

Board of Directors (Public) Item 4.5

Subject: Reference Cost Submission Process 2015/16
Date of meeting: 26th July 2016
Prepared by: Jim Davies, Deputy Chief Finance Officer
Presented by: Claire Wilson, Chief Finance Officer

BAF Ref	Impact on BAF
6	None

1. Executive Summary

A paper was submitted to the Trust Board in May 2016, outlining the key aspects of the reference cost process for the 2015/16 reference cost submission (due on the 22nd July 2016). Following consideration by the Trust Board, approval was granted to proceed on the basis of the processes and systems outlined.

Trust Board approval of the process for completion of reference costs is an essential requirement as part of the submission. With effect from the 2012/13 submission, Monitor highlighted the need for enhanced Board Level engagement in the completion of reference costs. With the specific expectation that the Board has sight of, and confirms approval that the Trust is compliant with the self-assessment quality checklist (this was included as part of the May Board paper).

A further requirement for the 2016/17 submission is that the Chief Financial officer signs off the “*Statement of Directors responsibilities for the reference cost return*”. The signed statement is included at Appendix 1.

Reference costs provide an important resource in understanding the full costs of treatment, for benchmarking and ultimately in the development of the National Tariff. The enhanced level of board engagement is therefore critical in ensuring the completion of reference costs is afforded sufficient importance within organisations, and to drive up the quality of submissions.

This paper provides an overview of the 2015/16 submission, having applied the approved systems and processes agreed by the trust board in May.

2. Background

The reference cost submission is mandatory for all NHS Foundation Trusts and NHS Trusts. The purpose is to provide average unit costs of the services provided by the Trust. These average unit costs are submitted to the Department of Health for the calculation of national average unit costs. These national averages are then used to influence setting the National Tariff. Therefore it is extremely important that the costs submitted are robust and accurate.

The Trust Board approved the systems and processes for the completion of the 2015/16 reference costs in May 2016. This paper provides an overview of the further development of the reference costs, together with the key outputs.

The final date for the Reference Cost Submission is the 22nd July 2016, and the final date for the integrated Reference Cost and Training & Education Cost submissions is the 16th September 2016. The completed and signed “*Statement of Directors responsibilities for the reference cost return*” will be signed by the Chief Financial Officer, and is included at Appendix 1.

3. Issues

Since the last Board meeting, work has continued in the development of reference costs, and as part of this process the following work streams have been in place;

- Senior review of the draft outputs by the Chief Financial Officer and the Deputy Chief Financial Officer, using 2014/15 data to analyse movements in costs and activity from last financial year to this, together with comparison of detailed unit costs against the national average from 2014/15. Material movements have been challenged and either amended, or evidenced and justified following review;
- Senior clinical and operational review: Reviews have taken place with each of the divisions including senior clinical input, and as a result of this specific changes have been made to the cost drivers (an example of which being across particular groups of aortic procedures, where the Associate Medical Director confirmed that two surgeons would be present for specific groups of procedures rather than one);
- A review has also been undertaken with the Chief Executive Officer, Chairman and Chief Financial Officer. While it was not possible at this meeting to discuss the final schedules of reference costs, a draft position was discussed, together with progress made and improvements made to the completion process in year. This discussion took place particularly in view of the fact that the submission of the 2015/16 reference cost are due on the 22nd July, which falls before the meetings of the Integrated Performance Committee (IPC) on the 25th July and the Trust Board on the 26th July.

Key work undertaken to provide assurance on the outputs have included;

- **Reconciliation and validation of the quantum of costs to be included for the calculation of reference costs.**

The importance of this process is that a number of adjustments are required to the expenditure position reported in the final accounts, which are required for consistency purposes. Examples of items expenditure items excluded are costs relating to non English patients and private patients, together with research activities and provider to provider agreements.

The reconciliation of the quantum of costs used for reference costs is summarised in Appendix 2, together with supporting notes (Note: The reconciliation shown below is completed using a national template, and the adjustments categories identified are nationally mandated as part of the process and are not locally determined. Clearly judgement is required at trust level in identifying the individual values. The columns highlighting the 2014/15 comparative values and the notes have been added by the Trust for benchmarking and explanatory purposes).

- **Submission Reconciliation Worksheet.**

Once the quantum of costs to be used in calculation reference costs is determined, the specific costs are identified against each of the points of delivery e.g. day cases and inpatients. The reconciliation specifically provides an opportunity to benchmark outputs in 2015/16 against the same submission from 2014/15. As well as including costs, activity is also included, together with percentage movements against each.

The detailed reconciliation is included at Appendix 3. The key heading against which costs are completed are as follows;

- Day cases, ordinary non-elective short stay and regular day and night admissions
- Ordinary electives and ordinary non-electives long stay
- Outpatient attendances
- Critical care
- Diagnostic imaging
- High cost drugs
- Cystic fibrosis provided solely by a specialist centre

Note – The detailed reference costs are not included in the paper, but are available on request.

- **Self-assessment quality checklist**

This has been completed, and will be included with the final submission. This provides assurance that basic quality checks have been undertaken. As noted in earlier sections, more comprehensive checks/ validations have been undertaken in addition to these basic checks. The checklist is included at appendix 4.

4. Conclusion.

This paper has outlined the further work undertaken since the last board meeting in the completion of reference costs. The paper includes a signed declaration by the Chief Financial Officer as part of the *“Statement of Directors responsibilities for the reference cost return”*.

The paper provides an overview of the quantum of costs included for the calculation of reference costs, the points of delivery against which reference costs have been calculated and details of checks, validation and engagement undertaken as part of the process.

The detailed reference cost is not included in the paper, but is available on request.

The submission date for reference costs is the 22nd July 2016.

5. Recommendations.

The Trust Board are asked to note the process, by which reference costs have been developed, and the checks, validation and engagement undertaken in their completion.

Appendix 1 - Statement of directors' responsibilities for the reference cost return

In the production of the annual reference cost return the trust must include a statement of the finance director's responsibilities, in the following form of words:

[NHS foundation trusts/NHS trusts] are required pursuant to the [NHS Provider Licence/Accountability Framework] [delete as appropriate] to comply with Monitor's Approved Costing Guidance in the completion of the reference cost return.

In preparing the reference cost return the board or relevant sub committee is required to take steps to satisfy themselves that:

- the reference cost return has been prepared in accordance with Monitor's Approved Costing Guidance, which includes the reference cost guidance
- the information, data and system underpinning in the reference cost return is reliable and accurate
- there are proper internal controls over the collection and reporting of the information included in the reference costs, and these controls are subject to review to confirm that they are working effectively in practice
- costing teams are appropriately resourced to complete the reference costs return, including the self-assessment quality checklist and validations accurately within the timescales set out in the reference costs guidance.
- the content of the reference cost return is not inconsistent with internal and external sources of information including:
 - o board/delegated committee minutes and papers detailing the process for submission the period April 2016 to [the date of this statement]
 - o board/delegated committee minutes and papers detailing the final submission sign off the period April 2016 to [the date of this statement]

The finance director confirms to the best of their knowledge and belief the board has discharged its responsibilities above and the trust has complied with these requirements in preparing the reference cost return.

By order of the board

NB: sign and date in any colour ink except black

.....Date.....Finance Director

Appendix 2: Reconciliation of Expenditure Quantum for Reference Costs

Note: The reconciliation shown below is completed using a national template, and the adjustments categories identified are nationally mandated as part of the process and are not locally determined. Clearly judgement is required at trust level in identifying the individual values. The columns highlighting the 2014/15 comparative values and the notes have been added by the Trust for benchmarking and explanatory purposes.

Description	2015/16 £	2014/15 £	Notes
Operating expenses	£122,488,375	£117,288,433	Expenditure as per annual accounts.
Less: Actual cost of non-NHS private patients	(£2,461,533)	(£2,666,410)	Private patient costs are excluded.
Less: Actual cost of other non-NHS patients	(£15,757,647)	(£15,946,788)	Non NHS patient costs are excluded e.g. Wales and Isle of Man.
Non-salaried education and training income	(£589,959)	(£390,561)	Training & Education / research & development costs are excluded from the reference cost quantum. This is transacted by deducting the total income figures to offset costs.
Salaried education and training income	(£2,197,768)	(£2,231,655)	
Research and Development: Centrally funded	(£534,179)	(£1,377,242)	
Research and Development: Privately funded	(£715,985)		
Other	(£4,087,832)	(£4,542,953)	
Add: Not allowable non-contractual income	£738,266	£395,940	Non Contractual income added back where exclusion is not permitted.
Less: Actual cost of centrally funded awards under the Clinical Excellence Awards Scheme	(£253,641)	(£289,661)	Centrally funded CEA awards are excluded from reference cost calculations.
Other impairments	(£131,947)	(£27,000)	Adjustments required to account for the impact of impairments and reversals.
Other reversals	£27,000	£3,528,973	
Less: Depreciation related to donated or government granted non-current assets	(£110,809)	(£157,582)	Depreciation on donated assets is deducted and not included in reference cost quantum.
Add: Donations or government grants received to fund non-current assets	£244,314	£776,537	Donations received are added back to the quantum.
Cost raising charitable funds	(£109,000)	(£98,000)	All charitable transactions are excluded from the reference cost quantum.
Staff and Patient welfare (funded from charitable funds)	(£48,000)	(£48,000)	
Staff expenses attributable to Charitable funds	(£136,000)	(£136,000)	
Education, Training and Research expenses funded by Charitable funds	(£149,000)	(£120,152)	
Other various expenses funded by charitable funds	(£21,756)	(£9,045)	
Less: Adjustment for provider-to-provider agreements	(£314,096)	(£655,313)	This relate to services provided to other trusts for which corresponding income is received, which is excluded from the reference cost quantum.
Less: Finance income (FTs) or investment revenue (NHS trusts)	(£35,658)	(£37,638)	Adjustments required to account for the impact of investment revenue.
Add: Finance expenses financial liabilities (FTs) or finance costs (NHS trusts)	£36,190	£39,920	Adjustments required to account for the impact of finance costs.
Add: PDC dividends payable	£2,193,000	£2,095,000	PDC dividends payable are added to the reference cost quantum.
Add: Finance expenses - unwinding of discount		£4,000	Adjustments required to account for the impact of unwinding of discount.
Cystic fibrosis drugs	(£3,022,810)	(£1,164,370)	CF drugs are excluded from the quantum and reported separately.
Total reference costs submission quantum (sum lines 1 to 25)	£95,049,505	£94,230,433	Total quantum to be used for the calculation of reference costs.

Appendix 3: Submission Reconciliation Worksheet

Worksheet Name	Total Cost		Total Activity		% Change		Notes
	2014-15	2015-16	2014-15	2015-16	Cost	Activity	
Day cases, ordinary non-elective short stay and regular day and night admissions	£17,303,446	£18,619,187	5,903	6,243	7.6%	5.8%	Following review, it was determined that the overall movement of costs and activity are broadly comparable. Given that detailed review has also been undertaken at Healthcare resource group, validity of these figures have been confirmed.
Ordinary electives and ordinary non-electives long stay	£47,229,390	£46,796,450	5,931	6,007	-0.9%	1.3%	A detailed review has also been undertaken at Healthcare resource group and validity of these figures have been confirmed.
Outpatient attendances	£10,412,635	£10,238,107	93,894	102,546	-1.7%	9.2%	A detailed review was undertaken to quality assess the outputs for outpatient attendances given the significant increase in activity and marginal reduction to costs. The cost reduction relates to enhancements in the apportionment of overheads, and particularly depreciation and PDC, this follows an audit undertaken by Capita. Further adjustments have also been made in the application of individual cost drivers. In terms of activity, a large proportion of the increase relates to community activity which is at a relatively low cost. Following senior review it was determined that the 2015/16 position reflects an enhanced process with a greater level of accuracy, and so is therefore valid.
Critical care	£13,527,491	£13,937,191	13,453	10,690	3.0%	-20.5%	Following detailed review – it was identified that the number of bed days included in the 2014/15 submission was over stated due to duplicate records in the data set. The 2015/16 submission corrects this position. The total corrected bed day position for reference cost purposes for 2014/15 should have been 10,318, which would have provided a more comparative analysis.
Diagnostic imaging	£855,080	£1,160,409	6,204	9,034	35.7%	45.6%	Following review, it was determined that the overall movement of costs and activity are broadly comparable.
High cost drugs	£124,658	£324,022	192	858	159.9%	346.9%	High cost drugs is based on actual drug cost exclusions allowable. Given that this is based on actuals and has been checked and verified, the submission has been considered valid for submission.
Cystic fibrosis provided solely by a specialist centre	£4,777,733	£3,974,138	235	285	-16.8%	21.3%	Cystic Fibrosis is reported separately, and whilst the comparison across 2014/15 and 2015/16 show a reduction in costs and increase in activity – this reflects application of guidance, and an enhanced process for completion.
Totals	£94,230,433	£95,049,505	125,812	135,663	0.9%	7.8%	

Appendix 4: Self-assessment quality checklist

	Check	Response	Additional information
QC1	Total costs: The reference costs quantum has been fully reconciled to the signed annual accounts through completion of the reconciliation statement workbook in line with guidance	Fully reconciled to within +/- 1% of the signed annual accounts	
QC2	Total activity: The activity information used in the reference costs submission to report admitted patient care, outpatient attendances and A&E attendances has been fully reconciled to provisional Hospital Episode Statistics and documented	Partly reconciled	
QC3	Sense check: All relevant unit costs under £5 have been reviewed and are justifiable	n/a – no relevant unit costs under £5 within the submission	
QC4	Sense check: All relevant unit costs over £50,000 have been reviewed and are justified	n/a – no relevant costs over £50,000 within the submission	
QC5	Sense check: All unit cost outliers (defined as unit costs less than one-tenth or more than ten times the previous year's national mean average unit cost) have been reviewed and are justifiable	n/a – no unit cost outliers within the submission	
QC6	Benchmarking: Data has been benchmarked where possible against national data for individual unit costs and for activity volumes (the previous year's information is available in the National Benchmark)	All cost and activity data within the submission has been benchmarked using the National Benchmark prior to submission	
QC7	Data quality: Assurance is obtained over the quality of data for 2015-16	Internal management checks have provided assurance over data quality	
QC8	Data quality: Assurance is obtained over the reliability of costing and information systems for 2015-16	Internal management checks have provided assurance over costing and information system reliability	
QC9	Data quality: Where issues have been identified in the work performed on the 2015-16 data and systems, these issues have been resolved to mitigate the risk of inaccuracy in the 2015-16 reference costs submission	n/a - no exceptions noted	
QC10	Data quality: All other non-mandatory validations as specified in the guidance and workbooks have been considered and any necessary revisions made	All non-mandatory validations have been considered and necessary revisions made	