

## NHS Foundation Trusts information guide

### Introduction

The creation of NHS Foundation Trusts is a key step in public sector reform – giving greater freedoms to NHS organisations. This is part of the wider programme of moving from an NHS controlled nationally towards an NHS where standards and inspection are national but delivery and accountability is local.

NHS Foundation Trusts will remain fully part of the NHS and will have a primary purpose of providing NHS services to NHS patients. They will be subject to NHS standards, NHS performance ratings and NHS systems of inspection. NHS Foundation Trusts will pioneer a new model of social ownership, giving local communities real opportunities to get involved in the stewardship of their local hospitals.

This information document is part of a first series of 8 short documents covering key aspects of NHS Foundation Trust policy and interrelated areas.

### Aims of NHS financial reforms

New financial reforms are being introduced across the NHS. The aim is to provide a fair, transparent system for paying NHS hospitals and other NHS service providers. Instead of relying on historical budgets and locally negotiated settlements, all providers will be rewarded through a single rules-based system. Payments will be directly related to results.

### The case for change

The next five years will see the largest ever sustained increase in NHS funding. These resources need to be used effectively to ensure value for public money. Investment also needs to be targeted locally, in order to meet the specific needs of different communities. Currently many NHS Primary Care Trusts operate 'block' contracts with service providers under a system of service level agreement.



These 'block' arrangements have several important disadvantages:

- Hospital trusts are not rewarded for increasing the amount of work they do;
- The costs and benefits of different patterns of hospital activity are not always clear;
- Service patterns differ across the NHS; It does not help in comparing the cost and quality of providers; and
- They do not reflect local differences in service provision or in the types of cases treated.

The new financial system will introduce a level playing field funding across the NHS. It will:

- Be fair and open;
- Reimburse providers for the work they actually carry out;
- Allow better management of demand and risk;
- Reward efficiency and quality;
- Allow providers to develop services that reflect the needs of their local population;
- Enable patients to choose where they want to be treated; and
- Ensure funding flows to the providers where patients have chosen to be treated.

### How the new system will work

A system of national tariffs will be introduced as part of the NHS finance reforms.

Improved Healthcare Resource Groups (HRGs) – clusters of cases that are clinically similar and require similar levels of resource to carry out – are currently being developed. A standard price tariff will eventually be applied to each HRG (based on the national average cost of those cases) allowing NHS Primary Care Trusts to buy hospital services without lengthy price negotiations.

The tariff system will allow NHS Primary Care Trusts to:

- Buy hospital services that accurately meet the needs of their local populations without lengthy price negotiations;
- Shop around different services providers; and
- Have a clearer picture of how much different treatments cost.



During 2003/04 a standard tariff will apply to 15 HRGs. In 2004/05 the tariff will be extended to cover an additional 15-30 HRGs. Cost and volume commissioning agreements should also be used to cover all surgical specialties in 2004/5.

From 2005/06 the national tariff will be applied to nearly all hospital activity.

NHS providers will have three years to fully transfer to the new system, so that by 2008/09 most activity will be paid for at national tariff rates.

will be given the opportunity of extending the system to cover *existing* activity one year ahead of the rest of the NHS by starting the transition process to tariff in 2004/05. NHS Primary Care Trusts in areas covered by an NHS Foundation Trusts will be supported to ensure they are not put in a worse financial position by the tariff system.

## **NHS Foundation Trusts and the new financial regime**

NHS Foundation Trusts will begin working under the new funding system a year earlier than the rest of the NHS. From 2004/05 the amount they get paid will be directly linked to the activity they carry out.

NHS Foundation Trusts and their local NHS Primary Care Trusts will also be given the opportunity to introduce the tariff system 12 months early. From April 2004 all *new* NHS Foundation Trust activity will have a standard tariff cost. NHS Foundation Trusts

## Financial Reforms: Payment by Results



### Further Information

This information document is part of a first series of 8 short documents covering key aspects of NHS Foundation Trust policy and interrelated areas.

Other titles in the same series are: System Reform in the NHS, Financial Freedoms, Accountability and Regulation, Members, Governors, Human Resources and Contracting.

A Guide to NHS Foundation Trusts and A Short Guide to NHS Foundation Trusts, published by the Department of Health, are available at [www.doh.gov.uk/nhsfoundationtrusts](http://www.doh.gov.uk/nhsfoundationtrusts)

Details on Payment by Results can be found at [www.doh.gov.uk/nhsfinancialreforms](http://www.doh.gov.uk/nhsfinancialreforms)