

Board of Directors' Meeting Report – 30th July 2014
Agenda item 216/14

Title	Reference Costs
Sponsoring Director	James O'Sullivan
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Purpose	To approve the costing process used to support reference costs.
Previously considered at	Audit Committee 21 st July 2014
Executive Summary	
Reference costs are required to determine tariff pricing in future years. The Trust's reference cost submission is due on 30 th July 2014 and the Board is asked to approve the costing process used in its preparation. This paper has already been considered at the Audit Committee on 21 st July 2014	
Related Trust Objective	Sustainability – keeping the core strong
Related Risk	Various
Legal implications / regulatory requirements	All Foundation Trusts are required to submit reference costs annually.
Quality impact assessment	n/a
Equality impact assessment	n/a
Recommendations	
The Board is asked to approve the costing process used.	

Introduction

The Chief Financial Officer is required to approve the reference cost submission before it's deemed final. In addition the Board, or its Audit Committee, is required to confirm in advance of the submission that it is satisfied with the Trust's processes and systems. As such, the process, which remains broadly unchanged from 2012/13, has been considered and approved at the Audit Committee on 21st July 2014.

Reference costs are used to determine the tariff pricing for future years with the submission for 2013/14 influencing 2015/16 prices. Effectively, the reference cost collection exercise is a cost allocation process down to HRG level.

In addition to the main reference costs dealt with above, from 2013/14 onwards, the Trust is also required to submit a separate return for Training and Education costs. An initial trial submission of this data for the first 6 months of 2013/14 was submitted to the Department of Health in January 2014.

Extract from 2013/14 Reference cost guidance, section 80 and 81:

Board approval and Chief Finance Officer sign off

80. The Chief Financial Officer is required to "sign-off" the reference costs return in Unify2 (the national system that collects reference cost submissions) confirming that:

- (a) the Board or its appropriate sub-committee has approved the costing process ahead of the collection,
- (b) the self-assessment quality checklist has been completed and used to improve quality and to provide assurance to the Department about the accuracy of the return and
- (c) finance teams have actively engaged clinicians and other relevant non-finance stakeholders in the costing process.

81. A Trust's reference costs submission should be subjected to the same scrutiny and diligence as any other financial returns submitted by the Trust. As the designated lead nominated to submit the reference costs submission, the Chief Financial Officer is the senior professional responsible for the data used to inform the National Tariff and, as a result, ensuring that the National Tariff functions in a manner that benefits the service overall. Material errors in reference costs submissions will not only impact on the accuracy of any resultant tariff, but may also have an impact on the provider licence for foundation trusts, and applications for FT status at aspiring trusts.

The Trust's costing process used to support reference costs:

The Trust operates fully integrated service level reporting (SLR), which means all costs, including overheads, are allocated to each service line or specialty at their lowest level e.g. diagnostic and pathology tests are charged to the service line that requested them; the cost of Estates are charged out based on square footage of the department / ward etc. Allocations are updated annually to provide more meaningful results.

To start the reference cost process, the Finance Department determines the overall cost quantum, using the guidance to exclude non-relevant services and costs (i.e. Step up beds, Homecare drugs, car parking etc), then they:

- take the remaining cost pools per service line (direct pay, direct non-pay and SLR charges from other cost pools)
- reapportion surpluses or deficits on “recharged-out” service lines (ie. those departments that provide services to specialities as well as generating their own income and profit from services provided to external organisations)
- reapportion depreciation and PDC over operational service lines (as these are held centrally and below the line)
- apportion the cost pool over the percentage of income ‘points of delivery’ (POD), e.g. if outpatient first attendance (OPFA) income is 30% of the total service line income, they allocate 30% of the cost pool, adjusting for any specifics i.e. high cost drugs issued
- some service lines only hold the cost for particular PODs i.e. Direct Access Pathology and Radiology, Audiology, Critical Care (adults and NICU), Renal and Radiotherapy
- most service lines map directly to national treatment function codes (TFC)
- Finance runs the 2013/14 activity through the reference cost grouper to regroup data to healthcare resource groups (HRGs); the grouper generates a report per collection point required i.e. Elective, Day case, Chemotherapy etc.
- Incorporate any activity data that is recorded on systems outside of PAS.
- in the absence of a PLICS system or resource profiles for each HRG, the Trust uses the national reference cost published data, to create apportionment tables (by calculating an index for each treatment multiplied by the volume of activity, thus weighting the index)
- they then apportion the relevant cost pool by collection point over the weighted index to work out the cost per unit / reference cost
- they sense check the reference cost to both the previous year’s national published data upper and lower quartile submissions and the trust’s previous year’s reference costs, reviewing any differences
- they run the validation checks and submit to Unify2
- the Chief Financial Officer reviews and approves the reference costs before electronically signing them off on Unify2

Recommendation

The Board is asked to approve the process that was considered and approved at the recent Audit Committee. The Trust’s planned initial submission date is 21st July (the final set date from the DOH for submission being the 30th July).

The process is subject to independent review and these findings can be shared. Should that review find any anomalies in the submission, the Trust will be required to re-submit that data which is affected.

The Board is asked to approve the costing process used to support the reference costs.