



**Trust Board Approval of the Costing
Transformation Programme (CTP) &
Integrated Reference Cost Process 2016/17**

Trust Board

31 May 2017

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Trust Board Meeting

Agenda Item		Date: 31 May 2017																											
Title of Report	Trust Board Approval of the Costing Transformation Programme (CTP) & Integrated Reference Cost Process 2016/17																												
Purpose of the report and the key issues for consideration/decision	The Trust Board are asked to scrutinise and approve the WWL CTP & Integrated Reference Cost process as part of the assurance required by NHSI.																												
Prepared by: Name & Title	Michael Harrison – SLR Accountant																												
Presented by:	Rob Forster																												
Action Required (please X)	Approve	<input checked="" type="checkbox"/>	Adopt	<input type="checkbox"/>	Receive for information																								
Strategic/Corporate Objective(s) supported by this paper	n/a																												
Is this on the Trust's risk register?	No	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	If Yes, Score																								
Which Standards apply to this report?	<table border="1"> <tr><td>CQC</td><td></td></tr> <tr><td>NHSLA</td><td></td></tr> <tr><td>BAF Objectives 13/14</td><td></td></tr> <tr><td>WWL Wheel Strategic Priority</td><td></td></tr> <tr><td>Other</td><td>X NHSI requirement</td></tr> </table>					CQC		NHSLA		BAF Objectives 13/14		WWL Wheel Strategic Priority		Other	X NHSI requirement														
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Have all implications related to this report been considered?	<table border="1"> <tr><td>Finance Revenue & Capital</td><td></td><td>Equality & Diversity</td><td></td></tr> <tr><td>National Policy/Legislation</td><td></td><td>Patient Experience</td><td></td></tr> <tr><td>NHS Contract</td><td></td><td>Governance & Risk Management</td><td></td></tr> <tr><td>Human Resources</td><td></td><td>Terms of Authorisation</td><td></td></tr> <tr><td>Consultation/Communication</td><td></td><td>Human Rights</td><td></td></tr> <tr><td>Other:</td><td>x</td><td>Carbon Reduction</td><td></td></tr> </table>					Finance Revenue & Capital		Equality & Diversity		National Policy/Legislation		Patient Experience		NHS Contract		Governance & Risk Management		Human Resources		Terms of Authorisation		Consultation/Communication		Human Rights		Other:	x	Carbon Reduction	
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Other:	x	Carbon Reduction																											

Previous Meetings

Please insert the date the paper was presented next to the relevant group

Meeting Point	Audit Committee	Quality & Safety Committee	Finance & Investment Committee	Management Board	IM&T Strategy Committee	HR Committee	NED	Other
x								

1. Executive Summary

- 1.1. In 2012/13 Monitor led a review of Reference Costs and found that Trust's assurance processes and accuracy of costing needed to be improved. Therefore NHS Trusts are now required to evidence Trust Board approval of their internal submission processes and this paper has been produced to address this issue.
- 1.2. Integrated Reference Costs are an annual statutory return that all NHS Trusts submit to NHSI; they are the average unit cost to the NHS of providing defined services to NHS patients excluding Education and Training costs.
- 1.3. Following submission of their costs and activity Trusts are provided with a Reference Cost Index (RCI), which identifies organisational efficiency. The national average cost of each service is set at 100, with higher values representing higher costs than average and lower values representing a lower than average cost.
- 1.4. As well as the standard reference cost submission for 2016/17 the Trust has volunteered to partake in the NHSI Costing Transformation Project (CTP). The aim of the CTP is to replace reference costs with a Patient-level Information and Costing Systems (PLICS) collection and we are therefore required to submit both standard reference costs collection and PLICS collection. The PLICS submission will be mandatory for all Trusts for the 2018/19 collection.
- 1.5. The CTP PLICS collection differs from the Reference Cost Collection in that data will be collected at Patient-level instead of HRG level. This will allow NHSI to analyse the data in greater detail to allow them to produce more accurate tariffs.
- 1.6. From 2018 PLICS will be a single mandatory cost collection and Trusts will no longer be required to submit Reference Costs. NHSI will collect annual patient level data of the cost to the NHS of providing defined services in a given financial year to NHS patients.
- 1.7. This paper provides the Trust Board with evidence that the Trusts 2016/17 CTP and Integrated Reference Cost processes meets the required standard in accordance with NHSI's Costing Principles and Implementation Standard Guidance (January 2017).

2. Board Approval and Sign Off

2016/17 PLICS cost collection guidance

- 2.1. The PLICS submission is a national return that providers should subject to the same scrutiny as their final audited accounts. An executive sponsor for PLICS should sign off the cost collection and ensure the following steps have been taken:
 - the cost return has been prepared in accordance with NHS Improvement's approved costing guidance, which includes the costing standards and the cost collection guidance
 - reconciliation sheets have been checked to ensure the correct activity and cost quantum have been used
 - data validations have been reviewed and any material errors corrected
 - a self-assessment checklist has been completed and reviewed

Combined costs collection: overview of integrated reference costs and education and training collection guidance 2016/17

- 2.2. The Finance Director and Education Lead are responsible for the accurate completion of the combined costs collection return. The submission should be subjected to the same scrutiny and diligence as any other financial returns submitted by the provider.
- 2.3. The board of each NHS trust and NHS foundation trust, or its audit committee or other appropriate sub-committee, is required to confirm the following in relation to the reference cost return (or provide details of non-compliance):
 - the board or its appropriate sub-committee has approved the costing process ahead of the collection
 - the Finance Director and Education Lead have, on behalf of the board, approved the final combined costs collection return before submission
 - the return has been prepared in accordance with the Approved costing guidance, which includes the combined costs collection guidance
 - information, data and systems underpinning the combined costs collection return are reliable and accurate
 - there are proper internal controls over the collection and reporting of the information included in the combined costs collection, and these controls are subject to review to confirm that they are working effectively in practice
 - costing and E&T teams are appropriately resourced to complete the combined costs collection return, including the self-assessment quality checklist and validations, accurately within the timescales set out in the guidance
- 2.4. In 2015/16 there was a requirement to return the 'statement of directors' responsibilities for the reference costs return' to DH via e-mail. In 2016/17 the statement covers the whole of the combined costs collection and should be signed by both the Finance Director and the Education Lead at each provider. However, there is no longer a requirement to return the statement to the reference costs team, instead it should be kept on site and be available for review by external auditors.
- 2.5. As part of the Quality Assurance process, some organisations will be selected for external audit. WWL was last selected for audit of the 2014/15 reference cost process in January 2016; see section 3 for more details.

3. Assurance

Costs prepared with due regard to the 'Approved Costing Guidance'

- 3.1. The Trust uses the month 12 service line reporting (SLR) results as the baseline for the submissions and makes the appropriate changes as required in line with the costing guidance.
- 3.2. The Approved Costing Guidance sets out 7 principles as detailed in the table below;

Principle	Supporting evidence
1.Causality	The Costing team has met with various stakeholders across the Trust including Clinicians and Operational Managers to increase our understanding of the causal relationship between services, activities and costs. Examples of these activities would be to discuss the cost centre allocations to the appropriate cost objects and discussions over the correct apportionment of Trust overheads.
2.Transparency	The costing process is fully documented. The Trust has spent several years developing and improving the accuracy of costing with stakeholders via the SLR Board. During the validation process the assumptions are validated by the end user, which has increased the credibility of the system. Direct drillback of costs to the ledger is now available; this further improves our costing transparency.
3.Consistency	The costing team ensure that the data that is produced is consistent with other NHS Trusts. When producing the submissions it is in accordance with the NHSI guidelines provided. As well as this, the team has followed the HFMA and NHSI Costing Standards so that all cost pool data is consistent with other Trusts across the country. The SLR team attend various Costing groups to share best practice and discuss costing issues.
4.Accuracy	WWL reconciles the data used inputs and outputs to key information systems such as <ul style="list-style-type: none"> - General ledger - PAS - Data warehouse The costing team, attend the Trust Data Quality Committee Meeting, and are aware of any potential data integrity issues. WWL complies with data dictionary. Activity data is validated by both the costing team and business intelligence before being fed into the costing model such as length of stays over certain amount and flagged to data warehouse.
5.Materiality	Costing is validated and outliers highlighted and if necessary a full analysis is completed to ensure that it is accurate. The team have taken a measured approach to our validation process, by concentrating our efforts on high cost resources first and then subsequently validating other areas of interest. SLR is now a mature Patient Level Costing System (PLICS) and validation is performed on an on-going basis. The Service Reviews and 12 Big Schemes have helped to engage the divisions to validate their services within SLR.

<p>6. Stakeholder Engagement</p>	<p>Clinical Staff (Consultants, Other Clinicians, Nursing Staff) The costing team regularly meet clinicians to establish the results of SLR and reference costs are recognisable to them and reflect what is happening in reality. Raj Murali has been a key figure in developing SLR along with many other Consultants across the Trust</p> <p>Non-Clinical Staff (Divisional Directors of Operations and Management Teams) Divisional Directors of Operations and their Management Teams are key stakeholders in that they contribute to how costs should be most accurately apportioned and meetings are held frequently with them. In addition to this, they are decision makers and use the SLR information to inform these decisions.</p> <p>Informatics and Clinical Coding Departments The costing team have performed Pathfinder Projects over the last couple of years which has helped to build closer relationships with the Informatics and Clinical Coding departments. This has led to an increase in the understanding of the data which in turn has allowed us to match data more accurately to our patients.</p> <p>Management Accounts The costing team have spent a great deal of time over 2016/17 liaising with Management Accounts to help validate SLR. It has also been useful working closely with Management Accounts to lead to further engagement with divisions/departments/specialties.</p> <p>Divisions In 2015/16, the RCI analysis projects and in 2016/17, the Service Reviews allowed a high level of engagement with the divisions. Currently SLR is being used as a starting point for the 2017-18 12 Big Schemes; this has enabled increased engagement within WWL.</p>
<p>7. Totality</p>	<p>Costing data outcomes are reliable and comparable; the results include all our organisation's costs. The quantum used for submissions is reconciled to the audited year end accounts.</p> <p>Costing data is produced using NHSI's guidance, costing standards and principles.</p>

Appropriate Information Capture Systems

- 3.3. The Trust has used the Prodacapo Costing System since 2011/12. The Prodacapo Costing System is an NHSI approved costing system and has been fully validated to ensure that the calculation is accurate and complies with national rules.
- 3.4. In addition Bellis-Jones Hill who are the software supplier for Prodacapo has been a key player in the development of NHSI's proposed PLICS collection, which is set to replace Reference Costs in 2018. As such, the Trust Board can be assured that the Trust is fully compliant with the principles and standards set out in NHSI's Approved Costing Guidance, both current and future proposals.

- 3.5. Activity information is extracted from the data warehouse and reconciled to the Corporate Activity Report and PAS. The Data Quality Team and BI will validate and sign off activity.
- 3.6. Additional processes are in place to capture activity that is not included in the data warehouse such as MDTs and Community activity.

Team Resource and Timetable

- 3.7. The Costing team consists of 2.0 WTE finance and 0.5 WTE SQL developers, managed by the Head of Financial Planning.
- 3.8. The Team have established a project plan which will include internal reconciliation and validation.

Date	Milestone
25 July 2017	CTP PLICS submission
15 September 2017	Integrated Reference Costs submission

- 3.9. The project plan / timetable is attached as an Appendix 1

Quality Assurance

- 3.10. The Costing Team have implemented a number of measures to ensure that the information being submitted to NHSI as part of the submissions is of excellent standard of quality. NHSI provides a self-assessment quality checklist which will be complied within the project plan. For 2016-17 in addition to the self-assessment checklist there is also a Costing Assessment Tool (CAT). The CAT is a spreadsheet-based questionnaire and provides an objective assessment of the (a) quality of costing at each provider, and (b) degree to which the costing standards have been implemented.
- 3.11. The CAT is attached as Appendix 2 and will be used by the Costing team to improve processes.

2016/17 Changes to Reference Costs Return

- 3.12. The costing team have outlined the changes in the guidance and return for 2016/17 in the paper attached as Appendix 3.

2014/15 Reference Costs Audit

- 3.13. In January 2016 the Trusts 2014/15 Reference Cost process was selected for audit by PwC. The primary driver behind the Trust's selection was the fact that its reference cost submission had not been subject to audit in the previous two years. The Trust had an average RCI of 109, putting it in the top quartile of all acute NHS trusts in England for 2014/15.
- 3.14. At the closing meeting after PwC's on-site visit they reported that they were happy with our processes and there were no material errors or causes for concern and the audit report can be seen in Appendix 4.
- 3.15. The Trust received a positive report from PwC, stating that *'The Trust's costing team demonstrated a good understanding of the reference cost guidance and effective project management in preparing the 2014/15 reference cost return. The costing process at the Trust appears well understood by all the staff involved and there is clear ownership of the completeness and accuracy of all the data streams'*.
- 3.16. The report also noted *'effective Board and Senior Finance engagement in costing at the Trust, with a clear focus on improving costing and data quality. Engagement with clinicians appeared very good, particularly in using innovative methods to engage them in improving clinical coding such as a virtual monthly forum on-line'*.
- 3.17. The overall conclusion was – *'Based on the results of our work, we have concluded that the Trust's 2014/15 Reference Cost Return's preparation is materially compliant with Monitor's Costing Guidance'*.
- 3.18. The Trust was also recommended as Best Practice for Reference Costs production by the auditors.

4. Conclusion

- 4.1. As per the recent audit the Trusts Reference Cost process is fully compliant with guidance.

5. Recommendations

- 5.1. The Trust Board are asked to approve the CTP PLICS and Integrated Reference Cost process for the 2016/17 submission.

APPENDIX

Appendix 1 - Timetable



Timetable
2016-17.xls

Appendix 2 –CAT (Costing Assessment Tool)



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opulated.xlsm

Appendix 3 – CTP & Reference Briefing Note Including Key Changes for 2016/17



CTP & Ref Costs
Changes Briefing Note

Appendix 4 – 2014/15 Audit



Wrightington Wigan
and Leigh NHS Founda