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Payment by Results in the NHS in England

Addressing the challenges and improving health outcomes

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Payment by Results in the NHS in England: addressing the challenges and improving health outcomes

Key takeaways

1. Payment by Results (PbR) remains a significant component of hospital financing in the English NHS, where hospitals are reimbursed based on diagnosis allocated to each patient. While The NHS Long Term Plan, published in 2019, recommends a move away from PbR to a funding model aligned with the priorities of Integrated Care Systems (ICSs), backlog in elective care following the COVID-19 pandemic impacted this transition.
2. This policy briefing identifies the challenges and shortcomings of PbR. The briefing identifies particular challenges with tariffs, which are set for each patient based on their diagnosis and reflect the complexity of their healthcare needs. The current tariff structure suffers from financial constraints, inequitable resource distribution, lack of tariff flexibility, and a narrow focus on rewarding elective activity.
3. The current tariff under PbR fails to accurately reflect the complexity and costs of medical care, particularly for complex needs. Tariffs do not match the actual resources required to deliver high-quality care, and these gaps also reflect regional inequalities in access to health services and health outcomes – especially for vulnerable groups. Tariffs are not reviewed regularly to allow for new technologies and cost increases.
4. Regular tariff updates are necessary to account for the rising costs of health services and new technologies. Flexibility adjustments in the tariff mechanism are needed to provide appropriate care for patients falling outside of the diagnosis and treatment categories. Tariffs should address regional disparities, aiming to improve health outcomes and reduce healthcare inequalities. While rewarding elective care is essential to reduce waiting lists, the variations in tariffs should be adjusted to support the preventive services.
5. If PbR is here to stay, an urgent review and update of tariff structures involving stakeholders from healthcare professions, hospital administrators, and health economics experts is necessary.

1. Background

Hospitals in NHS England have been reimbursed under Payment by Results (PbR) since April 2003. This reimbursement model pays NHS healthcare providers a standard tariff for each patient based on their diagnosis, reflecting the complexity of their healthcare needs. PbR was introduced to replace block contracts, which involved the purchase of services (in this case, NHS England purchasing services from hospitals) for a predetermined amount of money for a defined period (typically a year) to provide a specified range of healthcare services to a particular population or area. PbR created a link between the number of patients treated and hospital budgets, and aimed to incentivise high performance and reduce waiting lists in elective care.

NHS England expressed its intention to move way from PbR in the Long Term Plan, published in 2019. There was an urgent need to develop a funding model which aligns with the creation of Integrated Care Systems (ICSs) and the objectives of the Long Term Plan such as

greater care integration, collective financial management, and proactive and preventative healthcare (NHS England, 2021). The Plan attributed a crucial role to ensuring effective allocation of funding and fostering a collaborative environment for health system functioning.

The COVID-19 pandemic accelerated this shift in some areas, with the suspension of PbR and a transition to block contracts in 2020. This shift aimed to provide more financial flexibility to hospitals, considering the interruption of elective care provision. However, the growing waiting list for elective care during the pandemic raised concerns about the delivery of health services. The backlog in elective care led to a swift return to PbR. Several trust managers have voiced concerns about the sustainability of increased elective activity without expanding trust capacities (Anderson, 2023a).

The current 2023/25 Payment Scheme has introduced a mixed payment model for ICSs, combining elements of block and activity-based payments, along with local payment arrangements (NHS England, 2021). However, due to the lack of alternatives, PbR currently appears to be the only realistic option for ICSs. In light of this context, this policy briefing identifies challenges of PbR for ICSs and provide recommendations to address them effectively through activity-based funding (Anderson, 2023c).

2. Study Outline

This policy briefing provides evidence from data collected through interviews with physicians and administrative/managerial staff (i.e. finance directors, chief financial officers, clinical coders) at NHS hospitals in England to propose avenues of improvement for PbR. 18 remote interviews (13 physicians and five staff members) were conducted between November 2021 and January 2022 as part of a larger research programme. Participants were asked about their experiences of medical practice under PbR, shortcomings of the reimbursement model, whether these impact service delivery to patients, managing hospital budgets, and potential areas for improvement.

Participants identified key challenges of PbR including financial constraints, the focus on elective activity, lack of tariff flexibility, and the inequitable distribution of resources. These challenges have the potential to affect patient experience, hindering access to high-quality care. Based on the interview data, a series of policy recommendations are proposed in this briefing.

3. Key Challenges of PbR

Financial constraints

Input-based approaches to secondary care financing, which focus primarily on resource distribution, create financial constraints for health providers. This is in contrast with output-based approaches which focus on achieving specific outcomes and results rather than solely concentrating on the allocation of resources. A gap between the actual costs incurred in delivering care and the value of tariffs, partly occurs due to delays in tariff updates, which creates particular problems for surgical specialties (Jones and Wyatt, 2022; Alexander, 2019).

This gap results in budget shortfalls for hospitals, leading to strained resources and limits the ability to invest in essential equipment, staff, and infrastructure (Gainsbury, 2017). Rising inflation intensifies tariff inadequacies, erodes the purchasing power of hospitals, and exacerbates budget shortfalls, making it even more challenging for hospitals to

provide quality care and maintain essential services (Office for National Statistics, 2023; Anderson, 2023b).

Focus on elective activity
While the Long Term Plan assigned greater significance to preventive care funding, the elective backlog and potential return to PbR raises concerns about funding of preventative healthcare services (West, 2023). The focus on acute care and elective activity has the potential to erode the preventive aspect of healthcare provision. Consequently, the budgetary variations between elective and preventive care services pose challenges for underserved populations and those with the greatest healthcare needs, undermining the equity objectives of health policy.

Lack of tariff flexibility
The predetermined tariffs for diagnoses do not enable funding flexibility for hospitals in providing care to patients who do not fully fit into relevant diagnosis groups, as expressed by physicians. This situation inhibits patient access to treatment(s) that could greatly improve their quality of life.

High rejection rates for Individual Funding Requests leads to wasted resources and creates obstacles for patients to access the treatment they need (Sanghvi et al., 2023), as identified by participants. Moreover, in case of complications, the existing tariffs fail to adequately cover additional expenses, impacting the provision of subsequent services due to budgetary constraints (Kallala et al., 2015).

Balancing financial incentives with patient-oriented care
The focus of PbR on elective activity results in competing priorities for funders and providers (Dunbar-Rees, 2018). It is crucial to strike the right balance between incentivising efficient care and maintaining a patient-centric approach that considers individual needs, preferences, and holistic well-being.

Inequitable distribution of resources
The inequitable distribution of resources has been exacerbated by the pandemic, leading to widening regional health disparities in the UK (Bambra et al., 2020). PbR has failed to adequately address regional variations in costs and healthcare needs, resulting in an inequitable distribution of resources. This has potential to impact hospitals in deprived areas with higher patient acuity considering disparities across UK regions (Burn et al., 2021), as they have been disproportionately affected by inadequate tariffs.

Directors of finance interviewed for this research suggested that some hospitals face greater financial challenges and struggle to provide the necessary level of care which exacerbates healthcare inequalities, undermining the principle of equitable access to healthcare for all. Other participants highlighted the unfair rewarding system under PbR, which considers age-related comorbidities but neglects poor health outcomes resulting from socioeconomic circumstances.

While the establishment of ICSs in 2022 – and the focus on collaboration – has the potential to reduce health inequalities, ICSs have yet to align properly with secondary care funding (Ham 2022). The financial challenges stemming from regional health inequalities have undermined the fundamental principle of ensuring equitable access to healthcare for all. Furthermore, budgetary cuts on hospitals which cannot meet the targets under PbR creates a ripple effect on hospitals, affecting the quality of care delivered.

4. Recommendations

This policy brief suggests a set of recommendations to address the above challenges of PbR and alleviate the impact on patient care and medical work. These recommendations are aimed at policymakers working in and with Integrated Care Boards. The following recommendations are proposed:

Development of outcomes-based metrics in line with ICS objectives
To address the challenges of PbR and improve patient care, it is essential to transition from an input-based approach to an outcomes-based vision which aligns with the goals of ICSs. This transition should include adopting a population-based funding model that addresses regional health needs and considers health inequalities across the country. Enhancing preventive services should be a priority. Outcomes-based metrics with appropriate financial rewarding systems would ensure reduction of waiting lists without any detrimental impact on patient outcomes. The connection between payments and outcomes should be reinforced according to policy objectives, rather than solely relying on the volume of activities performed.

Review and update tariff structures
Regular tariff updates are essential to reflect the complexity and costs associated with medical work in NHS hospitals. Tariff reviews should consider inflation, rising costs of health services provision, and the diverse needs of different specialties. It is crucial that tariffs align with the actual resources required to deliver high-quality care. Collaborative efforts and inclusive decision-making processes would ensure that the new tariffs are evidence-based, transparent, and acceptable to all parties involved. Such revisions will result in better resource allocation to hospitals and facilitate the reduction of waiting lists post-pandemic. Healthcare professionals who directly deliver care and understand the challenges faced on the ground should be involved in the review process.

Consideration of complexity and flexibility adjustments
The tariff structure should incorporate mechanisms to account for the complexity of medical work. Risk-adjustment mechanisms and case-mix variables should be considered to ensure that hospitals receive adequate reimbursement for specialised services and patients with complex needs. A degree of flexibility should be incorporated into the tariff mechanism to ensure appropriate care provision for patients falling outside the standard diagnosis and treatment categories. This approach would result in a fairer and more accurate representation of the costs involved in delivering care.

Regional healthcare needs adjustment
Tariff adjustments are necessary to address regional variations in costs and healthcare needs. Budgetary allocations should consider the potential to improve health outcomes and life expectancy within the UK. It is necessary to ensure that hospitals serving deprived areas or with higher patient acuity receive appropriate funding to deliver quality care. By addressing the inequitable distribution of resources, the NHS can work towards reducing healthcare inequalities and improving access to healthcare services across different regions.

5. Conclusion

This policy brief identifies several challenges of Payment by Results in the NHS in England including: financial constraints; a focus on elective activity at the expense of preventive care; lack of tariff flexibility; and inequitable resource distribution. The current reimbursement

issues exacerbate challenges faced by English NHS hospitals such as staff shortages and budgetary issues, and a reimbursement model built upon competition between providers is at odds with the goals of Integrated Care Systems. To enhance patient care and address these issues, there is an urgent need to: strengthen outcomes-based metrics aligned with the objectives of ICSs; conduct regular tariff reviews and updates to reflect actual costs accurately; incorporate complexity and flexibility adjustments in the tariff structure; and address regional variations in healthcare needs.

There is widespread acknowledgment that, to meet the increasing health demands of a rising and ageing population, the NHS must pivot to a more preventative approach, delivered through ICSs. Considering the evidence presented in this briefing, there is potential to work towards a more effective and equitable healthcare system, better resource allocation, and improved access to high-quality care, ultimately contributing to enhanced health outcomes and reduced disparities across the country. Collaborative efforts and inclusive decision-making processes will be vital in ensuring the successful implementation of these reforms and securing a more preventative and patient-oriented approach to healthcare delivery through ICSs. If PbR is here to stay – at least, for now – then it urgently needs revaluating and updating to reflect this aim.

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