Volume 2: National Cost Collection reconciliation and exclusions

How to obtain and record your cost quantum for the national cost collection

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NHS England and NHS Improvement

Contents

1. Introduction

1.1 Purpose and context

1. The National Cost Collection (NCC) collects data about the costs of patient care in the NHS. This means that only provide costs that relate to the ongoing running costs of your organisation and not those that are one-off in nature.

2. Some of the costs your organisation incurs are not collected, such as the costs of:
   - caring for another NHS provider's patients
   - services for which there is no requirement to understand the costs or for which it is not possible to collect the cost
   - caring for non-NHS patients.

3. In addition, certain types of income that offset the cost of patient care are deducted from this cost.

4. Therefore, we need you to reconcile your organisation's audited year-end accounts and the costs your organisation submits in the NCC workbook for its cost quantum because otherwise they will differ.

5. Reconciliation to your organisation's audited year-end accounts is important for assuring the quality of costing outputs. You need to understand how your organisation's cost quantum is derived from these accounts, to ensure that your cost model includes all costs and produces reliable and comparable results.[1] As some of your organisation's audited accounts are not part of its cost quantum, a reconciliation is needed to establish the links between the two.

[1] Costing principle 2: Good costing should include all costs for an organisation and produce reliable and comparable results. https://improvement.nhs.uk/documents/2358/The_costing_principles.pdf

6. This guidance describes the reconciliation process for cost data submitted in all national cost collections, whether patient-level costs (PLICS) or aggregate costs.

7. It is supported by Standard CP5: Reconciliation. Annex 2 lists the reports that must be available in your costing system, to demonstrate reconciliation of the outputs of the costing process to other financial and activity figures.

1.2 Cost reconciliation worksheet

8. The cost reconciliation worksheet in the NCC workbook captures and reconciles the information from your organisation's audited financial accounts and any adjustments required to your total cost quantum.

9. The same information is collected in PLICS using the acute extract specification but currently does not match to the workbook reconciliation. We will be running a Costing Expert Working Group on this.

10. In 2021, we are aiming to turn off the cost reconciliation in the workbook for those sectors where this is possible.

Operating expenses (Line 1)

11. Your operating expenses are the starting point for your reconciliation. You derive your cost quantum by adjusting the operating expenses figure, but this must be done transparently using the reconciliation template and not by adjusting the operation expenses figure directly.

12. Your cost quantum should include costs incurred for any discontinued operations. If a patient care operation is discontinued it should be matched to the appropriate activity. If another type of activity is discontinued it should be netted off and you need to request an agreed adjustment from us.[2]

13. Your general ledger output will often not correlate to your final audited accounts. As stated in paragraph 4, the basis for the NCC is that your cost quantum is derived from your organisation's final audited accounts. Therefore, you need to work closely with your financial accounting team to

[2] Email costing@improvement.nhs.uk citing 'NCC request for agreed adjustment' in the subject line.

understand and interpret the differences between the two and derive costs that relate only to the patient care your organisation is responsible for delivering.

14. Sections 2 to 7 of this document give guidance to ensure you make appropriate adjustments to your operating expenses, to arrive at your cost quantum. In summary:

    - **Section 2: Activities other than patient care.** From your organisation's expenses you should capture only those costs relating to patient care. You deduct the income associated with activities other than patient care from the total operating expenses.
    - **Section 3: Accounting adjustments.** Your organisation derives its final audited accounts by adjusting the final general ledger output. You may need to amend these adjustments to ensure that your cost quantum is representative of the overall costs of delivering the activity in scope of the collection.
    - **Section 4: Services performed by another NHS provider.** You should only account for the costs of providing care to your organisation's own patients. Where your organisation's NHS patients were seen by another NHS provider, or vice versa, you need to adjust your operating expenses.
    - **Section 5: Services excluded from the NCC.** The NCC only requires you to capture from your costing system the costs of services for which there is a national requirement to understand the costs and that can be collected.
    - **Section 6: Patient care outside the NHS.** You should only capture those costs incurred by your organisation in caring for NHS patients. This section describes scenarios where the care provided does not meet this definition and for which the costs need to be deducted from your operating expenses.
    - **Section 7: Agreed adjustments.** These ensure that you can request additional adjustments to reconcile your audited accounts and costing system outputs.

15. To facilitate reconciliation, the cost reconciliation worksheet identifies which line in the final audited accounts corresponds to which PLICS cost collection ID (as per extract specification worksheet 'reference data – reconciliation').

16. It identifies the former using the trust accounts consolidation (TAC) schedules and the related statements, main codes and subcodes.[3]

17. You must ensure that the amounts you enter in each line of the cost reconciliation worksheet include no expenses or income reported on another line in the worksheet.

18. Net gain or loss on transfer by absorption is not included in the total cost quantum, which explains why there is no line for this on the worksheet.

Reconciliation process

19. We recommend that you review the cost reconciliation worksheet when you start preparing your annual costing submission. You must be able to accurately map the costing quantum back to your audited financial accounts right from the start of the costing process. Otherwise, reconciliation may prove more complex later on.

20. You must obtain values for Lines 1 to 25 from the final audited accounts.

21. In 2020, NHS England and NHS Improvement will focus their reconciliation checks on Lines 1 to 25 to ensure your pre-costing software subtotal is accurate. Where there are material differences, you may be required to resubmit.

22. We also advise scoping all the services your organisation delivers as early as possible to give yourself adequate time to include all of those within your operating expenses that are permitted to be in your cost quantum.

23. Where one provider is acquired by another mid-year, the acquiring provider must contact us to clarify the action it needs to take for reconciliation. [4]

24. Table 1 lists the steps we recommend you take in carrying out your organisation's reconciliation.

[3] https://improvement.nhs.uk/resources/trust-accounts-consolidation-tac-data-publications-background-information/.
[4] Contact us at: costing@improvement.nhs.uk

Table 1: Recommended steps for the reconciliation process

Step	Description
Step 1	Ensure the financial accounts are closed and the final version of the general ledger is available. Ask colleagues in financial accounts for the information from the final audited accounts.
Step 2	Obtain the final trial balance and/or the general ledger output, and ensure they agree at the detailed account code level. Familiarise yourself with which income centre each general ledger code is categorised into.
Step 3	Allocate the lines on the trial balance/output to the relevant lines on the cost reconciliation worksheet in partnership with your financial accountant.[5]
Step 4	Together with your financial accountant check that the figures obtained in Step 3 agree with those in the final audited accounts spreadsheets.
Step 5	Complete the reconciliation worksheet up to the pre-costing software subtotal. Ensure your adjustments are a true and fair representation of your audited accounts. Perform a sense check at this point against last year's worksheet.
The financial accounting element is now complete and you should move onto working with the costs from your costing software to finalise your cost quantum for the financial year. Your subtotal should now only relate to the costs for delivering patient care.	
Step 7	From the costing system outputs identify the costs of services performed for/by another NHS provider, services out of scope of the NCC and care of non-NHS patients. Adjust for these costs in the appropriate lines of the reconciliation worksheet.
Step 8	Request approval from the NHS England and NHS Improvement costing team[6] before making any additional requirements not explicitly captured in the reconciliation worksheet. If approved, we will send you an authorisation code and you need to post this in your cost reconciliation worksheet. Adjust the lines in the cost reconciliation worksheet.
Development and quality assurance of your costing model in preparation for submission. This may take practitioners a number of weeks before moving onto Step 9 and Step 10.	

[5] You can also use Spreadsheet CP2.1: Standardised cost ledger to assist with this process.
[6] Please contact us at costing@improvement.nhs.uk; we will aim to respond in three working days.

Step	Description
Step 9	Ensure that the total cost quantum for the files you are submitting for your cost collection agrees to within ±1% of the total quantum in the reconciliation worksheet.
Step 10	Perform a final check of the reconciliation worksheet against last year's worksheet to identify any material or unexpected variations. If variations exist, investigate them and make changes as needed.

2. Activities other than patient care

23. The guidance in this section ensures that you capture only those costs that relate to patient care from your organisation's audited accounts. It describes those activities other than patient care that an organisation may perform, and how you adjust for them in both the reconciliation worksheet and your costing model.

24. Activities other than patient care are:

    - education and training (E&T)
    - research and development (R&D)
    - commercial or other activities not primarily related to providing care to NHS patients.

25. Activities other than patient care are not reimbursed through national prices.

26. You will adjust for the income your organisation receives for activities other than patient care in both the reconciliation worksheet and within your costing model.

27. The working assumption is that the income recorded in your audited accounts matches the incurred costs of performing those activities.

28. In instances where paragraph 27 does not apply, national policy is that if the income received for services is more than what it costs your organisation to provide them, this contributes to the provision of NHS patient care. Therefore, the NCC requires you to net off all income from activities other than patient care from the appropriate cost centre within your cost ledger.

29. Income from activities other than patient care should be matched to the service that generated the income, offsetting the cost of providing that service.

30. You need to submit the costs of activities other than patient care as a memorandum item, to enable us to assess the impact and inform future decisions.[7]

31. In the reconciliation worksheet, income from activities other than patient care is deducted from the total operating expenses.

32. You need to understand the different types of income recorded in the general ledger and what costs the income relates to, so the outputs from the costing system can be reconciled to the audited accounts. Income groups need to be separated into income that relates and does not relate to patient care. We recommend that you familiarise yourself with which income centre each general ledger code is categorised into.

33. The reconciliation worksheet has lines for you to deduct income from E&T and R&D activities. Income from the remaining non-patient care activities, based on your organisation's 'other operating income', is deducted in a single line of the worksheet.

34. The totals for Lines 2 to 7 should balance with the other operating income in your organisation's final audit accounts.

2.1 Education and training

35. **Line 2 and 3:** E&T income should be deducted from the operating expenses in Line 2.

2.2 Research and development

36. **Lines 4 and 5:** All R&D income regardless of the accounting treatment (IFRS 15 or non-IFRS 15) should be deducted from the operating expenses using Line 1.

37. R&D comprises several funding streams. The following funding streams are adjusted as part of your reconciliation process using Line 1:

[7] The costing standards guide you in the costing of non-patient care activities. [https://improvement.nhs.uk/resources/approved-costing-guidance-2020/]

- **Research:** Research grant funding to pay for the costs of the R&D itself (eg writing the research paper) received from the Department of Health and Social Care (DHSC) (including the National Institute for Health Research – NIHR), other government departments, charities and the Medical Research Council (MRC), and which includes funding for biomedical research centres, biomedical research units and collaborations for leadership in applied health research and care (CLARHC).
- **NHS support:** Funding from DHSC (including NIHR) to cover extra patient care costs associated with the research (eg extra blood tests, extra nursing time) that end when the research ends.
- **Flexibility and sustainability funding:** Funding from DHSC mainly to support the NIHR faculty and associated workforce.

38. Other R&D funding streams relating to patient care costs continue after the research ends. Where there is no income to match to a cost, the income must not be deducted from operating expenses.

    - **Treatment costs, including excess treatment costs:** Funding from normal commissioning arrangements to cover patient care costs associated with the research that would continue to be incurred after the research ends were the service in question to continue.
    - **Subventions:** Exceptional funding from DHSC that contributes to the cost of very expensive excess treatment costs.

39. We are reviewing how excess treatment costs might be funded differently in future. This could have implications for the reporting of these costs in future NCCs.

2.3 Remaining other operating income including clinical excellence awards

40. After you have deducted E&T/R&D income in Lines 2 to 5 from your operating expenses, the remaining balance for other operating income should be deducted in Line 7.

41. Income for clinical excellence awards (CEAs) should have been recorded in your organisation’s other operating income and this should not be adjusted

for. However, if your CEA income was included as patient income in your audited accounts, you should adjust for it in Line 6.

42. If you discover patient income within your other operating income, then you must not adjust for it in Line 7. Instead ask for an agreed adjustment from NHS England and NHS Improvement.[8] This ensures that costs are not artificially reduced.

43. The remaining balance in Line 6 should not need to be adjusted, but if you are unsure how to treat a source of income, do contact us.[9]

[8] Email costing@improvement.nhs.uk citing 'NCC request for agreed adjustment' in the subject line.
[9] costing@improvement.nhs.uk

3. Accounting adjustments

45. Further adjustments must be made to the ‘operating expenses’ reported in Line 1 of the reconciliation worksheet. Several non-cash items, such as donations and government grants for non-current assets, must be separately deducted from the operating expenses. Additionally, some income deducted as part of ‘other operating income’ in Line 4 that relates to patient care must be added back to the operating expenses.

3.1 Finance income and expenses

46. **Lines 8 and 9:** Finance income is unrelated to patient care and should be deducted from the operating expenses, whereas finance expenses should be added. Finance expenses for the unwinding of discount should be treated as part of finance expenses.

3.2 Public dividends capital

47. **Line 10:** The provider’s public dividends capital (PDC) should be added to the operating expenses.

3.3 Profits and losses

48. **Lines 11 and 12:** Profits from the sale of an asset that contributed to patient care should be deducted from the operating expenses, whereas losses should be added. The sale can be either at fair value or recycled.

49. **Line 13:** Shares of profit from subsidiaries, associates or joint ventures (ie from group accounts) should be deducted from the operating expenses, whereas shares of loss should be added. The net effect of profits and losses should be calculated, and the resulting adjustment made to the operating expenses, as this figure will not be reflected in your organisation’s cost quantum.

50. Any profit or loss from the sale of non-current assets in a private finance initiative (PFI) or Local Improvement Finance Trust (LIFT) deal should be

deducted from the operating expenses to net off the gain or loss. Only the profit or loss from sales as part of a new PFI or LIFT scheme apply.

51. **Line 14:** Any corporation tax should be deducted from your organisation's operating expenses. Corporation tax will normally be paid in regards to subsidiaries, associates or joint ventures.

3.4 Impairments

52. **Lines 15:** Impairments charged through the statement of comprehensive income are not included in the NCC and must be removed. Impairments should be deducted from the operating expenses, whereas reversals of impairments should be added.

53. The balance charged to revaluation of reserves do not relate to the operating expenditure for the year and should not be deducted from operating expenses..

3.5 Private finance initiative and Local Improvement Finance Trust expenditures

54. **Lines 16, 17 and 18:** As a general principle, PFI and LIFT set-up costs include one-off revenue costs incurred in setting up a new PFI or LIFT scheme from the initial business case to financial close.

55. This includes fees (consultancy, legal, financial, etc) and other costs such as planning applications. Set-up costs do not include the cost of services and other costs such as interest expenses. Annex 5 clarifies the treatment of PFI and LIFT costs.

3.6 Donations and government grants for non-current assets

56. **Line 19:** The depreciation relating to donated or government-granted on-current assets charged to expenditure in-year should be deducted from the operating expenses.

57. This is because the whole cost of the purchase is recognised in the year of the purchase.

58. **Lines 20 and 21:** You will have removed the depreciation of the donated asset on Line 19 and therefore the whole cost of the purchase is recognised in the year of the donation.

59. **Lines 22, 23 and 24:** Any income received in-year to fund non-current assets must be added back to the operating expenses, as it is deducted as part of other operating income in Line 6.

60. Take care not to remove impairments that will already have been deducted in Line 14. The income may be actual cash donated to purchase an asset or the asset value where an asset has been donated; the treatment here will be the same.

61. The treatment of the credit entry relating to donated assets is not held in reserves and is used to offset charges to expenditure. Instead, the funding element is recognised as income in-year as required by IAS 20 and as interpreted by the HM Treasury *Financial Reporting Manual*.[10]

62. In the year when the asset is received, the provider will have income equal to the value of the asset and a much smaller depreciation charge to expenditure. To prevent any instability in the cost quantum caused by this large net income in the year of receipt, followed by years of increased costs (ie the depreciation charge, etc), all income and expenditure relating to donated assets must be excluded from the NCC.

63. Impairments will not be an issue as these are also excluded from the NCC.

[10] www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018

3.7 Provider sustainability fund (PSF)/financial recovery fund (FRF)/marginal rate emergency tariff funding (MRET)

64. **Line 16:** Income from the PSF/FRF/MRET should be added back to the operating expenses as it will have been deducted as part of other operating income in Line 7.

4. Services performed by another NHS provider

65. This guidance in this section ensures that you capture only the costs of caring for your organisation's own patients in your reconciliation. It details the correct treatment in the reconciliation worksheet of services provided to or received from another NHS organisation.[11]

66. A provider's operating expenses minus its other operating income should typically equal its cost quantum. This may not be the case when one NHS provider performs services for another, such as elective operations for a provider that is struggling to meet its operational targets. Reconciliation adjustments are therefore needed.

4.1 Services supplied and received

67. The standards refer to services provided to other organisations as 'clinical services supplied' and services received from other organisations as 'clinical services received'. See Standard CM8: Clinical and commercial services supplied or received.

68. The management of patients by a third-party organisation, but on behalf of an NHS commissioning body, is a type of contracted service. If in doubt about this, please contact us.[12]

69. Activity contracted out to the private sector is discussed separately in Section 6: Patient care outside the NHS.

70. The trust supplying the service provides the activity but does not receive patient income as part of its clinical commissioning group (CCG)-commissioned contract; rather it receives payment from the service recipient.

[11] When following the PLICS costing process, please refer to Standard IR1: Collecting information for costing and Standard CM8: Clinical and commercial services supplied or received.
[12] costing@improvement.nhs.uk

71. The receiving trust is invoiced for the services provided to its patients by the supplying trust. It is therefore the final recipient of the cost of caring for the patient and responsible for reporting the activity and costs of the activity in its NCC, as if it had provided the service itself. Its operating expenses will include the payments it has made for the services it contracted out.

72. The receiving organisation should include the cost of the invoice in the operating expenses. As it will then flow through to the receiving organisation's cost quantum, no adjustments in the reconciliation worksheet are necessary.

73. The organisation supplying the service should not report the cost or the activity in its NCC submission. The profit or loss from supplying the service should remain in the total quantum of the supplying trust's costs.

74. This means that instead of adjusting the cost quantum for the true cost of supplying the service, you should adjust it for the income generated by the supplied activity.

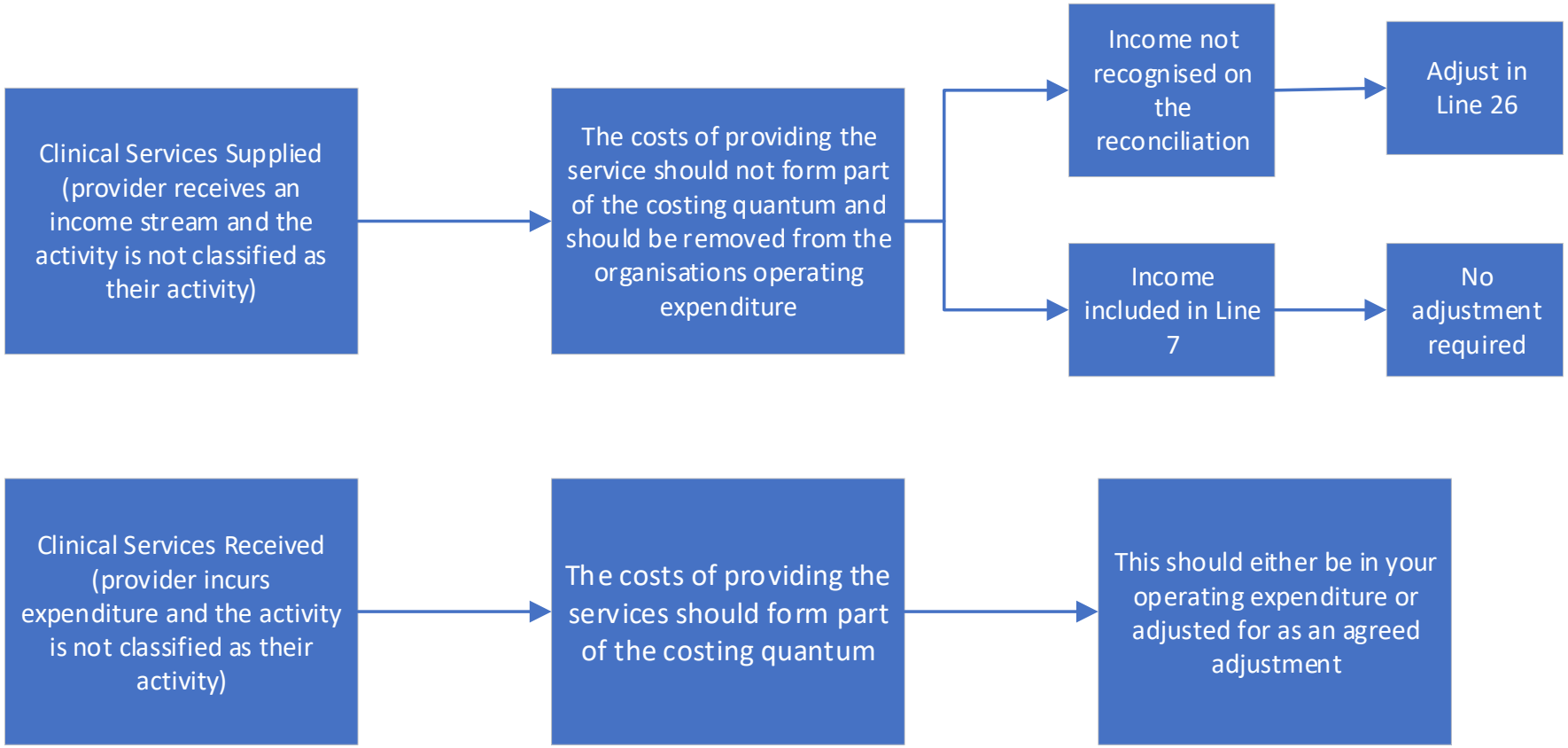
75. **Line 26:** The way Income is treated depends on where it has been coded in the general ledger:

    - **other operating income** – no adjustment required
    - **patient income** – adjust in Line 26.

76. Figure 1 shows how trusts should treat the costs of contracted services in their NCCs and reconciliation worksheets.

77. In your activity reconciliation, you should ignore any activity in the patient activity feeds (eg diagnostic imaging and pathology) relating to services supplied; it should be reported only by the trust receiving and paying for the services.

Figure 1: Cost and reconciliation reporting for services supplied and received



78. The reconciliation statement should not be adjusted for any profit or loss made on these arrangements; instead profit or loss should be reported as part of the memorandum collection. This information will not be published.

79. Costs relating to any qualified providers should be adjusted for in Line 47.

4.2 Maternity pathway services (Lines 27 and 28)

80. The woman chooses where she will receive maternity services. The 'lead provider' is paid for her care and in turn pays any other providers the woman chooses to receive services from. See Acute standard CA8: Maternity services.[13]

81. Adjustments for maternity pathway services should be made in Lines 27 and 28.

82. The woman's chosen provider should include the activity and costs of the services it has provided in its NCC. Its operating expenses will include the costs of providing the care. No adjustments are needed in its reconciliation worksheet, unless any of the income it receives from the lead provider is classified as 'other operating income' and therefore deducted in Line 6. Any such income should be added back on Line 20.

83. The lead provider will not include in its NCC the activity and costs of services the patient choses to receive elsewhere. Its operating expenses will include the payments it has made for these services. Thus, the lead provider will need to deduct the value of these payments from its operating expenses in Line 21.

[13] Available on the open learning platform (OLP): https://www.openlearning.com/nhs/courses/costing-improvement/costing_approaches/

Figure 2: Maternity pathway payments

Patient A	chooses to have baby at	Trust A	£ Pathway payment for antenatal care
Patient B	chooses to have baby at	Trust B	£ Pathway payment for antenatal care

				The ledger	
				Trust A	Trust B
Patient A	has a scan at	Trust B	Trust B invoices Trust A	60	–60
Patient B	has a scan at	Trust A	Trust A invoices Trust B	–80	80
				–20	**20**

Trust A	is making a **surplus** on maternity pathway income, **lowering** costs of the maternity service
Trust B	is making a **loss** on maternity pathway income, **increasing** costs of the maternity service

84. To avoid double-counting activity or costs, we propose that both the income (invoices sent to providers that are only recorded in the ledger) and expenditure (payments made to providers that appear in the ledger) are removed from the cost quantum.

5. Services excluded from the national cost collection

85. The guidance in this section ensures that you capture in your reconciliation worksheet the costs of services for which there is a national requirement to understand the costs and that can be collected.

86. **Lines 29 to 46:** The costs of services excluded from the NCC should be deducted on the reconciliation worksheet.

87. The main services are described in Annex 4.

88. However, your sector-specific volume may include the collection of activity and costs for some additional sector-specific services.

5.1 Non-permitted operating income

89. **Line 29:** NHS England and NHS Improvement do not allow you to take away some income streams from your organisation's operating expenses.

90. If you have patient-related income in your other operating income (Line 7), you should not take this away from your operating expenditure.

91. The income streams that you are not permitted to take away are listed in Annex 3. For transparency, adjust for this income in Line 29, **not** in Line 7.

92. For assurance, Annex 3 also lists the types of income that can be included appropriately as part of the total you have used in Line 7.

5.2 National screening programmes

93. **Line 30:** Table 1 is a comprehensive list of the national screening programmes that are included in the NCC.[14]

Table 1: National screening programmes included in the national cost collection

Programme	Where costs should be included
Antenatal and newborn	
NHS Fetal Anomaly Screening Programme	Included in relevant maternity outpatient and admitted patient costs.
NHS Infectious Diseases in Pregnancy Screening Programme	Included in relevant maternity outpatient and admitted patient costs.
NHS Linked Antenatal and Newborn Sickle Cell and Thalassaemia Screening Programme	Included in relevant maternity outpatient and admitted patient costs. The exception is a few genetic tests that are excluded and should be funded directly by CCGs.
NHS Newborn and Infant Physical Examination Screening Programme	Included in the cost of maternity delivery HRGs or postnatal visits.
NHS Newborn Blood Spot Screening Programme	The cost of taking the sample is included in the cost of maternity delivery HRGs or postnatal visits. The cost if its analysis by regional newborn screening services is excluded from the NCC.
NHS Newborn Hearing Screening Programme	Included in audiology services as neonatal screening.

[14] Information on national screening programmes can be found here https://www.gov.uk/topic/population-screening-programmes

Programme	Where costs should be included
Young person and adult	
National Screening Programme for Diabetic Retinopathy	Included in diabetic retinal screening, which should be reported as a directly accessed diagnostic service against HRG WH15Z.

5.3 Services excluded from the NCC in 2020

94. **Lines 31 and 43:** Some services are not collected as part of the NCC because they meet one or more of the following criteria:

- no national requirement to understand the costs
- lack of clarity about the unit that could be costed
- no clear national definitions of a service
- no clearly identifiable national classification or currency
- underlying information flows do not adequately support data capture
- overlaps with social care or other funding.

95. Annex 4 gives the details of these services. Only these services may be excluded. The total cost of patient events should be excluded using full absorption costing and recorded on the reconciliation statement.

6. Patient care outside the NHS

96. The guidance in this section ensures that in your reconciliation you only capture the costs your organisation incurs caring for patients whose care is funded by the NHS.

97. Costs for patients not funded by the NHS in England should not flow through your NCC cost collection and instead should be included on the reconciliation.

98. Therefore, this guidance applies only if your provider is submitting these costs as part of its operating expenditure.

99. It details the correct treatment in the reconciliation worksheet of services provided by your organisation to non-NHS patients or to your patients by private providers.[15]

6.1 Private patients

100. **Line 44:** Deduct the costs of providing care to private patients who are funded by private medical insurers or pay for their treatment themselves.

6.2 Overseas visitors

101. **Line 45:** Deduct the costs of providing care to overseas visitors who are not exempt from charge under the NHS (Charges to Overseas Visitors) Regulations 2011.[16]

102. Where the UK has a reciprocal agreement with another country you should not deduct the costs of caring for patients from that country as it is part of

[15] When following the PLICS costing process, please refer to Standard IR1: Collecting information for costing and Standard CM8: Clinical and commercial services supplied or received.
[16] This includes most irregular migrants, visitors from a country that the UK does not have a reciprocal agreement with and some UK citizens living overseas.

NHS activity.[17] CCG commission the care of these patients and their costs should be included in the same way as if they were registered or resident in England.

6.3 Other non-NHS patients

103. **Line 46:** Deduct the costs of providing care to the following non-NHS patients:

- **Armed forces personnel:** These patients are funded by the Ministry of Defence (MoD) where the requirement varies from the standard NHS pathways in either the treatment requested or management requirements (eg fast-track care or non-standard treatment). Their attendances or episodes are identified by the code 'XMD' rather than the CCG code for data submission purposes. Non-standard care arrangements are normally covered in specific MoD contracts or by prior agreement with the MoD referrer.[18] For some mental health services, MoD funding does not apply and therefore the cost of these services should be included in the quantum.
- **Patients from the devolved administrations (Scotland, Wales and Northern Ireland):** Parliament sets the NHS budget based on the requirements of NHS patients in England; that is, those resident in England and legally entitled to NHS care.

6.4 Care contracted out to private providers

104. **Line 47:** Deduct the costs of outsourced activity that is:

- contracted out to private providers (care contracted out to other NHS providers is discussed in Section 3)
- patient activity rather than outsourcing of functions, eg payroll
- patient activity where the whole episode is carried out by a private provider.

[17] Including patients from the Isle of Man and Jersey (but not other Channel Islands) with which the UK government has reciprocal healthcare agreements.
[18] www.gov.uk/government/publications/health-services-for-the-armed-forces-and-veterans

105. Commissioners may pay the increased cost of these patients; if so, the only cost that can be attributed by your trust is that for the administration of these patients (waitlist office, informatics, etc).

106. Your organisation’s costs may include those for services it performs to facilitate the care of patients under the care of a private provider that is located within your organisation, eg nursing or administrative support.

7. Agreed adjustments

104. **Lines 48 to 51**: Where you wish to adjust your organisation's cost quantum in a way other than that described in the guidance in this document, you can do so in these lines provided we have agreed that you can do so.

105. To seek our agreement you must send us full details of your proposed adjustment to costing@improvement.nhs.uk.

106. We monitor the entries in Lines 48 to 51 throughout the collection window. If we find entries that have not been previously agreed with us and for which there is no appropriate explanation, we may contact your provider and ask for a resubmission.

107. Adjustments must be agreed on an annual basis – that is, for each collection. Do not roll over those agreed in previous years as there is no guarantee that they will be agreed in subsequent years.

Annex 1: Reconciliation glossary

Term	Definition or description
Associate	Two companies are ‘associated’ if one company is a subsidiary of the other or both are subsidiaries of the same body corporate.
Clinical excellence awards (CEAs)	Awarded in England to NHS consultants and academic GPs who perform 'over and above' the standard expected of their role.
Depreciation	An accounting method to allocate the cost of a tangible or physical asset over its useful life or life expectancy. This helps companies earn revenue from a depreciating asset while expensing a portion of its cost each year the asset is in use.
Finance costs	Interest, income taxes and other such expenditure (NHS trusts).
Finance income	Amounts earned on money invested (foundation trusts).
Financial expenses	Interest, income taxes and other such expenditure (foundation trusts).
Financial liabilities	Interest, income taxes and other such expenditure (foundation trusts).
Impairment	Occurs when the fair market value depreciation of a business asset exceeds the book value of the asset on the company's financial statements.
Investment revenue	Amounts earned on money invested (NHS trusts).
Joint venture	Usually formed where two or more persons or companies come together to execute a particular business proposition or project in a contractual or corporate arrangement.
Local Improvement Finance Trust (LIFT)	LIFT is a public private partnership (PPP). It delivers a wide range of property services to the NHS, not just new build,

Term	Definition or description
	including master planning, land assembly and estate rationalisation.
Non-current assets	Long-term investments whose full value will not be realised within the accounting year. Examples are investments in other companies, intellectual property (eg patents), property, plant and equipment.
Operating expenses	The ongoing cost for running a product, business, or system.
Other operating income	Includes revenue from all other operating activities that do not relate to the principal activities of the company, such as gains/losses from disposals, interest income, dividend income, etc.
Private finance initiative (PFI)	A way in which the private sector finances a public sector project. The project is leased to the public and the government authority makes annual payments to the private company.
Public dividends capital (PDC)	A form of long-term government finance that was provided to NHS trusts when they formed to enable them to purchase the trust's assets from the Secretary of State.
Statement of comprehensive income (SOCI)	A financial report detailing the change in a company's net assets during a specific period. It differs from a typical income statement that details profits and losses.
Strategic transformation funds (STFs)	Five-year plans covering all aspects of NHS spending in England. Forty-four areas have been identified as the geographical 'footprints' on which these plans are based, with an average population size of 1.2 million people (the smallest covers a population of 300,000 and the largest 2.8 million). A named individual will have led the development of each STP.
Subsidiary	A company is a 'subsidiary' of another company, its 'holding company', if that other company: (a) holds a majority of the voting rights in it, or (b) is a member of it and has the right to appoint or remove a majority of its board of directors, or

Term	Definition or description
	(c) is a member of it and controls alone, pursuant to an agreement with other members, a majority of the voting rights in it.
Unwinding of discount	A term used in accounting and finance to describe, where future liability is fixed/certain, the undoing (unwinding) of the process to find out the discount in the said fixed future liability as against its relative current value (or interest to its relative present value). Example: When you apply discounting to a future cash payment arrive at a present value, it is necessary to unwind that discount each successive year until you arrive at the date of payment.

Annex 2: Reconciliation reports

Report number	Report name	Report number
CP5.1.1	Input accounting reconciliation	Enables the totals for the cost ledger and income ledger to be reconciled to the monthly statement of comprehensive income (SOCI) reported by the provider board, for the period reported on, as well as to the final audited accounts at the year end.
CP5.1.2	Internal reporting reconciliation	Shows the costs from the monthly, quarterly or annual report reconciled to the costs reported in the costing system. Clear records must be kept of any adjustments leading to differences between them, both for internal purposes and to provide a clear audit trail.
CP5.1.3	Speciality or service-level reports	Detailed reports of income and costs at provider level, specialty/service level, cluster/non-cluster level, down to the level of each patient/service user to encourage clinician engagement as details of the resources and activities involved in each individual pathway will be available. Also where all costs are at this level, eg unmatched diagnostics will have a specialty but no point of delivery of care (POD) or patient ID.
CP5.1.4	Output accounting reconciliation	To check that the final costing outputs reconcile to those in the provider board reports and the audited annual accounts, with the option in the costing system to amend values for any post-closure adjustments, thereby ensuring that the final costing outputs can be reconciled to these earlier reports.
CP5.1.5	Adjustments and exclusions report	To document all the adjustments to and exclusions from the total quantum. This must also be reconcilable annually to the final audited accounts to provide assurance when submitting data for mandatory cost collections.

Report number	Report name	Report number
CP5.1.7	Cost centre and classification reports	To provide assurance to users of cost information that all appropriate costs are accounted for as part of the costing process. These reports must be available at the levels of the cost centre, expense code and pay/non-pay/income.
CP5.1.8	Matching criteria	To show the matching criteria being used in the system to identify how many records are using which level hierarchy in the prescribed matching rules in Spreadsheet CP4.1 in the technical document.
CP5.1.9	Unmatched activity	Costed activities that could be matched to a specialty but not to a patient within that specialty and costed activities that could not be matched to a specialty or a patient.
CP5.1.10	Cost group reconciliation	When the costing process is complete, to enable the costs within the five cost groups referenced in Standard CP5: Reconciliation to be reconciled to the cost ledger, with the total cost within these cost groups being equal to the total in the cost ledger.
CP5.2.1	Core activity reconciliation	To show the core episode and attendance activity used in the costing model reconciled to the original source data, as well as to an external source such as HES or SUS data, with all exclusions and amendments clearly recorded and explained.
CP5.2.2	Patient event activity reconciliation	To show patient event activity used in the costing model – eg pathology tests, bed days, theatre minutes or radiology scans – reconciled to the initial data feeds, with all exclusions and amendments clearly recorded and explained.
CP5.2.3	Board report reconciliation	To enable reconciliation of episode and attendance activity used in the costing model to the board report based on the POD: for example, day cases, elective inpatients, outpatient first attendances, etc. This activity must also be reconciled to the outputs of the costing system to ensure that all activity has been processed.

Report number	Report name	Report number
CP5.2.4	Full cost reconciliation	A reconciliation report showing all the activities loaded into the costing system fully costed as part of the outputs of the costing model.
CP5.2.5	Timing differences reconciliation	If differences arise in the timing of capturing the activity in the costing system and the activity reported by the provider, a clear record must be kept so these differences can be explained. To avoid these timing differences, good practice is to use a dataset for provider reporting that is produced on the same day as that to be used in the costing system. For example, both should use either the day 5 or day 20 datasets referenced in Standard IR2: Managing information for costing.
CP5.2.6	Output activity reconciliation	Reconciliation should be performed by the costing team to demonstrate that the activity from the source datasets matches the outputs of the costing system, with the exception of any legitimate – and documented – adjustments or exclusions. This reconciliation report should encompass activity feeds received from the informatics team, data warehouse or equivalent, as well as any activity data captured and reported manually.
CP5.2.7	Non-NHS patient report	All activity that does not relate to NHS patients should be clearly identifiable and reportable to enable the use of the costing system to complete a NCC return.

Annex 3: Other operating income (Line 7): adjustments explained

Some items included in Line 7 (SCI0110A) should not be deducted from operating expenses. Tables A3.1 and A3.2 detail examples of items you should and should not adjust for on Line 29 (OEADJ1) respectively.

Table A3.1: Example items you are permitted to adjust for in Line 29

A&E patient experience fund	Information for health
Access, booking and choice funding	Information for health modernisation fund
Cancer service collaborative	Injury cost recovery scheme[19]
Capital to revenue transfers	Maternity liaison committee
Coronary heart disease collaborative	Reimbursements from manufacturers for device recalls[20]
Clinical audit funding	Social service income staff[21]
DHSC funding for specific projects, eg disability equipment assessment[22]	Special measures income[23]
Emergency services collaborative	Transitional relief[24]
Income and expenditure surplus from a previous year	Winter pressures income

[19] This is a reimbursement via a central government agency and should not be treated any differently from contractual income CCGs.
[20] These only apply where the income is treated as non-NHS income. If it is treated as NHS income, no adjustment is required.
[21] If there is a pooled budget arrangement, services should be excluded.
[22] Not allowable unless targeted income specified in the Table A3.2.
[23] If your special measures income does not relate to patient care, please contact the NHS England and NHS Improvement costing team.
[24] Transitional relief is sometimes provided to offset exceptional costs, eg PFI schemes.

Improvement partnership for hospitals	

Table A3.2: Example items you are not permitted to adjust for in Line 29

Adoption medical fees	Mortuary fees
Advertising	Moving and handling
Beverages and meals	NHS learning accounts
Cancer network	National vocational qualifications (NVQs)
Car parking	Occupational therapy sales
Catering	Operating theatre and preoperative assessment programme
Charitable contributions to non-pay expenditure	Paycare commission
Charitable income	Photography
Clinical excellence awards	Provider-to-provider (PTP) handling charges
Clinical trials	Prescription income
Conferences	PTP income
Copy X-ray income for legal cases	PTP VAT to pay
Continuing professional development (CPD)	Receipts in advance
Copying	Reclaims and rebates
Court order administration fees	Rent and rate deductions
Court work[25]	Rent of land and premises
Drugs income for drugs supplied to other NHS trusts and pharmacists	Research and development
Educational courses	Restroom hospitality and takings

[25] If this work is done in NHS time, the employer is entitled to retain the fee, unless the disruption to the NHS is minimal and the employer agrees otherwise. In these circumstances, include costs net of income and exclude activity. If the work is done in the consultant's own time, including during annual or unpaid leave, there is no cost to the NHS provider.

External research income	Safer cities
GP co-operatives	Salary recharges[26]
Hospital shop leases	Sale of baby scan photos
Hospitality	Sale of inventory items
Income generation schemes	Sale of scrap
Interest received on cash deposits	Silver recovery
Investments	Staff meal deductions
Lease cars	Telephones
Lecture fees	Training income
Lifting	Unclaimed patients' property
Lodging charges	Vending machines sales
Miscellaneous income	World Health Organization (WHO) income

[26] To charities, universities (eg for staffing university sessions on an MRI scanner) and other non-NHS bodies (eg clinical pathology accreditation).

Annex 4: Excluded services

<table>
<tr><th>Excluded service</th><th>Definition or description</th><th>Why is the service excluded?</th><th>Line number</th></tr>
<tr><td>Discrete external aids and appliances</td><td>This exclusion is intended for discrete services such as artificial limbs or eyes, and covers both the costs of the services and the appliances. It is not intended for aids such as synthetic wigs, custom footwear or orthoses that are an integral part of the care plan for services such as podiatry and that are provided during an admitted patient episode or outpatient attendance.

NHS England and NHS Improvement are developing a tariff for this area of service. To better understand the costs of this service we will be collecting a memorandum breakdown of this exclusion.

The breakdown will be as follows:

<table><tr><td>Cost of patient attendances excluding the artificial aid/ appliance</td><td>£XXX</td></tr><tr><td>Total cost of upper limbs excluded Including</td><td>£XXX</td></tr><tr><td>Total cost of lower limbs excluded</td><td>£XXX</td></tr></table></td><td>No suitable currencies exist.</td><td>31</td></tr>
</table>

<table>
<tr><th>Excluded service</th><th>Definition or description</th><th>Why is the service excluded?</th><th>Line number</th></tr>
<tr><td></td><td>
<table>
<tr><td>Including</td><td></td></tr>
<tr><td>Total cost of artificial eyes excluded</td><td>£XXX</td></tr>
<tr><td>Other please specify</td><td>£XXX</td></tr>
<tr><td>Other please specify</td><td>£XXX</td></tr>
<tr><td>Total as per line 25c</td><td>£XXX</td></tr>
</table>
If you feel an aid or appliance should be excluded from your costs, please contact costing@improvement.nhs.uk and we will consider the exclusion on a case-by-case basis.
</td><td></td><td></td></tr>
<tr><td>Health promotion programmes</td><td>Health promotion programmes are delivered to groups rather than individuals and are directed towards particular functions (such as parenthood), conditions (such as pre-diabetes) and aspects of behaviour (such as drug misuse).

The exclusion is further broken down into the following classifications, and total costs should be provided for each:
contraception and sexual health
oral health promotion</td><td>We are considering suitable activity measures with a view to collecting unit costs in future reference costs collections.</td><td>32</td></tr>
</table>

Excluded service	Definition or description	Why is the service excluded?	Line number
	• stop smoking education programme • substance misuse • weight management • other health promotion programmes.		
Home delivery of medicines and supplies: administration and associated costs	This exclusion includes all costs of home delivery, even those classified as high cost. Providers incur costs in delivering drugs, oxygen, blood products or supplies directly to patient's homes, without any associated clinical activity at the time of delivery. On this line, providers should include the administration and associated costs relating to home delivery of drugs and supplies, including: • enrolling patients and managing the home care service • contracting, ordering, invoice matching and payment • nurse support of a non-clinical nature • any other associated administrative costs.	There is currently no national requirement to understand the unit costs of providing this service.	33
Home delivery of medicines and supplies:	This exclusion includes all costs of home delivery, even those classified as high cost.	Where the medicine is on the high-cost drugs list, to understand the full cost of high-	34

Excluded service	Definition or description	Why is the service excluded?	Line number
drugs, supplies and associated costs	On this line, providers should include the costs of: • medicines that are **not** on the high-cost drugs list • supplies, eg continence pads or enteral feeding • delivery of medicines or supplies • any other associated medicine or supply costs.	cost drugs we ask that the cost of those supplied directly to patients' homes are detailed on the high-cost drugs worksheet and not excluded here.	
Hospital travel costs scheme (HTCS)	A scheme offering financial help with the cost of travel to and from hospitals and other NHS centres.[27] Note that overnight stays are not part of the unable HTCS. However, the HTCS guidance[28] states: "Where an overnight stay away from home is unavoidable, either because of the time of the appointment or length of travel required, and the patient is to meet the cost of this stay, the expense should be treated as part of treatment costs or met through non-Exchequer funds. This should be discussed with the relevant CCG before the overnight stay occurs". Providers should therefore include overnight stays as a support cost in their reference costs.	Because this scheme makes fixed payments to eligible NHS patients, there is no requirement to understand or benchmark provider unit costs.	35

[27] www.gov.uk/government/publications/healthcare-travel-costs-scheme-instructions-and-guidance-for-the-nhs
[28] www.gov.uk/government/publications/healthcare-travel-costs-scheme-instructions-and-guidance-for-the-nhs

Excluded service	Definition or description	Why is the service excluded?	Line number
Local improvement finance trust (LIFT) and private finance initiative (PFI) set-up costs	See Annex 5.	These are one-off costs.	16, 17, 18
Specified services: ambulance trusts	The following services or costs are excluded (ambulance trusts only): • air ambulance service • chemical, biological, radiological and nuclear costs • decontamination units • emergency bed service • emergency planning • hazardous area response teams • helicopter emergency medical services (part provided by Barts Health NHS Trust) • logistics or courier transport service, eg collecting clinical waste • neonatal transfers (non-ambulance trusts should report the costs of neonatal critical care transportation under HRG XA06Z) • out-of-hours services • patient education • single point of access telephony services	These services are not part of the ambulance service currencies for contracting and no other suitable currency exists.	42

Excluded service	Definition or description	Why is the service excluded?	Line number
	No other services are excluded in this category for ambulance trusts and the above services are not excluded from any other provider types without our permission.		
Specified services: mental health providers	The following services delivered by mental health providers: • acquired brain injury • neuropsychiatry. No other services are excluded in this category for mental health providers and the above services are not excluded for any other provider types without our permission.	No suitable currencies exist.	42
Specified services: named providers	The following services are excluded: • clinical toxicology service: Guy's and St Thomas' NHS Foundation Trust • stalking threat assessment centre: Barnet, Enfield and Haringey Mental Health NHS Trust • high secure infectious disease units: Royal Free London NHS Foundation Trust and The Newcastle upon Tyne Hospitals NHS Foundation Trust • low energy proton therapy for ocular oncology: The Clatterbridge Cancer Centre NHS Foundation Trust	These are unusual services, each provided by one or two named providers, for which there is currently no requirement to submit costs for benchmarking or any other purpose.	42

Excluded service	Definition or description	Why is the service excluded?	Line number
	• National Poisons Information Service: The Newcastle upon Tyne Hospitals NHS Foundation Trust • National Artificial Eye Service: Blackpool Teaching Hospitals NHS Foundation Trust. No other service provided by any other provider may be excluded in this category without our permission.		
NHS continuing healthcare, NHS-funded nursing care and excluded intermediate care for individuals aged 18 or over	NHS continuing healthcare means a package of ongoing care arranged and funded solely by the NHS where the individual has been found to have a 'primary health need' as set out in guidance.[29] Such care is provided to an individual aged 18 or over to meet needs that have arisen as a result of disability, accident or illness. It can be provided in any setting including, but not limited to, a care home, a hospice or a patient's home. NHS-funded nursing care is care provided by a registered nurse for people who live in a care home. This also includes the Electronic Assistive Technology Service (EATS) and augmentative and alternative communication (AAC) services. Excluded intermediate care is those services defined in Volumes 3, 5 and 6.	We wish to test the collection of intermediate care services in Section **Error! Reference source not found.** before considering NHS continuing healthcare.	37

[29] www.gov.uk/government/uploads/system/uploads/attachment_data/file/213137/National-Framework-for-NHS-CHC-NHS-FNC-Nov-2012.pdf

Excluded service	Definition or description	Why is the service excluded?	Line number
NHS continuing healthcare, NHS-funded nursing care for children	NHS continuing healthcare means a package of ongoing care arranged and funded solely by the NHS where the individual has been found to have a 'primary health need' as described in guidance.[30] Such care is provided to a child to meet needs that have arisen as a result of disability, accident or illness. It can be provided in any setting including, but not limited to, a residential care home, hospice or the patient's own home. NHS-funded nursing care is care provided by a registered nurse for people who live in a care home.	Lack of robust activity data.	38
Patient transport services (PTS)	All costs associated with services run by ambulance trusts and other PTS providers offering transportation of patients to and from their place of residence, premises providing NHS healthcare and/or between NHS healthcare providers for people who have a medical need. Where one trust provides a PTS for another trust, this is a commercial activity. The cost will be excluded from the reference costs, but the income should not be netted off in the presentation of the cost of PTS in the reconciliation. Please note: patients transported between an organisation's own sites are a support cost to the admission.	PTS were included in reference costs between 2006/07 and 2009/10, and excluded from 2010/11. Consultation with the sector suggests that collection of this data would be very complex.	35

[30] www.gov.uk/government/uploads/system/uploads/attachment_data/file/213137/National-Framework-for-NHS-CHC-NHS-FNC-Nov-2012.pdf

Excluded service	Definition or description	Why is the service excluded?	Line number
Pooled or unified budgets	As a general principle, costs and activity are excluded for services jointly provided under pooled or unified budget arrangements with agencies outside the NHS, such as social services, housing, employment, education (eg Sure Start), home equipment loans or community equipment stores. This also includes: • costs relating to advice to non-NHS bodies • vaccination programmes part-funded by GPs or non-NHS providers. Where providers are confident they can separately identify a discrete element of the service that is funded by the NHS, identify the total costs incurred by that service, and have accurate and reflective activity data, they are encouraged to include that service.	Services provided by bodies outside the NHS, such as local government, are outside the scope of reference costs.	39
Primary medical services	Services provided under a primary medical services contract: general medical services (GMS), personal medical services (PMS), alternative provider medical services (APMS) and specialist medical provider services (SPMS). Includes GP-provided open access services and GP out-of-hours services.	Primary medical services are subject to separate funding arrangements and are outside the scope of reference costs.	40
Prison health services		Availability of activity data has been an issue with prison health	41

Excluded service	Definition or description	Why is the service excluded?	Line number
		services. However, some costs and activity are included in reference costs (prison health and mental health specialist teams), and we will consider whether other costs and activity should be included in future.	
Hosted services (CM23)	Services hosted by one provider but providing benefit for the patients of other providers. The specified services are: • genetic laboratory services – specialist laboratory services that are nationally commissioned and members of the UK Genetic Testing Network (UKGTN);[31] each laboratory carries out rare genetic tests for a large number of hospitals • intensive care support services – providing transport, advice or other services for critical care patients regionally • child health information services (CHIS) – the cost of providing this service should not be allocated to patient care categories, but should be excluded under this category	There is no patient event to which costs can be allocated. The host provider is fully funded, and there is no recharge to other providers.	43

[31] www.ukgtn.nhs.uk/gtn/Home

Excluded service	Definition or description	Why is the service excluded?	Line number
	• Sexual Assault Referral Centres (SARC) – the cost of providing this service is not funded by the NHS. No other service may be excluded in this category without our permission.		

Annex 5: Treatment of PFI and LIFT Expenditure.

Heading	Comment	Treatment of costs
Cost of services		Include
Depreciation charges		Include
Dual running costs	For services transferring	Include. Double-running costs for all other service reconfigurations, etc are included.
Interest expense		Include. This includes the indexed elements of PFI payments that do not relate to services.
Interim services (including pass-through costs)	Facilities management costs transferred early	Include
Subleasing income		Include. Income generated from any subleased areas should be deducted from overall PFI costs.
Accelerated depreciation		Exclude
Advisor fees	External advice provided to the provider	Exclude. Set-up costs (principally fees) incurred by the trust in developing a PFI scheme can be excluded.
Annual capital expenditure	Such as lifecycle costs	Exclude. The costs of capital items are picked up through depreciation in the same way as all other capital assets.
Demolition costs	These are works undertaken and paid for by the trust outside the PFI contract	Exclude. If the scheme were to be funded through public capital, this is likely to be capital expenditure.
Impairment charge		Exclude. This is consistent with the principle that the national cost collection reflects ordinary ongoing revenue costs and exclude

Heading	Comment	Treatment of costs
		extraordinary one-off costs unless otherwise stated.
Project team	Provider project team	Exclude. Set-up costs (principally fees) incurred by the provider in developing a PFI scheme can be excluded. Please ensure that you can satisfy the auditors that the costs of the project team relate solely to the time spent working on the PFI scheme.
Profit on sale of surplus land or buildings		Exclude
Repayment of finance lease		Exclude
Other costs	Other payments not made to PFI provider	Other costs incurred by the provider that are a result of the PFI development – but are not payments made to the PFI provider – should be treated in the same way as other similar provider costs as directed in this guidance.

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