

Quick start guide for implementing the costing standards

March 2021

Implementing the costing standards

Introduction

1. The 2021 Approved Costing Guidance – standards are published on our ACG website¹.
2. This document will help you understand how to start implementing the standards. It is not a substitute for them, and we recommend you work systematically through the standards guidance as you implement them.
3. We recommend you begin by reading the following two documents on our ACG website to familiarise yourself with the Approved Costing Guidance:
 - Introduction to the Approved Costing Guidance
 - The Costing Principles
4. You will also find the Approved Costing Guidance: Glossary on the ACG website to help you understand the terminology used in the standards.
5. Figure 1 shows the steps you should follow to implement the costing standards.

Figure 1: Implementation Steps



¹ <https://www.england.nhs.uk/approved-costing-guidance/>

Overview of the costing process



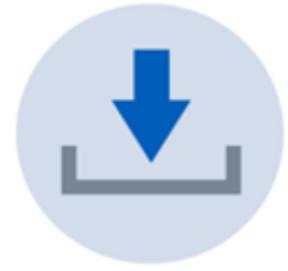
The costing process is based on:

- Detailed and accurate data
- Clearly identifiable costs
- Appropriate cost allocation methods



For costing you need:

- ACG Standards
- Spreadsheet Technical Document
- The general ledger (GL) output
- Patient-level feeds
- Relative weight values
- Local information sources



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.



Good costing starts with good source information.

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



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



When mapping your general ledger, if using method 2 you may find it useful to implement the Automapper application which can be found [here](#).

Ensure you understand your general ledger by performing regular deep dives; prioritising areas of cost which are complex and not easy to map.

Use the information garnered from our review to inform the processing rules in your costing system.

Costing process standards – easy read summary

6. The aim of the costing process is to keep an accurate record of **Who** did **What** to **Whom** for **What** amount?
7. We use **RESOURCES** to cover the ‘**who**’ part, categorising costs based on staff and the resources they use. Resources also cover non-pay items.
8. We use **ACTIVITIES** to cover the ‘**what**’ part and allocate resources to them so that we have costed activities that describe the things that are done to patients.
9. Activities can be matched to **PATIENTS** or **SERVICES** (e.g. when performed for other healthcare providers), covering the ‘**whom**’ part.
10. The ‘**what amount**’ part should be covered by allocating costs through all the way from resources to **PATIENTS** (or services) and will be reported as a cost for each resource-activity combination.
11. The costing standards cover how to classify costs and map them to resources, appropriate cost allocation methods to allocate resources to activities, and matching rules for matching costed activities to patients.
12. The costing process diagram can be found on our ACG website. It is a high-level view of what is described in the standards. There will be various software solutions to achieve this process. We are not prescribing the software solutions you should use and therefore you should contract with a software supplier that suits your organisation’s needs. You should also refer them to the minimum software requirements document available on our website.

CP1: Ensuring the correct cost quantum

Purpose: To set out how the general ledger is used for costing, and to highlight the areas that require review to support accurate costing.

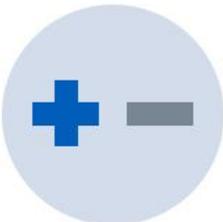


You need the general ledger output containing:

- 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 point for costing.



Do a deep dive analysis of your general ledger, prioritise analysis to the most complex and material items then build your costing system processing rules ensuring costs have the right starting position and label.



Allocate overheads to patient-facing cost centres using the prescribed methods in CP2.2 and the reciprocal allocation method.



Allocate overheads to patient-facing resources using the prescribed methods in CP2.2.



The fully absorbed costs are then mapped to resources ready for the next stage of the costing process.

CP3: Allocating costs to activities

Purpose: To ensure 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 Document.



You **must** allocate the resources to the activities using the prescribed methods in spreadsheet CP3.3 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 (i.e., 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: To achieve consistency across organisations in assigning costed activities to the correct patient episode, attendance, or contact.



The patient event 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 spreadsheet CP3.3 in the technical document.



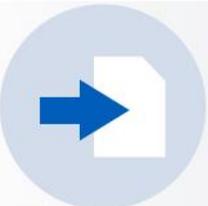
Your costing system should produce a report showing the matching criteria used by your system and you should review this at regular intervals.

CP5: Reconciliation

Purpose: To set out the process for reconciling costs and income to the organisation's accounts, and to reconcile the activity counts reported by the organisation.



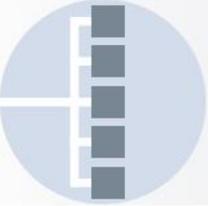
The costs and income outputs must reconcile to the main sources of this information – the general ledger output and the organisation's reported financial position.



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

Contact us:

costing@improvement.nhs.uk

NHS England and NHS Improvement
Skipton House
80 London Road
London
SE1 6LH

This publication can be made available in a number of other formats on request.

© NHS England and NHS Improvement March 2021
Publication approval reference: PAR344

