Approved costing guidance: the essentials

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Delivering better healthcare by inspiring and supporting everyone we work with, and challenging ourselves and others to help improve outcomes for all.
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Introduction

Accurate and comparable cost data is fundamental to supporting NHS Improvement’s role in pricing NHS services in England. It is also essential if providers are to identify how to improve outcomes for patients and develop sustainable services. In December 2014, we published Improving the costing of NHS services: proposals for 2015-2021, detailing the move to patient-level costing (PLICS), our intentions on costing and cost collections, and the aims for future years to support our responsibility for price setting.

In summer 2016 six acute providers successfully implemented our draft Healthcare costing standards for England. Their findings informed the Approved costing guidance, ensuring the costing approach we want you to adopt is practical and achievable.

Many providers already use PLICS for internal management and benchmarking. We aim to collect patient-level data from all providers in line with the previously published implementation timeline. In the short term we will continue collecting reference costs while expanding the collection of patient-level costs.

Compliance with the guidance

The Approved costing guidance describes the process of producing and collecting costs, both patient-level and average (reference) costs. It is updated and issued annually.

We recommend all providers of NHS services apply all the guidance to their costing systems and costing processes. We intend to mandate the patient-level cost collection for all acute providers for the 2018/19 submission, extending to all mental health and ambulance providers for the 2019/20 submission and community providers in 2020/21.

Table 1 below shows the structure, intended users and compliance status of each part of the guidance.

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1 The Health and Social Care Act 2012 confers functions in relation to the national tariff, pricing and costing on Monitor. Monitor is now operating together with the NHS Trust Development Authority as an integrated organisation known as NHS Improvement. References in this document to NHS Improvement and its costing functions are therefore references to Monitor.

Table 1: Structure, intended users and compliance status of the *Approved costing guidance*

<table>
<thead>
<tr>
<th>Title</th>
<th>Contents</th>
<th>Acute</th>
<th>Mental health</th>
<th>Ambulance</th>
<th>Community</th>
<th>Independent</th>
<th>Compliance status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Principles of costing</td>
<td>Principles underpinning NHS costing</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Healthcare costing standards for England (the standards)</td>
<td>Costing guidance, processes and methods to be applied to 2016/17</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>Comply or explain basis</td>
</tr>
<tr>
<td>PLICS acute collection guidance for 2016/17 data⁴</td>
<td>Guidance for acute providers submitting patient-level costs calculated by following the standards</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Voluntary for acute early implementers⁵</td>
</tr>
<tr>
<td>Reference costs collection guidance for 2016/17 data</td>
<td>Annual reference costs and education and training collection guidance which should be completed using the standards</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Mandatory cost collection⁶</td>
</tr>
</tbody>
</table>

⁴ We will publish collection guidance for ambulance and mental health roadmap partners later in the year.
⁵ Early implementers are trusts that have volunteered to implement the standards and take part in the voluntary PLICS collection in 2017.
⁶ [https://improvement.nhs.uk/resources/apply-for-an-nhs-provider-licence/](https://improvement.nhs.uk/resources/apply-for-an-nhs-provider-licence/)
Cost collections for 2016/17 data

Reference cost collection – mandatory for all NHS trust and NHS foundation trusts

For 2015/16 cost data there were two mandatory national cost collections: the business-as-usual (BAU) reference costs collection, and the integrated costs (IC) collection. The IC collection consisted of the education and training (E&T) costs collection alongside a second reference costs collection in which the costs of E&T were netted off reference costs services.

The IC collection was a major improvement in NHS costing and a big step towards aligning and collecting costs for patient services and education and training. Ultimately, this alignment will improve cost data quality and understanding of the cost of delivering education and training and patient services.

Initial findings from this IC collection suggest that nationally education and training are being subsidised from patient service income, but we need to improve the data collection further before we can be confident about this. Improving the quality of IC, and the patient-level collections are critical to successfully implementing the Costing Transformation Programme (CTP).

For the collection of 2016/17 cost data we are combining the BAU and IC cost collections in a single submission with a single timetable and governance process. It will be called the 2016/17 combined collection. We have improved the cost collection guidance and the collection and validation process, and developed standards to improve quality. We will no longer collect spell costs.

The section on ‘Oversight and the provider licence’ (page 9) explains the legal basis for the mandatory status of the reference costs collection.

For the 2016/17 collection we ask you to use the healthcare costing standards for England if available\(^7\) for the services you provide, on a ‘comply or explain’ basis. We do not expect you to implement the standards in full. Please follow the transition path in Appendix 1 of How to implement the standards to find out which standards to use for this collection.

\(^7\) Healthcare costing standards for England are available for acute, mental health and ambulance services. The mental health costing process standards can be applied to community services.
Full details of the combined collection can be found in the reference cost guidance. Table 2 shows the provisional timetable for the reference cost collection.

Table 2: Provisional timetable for reference cost collection

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2017</td>
<td>Collection guidance for reference costs published</td>
</tr>
<tr>
<td>June 2017 to mid-September 2017</td>
<td>Reference costs submission window</td>
</tr>
<tr>
<td>Mid-September 2017 to mid-October 2017</td>
<td>Reference costs potential resubmissions window</td>
</tr>
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</table>

Patient-level cost collection – voluntary for providers of acute services

As it is our intention to mandate the PLICS collection we and the Department of Health (DH) propose that PLICS should replace reference costs as the single mandatory national cost collection by 2019 (2018/19 data – acute only). That would give acute trusts two years to attempt PLICS using the new costing standards.

We are conscious of the cost collection burden on providers, and we are committed to ensuring a smooth transition to one single cost collection. But we need to be pragmatic during the proposed transition and ensure we collect PLICS data from the wider sector under the new costing standards and prove it can adequately replace reference costs.

More than 80 trusts have volunteered to be ‘early implementers’ and take part in the patient-level cost collection in 2017. Next year we plan to give early implementers more time to do both PLICS and reference costs. Table 3 below shows a provisional timetable, but note that exact dates and timings are to be confirmed. The current plan is to extend the reference costs submission to mid-September. The PLICS submission window is provisionally planned for July with a contingency into early August.
Table 3: Provisional timetable for PLICS cost collection

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2017</td>
<td>Costing standards, collection guidance for Costing Transformation Programme (CTP), and minimum software requirements published</td>
</tr>
<tr>
<td>June to July 2017</td>
<td>CTP test data submission window</td>
</tr>
<tr>
<td><strong>July 2017</strong></td>
<td><strong>CTP submission window</strong></td>
</tr>
<tr>
<td>Early August</td>
<td>Contingency for CTP submissions</td>
</tr>
<tr>
<td>November 2017</td>
<td>CTP potential resubmissions window</td>
</tr>
</tbody>
</table>

We will not run the voluntary ‘cost pool’ PLICS collection in 2017.

**Update on patient-level cost collections for other sectors**

**Mental health and ambulance**

We will undertake a pilot cost collection with roadmap partners in 2017 using the first version of their standards published in this document. We will publish revised costing standards in January 2018 and cost collection guidance soon after.

**Community**

We are developing standards during 2017 with the first version to be published in January 2018. We will undertake a pilot cost collection with roadmap partners in 2018 using the first version of their standards.

**Uses of the collected data**

We will use the information collected in various ways, including:

- supporting the calculation of the national tariff
- populating planned analysis tools, which will be available for providers to compare their costs against their peers’
- analytical purposes by teams within NHS Improvement.

All information will be anonymised and only shared according to NHS Improvement information governance processes.

For more information on how we will use the acute PLICS data for 2016/17, see Section 6 of the 2016/17 PLICS acute cost collection guidance.
Oversight and the provider licence

Our provider licence and Single Oversight Framework are the main tools with which we oversee providers of NHS services. NHS foundation trusts and many independent providers of NHS services must hold a licence. It includes a set of standard licence conditions, including those that enable us to fulfil our duties in partnership with NHS England to set prices for NHS care. Although NHS trusts do not have to hold a provider licence, they are required to comply with most of its conditions, including the requirements of the licence relating to pricing and costing.¹⁰

Three licence conditions relate to costing:

- Pricing Condition 1: Recording of information
- Pricing Condition 2: Provision of information
- Pricing Condition 3: Assurance report on submissions to NHS Improvement.

Pricing Condition 1 specifies that if required in writing by NHS Improvement, providers must:

- obtain, record and maintain information about costs (and have any necessary systems and methods for doing so)
- record and allocate costs in accordance with NHS Improvement’s ‘approved reporting currencies’ and ‘approved guidance’.

For the collection of 2016/17 cost information, this guidance imposes those requirements on NHS trusts and foundation trusts. The reference costs guidance contains our ‘approved reporting currencies’ and ‘approved guidance’, which they must use to allocate and record costs. In addition, it specifies the costing information that must be provided to us under Pricing Condition 2. As in previous years, we have adopted the guidance drafted by DH on reference costs.

The reference cost guidance therefore describes the mandatory requirements for collecting cost information that could be enforced under the provider licence conditions (in respect of NHS trusts and foundation trusts). Data submitted for reference costs may be subject to external assurance.

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¹⁰ The Health and Social Care Act 2012 provides for a licence to be issued by Monitor to providers of NHS services. For further details see: https://improvement.nhs.uk/resources/apply-for-an-nhs-provider-licence/

¹⁹ See: https://improvement.nhs.uk/resources/single-oversight-framework/

¹⁰ See: https://improvement.nhs.uk/news-alerts/provider-bulletin-7-december/#SOF
For 2017/18, we will continue not to exercise our power to require independent providers with a provider licence to collect cost information, although they are encouraged to comply with the costing principles. We may, however, require costing and other information to be submitted in future.

**Costing assurance programme**

The costing assurance programme (CAP) is designed to assure the accuracy of information submitted. To support the move to PLICS and address feedback from the sector, the programme will assess the arrangements for complying with the 2015/16 reference costs submission and identify providers’ progress in implementing the changes that form part of the costing transformation programme.

This is intended to help providers adopting PLICS. We therefore encourage providers to use the audit as an opportunity to identify the strengths and weakness in their current arrangements. This will help us identify progress and providers needing support, as well as the types of support we can offer. We believe the change in the methodology, creation of a support workstream and reporting format will encourage providers to improve costing. Where a provider’s costing does not meet expected standards and guidance, we may investigate and take action to improve it.