



## PWYLLGOR CYLLID FINANCE COMMITTEE

<b>DYDDIAD Y CYFARFOD: DATE OF MEETING:</b>	25 February 2021
<b>TEITL YR ADRODDIAD: TITLE OF REPORT:</b>	Healthcare Contracting Approach for 21/22
<b>CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:</b>	Huw Thomas, Director of Finance
<b>SWYDDOG ADRODD: REPORTING OFFICER:</b>	Shaun Ayres, Assistant Director of Commissioning

**Pwrpas yr Adroddiad (dewiswch fel yn addas)**

**Purpose of the Report (select as appropriate)**

Ar Gyfer Trafodaeth/For Discussion

### ADRODDIAD SCAA

#### SBAR REPORT

##### Sefyllfa / Situation

The report outlines the Health Board's (HB) approach and negotiations relating to contracting in 2021/22. There have been initial conversations across Wales around the approach to be undertaken in the new financial year. The Healthcare Contracting Team (HCT) continues to advocate that robust contract management and Value For Money principles must be employed throughout 2021/22.

##### Cefndir / Background

The HB is proposing to spend c. £148m on commissioned services and provide c. £33m of income through provision of services to other organisations (*Healthcare Contracting Expenditure and Income*) in 2021/22.

Within this transactional range there are requirements to exercise grip and control, and ensure the quality of the HB's contract portfolio, and scope to seek and act upon opportunities identified within the service activities provided.

The Finance Committee needs to be fully abreast of, and sighted on, any material changes affecting external spend or receipt of income. This includes, but is not limited to, the proposed approaches to the 2021/22 contracting round.

##### Asesiad / Assessment

This paper sets out a number of options discussed and considered in relation to the contractual arrangements for 2021/22.

Uncertainty still exists over service delivery in 2021/22 as a result of the ongoing pandemic. At the time of writing this paper, NHS Wales has redesigned many services, which includes suspending delivery of most elective care treatments and focusing upon patients who require immediate (urgent) treatment.

However, with the roll-out of the vaccination programme, it is likely that at some point in 2021/22, NHS provider organisations can again begin to move towards providing significantly more activity than is currently available. However, many providers will face significant issues in terms of the size of their Patient Treatment Lists (PTL), which will provide an unprecedented challenge over the next few years, as each HB will need to address the significant growth in the PTL as a consequence of COVID-19, in addition to current and new referrals to treatment.

Therefore, with these uncertainties in mind, an all-Wales meeting (*LTA Arrangements 2021-22*) was held on 15<sup>th</sup> February 2021 to discuss the approach to Long Term Agreements (LTAs) in 2021/22, with a particular focus upon the financial approach across Wales. There were many proposals regarding how a fair approach to LTAs can be ensured, which provides financial stability to providers, whilst clearly recognising the requirements of commissioners and their respective populations.

Having discussed several considerations in this meeting, the overriding consensus was that representatives wished to develop a sensible solution which would serve both providers and commissioners, and there was agreement on the following points:

- Any agreed solution needs to cover both LTAs and Service Level Agreements (SLAs).
- Any agreement must be reached in a timely manner in order that all Health Boards have certainty going into 2021/22.
- The Indicative Activity Plan (IAP) is to be based on the 2019/20 outturn position.
- Any recovery funds should be allocated to commissioners and not issued on a provider basis (to note: Welsh Government – WG - normally allocates funding to providers and not to commissioners; this would therefore represent a step change)).
- Finally, the purpose of the group (meeting representatives) was to put forward recommendations (where applicable) to Deputy Directors of Finance and Directors of Finance.

In addition, discussions were held regarding how commissioner and provider risks could be balanced in 2021/22. The following points were highlighted:

- There was unlikely to be a single arrangement pursued for the full year in 2021/22. For example, if a LTA was based upon a block arrangement at the beginning of Quarter 1, a plan would need to be formulated for coming off this block arrangement.
- All parties agreed that coming off a block arrangement will be extremely risky, given that some payments for patient treatments would have been made during the block period.
- At present there is no clarity from WG as to where the financial risk would be placed. If existing arrangements are continued, commissioners would continue to pay for services not received, while providers would benefit from financial certainty.
- Conversely, if there was agreement to operate a 'cost and volume' approach, this would lead to a significant reduction in income for some providers (e.g. Swansea Bay and Cardiff and Vale University Health Boards - UHBs). Therefore, WG need to confirm how this loss of revenue would be met, if the commissioners were reimbursed through a marginal rate for performance which is below plan (the plan being predicated on 2019/20 outturn).
- The inconsistency in tariff prices for healthcare services throughout Wales is also likely to be problematic, as these prices are predicated on pre-COVID-19 cost bases (albeit in

some cases these are somewhat outdated). Consequently, under the Marginal Rate principle\* this is likely to inadequately recompense some providers for the activity undertaken (due to the longer periods of time required to carry out procedures as a result of COVID-19 related restrictions etc.)

Ultimately, no single approach could be agreed. The HB's position advocates that:

- This is not just about cost, but rather clear and unequivocal assurance around ensuring that the HB's population is treated fairly, equitable and in a timely manner.
- Any cost 'claw-back' from the LTAs would and should support alternative commissioning capacity.
- Alternative commissioning capacity could include external providers and/ or internal reconfiguration of pathways (such as developing a solution involving demountable site units).

By way of balancing the considerations outlined above, a few representatives did not consider that any alternative commissioning capacity was available, and that proposals to identify this would therefore not support commissioning, but would rather represent a financial balancing exercise, in that any benefit received from 'claw-backs' would need to be used against what Health Boards could 'draw down' from WG relating to COVID-19 expenditure. Swansea Bay UHB and Cardiff and Vale UHB both confirmed that any financial benefit derived from the LTAs has been offset against COVID-19 expenditure.

Finally, there was a unilateral consensus that, from both a Commissioner and Provider perspective, and regardless of contract mechanism, there needs to be transparency regarding equitable access to services, with resident populations being treated based upon need, and not upon where they live. Moreover, it was felt that clear information needed to be conveyed and shared to this effect moving into 2021/22.

Representatives have agreed to reconvene at the end of February 2021, when it is hoped that clarity from WG will be available which will allow all HBs to reduce any material differences.

\* The marginal rate applies when there is under and/or over performance against the baseline set in the contract

### Argymhelliad / Recommendation

The Committee is asked to note the negotiations and discussions to date, and to note that at present there is no consensus on the contract form for 2021/22.

<b>Amcanion: (rhaid cwblhau)</b>	
<b>Objectives: (must be completed)</b>	
Committee ToR Reference: Cyfeirnod Cylch Gorchwyl y Pwyllgor:	5.5.9 Commissioning regular reviews of key contracts, suppliers and partners to ensure they continue to deliver value for money
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	856 (score 8) Ability to deliver the Financial Plan for 2021/22

Safon(au) Gofal ac Iechyd: Health and Care Standard(s):	Governance, Leadership and Accountability
Amcanion Strategol y BIP: UHB Strategic Objectives:	4. Improve the productivity and quality of our services using the principles of prudent health care and the opportunities to innovate and work with partners.
Amcanion Llesiant BIP: UHB Well-being Objectives:	Improve Population Health through prevention and early intervention

<b>Gwybodaeth Ychwanegol: Further Information:</b>	
Ar sail tystiolaeth: Evidence Base:	Included within the body of the report
Rhestr Termau: Glossary of Terms:	Included within the body of the report
Partïon / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Cyllid: Parties / Committees consulted prior to Finance Committee:	Not Applicable

<b>Effaith: (rhaid cwblhau) Impact: (must be completed)</b>	
<b>Ariannol / Gwerth am Arian: Financial / Service:</b>	Health Care Commissioning Services
<b>Ansawdd / Gofal Claf: Quality / Patient Care:</b>	Not Applicable
<b>Gweithlu: Workforce:</b>	Not Applicable
<b>Risg: Risk:</b>	Included within the report
<b>Cyfreithiol: Legal:</b>	Not Applicable
<b>Enw Da: Reputational:</b>	Possible impact upon relationship with Swansea Bay University Health Board (SBUHB) and Cardiff and Vale University Health Board (CVUHB)
<b>Gyfrinachedd: Privacy:</b>	Not Applicable
<b>Cydraddoldeb: Equality:</b>	Not Applicable