be able to amend the scope if needed to reflect changes in clinical practice, especially where evidence shows that setting a price will positively affect patient care	We would set out the currency areas we are considering for the 2018/19 tariff engagement document
Best practice tariffs (BPTs)	We are proposing to add four new BPTs, amend four and remove two	Any new BPTs for 2018/19, or amendments or removals, would be included in the 2017/18 statutory consultation. It would not be possible to change or introduce	We would continue to review the performance of BPTs against expectations to maintain the incentive effect, and may add new or update BPTs (if these meet the simplified	We would set out areas where we are considering introducing or amending BPTs in 2018/19.

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		
		Set tariff for two years	Publish intentions for the 2018/19 tariff	Provide information on the planned work programme for the 2018/19 tariff engagement document
		mandated BPTs during the tariff period.	method)	
Cost relativities – the relative weighting that informs final prices	We propose to use manual adjustments from the HSCIC’s expert working groups to adjust the 2014/15 reference costs	Continue with the same relativities as adopted in 2017/18. Fixing the relativities from one year to the next would stop new practice being reflected in final prices.	We intend to continue with the same relativities as adopted in 2017/18, but would be able to make technical adjustments if required.	We would set out what we are considering for the 2018/19 tariff engagement document
Managing volatility – managing design driven volatility from year to year	Currently we are considering options to mitigate any volatility from changes to currency design.	Any proposal would be in line with the 2017/18 proposals, but would be set at the time of setting prices for the two-year period. No further amendments to national prices to deal with the effects of volatility would be possible over the two years.	Any proposal would be in line with the 2017/18 proposals and set out in our intentions publication, but we would be able to introduce further amendments in 2018/19 if appropriate.	We would review this on an annual basis following the calculation of prices.
Modelling approach – the method that we use to set prices to currencies	We propose to use the current model informed by 2014/15 HES data and reference costs	Prices for 2018/19 would be modelled using the same approach, and the same data, as used in 2017/18.	We intend to use the same approach as adopted in 2017/18	We would set out what we are considering for the 2018/19 tariff engagement document
High cost drugs and devices lists	We propose to remove a number of devices from	Any changes to the drugs or devices lists would have	We would add new devices and drugs in	We would continue to add and remove drugs and

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		
		Set tariff for two years	Publish intentions for the 2018/19 tariff	Provide information on the planned work programme for the 2018/19 tariff engagement document
	the current list, remove one drug, and add a number of additional drugs on to the list	to be included in the 2017-19 statutory consultation. We would not amend the high cost device or drugs list in that period.	2018/19 if appropriate. However, we would not intend to add or remove any drugs or devices that would impact on prices. Adopting the same relativities, as would be our intention, would limit our ability to do this.	devices as appropriate

Table 4: Policies that affect final price levels

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		
		Set tariff for two years	Publish intentions for the 2018/19 tariff	Provide information on planned tariff developments
Efficiency factor – this reflects our expectations of the extent to which providers can deliver the same services, to the same level of quality or better, at a lower cost	We propose to use the same method for setting the efficiency factor	The efficiency factor(s) for 2017/18 and 2018/19 would be included in the 2017-19 statutory consultation, and would not be able to be changed during the tariff period.	We would publish the intended level of the efficiency factor for 2018/19, but would be able to change it if there was new evidence.	We would only set out the 2018/19 efficiency factor in the 2018/19 statutory consultation.
Cost uplifts (other than	We propose to update the	The 2018/19 cost uplifts	We would set out the	The 2018/19 cost uplift

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Set tariff for two years	Publish intentions for the 2018/19 tariff	
CNST) – these are the adjustments to reflect expected additional cost pressures incurred by providers.	assumptions in line with the existing methodology	would be included in the 2017-19 statutory consultation and final tariff, based on forecasts. We would not be able to amend the cost uplift, for example to respond to changes in inflation or new forecasts.	intended level of the cost uplifts for 2018/19, based on inflation forecasts. We would be able to review these and amend them in 2018/19 in light of new information or forecasts.	would reflect the latest available data. We could also amend the method to better reflect cost inflation. But the level would not be known until the 2018/19 tariff is published, and could vary from forecasts
Service development and cost-increasing new policies – this reflects the expected additional unit costs to providers of major initiatives that are included in NHS England’s Mandate	We propose to update the assumptions in line with the existing methodology	Any future changes to service provision development uplifts for 2018/19 would be set out upfront, and would not be adjusted during the tariff period.	We would set out expected future changes to service provision development uplifts for 2018/19, that are contained in the longer term objectives accompanying the annual mandate.	We would review and set out service development uplifts annually. Waiting until the annual mandate is finalised will allow us to provide the most accurate, up-to-date assessment of any additional costs of implementing the requirements of the mandate, but will only be available a year later.
CNST – this reflects providers’ contributions to the Clinical Negligence Scheme for Trusts, which covers the legal and compensatory costs of clinical negligence	We propose to use the same methodology to determine the uplift	We would need to develop a method for determining CNST costs for the second tariff year. Due to a lack of data, we aren’t currently able to forecast CNST over a longer period than one year.	We intend to retain the same method for determining CNST uplifts each year.	We would set out what we are considering for the 2018/19 tariff engagement document

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Set tariff for two years	Publish intentions for the 2018/19 tariff	
Setting the cost base and indexation policies	We are not engaging on this policy yet	We would use the same method as that adopted for 2017/18. The cost base and indexation would be fixed for 2018/19 in the tariff published at the end of 2016 or early 2017.	We intend to use the same method as that adopted for 2017/18.	We would review these policies annually in line with other policies

Table 5: National variations, local pricing and other policies

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Tariff set for two years	Intentions for the 2018/19 tariff	
Marginal rate emergency rule	We propose no change to existing policy	No change to existing policy. If as proposed it was retained for 2017/18 it would remain in place for 2018/19. Elements of this policy are historical and we will continue to monitor the impact and use of this policy. We believe that the incentive effects have an important benefit.	We do not intend to change the existing policy	We would set out what we are considering for the 2018/19 tariff engagement document

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Tariff set for two years	Intentions for the 2018/19 tariff	
		For each provider, there is already flexibility to update the local baseline used to apply the rule.		
30 day readmission rule	We propose no change to existing policy	<p>No change to existing policy. If as proposed it was retained for 2017/18 it would remain in place for 2018/19. This policy has not been reviewed for a while. We believe that the incentive effects of the policy have an important benefit.</p> <p>A number of providers have agreed a local variation to remove this rule.</p>	We do not intend to change the existing policy	We would set out what we are considering for the 2018/19 tariff engagement document
Top-up payments for specialised services	Currently we propose to introduce top-ups that reflect HRG4+ phase 3 and the new prescribed specialised services definitions	We would keep the same top-ups adopted in 2017/18, and would not be able to change these (although commissioners and providers could agree local variations)	We intend to retain the same top-ups adopted in 2017/18, but would be able to review these if necessary, for example to reflect changes to mandatory definitions, clinical practice or policy.	We would set out our early thinking on any proposed changes for 2018/19
Market forces factor	We propose no change to	No change to existing	We do not intend to	We would set out what we

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Tariff set for two years	Intentions for the 2018/19 tariff	
	existing policy	<p>policy. Each provider's factor would remain the same for 2018/19 as in 2017/18. We are beginning to review this policy but as it is closely related to the method for calculating commissioner allocations any change must be addressed in line with changes to the allocations methodology.</p> <p>We would need to consider a method for calculating the MFF for 2018/19 in cases where there is a merger or acquisition during 2017/18</p>	change the existing policy	are considering for the 2018/19 tariff engagement document
Local pricing rules	We proposed changes to the rules in relation to mental health	Rules would remain the same as 2017/18, including the proposed changes. We would need to modify some rules to enable them to operate effectively for the 2 year period	We would set out what we are considering for the 2018/19 tariff engagement document	We would set out what we are considering for the 2018/19 tariff engagement document
Local modifications – method for considering	No changes yet proposed, but we are reviewing the	Depends on outcome of review, but local	We would set out what we are considering for the	We would set out what we are considering for the

Component	2017/18 tariff engagement proposal	Emerging thinking on the 2018/19 tariff		Provide information on planned tariff developments
		Tariff set for two years	Intentions for the 2018/19 tariff	
agreements and applications	policy	modification method would be the same for 2018/19 as in 2017/18 (which would affect local modifications applying in 2019/20). We may need to reconsider the policy for granting modifications for one year only	2018/19 tariff engagement document	2018/19 tariff engagement document
Timeline for the production of the national tariff	We expect to publish the final national tariff for 2017/18 at the end of 2016, beginning of 2017	We would publish one national tariff at the end of 2016 or early 2017 covering 2017/18 and 2018/19.	Timetable for 2017/18 tariff not affected. We would aim to bring publication of the national tariff for 2018/19 forward.	We would aim to start engagement on 2018/19 proposals earlier, which may allow us to present more developed proposals in the 2018/19 tariff engagement document.

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