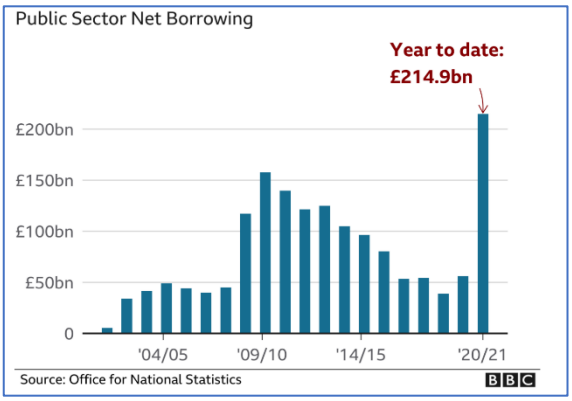
Your Savings from PHBs

PPL have developed a **savings calculator** that enables us to work with CCGs to model their potential efficiencies from PHBs. The estimates range from **5% to 25%,** depending on variables such as the cohort and budget deployment model, but we would expect a CCG to be able to prudently forecast a **net saving of at least 10%** of the overall budget spend. This paper examines the evidence and theory behind this.

Why savings are needed

According to the Office for National Statistics, the government will spend **£280bn** on measures to fight Covid-19 and its impact on the economy, in the current year alone.

Recent ONS analysis shows the impact this is having on public sector borrowing. The public purse is stretched and attention will move to how you can save money and start to **balance the books**.



The idea that PHBs might help deliver savings is nothing new, yet the potential remains largely untapped. There are many reasons for this (see our article on *Five Reasons PHBs Matter & You Need to Act Now!*), but **understanding and capturing the savings potential is critical**. As one participant at an HFMA round table discussion on PHBs in July 2019 said *"We need to demonstrate there is money coming out. We can only do things if there is some payback".*

How are savings defined?

It is useful to differentiate PHB savings into three categories:-

Indirect care costs – these are net savings to the wider health system associated with increased patient activation and quality of life measures, which may reduce demand for acute care.

Direct care costs – these are cash-releasing savings for CCGs based on direct comparison of the value of a PHB package versus the cost of a traditional package of care. Considerations include setting the budget itself as well as tracking and managing the actual spend.

Management costs – these are efficiencies for CCGs relating to staffing and back-office savings associated with the delivery of PHBs, and can be a mixture of cash-releasing savings and cost avoidance.

Some of the savings areas that the **savings calculator** tries to ascribe a value to and that this paper explores are:

Care delivery model	*Budget allocation anomalies*	*Inappropriate spend*
Respite funding	*Duplicate invoices*	*Clawbacks / bad debts/fraud*
Contingency funding	*Price variations*	*3rd party management costs*
Non-recurring one-offs	*Volume variations*	*Review, finance and audit staff*

What evidence is there?

In relation to **indirect care costs**, a national evaluation of PHBs in 2012 used care related quality of life to measure net benefits, and estimated that the indirect cost savings of PHBs in Continuing Healthcare (CHC) were approximately £4,000 per person per year. This was mainly due to a reduction in acute care, likely to be a combination of both fewer admissions and shorter lengths of stay.

In relation to **direct care costs**, NHS England analysis in 2019 of 495 Continuing Healthcare PHBs across 11 CCGs showed:

- an aggregate net cost reduction in care packages of **18%** for cases where there was no change in assessed needs.
- within this group, the aggregate cost reduction was **22%** where the PHB was delivered as a direct payment.
- the cost reductions were evident across **all age groups.**
- **76%** of all cases analysed stayed the same or decreased in cost following transition to a PHB.

It should be noted that these findings are based on data from a small number of sites (who are amongst the most mature in relation to PHB delivery) and cannot be extrapolated to provide a national picture of the cost impact of PHBs or to project the impact of scaling up PHBs. However, the themes are broadly consistent with analysis by NHS Midlands and Lancashire CSU in 2017 of Continuing Healthcare PHBs across 17 CCGs, which showed **overall net cost reductions of 17%** between PHBs and conventional care package costs.

Furthermore, at a round-table event organised by HFMA in July 2019, a group of three CCGs anecdotally reported cash-releasing savings of **between 20% and 30%,** equating to **£0.7m** of savings.

In relation to **management costs**, as the number of PHBs increases, CCGs need to invest in people, processes and technology to support the roll-out and/or engage with third party organisations to provide this. The NHS England analysis in 2019 in this area was heavily caveated, but it estimated the management cost as ranging between **1% and 5% of PHB value**. As the number of PHBs scales, it is important to manage these costs, and hence we generally talk about 'cost avoidance'.

One consideration (beyond the scope of this paper) is how the management cost of delivering a PHB package compares to the cost of a CCG delivering a corresponding traditional package. Such an analysis is complex, and will be influenced by the nature of the cohort (i.e., low-value PHBs versus, say, high-value Continuing Healthcare packages).

How can we model and estimate savings?

Estimation of the **indirect care cost** savings to health system and the wider public purse is beyond the scope of this document as it is complex and perhaps best left to the academics.

In relation to **direct care cost** savings and **management cost** savings, we have drawn on the above findings and our work with local authorities and CCGs to develop a **savings calculator** for our Virtual Wallet PHB solution, which enables CCGs to identify and model their potential local savings.

We populate the **savings calculator** based on discussions with each CCG in order to calibrate the variables and assumptions. Savings estimates range from **5% to 25%,** depending on variables such as the cohort and budget deployment model, but we would expect a CCG to be able to prudently forecast a **net saving of at least 10%** of the overall budget spend.

Savings Calculator – Direct Care Costs

The NHS analysis cited above found an aggregate cost reduction of 18% between the cost of traditional Continuing Healthcare packages and PHBs. If this has been factored in to the PHB budgets allocated, then the CCG *should* realise these reductions, *subject to* robust budget setting process being used and actual spend being in-line with the budgets offered.

If we assume that an aggregate cost reduction can be expected, a CCG that sets a PHB budget at a **similar** level to the traditional package cost will only realise the cost reduction if it *identifies* potential underspend due to a PHB holder planning to have care and support provided by PAs *and* takes corrective action to ensure the indicative budget offers a realistic amount of money to plan for care and support to be received in this way. The Virtual Wallet solution automates the audit process, providing the ability for the CCG to swiftly identify and rectify over-allocations (to prevent ongoing issues) and recover any historic amounts (via automated retrospective clawback).

Instead of setting PHB budgets at a similar level to the traditional package cost, many CCGs are utilising more nuanced PHB budget allocation models,which should mean that some of the expected reductions are 'baked in' from the outset. However, no PHB budget allocation model is perfect, meaning that cost reductions *could* be captured from one or more of the following areas:

Area	Comments
Budget allocation – care delivery model	*Some* PHB budget allocation models are predicated on the basis of an agency provider model (which is generally more expensive than the employment of personal assistants due to the associated corporate overheads). If a PHB holder then goes on to employ personal assistants (or switches at a later stage), the budget should be updated (in which case, any cost reduction is captured). If the budget is not revised, the effect may be that the budget remains at a level that is higher than the needs. This may only be highlighted when an audit is undertaken, and may not be in a timely manner as many audits are done on a random sample and/or rolling basis. *The Virtual Wallet solution automates the audit process, providing the ability for the CCG to rectify over-allocations swiftly (to prevent ongoing issues) and recover any historic amounts (via automated retrospective clawback).*
Contingency funding	*Some* CCGs include a general provision in their PHB budget allocation model to cover contingencies, such as unforeseen spend or fluctuating care patterns. In some circumstances, this may be as high as 10% of the budget. *Using the Virtual Wallet solution means that this can be (i) eliminated (or at least reduced) at the outset by enabling CCGs to rapidly deploy contingency funds only when needed; and/or (ii) enabling any general provision within the PHB allocated to be tracked and easily clawed back on an ongoing basis.*
Respite funding	*Some* CCGs provide a general provision in their PHB budget allocation model to allow for emergency respite cover. In some circumstances, this may be as high as 10% of the budget. *Where this is the case, the Virtual Wallet solution enables any general provision to be tracked and easily clawed back on an ongoing basis if it is not used*

Area	Comments
One-offs not removed	There are *occasions* when amounts are added to an initial budget which should be a 'one-off' or short-term in nature, but are not removed on a timely basis. *The Virtual Wallet can manage these as separate funding streams to mitigate the risk, and/or automated audits enable CCGs to identify and rectify any over-funding.*
Budget allocation – other anomalies	Some of the most obvious budget allocation issues are highlighted above. Even then, no PHB budget allocation model is perfect. Where a budget is set too low (for any reason), this will normally be identified early and corrected. However, budgets that are set too high are typically only highlighted when a review of the person's care and support plan or an audit is undertaken, and the latter is not guaranteed to be in a timely manner as many audits are done on a random sample and/or rolling basis. *The Virtual Wallet solution automates the audit process, providing the ability for the CCG to rectify over-allocations swiftly (to prevent ongoing issues) and recover any historic amounts (via automated retrospective clawback).* (bearing in mind that any reduction in individual budgets should be based on a full review of the person's needs and care and support requirements).

Please note that the applicability of each of the above savings areas will vary from CCG to CCG and depend upon the patient cohort and the budget deployment model.

The **savings calculator** also includes a number of other potential savings that are not linked to the PHB budget allocation model, which mayaccrue across one or more of the following areas:

Area	Comments
Duplicate invoicing / payments	All organisations have risks of processing duplicate or erroneous invoices. The risk is normally mitigated by having robust and rigorous accounts payable systems and processes. For direct payment PHBs, the evidence suggests that individuals are good at managing the risk of duplicate payments (although it can be time consuming to check and match every line item on an invoice). For notional PHBs, the risks may be around duplication and anomolies on block-contract invoices, or the processing of PHB invoices being managed in a different manner to the normal operations of the CCG. *The closed-loop procurement processes within the Virtual Wallet ensures a three-way match between order, delivery and invoice, eliminating the risk of duplicate invoicing and generating a cash-releasing saving for the CCG*.
Price variations	In some circumstances, providers / PAs may submit charges at rates higher than agreed (e.g., annual price increases, uplifts for weekends, etc) which can be difficult to detect or time consuming to query & resolve for whoever is managing the budget (individual, third-party or CCG). *The Virtual Wallet solution eliminates this risk of unagreed price variations being paid out of PHBs, which can generate a cash-releasing saving for the CCG.*
Volume variations	In some circumstances, provider / PAs may submit charges for care and support that has not been provided or properly authorised, which can be difficult to detect or time consuming to query & resolve for whoever is managing the budget (individual, third-party or CCG). Practical examples include: the PHB holder verbally agreeing to extra support which has not been agreed as part of the care and support plan, or charges whilst the PHB holder on holiday or hospitalised. *The Virtual Wallet solution allows for a degree of flexibility (as care and support may fluctuate), whilst eliminating the wider risk of unagreed volume variations, which can generate a cash-releasing saving for the CCG.*
Inappropriate spend	Whilst there is no evidence that fraud, waste and abuse is a material issue within PHBs, it does remain a risk as the rollout continues. Inappropriate expenditure may not necessarily be intentional, for example due to a misunderstanding in the way the outcomes are to be achieved, or the local rules associated with PHBs changing. Any issuesmay only be highlighted when an audit is undertaken, which may not be in a timely manner as many audits are done on a random sample and/or rolling basis. *The Virtual Wallet solution provides exception reports and an*

Area	Comments
	automated audit process, so that corrective action can be taken and waste avoided.
Advance payments (timing / one-off benefit)	CCGs normally pay direct payment and third-party PHBs four weeks in advance, but make an additional payment at the outset to cover contingencies and timing differences. *This additional payment can be eliminated with Virtual Wallet. The benefit to the CCG will depend on its accounting policies, and may just be a cashflow (timing) benefit IF they are sure they would ultimately recover the advance payment when the PHB ends (i.e., the funds are recovered via a clawback). If there is no such assurance, the benefit will be one-off cash-releasing saving of roughly 1/12th of the value of the PHB.*
Clawback / bad debt	One of the challenges with direct payment PHBs is that even when the need to clawback public funds has been identified, it can be challenging to recover the funds from an individual's bank account. A practical example is when a patient has died. *With the Virtual Wallet solution, the physical funds are held in a ring-fenced client bank account, and can be returned to the CCG within 7 days of a request. The recovered funds may be recycled, but it is cash-releasing saving to CCG.*

Savings Calculator – Management Costs

There are two elements to potential management cost savings in the **savings calculator**:

Area	Comments
Third party costs	If the CCG has outsourced the administration and management of their PHBs (for example a local authority, a CSU or a third-party), there is normally either a fixed charge per PHB or a variable charge per PHB calculated as a % of the budget. The Virtual Wallet solution reduces some (or all) of these costs, generating cash-releasing and/or cost avoidance savings.
Internal staff costs (review, finance, audit, reporting)	CCGs are already allocating personnel to PHBs. This includes engagement, assessment, care planning, review, finance, audit and reporting (and other areas for notional PHBs). This is often as part of other roles, so it is important to consider FTEs, and a useful measure is the ratio of PHBs per FTE. As the number of PHBs increases over the coming years, there will be some economies of scale using traditional processes, but the number of FTEs will inevitably increase. The Virtual Wallet solution makes the areas of review, finance, audit and reporting more efficient, which will help increase the overall ratio of PHBs per FTE, leading to a cost avoidance saving that can be projected.

There are costs associated with the Virtual Wallet (typically 0.5% to 1.5% of PHB value, depending on the budget deployment model and level of wraparound service), and depending on how the CCG wishes to account for these, they will need to be offset against some of the savings identified.

How can we model and estimate OUR savings?

We believe that PHBs not only deliver great patient outcomes but also better value-for-money. Saving estimates range from **5% to 25%,** depending on variables such as the cohort and budget deployment model, but we would expect a CCG to be able to prudently forecast a **net saving of at least 10%** of the overall budget spend.

We are happy to work with CCGs on a no fee / no commitment basis to populate and refine the **savings calculator** in order to model the likely local savings.

*"The introduction of **Virtual Wallet** at BCC enabled us to make substantial **savings** in relation to the cost of our previous external contract (reduced by approximately **40%**). In real terms this equated to **£350,000 year-on-year savings** because the new technology delivered significant efficiencies that enabled us to restructure the way we delivered direct payments.*

*Virtual Wallet provided visibility into each individual's account. This greatly simplified the clawback process and in the first year of operation we almost doubled the clawback from £630k to **£1.1million**."*

Marcia Smith, Head of Business Improvement – Communities, Health and Social Care at Buckinghamshire County Council.