Quick start guide for the healthcare costing standards

collaboration   trust   respect   innovation   courage   compassion

Implementing the costing standards

This overview of the costing process will help you see how to start implementing the standards. It is not a substitute for them. We recommend you work systematically through the standards as you implement them.

These are the steps we are asking you to take to implement the standards.

1. Read the standards.

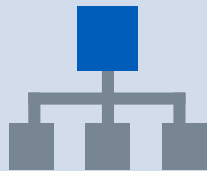**2.** Do a gap analysis against your current costing process.

3. Speak to your software supplier.

4. Review the IR standards with informatics and do an information gap analysis.

5. Identify the activities your organisation performs against the prescribed list of activities.

6. Do a deep dive analysis into your GL to ensure costs will be in the right starting place, with the right label.

7. Set up your costing manual.

8. Meet your software supplier to discuss implementing the standards in your system.

Overview of the costing process

For costing you need:

- the general ledger (GL) output
- patient-level feeds
- relative weight values
- local information sources.

The costing process is based on three pillars:

- detailed and accurate data
- clearly identifiable costs
- appropriate cost allocation methods.

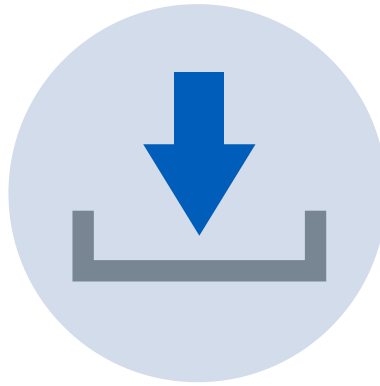**Costs need to be in the 'right starting position with the right label'**

Discuss with your finance colleagues:

- how the GL is set up
- how costs are reported in the GL
- what the 'big ticket' items are.

Good costing starts with good source information.

Discuss with your informatics colleagues what information is available to you for costing.

Download the technical document.

This is the companion document to the standards. It contains all the information you need to implement the standards that suits Excel format best.

To map your GL to the CL, use the GL to CL auto-mapper application. To prioritise your deep dive analysis of the GL, focus on areas which have not mapped straightaway.

Use the information from this deep dive analysis to inform the processing rules in your costing system.

The mapping from the CL to resources and then to collection resources is in spreadsheet CP2.1 in the technical document.

Costing process standards – easy read summary

CP1: Role of the general ledger in costing

Purpose: To set out how the general ledger is used for costing, and to highlight the areas which require review to support accurate costing.
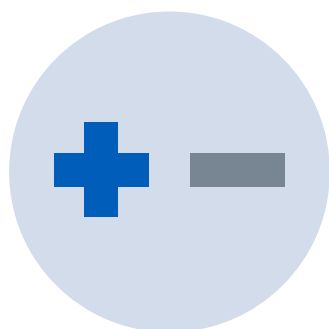
You need the general ledger output containing:

- cost centre and expense code
- monthly or year-to-date income or expenditure value
- period (month).

You must include all income and expenditure in the general ledger output so you can reconcile it to your organisation's reported financial position.

Finance should inform you of any off-ledger adjustments included in your organisation's financial report as you will need to reconcile to this.

The finance team should tell you when it:

- sets up new cost centres and expense codes in the general ledger
- makes material changes in costs or income between expense codes or cost centres.

CP2: Clearly identifiable costs

Purpose: To ensure costs are in the correct starting position for costing.

Do a deep dive analysis of your GL, using the GL to CL mapping application to help you prioritise analysis and inform your costing system processing rules. This will ensure costs have the right starting position and label.

Move type 1 support costs using the reciprocal allocation method.

Allocate type 1 support costs to 'patient-facing and type 2' support costs using the prescribed allocation methods in spreadsheet CP2.2.
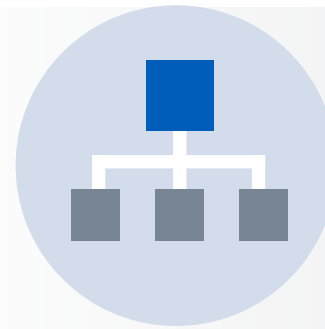
These fully absorbed patient facing and type 2 support costs are then mapped to resources ready for the next stage of the costing process.

# CP3: Appropriate cost allocation methods

Purpose: To ensure that the correct quantum of costs is allocated to the correct activity using the most appropriate costing allocation method.

Identify all the activities your organisation performs from the prescribed list of activities in the technical guidance.

You must allocate the resources to the activities using the prescribed methods in spreadsheets CP3.3 and CP3.4 in the technical document.
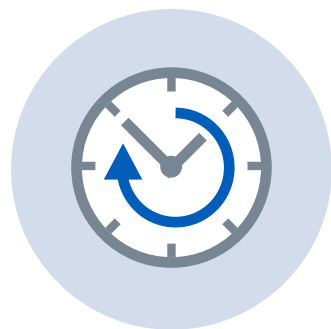
Resources need to be allocated to activities in the correct proportion. There are several ways to do this including:

- based on actual time or costs from the relevant feed
- using relative weight values created in partnership with relevant departments
- using local information sources.

The patient-level feeds will:

- inform what activities have been performed in the costing period (ie pathology tests performed)
- inform the cost allocation methods by providing the cost drivers such as length of stay or duration
- provide information for weightings such as cost.
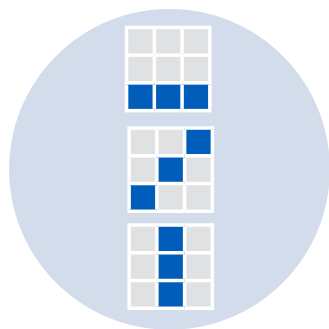
CP4: Matching costed activities to patients

Purpose: How to assign costed activities to the correct patient episode, attendance or contact.

The episode/attendance ID always generates the best match.

If your auxiliary feeds do not include the episode or attendance ID, use the prescribed matching rules in spreadsheet CP4.1 in the technical document.

Where the activity is not informed by a patient-level feed, match the costed activity to the correct patient episode, contact or attendance using the cost allocation methods in spreadsheets CP3.3 and CP3.4 in the technical document.

Your costing system should produce a report showing the matching criteria used by your system and you should review this at regular intervals.

CP5: Reconciliation

Purpose: Process for reconciling costs and income to the organisation's accounts and reconciling the activity counts reported by the organisation.

The costs and income outputs must reconcile to the main sources of this information – the general ledger output and the organisation's reported financial position.
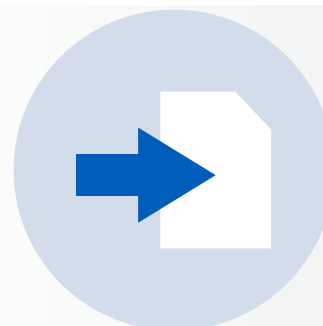
You should reconcile the activity outputs to the activity in the source datasets to ensure all the activity put into your costing system has been costed and included in the costing output.

The activity outputs must reconcile to what's reported by your organisation.
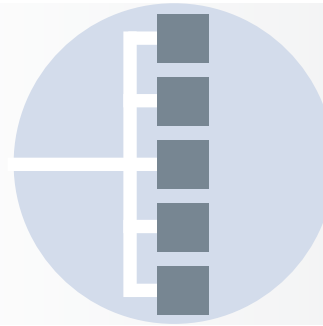
Report your costed activity using the five cost groups: own-patient care, other activities, E&T, R&D and cost and activity reconciliation items

CP6: Assurance of cost data

Purpose: To ensure providers develop and maintain high quality assurance for costing and collection purposes

Good documentation is essential to developing and maintaining high quality assurance

Use the tools we have provided, including the assurance checklist, to help you demonstrate assurance for your costing and collection purposes

Clinical and executive management involvement is essential for improving and making better use of patient-level cost information

A rolling programme of comparing your costing outputs with your peers will help you focus on your outlying areas

If you need any support implementing the standards, or would like to subscribe to our costings newsletter, please email: **costing@improvement.nhs.uk**

Contact us:

NHS Improvement
Wellington House
133-155 Waterloo Road
London
SE1 8UG

0300 123 2257
costing@improvement.nhs.uk
improvement.nhs.uk

Follow us on Twitter @NHSImprovement

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