

Introducing payment by results

Getting the balance right for the NHS and taxpayers

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For further information on the work of the Commission please contact:

Audit Commission,
1st Floor, Millbank Tower, Millbank,
London SW1P 4HQ
Tel: 020 7828 1212
Textphone (minicom): 020 7630 0421

Payment by results, the new funding system for much of the work done by NHS providers in England, offers major opportunities and incentives from which all can benefit. These include improved efficiency and cost effectiveness, service redesign aimed at providing care in an appropriate setting, greater fairness and transparency in how trusts are funded, and a sharper budget discipline and financial accountability for hospitals. In parallel with other reform initiatives, it also supports patient choice.

But the new funding regime also carries major risks, which if not well managed could lead to financial instability, service difficulties and poorer outcomes for patients. As the implementers of the change, primary care trusts (PCTs), NHS trusts and foundation trusts alike will face significant challenges, particularly with financial management, data quality, and effective and innovative commissioning.

Payment by results requires good quality data on costs and clinical activity. Yet a review by auditors at the end of 2003/04 found significant inaccuracies in cost and activity data. While the data is reliable enough to create a robust national tariff, considerable improvement is required for local payment and management purposes.

The implications of payment by results for financial management are significant. PCTs in particular face considerable financial risk under payment by results, yet many do not have the necessary financial management systems and capacity in place to manage that risk effectively. Demand management and innovative commissioning will also be important activities for PCTs, and capacity needs to be developed in these areas.

Recommendations, drawing on the Commission's own work with NHS bodies, along with international experience and academic research, include:

- **NHS trusts** should urgently invest in their information systems, focusing on recording and coding patient activity; and review and strengthen their financial management systems and capacity to ensure that they are equipped to manage effectively in the new environment
- **PCTs** should prioritise the development of appropriate financial management, contracting and monitoring processes, ensure appropriate risk-sharing arrangements are in place, and begin to improve their cost and activity information now
- both **NHS trusts and PCTs** should ensure that clinicians and frontline managers fully understand the implications of payment by results and are committed to the changes needed to implement the new system effectively
- the **Department of Health** must continue to assess and refine the system and support its implementation, working with strategic health authorities to help local NHS bodies address key risks and build capacity; and ensure that a sound monitoring framework is in place to address possible manipulation or 'gaming' of the system