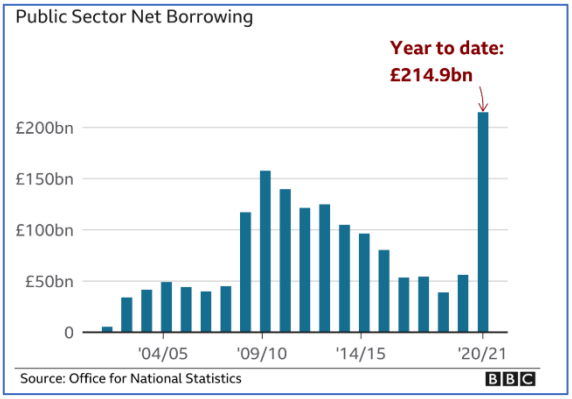
Your Savings from PHBs

PCG have developed a **savings calculator** that enables us to model potential savings for CCGs 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*
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.
- in this group, the saving rose to **22%** where a direct payment was used.
- 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.

This was consistent with analysis by NHS Midlands and Lancashire CSU in 2017 of Continuing Healthcare PHBs across 17 CCGs which showed **overall net savings 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 evidence cited above indicates that there *should* be a typical saving of 18% between the cost of a traditional Continuing Healthcare package and a PHB. If this has been factored in to the PHB budget allocated, then the CCG *will* realise this saving, *subject to* actual spend being in-line with the budget.

Where a PHB budget is set at a **similar** level to the traditional package cost, then any saving is only realised when the CCG *identifies* the underspend *and* takes corrective action to capture the saving. 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 use more nuanced PHB budget allocation models (which should mean that some of the expected savings are 'baked in' from the outset).

However, no PHB budget allocation model is perfect, meaning that cash-releasing savings 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 patient then goes on to employ personal assistants (or switches to this at a later stage), the budget may have been set too high. 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 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; and/or (ii) tracked and easily clawed back on an ongoing basis.*
Respite funding	Some CCGs provide a provision in their PHB budget allocation to allow for emergency respite cover for carers. 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; and/or (ii) tracked and easily clawed back on an ongoing basis.*
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 an audit is undertaken, and this 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).*

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 savings not linked to the PHB budget allocation model. We would also expect cash-releasing savings to accrue 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 risks may simply be due to a lack of formal checks and balances (e.g., matching invoice detail to dates of services provided), and once paid (for example via a prepaid card), they are almost impossible to spot and rectify. For nominal 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 may not be detected or queried. *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 and may not be detected or queried. Practical examples include patient unwittingly verbally agreeing to extra support or charges whilst a patient is 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	The reality of PHBs is that there is an inherent risk of fraud, waste and abuse. Inappropriate expenditure may not necessarily be intentional, for example due to a misunderstanding in the way the outcomes are to be achieved, or the rules associated with PHBs changing. A proportion of PHBs are therefore a risk, that may 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 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.*

Area	Comments
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 is challenging to recover the funds from an individual's bank account, effectively resulting in bad debts which are may ultimately be 'written off'. 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.