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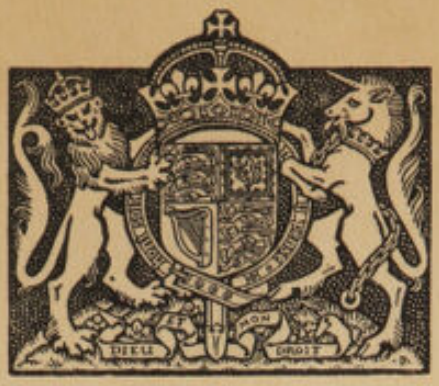

MINISTRY OF HEALTH

Report of the Working Party on Hospital Costing

LONDON
HER MAJESTY'S STATIONERY OFFICE
1955
PRICE TWO SHILLINGS NET

MINISTRY OF HEALTH

Report of the Working Party set up to devise a system of costing the Departments and Services of a Hospital

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Report

OF THE WORKING PARTY
SET UP TO DEVISE A SYSTEM OF COSTING
THE DEPARTMENTS AND SERVICES
OF A HOSPITAL

I. Introduction

Statutory Requirements

1. Regulation 21 of the National Health Service (Hospital Accounts and Financial Provisions) Regulations, 1948 (Statutory Instrument 1948 No. 1414), provides that each Board of Governors and Hospital Management Committee shall prepare annual cost accounts in such form as the Minister may require, in respect of each hospital under its control.

The Present Costing Scheme

2. In July, 1950, the Minister introduced, as an interim measure, a simple uniform system of hospital cost accounting based on the subjective headings of the financial accounts (memorandum R.H.B.(50)66: H.M.C.(50)64: B.G. (50)59). This system was recommended in an interim report prepared by a sub-committee appointed by the Committee of Treasurers of Regional Hospital Boards, and adopted by the Minister after consultation with the financial officers of Boards of Governors. The form of cost statement at present in use provides for the charging of all expenditure, apart from that relating to a few quasi-trading services, on a subjective basis, e.g., salaries and wages, provisions, fuel, and does not of itself produce information as to the costs of particular departments and services of a hospital. The cost of each hospital is expressed ultimately in terms of the "Average cost per week of maintaining a patient", adjustments being made for expenditure relating to out-patients, on a notional basis, and for vacant beds, i.e., beds which are staffed but not occupied.

The Reports on Costing Investigations of the King Edward's Hospital Fund for London, Nuffield Provincial Hospitals Trust and Treasurers of Regional Hospital Boards

3. To enable consideration to be given to the form of costing most suitable to the hospital service, the Minister, early in 1950, on the advice of the Central Health Services Council, invited the King Edward's Hospital Fund for London and the Nuffield Provincial Hospitals Trust to undertake a complete unit costing of a number of representative London and provincial hospitals. The Fund and the Trust proceeded by independent methods and in September, 1952, submitted their separate Reports to the Minister, together with a joint covering statement.

The Fund and the Trust were in complete agreement on the following points and recommended:

(*a*) that the existing accounting system based on subjective analysis of expenditure, as prescribed in Statutory Instrument 1948 No. 1414, be discontinued;

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(*b*) that an accounting system based on the departments and services of the hospital be substituted, modified where necessary for small hospitals;

(*c*) that the expenditure of departments be reduced, where appropriate, to costs per unit of work performed;

(*d*) that the budget and budgeted unit costs for each hospital follow the accounting pattern referred to in (*b*) and (*c*) above;

(*e*) that normal accounting principles be introduced, including the preparation of an income and expenditure account and a balance sheet.

The matters upon which the Fund and the Trust were not in complete agreement concerned more particularly: (*a*) the stages by which the departmental system should be introduced and (*b*) the nature and complexity of the units of cost to be introduced.

The Minister also received a second Report prepared by the sub-committee appointed by the Treasurers of Regional Hospital Boards. Whilst this Report also advocated the introduction into the hospital service of a form of departmental cost accounting, it recommended that a subjective accountancy system be retained and used as the basis for producing the cost of individual departments and services within the hospital.

The Decision to set up the Working Party

4. With the assistance of comments from hospital bodies and organisations, the Minister considered these three Reports and agreed in principle with the view expressed by the great majority of the bodies consulted that while at the present time it would not be practicable to replace the present subjective accounting system by one based on the departments and services of a hospital, a system of departmental and unit costing, supplementary to the subjective analysis of expenditure in, at any rate, the larger hospitals, would be of value to hospital administration and would facilitate efficient and economic spending.

Views on the most suitable system to be adopted differed widely, however, and the Minister accordingly decided to set up a working party, with the terms of reference set out in paragraph 6 of this Report, charged with the task of devising a practical system of departmental and unit costing, on the basis that a subjective accounting system would be retained, and with the fullest possible regard to the need for economy in money and man-power.

II. Constitution of the Working Party

5. The Working Party as constituted consisted of the following twelve members:

W. O. CHATTERTON, C.B.E. (*Chairman*), Ministry of Health.

F. S. ADAMS, A.S.A.A., A.I.M.T.A., Treasurer, Birmingham Regional Hospital Board.

F. J. ALDRIDGE, Ministry of Health.

A. J. BENNETT, M.A., F.H.A., Secretary, North West Metropolitan Regional Hospital Board.

I. G. BOON, A.I.M.T.A., F.H.A., Finance Officer, Brighton and Lewes Hospital Management Committee.

S. CLAYTON FRYERS, C.B.E., F.H.A., Secretary and Chief Administrative Officer, The United Leeds Hospitals.

E. A. HALL, A.S.A.A., F.I.M.T.A., Finance Officer, Birmingham (Dudley Road) Group Hospital Management Committee.

G. MCLACHLAN, B.COMM., A.S.A.A., Accountant, Nuffield Provincial Hospitals Trust.

J. W. D. ROWLANDSON, A.C.A., Chief Accountant, St. Bartholomew's Hospital.

W. S. SMITH, M.B.E., F.H.A., A.R.SAN.I., Secretary and Finance Officer, St. Lawrence's Hospital Management Committee.

W. STANSFIELD, F.H.A., Secretary, Sheffield No. 1 Hospital Management Committee.

CAPTAIN J. E. STONE, C.B.E., M.C., F.S.A.A., F.H.A., Director of Division of Hospital Facilities and Consultant on Hospital Finance, King Edward's Hospital Fund for London.

Secretary D. E. MCCARTHY, Ministry of Health.

Members learned with regret in February, 1954, that Mr. S. Clayton Fryers, C.B.E., F.H.A., had found it necessary to resign from the Working Party on health grounds. Mr. F. J. Cable, F.H.A., Secretary, The United Manchester Hospitals, accepted an invitation to serve in his stead.

III. Terms of Reference

6. The Working Party began their work in November, 1953, and, in all, met on twenty-seven occasions. Their terms of reference were as follows:

> "To devise a system of costing the departments and services of a hospital, within the framework of a subjective accounting system, which is likely to be of permanent value to hospital administration with full regard to the present need to limit the cost in money and man-power of introducing and operating such a system to the minimum; to advise whether different systems are appropriate for different types or sizes of hospitals; and to make recommendations as to the implementation of their proposals".

Interpretation of Terms of Reference

7. After full consideration the Working Party came to the following general conclusions with regard to the interpretation to be given to the terms of reference:

(*a*) that they had to decide which departments and which services should be costed;

(*b*) that the reference to "the framework of a subjective accounting system", did not imply that the present subjective accounting system could not be modified in any respect;

(*c*) that for the system to be "of permanent value to hospital administration" suggested that it should be of assistance, inter alia, to local budgetary control and management;

(*d*) that there was clearly need to limit the cost—the additional cost—in money and man-power of introducing a departmental system of costing;

(*e*) that in considering "whether different systems are appropriate for different types or sizes of hospitals" they had also to consider whether any hospitals should be excluded entirely from any departmental costing scheme, e.g., hospitals below a certain size, on the grounds that the results would not justify the work involved;

(*f*) that in making "recommendations as to the implementation of their proposals" they should advise whether the system or systems which they recommended be introduced immediately or after a trial period.

IV. The Purposes of Costing

8. Before any system of departmental costing could be formulated it was necessary to decide the main purposes for which this would be used, having regard to the requirement stated in the terms of reference that the system should be "of permanent value to hospital administration".

This question was accordingly examined from the point of view of the needs of administrators at the various levels and it appeared that the main purposes for which they required costing were:

(*a*) for internal management, that is, to enable trends of expenditure in the hospital to be followed throughout the financial year; to provide information whereby investigations into costs could be initiated promptly; to enable comparisons to be made of expenditure incurred in various departments in different financial periods; and for comparison with departmental estimates.

(*b*) for the wider purposes of inter-hospital, regional and national comparisons of costs.

The Working Party consider that the requirement at (*a*) could adequately be met by the production of interim cost statements during the year limited to the direct expenses of the departments, etc., to be separately costed, followed at the end of the year by the production of the annual cost statements referred to in the next paragraph. It is recognised that the nature of direct expenses varies as between hospitals, dependent on local organisation, and for this reason the Working Party came to the conclusion that in preparing the interim cost statements hospital authorities should be free to decide to what extent expenditure should be brought into the cost accounts for each department and service since, provided the authority always adopts the same cost analysis, comparisons of costs between one financial period and another would be valid. Regard should, of course, be had to the requirements of the annual cost statements to which the interim cost statements would ultimately lead. It cannot be too strongly stressed that to be of the maximum use to management, they should be prepared, and acted upon, as soon as possible after the end of the financial period to which they relate.

As regards (*b*) above, it is considered that inter-hospital, regional and national comparisons of costs would generally need to be based on the annual results. For such comparisons to be of value it is important that there should be

uniformity amongst hospital authorities in allocating expenditure to the various departments and services and the Working Party therefore decided to give guidance as to the bases of allocation to be used in preparing the annual cost statements. For this reason too, fully detailed pro-forma cost statements are set out as Appendices D and E of this Report. These cost statements are intended to illustrate the recommendations made in the Report, to indicate the accounts which need to be kept and to show what expenditure should be charged to the departments to be costed. They should not be taken as indicating the views of the Working Party as to the amount of detail which should be published either regionally or nationally.

A form of summary of the annual results is shown as Appendix F to the Report which, it is suggested, might be suitable as a minimum for presentation to Boards of Governors and Hospital Management Committees in relation to hospitals undertaking the costing arrangements set out in Appendix D.

The Working Party also considered whether a departmental costing system would be of value as an aid to the central distribution of funds, but they were generally agreed that much more research and experience would be necessary before this possibility could be contemplated.

V. Consideration of how a Departmental Costing System should be Introduced and Developed

9. With regard to the question of how a departmental costing system should be introduced and developed the following alternatives presented themselves to the Working Party:

(*a*) to devise initially a simple basic system, involving as little disturbance as possible of the existing accounting methods, capable of adoption by all hospitals, with, perhaps, stated exceptions (e.g., certain sizes and, possibly, types of hospitals), which could be further developed later in the larger hospitals or,

(*b*) to devise initially a much fuller system for the larger hospitals, with special departments, and then to consider whether this system could be modified for other types of hospitals, or whether alternative arrangements would better suit the needs of the latter.

As regards (*a*) it appeared probable that if a simple basic system only were advocated without guidance being given as to possible future developments, this might lead to ad hoc developments of many different types throughout the country. On balance, the alternative approach at (*b*) appeared to be the more satisfactory and the Working Party accordingly decided firstly to devise a system for the more complex hospital units, that is, the larger Acute and Mainly Acute types of hospitals, both teaching and non-teaching, and then to devise the arrangements which should be made in other types of hospitals.

The various arrangements are set out in later paragraphs of this Report but it is emphasised that these relate to the annual cost statements only and, as indicated in paragraph 8, it is not the intention that hospital authorities should be required to follow these arrangements in detail in preparing the interim cost statements which are for the purpose of internal management.

VI. The System Recommended for the Larger Acute and Mainly Acute Types of Hospitals (The Main Costing Scheme)

The Main Costing Scheme

10. The larger hospitals, especially those of the Acute and Mainly Acute types, normally serving both in-patients and out-patients and possessing a considerable number and variety of well-defined departments, presented the major problem. As the first step in deciding to what degree departmental costing should be undertaken in such hospitals, the Working Party examined each of the typical departments and services with the object of determining, from the point of view of "value to administration", which of them should be separately costed. This was followed by consideration of how the work of each department and service should be measured; the nature of the expenses which should be included in the cost accounts for each department and service; and whether hospitals should be required to produce annually, in addition to departmental costs, figures of the total cost of treating an in-patient, which involved also consideration of the question of the extent to which the costs of departments and services should be re-allocated one to another.

Upon these foundations was built the departmental costing scheme exemplified in Appendix D which the Working Party recommend should be introduced into the larger Acute and Mainly Acute types of hospitals, and into selected larger hospitals of other types.

This scheme is henceforth referred to in this Report as the "Main Scheme".

In deciding on the costing arrangements recommended the Working Party have endeavoured to keep any additional costs arising from their implementation as low as possible. They consider that the information produced by the arrangements proposed is likely to prove to be of value to administration and that they are the best that could be devised having regard to the need for economy. The Working Party do not feel that it is possible at this stage to assess the likely cost in money and man-power of introducing and operating the Main Scheme but are of the opinion that a large part of the cost would be attributable to the introduction of a system of pricing stores issues.

To minimize the strain on hospital administration which would be involved in introducing the Main Scheme too quickly and too widely, the Working Party recommend that, at first, the application of the Scheme should be limited to the extent indicated in paragraph 11.

They further recommend that the costing arrangements proposed should be reviewed periodically in the light of experience.

Selection of Hospitals to Undertake the Main Costing Scheme

11. The following possible bases for selecting which hospitals of the Acute and Mainly Acute types should undertake the Main Scheme were examined:

(*a*) the size of hospital, i.e., the number of beds;

(*b*) the numbers of out-patient attendances in relation to the numbers of in-patients;

(*c*) the annual expenditure of the hospital.

The Working Party came to the conclusion that the balance of advantage lay with selecting hospitals on the basis of (*c*) on the ground that where the greatest amount of money was being spent it was important to ascertain how and where it was being spent.

The Working Party were generally agreed that, in the cases of the Acute and Mainly Acute types of hospitals, it would be desirable for the lower financial limit to be set at an expenditure level, i.e., on hospital maintenance less direct credits, of £100,000 per annum but in order to lessen the amount of additional work which will be involved at the outset they recommend that the lower financial limit be set at £150,000 per annum with an eventual reduction to £100,000 to be timed in the light of experience.

The Working Party also considered whether the Main Scheme should be applied in hospitals other than Acute and Mainly Acute above this financial limit but they were agreed that there would be in each region a number of the larger hospitals of other types which it would probably not be worth while costing in full. They recommend, therefore, that it should be left to the discretion of Regional Hospital Boards (in the case of the non-teaching hospitals) which of the larger hospitals of types other than Acute and Mainly Acute should undertake the Main Scheme. In the case of the teaching hospitals the Ministry of Health should decide, in consultation with the Teaching Hospitals Association.

The Working Party also recommend that, for the first two years, no Hospital Management Committee or Board of Governors of a teaching hospital should be required to operate the Main Scheme in more than one hospital.

The number of hospitals likely to be involved initially in the Main Scheme is probably about 200.

Extension of the Main Costing Scheme

12. For the reasons stated in paragraph 16 the Working Party recommend that at the beginning, at any rate, hospitals undertaking the Main Scheme should, in general, be required to produce costs for all wards combined rather than for individual wards or categories of wards. They further recommend, however, that, from the outset, a number of non-teaching hospitals in each region and a number of teaching hospitals should be required to effect a breakdown of ward costs under the main specialties (see paragraph 13). It is considered that this extension of the Main Scheme should be tried out for a few years, in hospitals to be selected, with the object of assessing the amount of additional work involved and the value to administration of the results obtained. Selection of the hospitals to participate in this extension of the Main Scheme should be made by the Ministry of Health in consultation with (*a*) Regional Hospital Boards, in the case of the non-teaching hospitals and (*b*) the Teaching Hospitals Association in the case of the teaching hospitals. (Hospitals other than those selected could, if they wished, effect a breakdown of ward costs but this would not be mandatory.)

The Departments and Services to be Separately Costed

13. The departments and services of a hospital may, for this purpose, be divided into three main categories viz:

(i) *Patients' Departments*, i.e., wards; out-patient clinics and casualty departments.

(ii) *Medical Service Departments*, i.e., special departments of a clinical nature, for example, physiotherapy, diagnostic x-ray, which provide services to patients, often ancillary to (i).

(iii) *General Services.* This group comprises what might be referred to as the lay services of the hospital as distinct from the clinical services referred to above. They are extremely diverse in character ranging from major departments which give service to a wide range of other departments of the hospital, e.g., laundry, boiler house, to services which, whilst less in the nature of clearly defined departments, nevertheless occupy an important place in the general running and organisation of the hospital, and, in some cases, merit costing, e.g., power, lighting and heating.

As stated in paragraph 10, the criterion which the Working Party adopted in determining which departments and which services of a hospital should be separately costed was the value likely to accrue to administration from the results obtained. On this basis they recommend that, for the purposes of the Main Scheme, the departments and services set out below should be costed. It is, of course, recognized that some hospitals will not possess all the departments listed:

(i) PATIENTS' DEPARTMENTS

(*a*) *In-patient departments* (*Wards*)

All wards to be combined for costing purposes, except in the case of hospitals selected to undertake an extension of the Main Scheme as provided for in paragraph 12 which, it is recommended, should cost wards under the following categories:

General Medical
General Surgical
Private Patients
Part III (National Assistance Act)
Other Wards, as appropriate
Maternity
Children
Tuberculosis
Other Chronic, Geriatric and Long Stay Wards

(*b*) *Out-patient departments*

All out-patient clinics, including casualty departments, to be combined.

(ii) MEDICAL SERVICE DEPARTMENTS

Radiotherapy.
Diagnostic X-ray.
All pathological laboratories (combined).
Physiotherapy.
Other Departments:

In appropriate cases hospitals may also find it desirable to keep a separate account for other departments such as Electro-Cardiography, Electro-Encephalography, Dental Department, etc.

Consideration was also given to the question whether Operating Theatres should be costed in the hospitals to which the Main Scheme will apply. Some difficulty was found, however, in determining a really satisfactory measurement for the work of operating theatres (this matter is dealt with more fully in

Appendix A) and the Working Party came to the conclusion that further experience was needed before the value of the results could be judged. They accordingly recommend that, for the present, operating theatres should be costed only in the selected hospitals referred to in paragraph 12 which will be required to undertake an extension of the Main Scheme.

(iii) GENERAL SERVICES

Medical (Records and Clerical) Services.
Works and Maintenance (Buildings and Plant).
Boiler House (Steam Production).
Power, Lighting and Heating.
Laundry.
Catering.
General Administration.

The costing of Staff Residences was also considered to be desirable as a significant amount of money is frequently involved, but the arrangements for accommodating staff vary considerably, and the ascertainment of these costs would prove to be no less difficult than those of a particular category of ward. The Working Party therefore recommend that Staff Residences should at first be costed only in those hospitals participating in the experiment of breaking down ward costs and even then only if the residence is a separate building, wherever situated, or an identifiable block of quarters within a hospital.

Departments and Services not Separately Costed

14. The Working Party also recommend that separate accounts—referred to as Clearing Accounts—be set up as follows:

Dispensary.
Cleaning and General Portering.
Transport.

It is not proposed that the expenditure on these services should be reduced to costs per unit of work performed, the function of the accounts being to provide a convenient method of marshalling the relative expenditure prior to re-allocation to other departments and services.

As regards Transport, overall costing is not advocated because it is considered that the results would be of little value for comparative purposes owing to the diversity and multiplicity of functions of vehicles in many cases, but the Working Party recommend that, for internal purposes only, hospitals should cost individual vehicles.

The Working Party considered how profits and losses on Trading Accounts should be dealt with for costing purposes and recommend that they should be brought into the summary of in-patient costs as indicated in Account No. 1 in Appendix D.

The Working Party also examined the question of how expenditure on articles made up in hospital workshops should be treated. They recommend that Conversion Accounts should be kept in respect of such articles and that these should include the costs of labour and materials. The resultant charge should then be

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As regards the extent to which the costs of the general services and medical service departments should be re-allocated, the Working Party recommend that for the purposes of the Main Scheme the expenses of the general services should be re-allocated among themselves, to the medical service departments, to in-patient departments (wards) and to out-patient departments in the manner and in the order exemplified under the headings "Indirect Expenditure" in the pro-forma cost statements set out in Appendix D; that the expenses of the medical service departments should be divided between in-patient departments (wards) (as a whole) and out-patient departments, and brought into the summary of in-patient and out-patient costs as indicated in account No. 1 of Appendix D. The bases recommended for re-allocating departmental expenses are dealt with in Appendix C.

In order to reduce the amount of the additional work involved in spreading costs in this way, the Working Party decided that hospitals undertaking the Main Scheme, apart from those referred to in paragraph 12, should cost all wards collectively rather than individually or under particular specialties.

Guidance on the Allocation of Expenditure to the Departmental Cost Accounts

17. The Working Party gave considerable thought to the allocation to the various departmental accounts of all the subjective headings of expenditure, and the items on which doubt is likely to arise are set out in Appendix B which should be read in conjunction with Appendix D.

They consider, however, that further assistance should be given by the Ministry of Health to hospital authorities in the allocation to the various cost accounts and that this assistance should take the form of a revised uniform classification of staff and expenditure indicating not only the cost account concerned but also the subjective account heading. They further consider that it would facilitate the production of the various cost statements if the existing subjective analysis of expenditure was modified.

VII. The Costing Arrangements Recommended for Adoption Initially in Hospitals Other than those to which the Main Scheme would Apply

18. For the reasons stated in paragraphs 10 and 11 the Working Party came to the conclusion that the introduction of a full departmental costing system should be evolutionary, that is, starting with hospitals where the greatest amount of money is being spent and gradually bringing into the field other hospitals where a full system appears to be warranted by the facts.

Having decided on the types and sizes, on the basis of expenditure, of hospitals which should be required initially to undertake the detailed costing arrangements provided for in the Main Scheme, the Working Party examined the question of the arrangements to be introduced initially into the remaining hospitals—which form the bulk of the hospitals—again bearing in mind the present need to limit the cost in money and man-power of introducing and operating the arrangements to the minimum.

The Form of Cost Statement and Information Produced

19. The Working Party decided that, for the time being, arrangements involving as little disruption as possible of the existing accounting methods should be applied in the remaining hospitals, and they accordingly recommend that a

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subjective analysis of expenditure should continue to be used as the basis for the cost statement to be produced. A form of cost statement is exemplified in Appendix E.

In order, however, to make the cost statement more informative than that now in use there are grouped on the cost statement the principal direct expenses of the main departments and services, for example, Medical and Nursing; the Medical Service Departments (Radiotherapy, Diagnostic X-Ray, etc.); Catering; Laundry; etc. (In the case of hospitals with an annual expenditure of less than £50,000 per annum the principal direct expenses of the Medical Service Departments might be merged under the heading "Medical and Nursing" rather than be set out separately.)

It is emphasized that the costs produced under these arrangements are not full departmental costs, for example, for Catering is shown only expenditure on salaries and wages and provisions, and with the view to keeping the arrangements as simple as possible, no attempt is made to redistribute the expenses of service departments to user departments.

Units to be used for Costing Purposes

20. The cost statement provides for the reduction of the principal direct expenses of certain departments and services, e.g., Catering, Laundry, etc., to costs per unit of work performed. The cost units to be used in such cases are those referred to in Appendix A.

Computation of In-Patient Costs

21. For the reasons given in paragraph 16, the Working Party recommend that the average total cost of an in-patient should be produced annually for these hospitals, as well as for those which will operate the Main Scheme. This should cause no difficulty in the majority of the hospitals to which the simpler scheme will be applied, since they have no out-patients, or only such small numbers that the expenditure thereon is insignificant in relation to the total expenditure of the hospital and can be disregarded in completing the cost statement.

There remain, however, a fairly large number of hospitals undertaking the simpler scheme where the expenditure on out-patients is a significant proportion of the total expenditure. In advocating the production of an in-patient cost for these hospitals, the Working Party recognise the dilemma created by their decision to limit the initial application of the Main Scheme, since, short of full departmental costing, the separation of expenditure on out-patients from that on in-patients can only be achieved by arbitrary methods. Two such methods have been considered, namely, (1) by local estimation and (2) on a formula basis. The Working Party recommend the first alternative, since they believe that not only will this produce the more accurate result immediately, but that it will also aid the evolution towards full departmental costing in these hospitals as envisaged in paragraph 23.

The Working Party accordingly hope that in those hospitals where the expenditure on out-patients is material, it will be possible to estimate on a reasonably accurate basis the in-patient and out-patient costs of each of the headings in Appendix 'E' together with the total in-patient cost and to calculate the unit costs of items, 2, 3, 4, 7(i), 7(ii), 8 and 10(i). Where the whole of this

is not practicable they recommend, as a minimum, that in addition to the total in-patient cost, calculations should be made of the in-patient element of the salaries and wages heading of item 1 of Appendix 'E' and of the unit costs referred to in the preceding sentence.

Apportionment of Expenditure

22. Where it is necessary to apportion expenditure on a particular subjective item to more than one department, e.g., drugs, to Medical and Nursing and the Medical Service Departments, and the basis of apportionment to be used is in doubt, reference should be made to the guidance given in Appendix B.

Subsequent Extension

23. Although recommending that these simpler costing arrangements should for the time being be applied in all hospitals other than those which would be required initially to undertake the Main Scheme, the Working Party suggest that:

(*a*) where individual circumstances permit, hospital authorities with hospitals spending more than, say, £50,000 per annum and with large numbers of out-patients, should consider developing these simpler arrangements on the lines of the Main Scheme, and

(*b*) as and when it is opportune to extend the number of hospitals carrying out the Main Scheme, those groups which contain Acute and Mainly Acute hospitals but which would not be carrying out the Main Scheme initially in any hospital, should operate that scheme in at least one hospital.

VIII. Depreciation

24. The statutory hospital accounts do not provide for the inclusion of depreciation charges and the Working Party therefore examined the problem primarily from the point of view of whether the inclusion of such charges in hospital cost accounts would add materially to their usefulness.

The Working Party felt that the present practice of charging as expenditure in one year the whole of the cost of items of plant and equipment, especially major items, has the effect of distorting the costs of a hospital for that year and that to spread the expenditure by means of an annual provision for depreciation would enable more realistic comparisons of hospital costs to be made. It would also enable a more accurate assessment to be made of whether, in the long-run, the installation of labour-saving equipment would result in economies.

The Working Party nevertheless came to the conclusion that to introduce depreciation on a large scale would involve a very considerable amount of work, more particularly with regard to the setting up of plant records and arriving at the initial valuation to be placed on existing items. They therefore recommend that the introduction of depreciation into departmental cost accounts should proceed on modest lines and that, in the first instance, charges should be set up only in respect of the following plant and equipment having a normal life of more than 5 years:

(i) fixed and movable diagnostic x-ray equipment having a current replacement value of £750 or more;

(ii) fixed laundry plant and equipment having a current replacement value of £250 or more.

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As regards new plant and equipment it is recommended that depreciation should be charged on the basis of a "reducing balance", that is, a fixed percentage charge being made each year on the residual value at the end of the preceding year. For this purpose the annual charges should be (i) 20 per cent. in respect of diagnostic x-ray equipment and (ii) 10 per cent. in respect of laundry plant and equipment. The application of these percentage charges would result in the initial value being written down by approximately 90 per cent. in (i) 10 years and (ii) 22 years, respectively. It is appreciated that, in practice, the expected life of different equipment varies but the Working Party nevertheless came to the conclusion that, for the sake of uniformity and convenience, no attempt should be made to apply differential charges commensurate with the expected life of individual articles of equipment.

Depreciation should also be charged on a similar basis on items already in situ at the date on which it was introduced and the initial valuation for this purpose should be the current replacement cost of the item written down by the amount of the charges which would already have been made if depreciation had been taken into account from the date of installation.

The Working Party also considered how expenditure on repairs to and replacements of parts of plant and equipment which would be subject to depreciation charges should be dealt with. In most cases such expenditure would normally be charged in the cost accounts as a maintenance item in the year in which it is incurred. In exceptional cases where such expenditure might have a significant effect on costs if charged in one year, it could be added to the residual value of the article and spread but it was agreed that it could be left to the discretion of hospital authorities to decide when this course should be adopted.

The Working Party decided that it would be impracticable to introduce depreciation charges in respect of hospital buildings at the present time.

They also considered the question whether interest on capital and notional rent charges should be taken into account for costing purposes but decided that, for the present, these items should not be introduced.

IX. The Introduction of the Systems Recommended

Stores Accounts

25. A pre-requisite of any departmental costing system is an efficient system for pricing stores issues. At present stores accounts are maintained in many hospitals on a quantity basis only and these will need to be developed on a value basis before departmental costing can be introduced. For this and other reasons it is recommended that ample notice should be given of the introduction of the arrangements recommended in this Report.

X. Summary of the Working Party's Conclusions on General Principles

26. (i) For the purposes of internal management (as defined in paragraph 8(*a*)) all hospitals should consider producing interim cost statements during the year limited to the direct expenses of the departments and services to be separately costed. To allow flexibility, hospital authorities should be free to decide to what extent expenditure should be brought into the cost accounts for each department

and service in preparing the interim statements, but in so doing should have regard to the requirements of the annual cost statements to which the interim statements would lead. To be of maximum use to management the statements must be produced without delay after the end of the period to which they relate.

At the end of the year all hospitals should produce annual cost statements summarizing the information set out in Appendix D or Appendix E, depending on the costing arrangements at the particular hospital. A form of summary of the annual results is shown as Appendix F and this, it is suggested, might be suitable as a minimum for presentation to Boards of Governors and Hospital Management Committees in relation to hospitals undertaking the Main Scheme (paragraph 8).

(ii) These annual cost statements would also provide the basis for inter-hospital, regional and national comparisons of costs (paragraph 8).

(iii) Detailed departmental costing arrangements should be introduced gradually. At first only hospitals of the Acute and Mainly Acute types (and hospitals of other types, at discretion) with an annual expenditure, less direct credits, of £150,000 or more should be required to operate such a system. The scheme recommended for these hospitals, referred to in this Report as the "Main Scheme", is described in paragraphs 10–17 and exemplified in Appendix D. Eventually the Main Scheme should be extended to such hospitals with an annual expenditure of £100,000 or more. No Hospital Management Committee or Board of Governors should for the first two years be required to operate the Main Scheme in more than one hospital (paragraph 11). Certain hospitals should, from the outset, undertake by way of an experiment, an extension of the Main Scheme (paragraph 12).

(iv) Hospitals other than those referred to in (iii) should, for the time being, be required to undertake the simpler costing arrangements described in paragraphs 18–22.

Where individual circumstances permit, however, hospital authorities concerned with hospitals spending more than say £50,000 per annum, and with large numbers of out-patients, should consider developing these simpler costing arrangements on the lines of the Main Scheme (paragraph 23).

(v) The expenditure of particular departments and services should, where expedient, be reduced to costs per unit of work performed. The units recommended are set out in Appendix A but it is recognised that experience may lead to more suitable units being found in some cases.

(vi) Although there are advantages to be gained from including allowance for depreciation in the cost accounts, the introduction of such arrangements on a large scale would involve a considerable amount of work. For the present depreciation charges should be set up only in respect of certain plant and equipment used in diagnostic x-ray departments and in laundries (paragraph 24).

(vii) Much more research and experience would be necessary before a departmental costing system could be used as an aid to the central distribution of funds (paragraph 8).

(viii) Before departmental costing can be introduced, a system of pricing stores issues will need to be developed in many hospitals. Ample notice should, therefore, be given of the introduction of the arrangements recommended in this Report (paragraph 25).

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27. In conclusion the Working Party wish to emphasize that comparative costs do not of themselves provide proof of either efficient or inefficient management. They do, however, indicate lines of enquiry which might profitably be followed, but to be of maximum use to management it is essential that enquiries into apparent abnormalities should be vigorously pursued as soon as possible after the end of the period to which the figures relate.

28. This report would be incomplete without special reference to the able assistance given to the Working Party by their Secretary, Mr. D. E. McCarthy. His ability, first in assimilating and classifying the mass of information necessarily arising out of long and involved discussions on a complex subject and, secondly, in drawing up this Report has earned the sincere appreciation of the Working Party, which is gladly recorded.

W. O. CHATTERTON.
Chairman.

June, 1955.

Reservation by Mr. F. J. Cable and Mr. J. W. D. Rowlandson

29. Although we are in agreement with the main substance of this Report we feel bound to enter a reservation on the extent to which the Main Scheme should be applied. We fully recognise the advantages of costing for internal management but we are not convinced that it is wise or appropriate at the present time to introduce a uniform system to all hospitals of the Acute or Mainly Acute type with an expenditure of more than £150,000 per year with the sole proviso that not more than one hospital in any group should be required to complete the system.

We feel that it has yet to be demonstrated that a uniform system of costing will be of permanent value to hospital administration or that the high cost of introducing and running it will be justified by improvement in efficiency and elimination of extravagance. Indeed it is far from certain at this stage that full scale departmental costing would not rather highlight the unavoidable differences between hospital and hospital than point the way to eliminating waste. If that were so, then there would have been a considerable expenditure of public funds merely to prove what is already well known.

For these reasons we are of the opinion that before any uniform system of departmental costing is applied so widely as the Report recommends, there should be an experiment on a more limited scale with a view to assessing more closely the value of a uniform system to the hospital service, the advantages and benefits to be derived from it and whether it justifies the expense.

We therefore favour a drastic reduction in the number of participating hospitals to a total of about fifty. If three or four large hospitals in each region were to try out the Working Party's recommendations for a period of two to three years, together with four London Undergraduate Teaching Hospitals and four Provincial Teaching Hospitals, a cross section of the hospital field would be covered and it would then be possible both to evaluate the advantages of the system and

to obtain some idea of the additional cost involved. It is suggested that during this trial period a small impartial team should be appointed to examine in detail the workings of the experiment, to watch closely the results obtained and to report on the extension, limitation or adjustment of the scheme which might be found necessary in the light of the information gained. It is true, of course, that certain experiments in departmental costing have already been tried but the very existence of this Working Party demonstrates, in our view, that no decisive conclusion has yet been reached nor do we feel that one would yet be justified.

APPENDIX A

Costs Units Recommended, with Explanations as Appropriate

Summary of recommendations in paragraphs 30–39

Department	*Cost Unit*
GENERAL SERVICES	
Medical (Records and Clerical) Services	Per weighted unit.
Works and Maintenance (Buildings and Plant)	Per 1,000 cubic feet of space of the buildings (excluding the laundry).
Boiler House (Steam Production)	Per 1,000 lb. steam raised.
Power, Lighting and Heating	Per 1,000 cubic feet of space of the buildings excluding the laundry).
Laundry	(i) Per 1,000 weighted units, or (ii) Per 100 articles laundered (vide paragraph 32).
Catering	Per person fed per week.
Staff Residences	Per resident per week.
General Administration	(i) Total expenditure:—Percentage of turnover (gross maintenance expenditure plus direct credits plus income). (ii) Proportion relating to in-patients:—Per bed (complement). (iii) Proportion relating to out-patients:—Per 100 out-patient attendances.
MEDICAL SERVICE DEPARTMENTS	
Radiotherapy	Per course of treatment per day.
Diagnostic X-Ray	Per 100 units weighted points value.
Pathological Laboratories	Per 100 units weighted points value.
Physiotherapy	Per 100 units weighted points value.
Operating Theatres	Per operation.
PATIENTS' DEPARTMENTS	
In-Patients	
Wards	(i) Per patient per week. (ii) Per case (discharges and deaths).
Out-Patients	
Out-Patient Clinics (including Casualty Departments)	(i) Per out-patient attendance. (ii) Per new out-patient.

Medical (Records and Clerical) Services

30. The weights to be applied are as follows:

New out-patients	1 unit
Subsequent attendance	½ unit
New in-patients	2 units

Patients re-admitted to hospital should be counted as the equivalent of new in-patients.

Power, Lighting and Heating

31. There were differences of opinion whether this account should be costed, some members holding the view that no common unit cost was practicable for an account which contained such a variety of different items, e.g., gas, electricity and fuel, for each of which a different basis of measurement was applicable. Other members held the view that as there was a considerable variety of ways and means of producing power, lighting and heating in hospitals, an overall unit cost would not be of great value for making comparisons between hospitals having different arrangements.

The majority view of the Working Party, however, was that it would be useful to cost power, lighting and heating and that the cost unit should be related to the cubic capacity of buildings, i.e., "per 1,000 cubic feet of space".

It was decided that in calculating the unit cost, expenditure on power, lighting and heating applicable to the laundry should be deducted from the direct expenditure charged in the Power, Lighting and Heating Account, and that the cubic capacity of laundry accommodation should also be excluded for this purpose. The reason for this is explained more fully in paragraph 61.

Laundry

32. Comparative costing in hospital laundries is at present generally carried out on either (*a*) a "weight" or (*b*) a "pieces" basis but both of these measurements have disadvantages in the case of (*a*) because no provision is made for the various laundry processes involved and in the case of (*b*) because of the large variation in the types and sizes of pieces washed.

Experiments have been carried out by the Nuffield Provincial Hospital Trust with a view to arriving at a unit which would provide a means of simple comparison between the costs of hospital laundries and maintain at the same time a reasonable degree of accuracy. The experiments were directed to the establishing of a number of suitable groupings for the various articles to be washed and then to find a relationship between each group taking into account the sizes of the articles washed and the laundry processes through which they would normally require to go. The cost relativity between various articles was based upon the maximum national prices laid down some years ago by the Board of Trade in consultation with the laundry industry.

The results of the Trust's experiments indicate that articles dealt with by hospital laundries might be divided into the following nine categories each of which might be related to the others by reference to the unit "weights" shown.

	Unit "weight"
A. *Work normally finished by calender*	
(1) Large items	57
(2) Aprons	30
(3) Small items	20
B. *Work in which drying and tumblering is normally employed*	
(1) Heavy items	94
(2) Medium items	42
(3) Small items	10
C. *Articles normally requiring good finish*	
(1) Heavy items	95
(2) Medium items	64
(3) Light items	34

The actual processes used in laundering certain articles will vary somewhat according to the facilities available. Appendix G gives examples. In order to arrive at the total

number of weighted units for each hospital the unit "weight" for each group should be multiplied by the number of articles in the group. The cost unit recommended is "per 1,000 weighted units".

The Working Party commend the unit system outlined above but consider that it should be required to be applied initially only by those hospitals which will carry out an extension of the Main Scheme. Its further adoption by hospitals undertaking the Main Scheme should at the outset be optional. The successful implementation of these arrangements depends to a large extent on the accuracy with which laundry records are maintained and the Working Party wish to stress the need for a high degree of accuracy in this respect.

In hospitals where this unit system is not employed, the cost unit should be "per 100 articles laundered".

Catering

33. The Catering Account is intended to show the inclusive costs of feeding both patients and staff, taking into account expenditure on provisions and on preparing and serving food, and the Working Party gave much consideration to the question of the basis of pointage which should be used for meals for the purpose of calculating the " cost per person fed per week".

If all staff were resident no difficulty would arise in ascertaining the costs since all concerned, patients and staff, could be regarded as taking the full week's allocation. Where, however, non-resident staff are employed and take some meals, but not all, at the hospital, it becomes necessary to calculate the proportion of full-time residence that should be taken into account in respect of such staff. There are two principal methods by which this result can be achieved but differing views obtain on the relative merits and disadvantages of each, these differences becoming more important as the proportion of non-resident staff in a hospital increases:

(*a*) a variable points system whereby each hospital determines within a given total for all meals, the number of points which should be allocated to each meal, the weightings being fixed in accordance with the relative value of each meal.

(*b*) a standard points system whereby the number of points to be allocated to each meal is pre-determined, the same weightings being applied in all hospitals.

The majority of non-resident staff who take meals, take only the mid-day meal. If in Hospital "A" the mid-day meal were the largest meal of the day, the unit cost per person fed calculated under method (*a*) could be exactly the same as in Hospital "B", where numbers involved were the same, but where the mid-day meal was lighter and the evening meal equally heavier than in Hospital "A"; the total expenditure on provisions in Hospital "A" would be greater than in Hospital "B" by virtue of the fact that non-resident staff took the more expensive meal but this variation in absolute level of expenditure would not be reflected in the unit cost under method (*a*). Under method (*b*) the lower expenditure in Hospital "B" would be reflected in a lower unit cost.

The principal argument in favour of the use of method (*a*) is that as the weightings for each meal coincide with the relative value of food supplied then the unit cost provides an accurate indication of the cost of feeding a person for a full week; against its use is the contention that this method does not disclose the absolute level of expenditure at the hospital. Some opinion favours method (*b*) on the grounds that it does reflect the absolute level of expenditure, but, on the other hand, it involves the use of an entirely arbitrary system of pointing which might bear little relation to the relative value of the different meals in individual hospitals and there is also a feeling that the national determination of a fixed scale of this kind would carry with it the undesirable implication that hospital feeding should conform to the fixed pattern.

The Working Party came to the conclusion that the unit cost should be designed to show the average cost of feeding a person for a week. Method (*a*) produces this result

and they therefore recommend that each hospital should determine within a daily total of 100 points the number of points which should be allocated to each meal, the weightings to be fixed in accordance with the relative value of each meal. Periodic adjustments of these weights on the basis of test checks should be made.

Hospitals could, of course, produce such additional data as may be required for internal purposes.

For the purpose of calculating unit costs the daily number of persons fed should be the total of the numbers of (i) in-patients, based on a daily ward count, (ii) resident staff, based on the record of daily strength, but excluding staff absent on leave or for any other reason and (iii) the resident day equivalent, calculated on the basis described in previous paragraphs, of the meals taken by the non-resident staff. (In selected hospitals where staff residences are to be costed the numbers of staff who take all meals at the residence should be excluded from the count (paragraph 63 and Note 2 to Account No. 10 of Appendix D).)

General Administration

34. It is recommended that the total expenditure on general administration should be expressed as a percentage of the turnover of the hospital represented by gross maintenance expenditure plus direct credits plus income.

In addition, the proportion of the expenditure on general administration relating to (i) in-patients and (ii) out-patients, should be expressed respectively as (i) cost per bed related to bed complement and (ii) cost per 100 out-patient attendances (see paragraph 64).

Radiotherapy

35. The work of the radiotherapy department falls broadly into two main categories:

(*a*) treatment by X-rays and teleradium.

(*b*) treatment by radium (excluding teleradium).

It is considered that the same unit of cost, "per course of treatment per day" should be applied to both (*a*) and (*b*), the unit representing the total amount of treatment given to a patient in one day regardless of the number of attendances on that day.

Diagnostic X-Ray. Pathological Laboratories

36. Units systems for measuring the work of these departments, devised by expert bodies, were brought into general use on 1st January, 1953. Details of the systems are contained in Ministry of Health memoranda R.H.B.(52)130: H.M.C.(52)118: B.G.(52)124 and R.H.B.(52)129: H.M.C.(52)117: B.G.(52)123 respectively.

The Working Party understand that the existing system of units of work for diagnostic X-ray departments, which was expected to provide suitable cost units, has been subjected to criticism and that possible improvements are being considered.

As regards pathological departments it is stated in the memorandum that the unit values recommended for various tests, which were evaluated mainly on the basis of an overall time factor, must be regarded as an indication only of the activities of a pathological department and that they take no account of the bedside and consultative aspects of clinical pathology. The memorandum goes on to emphasize that the unit values cannot be used as the sole criterion in assessing the function and activities of a pathological department, or for the comparison of the establishments or costings of different laboratories.

The Working Party understand that the Central Pathology Committee is reconsidering this unit system and have been asked by the Ministry of Health expressly to devise some system which can be used for costing purposes. This work has not yet been completed but it is hoped that details will be available before departmental costing is introduced.

Physiotherapy

37. The units of treatment described in memorandum R.H.B.(52)131: H.M.C.(52)119: B.G.(52)125 have been adopted. The Working Party understand that a number of modifications of this unit system are being considered.

Operating Theatres

38. The Working Party were generally agreed that the separate costing of operating theatres would be desirable, but there were difficulties in finding a significant unit of cost on account of the wide variety of operations and the fact that there are variations even in one particular type of operation, affecting staff time, materials, etc. The Working Party examined a number of possible units of cost including, "per operation"; "per operation hour"; "per man-hour", but none of these appeared to be wholly satisfactory because of the variable factors referred to above. It was thought that the unit "per operation" might be adequate if operations could conveniently be classified into, say, three categories, major, intermediate and minor, on the basis set out in the Third Schedule to the National Health Service (Pay-Bed Accommodation in Hospitals, etc.) Regulations, 1953, for the assessment of charges to private patients.

The Ministry of Health's medical advisers were consulted as to the practicability of using these groupings as the basis for a cost unit but, in their view, they would not be suitable.

The Working Party also considered whether a comprehensive investigation of operations of all types, taking into account all relevant factors, might be undertaken with the object of arriving at suitable cost groupings, but they came to the conclusion that the work involved would not be justified at present. They decided finally that operating theatres should at first be costed only in those hospitals selected to undertake an extension of the Main Scheme, and that the simple unit of cost, "per operation", be used.

(i) *Wards*

(ii) *Out-Patients Clinics* (*including Casualty Departments*)

39. Two units of cost complementary to each other are recommended for these departments.

The unit "per case" is not, however, appropriate for hospitals catering for long-stay patients.

APPENDIX B

The Bases Recommended for Allocating Certain Items of Expenditure to Departments and Services

40. With reference to paragraph 17 of this Report the following guidance is given on the bases of allocation to be used for the more difficult or doubtful items of expenditure, in order to ensure as great a measure of uniformity of treatment as is possible:

Salaries and Wages

41. (i) *Medical (including Consultants)*

Each medical officer or consultant should be asked to provide once a year an estimate, expressed as a percentage of contract time as allocated to each hospital, of the amount of his time which has been spent in wards, clinics, etc. In view of the importance and difficulty attaching to this matter it would seem desirable that the Ministry of Health should seek the co-operation of the medical profession.

(ii) *Nursing*

(*a*) *Matrons, Deputy and Assistant Matrons, Home Sisters, Administrative and Office Sisters*

Where the duties of the above categories of staff are predominantly administrative, their salaries and wages should be charged to General Administration Account but where their duties are predominantly nursing, charged as in sub-paragraph (*b*) following. If, however, a Staff Residences Account is separately maintained the salary of the Home Sister should be charged thereto.

(*b*) *Other Nursing Staff*

These salaries and wages should be apportioned to wards, out-patient departments, etc., on the basis of returns from the Matron showing the numbers of each category of nurse on duty in the departments to be costed.

As regards Preliminary Training Schools for Nurses, the Working Party consider that the relative costs should, as far as possible, be taken into account for costing purposes but recognize that, in some cases, depending on local organization, the ascertainment of these costs would not be without difficulty. Where a Preliminary Training School is housed within a hospital, or in separate premises, but serves only that hospital, the costs should be included with those of the hospital. Where a Group Preliminary Training School is operated and is self-contained, the costs should be allocated to the hospitals which it serves in proportion to the numbers of student nurses provided for each hospital. Where, however, a School serving a Group is situated within one hospital, and is not self-contained, the work involved in ascertaining the full costs of the School might be considerable and in such a case it is recommended that only the gross salaries and wages of the student nurses in the School should be apportioned to individual hospitals in the Group in proportion to the numbers of student nurses provided for each.

Salaries of tutorial staff paid by Area Nurse Training Committees and of pupil midwives whilst working on the district should not be included in expenditure for costing purposes.

NOTE: As regards Nursing Cadet Schemes there appear to be considerable differences of practice amongst hospitals as to the duties undertaken by cadets. The Working Party consider that the wage costs relating to these Schemes should be taken into account for costing purposes and charged according to the duties performed. (Other costs of these Schemes should likewise be included under the appropriate headings.)

(iii) *Ward Orderlies on Nursing Duties*

The allocation of these salaries and wages should be made on the basis recommended for the salaries of Other Nursing Staff.

(iv) *Works and Maintenance*

This item is dealt with in paragraph 46 of this Report.

(v) *Administrative and Clerical*

The salaries and wages of staff so classified should be charged either to the Medical (Records and Clerical) Services Account or General Administration Account, according to the facts. The salaries and wages sub-head for the General Administration Account should be sub-divided as between nursing administration (i.e., for staff referred to in sub-paragraph 41(ii)(*a*) above) and other administrative and clerical staff.

(vi) *Professional and Technical*

Type of Staff	*Account to be charged*
Chaplain	In-patients (or wards where separately costed).
Organist	
Chiropodist	In-patients (or wards where separately costed) and/or Out-patients apportioned where necessary according to an estimate made annually by the staff concerned.
Dental Technician	
Dispensing Optician	
Ophthalmic Optician	
Orthoptist	

(vii) *Other Employees*

Type of Staff	*Account to be charged*
Home Warden	Where the staff are associated with hostels for patients the charge should be made to In-patients Account (or wards where separately costed).
Housekeeper	Where the staff are associated with staff residences the charge should be made either to: (*a*) Staff Residences Account, where costed separately, or (*b*) In-patients Account (or wards where separately costed).
Hostel Warden	
Hostel Stewardess	
Hostel Steward	
Sewing Room Staff (various) ..	A part of these salaries and wages may be included in conversion accounts for articles made up and charged back to stock account or direct to departmental accounts. Any balance should be charged to In-patients Account (or wards where separately costed) and/or Out-Patients Account apportioned where necessary pro-rata to the total expenditure charged to those accounts before the expenses of the general services accounts have been re-allocated.
Upholsterer	
Surgical Shoemaker	

(viii) *Cleaning and Portering Staff*

Work performed by staff designated as cleaners and porters varies considerably from hospital to hospital and, in some cases, the distinction between cleaning and portering duties is a fine one. It was for these reasons that the Working Party decided that a combined Cleaning and General Portering Account should be set up rather than separate accounts for each service. They recommend that the wages of such staff should be dealt with in accordance with the following general principles:

(*a*) *Cleaning Duties*

Wages of staff engaged on light cleaning duties should normally be charged to the appropriate departmental account, e.g., the wages of staff engaged on light duties in wards, such as dusting and tidying up of lockers, cleaning crockery, sorting linen, etc., should be charged to In-patients Account; those of staff engaged on the cleaning of vegetables, kitchen plant and utensils should be charged to Catering Account and so on.

The wages of staff employed on heavy cleaning duties, such as vacuuming, scrubbing, polishing of floors, etc., should be charged to Cleaning and General Portering Account.

(*b*) *Portering Duties*

The wages of these staff should be charged as far as possible direct to the appropriate departmental account, suitable apportionments being made in the case of staff engaged on mixed duties within different departments.

The balance of expenditure on porters' wages which cannot be allocated departmentally in this way should be charged to the Cleaning and General Portering Account.

The effect of these decisions is that the Cleaning and General Portering Account will not provide a figure of the total expenditure on all the cleaning and portering services of a hospital but only that part of the expenditure not allocated departmentally. In these circumstances the Working Party concluded that no useful purpose was to be served in applying a unit of cost to the Cleaning and General Portering Account.

Staff Uniforms

42. Expenditure on the uniforms of staff from whose salaries and wages a deduction is made for provision of uniforms, should be charged wholly to In-patients Account. (This follows on the decision that payments by staff for board, lodging, etc., which include amounts in respect of uniforms, should be wholly set off against expenditure on in-patients.)

The allocation of expenditure on the uniforms of staff not liable to such deductions from salaries and wages, should follow the allocation of their salaries and wages.

Drugs

43. The Working Party examined at considerable length possible bases for allocating expenditure on drugs amongst In-patients, Out-patients and the Medical Service Departments. The successful implementation of any scheme for distributing drugs costs is largely dependent on the co-operation of pharmacists and the Working Party had constantly in mind the necessity for keeping to the minimum possible the additional burden which might fall on pharmacists as the result of any scheme which they recommended. They came to the conclusion that it would not be desirable to lay down too rigid a system for pricing drugs but that they should recommend alternative systems, leaving hospitals free to adopt the one more suited to local circumstances.

It is considered that there would be no great difficulty in most hospitals in determining, from priced requisitions, the allocations to be made to the Medical Service Departments.

The allocation of the balance of total drugs expenditure presents the greater problem and the following alternative bases of distribution are recommended:

Method No. 1

It is known that in many hospitals between 20–30 drugs alone account for 70 per cent. or more of the total drug bill.

Expenditure on the 20–30 drugs should be allocated as follows:—

(*a*) drugs which are used exclusively (or virtually so) in one or other department should be charged direct;

(*b*) each of the other drugs should be priced as between departments for a sample period of one week in each three months and the expenditure apportioned accordingly. Experience might show that even less frequent samples could be taken.

The balance of expenditure on drugs consists of a very large number of items each representing a low proportion of the total cost and should be apportioned between departments on the basis of

(i) the number of in-patient weeks and

(ii) the number of out-patient weeks, arrived at by multiplying the number of prescriptions for out-patients attending the dispensary by the average time in weeks covered by a prescription based on a sample period of one week in each three months or possibly on an even less frequent sample.

Method No. 2

Under this method the cost of each prescription is graded, e.g.,

Grade A	.. ..	Up to 6*d.*
Grade B	.. ..	6*d.* to 1*s.*
Grade C	.. ..	1*s.* to 2*s.* 6*d.*
Grade D	.. ..	2*s.* 6*d.* to 5*s.*
Grade E	.. ..	5*s.* to 7*s.* 6*d.*
Grade F	.. ..	7*s.* 6*d.* to 10*s.*

Each prescription is coded by the pharmacist A, B, C, etc., according to its estimated value and is marked to show the department of origin. The cost of prescriptions for any department is ascertained by multiplying the number of prescriptions within each grade by the mid-value of each, e.g., A—3*d.*, B—9*d.* Items exceeding 10*s.* in value should be costed individually.

It is thought that the grades A to F described above will be suitable for most pharmacies, but where circumstances are thought to be exceptional the adaptation of the grades to suit the circumstances is advised.

Both the methods outlined above suffer from the disadvantage that the analysis of costs does not rely on a summary of the quantitative issues of the various drugs but it is considered that short of pricing drugs issues on a normal stores basis these methods will secure a reasonably accurate basis of apportionment of costs.

The Working Party suggest that, if possible, both systems should be tried out in a few selected hospitals before departmental cost accounting is introduced generally.

Medical and Surgical Appliances and Equipment

44. (i) *Patients' Appliances*

(*a*) Records should be arranged so as to show the appropriate departmental account to be charged.

(*b*) Spectacles are an important item of expenditure under this heading but the arrangements for supply vary. In some cases the work is undertaken by the hospital and payments by patients are required to be treated as "Income" which, for the purpose of the annual accounts, cannot be set off against expenditure. In other cases the work is undertaken by opticians outside the hospital and the payment by the hospital to the optician is the net amount after the patients' contribution has been offset.

In order that proper comparisons of costs as between hospitals can be made in these differing circumstances, the Working Party recommend that where the

hospital undertakes the work, income receivable from patients should be set off against expenditure for costing purposes only.

(*c*) Appliances supplied direct by the Ministry of Health (previously Ministry of Pensions) for which accounts are not available, should be disregarded for costing purposes.

(ii) *Repairs to Appliances and Equipment*

(*a*) *Patients' Appliances*. There should normally be no difficulty in charging the cost to the department concerned from records kept at the hospital.

(*b*) *Hospital Appliances and Equipment*. In allocating expenditure, it is necessary to distinguish between:

(*a*) Repairable items returnable direct to the user department requisitioning the repair (no temporary replacement being made).

(*b*) Items which are replaced immediately from stock or a central reserve of appliances and instruments, the defective instrument, etc., when repaired being subsequently taken into stock.

The bases of allocation recommended are:

(*a*) Cost of repairs to be allocated direct to the department requisitioning the repair:

(i) if carried out by outside contractor, from invoice, and

(ii) if repaired by the hospital's instrument mechanic on the basis of time spent.

(*b*) In such cases the transactions, i.e., the return of an item for repair and the issue of a replacement item from store, cancel each other out and no expenditure, except on repairs, will normally arise. Costs of repairs should be allocated to the department requisitioning the repair:

(i) if carried out by outside contractor, and readily identifiable with a department, from invoice; otherwise it should be charged to a repairs suspense account and reallocated on the basis of sample tests of repairs effected for the various departments, and

(ii) if repaired by the hospital's instrument mechanic, on the basis of an estimate of time spent for the various departments (from weekly time records).

Materials consumed (which are likely to be very small) in effecting repairs, and purchases and repairs of the mechanic's equipment, tools, plant, etc., should be apportioned on the same basis as his wages.

In settling the charge to be made in the account for the Diagnostic X-ray Department for the replacement or repair of X-ray equipment regard should be had to the recommendations contained in paragraph 24 concerning depreciation charges.

Water

45. Expenditure should be allocated an a metered basis or on an estimate of consumption.

Maintenance of Buildings, Plant and Grounds

46. All expenditure on works and maintenance (buildings and plant) including (*a*) the salaries and wages of works and maintenance staffs, (*b*) payments to contractors and (*c*) expenditure on works undertaken for the hospital by a Group Maintenance Department, should be charged to the Works and Maintenance (Buildings and Plant) Account, with the exception of expenditure on works and maintenance in the laundry, and on laundry plant. This latter expenditure, subject to what is said in paragraph 24 about

provision for depreciation, should be charged direct to Laundry Account. The decision to charge the expenditure relating to the laundry direct to Laundry Account was taken to secure that this Account should bear all charges appertaining to laundry activities; this is necessary if useful comparisons are to be made between the costs of individual hospital laundries. Furthermore expenditure on works and maintenance in the laundry, and on laundry plant, is often substantial and if included in the Works and Maintenance (Building and Plant) Account might distort the unit costs thereof.

As regards expenditure on maintenance of grounds (apart from that portion which is chargeable initially to farm and garden trading accounts) it is recommended that this should be charged to In-patients Account, and that in the case of hospitals selected to effect a break down of ward costs, no attempt should be made to apportion the expenditure over the wards. This expenditure could conveniently be brought into the Summary of In-patient Costs (Account No. 1 of Appendix D).

Cleaning Materials and Appliances

47. Expenditure on cleaning materials should be allocated departmentally as far as possible, on the basis of issues, and any balance charged to the Cleaning and General Portering Account.

Expenditure on disinfecting bedding, clothing, etc., should be charged to Cleaning and General Portering Account. If the work is carried out by the hospital for the local authority, the income receivable should be set off against expenditure for costing purposes only.

Rents and Rates

48. This expenditure should be allocated direct where possible, otherwise on the basis of floor area (common areas, e.g., hallways, should be ignored for this purpose).

Printing, Stationery, Postages, etc.; Advertising; Telephones

49. (i) *Printing, Stationery, Postages, etc.*

Items identifiable as "medical" should be charged to the Medical (Records and Clerical) Services Account and the balance to General Administration Account.

(ii) *Advertising*

Telephones

Consideration was given to whether this expenditure should be apportioned at least as between the Medical (Records and Clerical) Services and General Administration Accounts. As regards advertising, the Working Party were generally agreed that these expenses are a part of the general administration expenses of the hospital and should, therefore, be charged wholly to General Administration Account.

Whilst there were differing opinions on whether expenditure on telephones should be apportioned, the Working Party took the view that, as there might be difficulties in recording telephone calls, the whole of the expenditure should be charged to General Administration Account.

Travelling Expenses

50. (*a*) *Staff*

Travelling expenses of staff should as far as possible be allocated in the same way as their salaries and wages or otherwise be charged to General Administration Account.

(*b*) *Patients*

The sums involved are normally small and should as a matter of convenience be charged wholly to Out-Patients Account.

User Agreements—Payments by Local Authorities

51. The nature of agreements with local authorities in respect of accommodation provided for residents under Part III of the National Assistance Act, 1948, varies considerably. In some cases the charges imposed are analysed under subjective headings of account, whilst in others there is no such break down of the charges.

Payments by local authorities should be dealt with by deduction from the appropriate subjective headings of expenditure in the In-Patients Account wherever the arrangements make this possible but in cases where no such analysis is available, by deduction from the expenditure on In-Patient Departments in the Summary of In-Patient Costs.

In the former case the Part III residents should be excluded from the in-patient statistics in calculating the unit costs of the department (Account No. 18) and in the latter case they should be included. For the purposes of the computation of the total in-patient cost (Account No. 1) the Part III residents should be excluded in all cases.

Direct Credits

52. (i) *Staff; for rent, board, lodging, supplies and services*

The Working Party recommend that these direct credits should be deducted en bloc from the expenditure on In-patient Departments in the Summary of In-patient Costs.

(ii) *Other Direct Credits*

Other direct credits should where possible be credited to the departmental accounts to which the relative expenditure is charged or, if not allocable to specific departments, dealt with as in (i) above.

General Administration

53. From the costing point of view, the main problem in dealing with administration expenses arises from the wide differences in organisation and degree of centralisation as between groups.

Two alternatives were considered by the Working Party for overcoming differences in organisation, (*a*) to bring up all administration expenses from hospital level to group level or (*b*) to apportion group administration expenses amongst the hospitals in the group.

The Working Party came to the conclusion that alternative (*b*) should be adopted for two reasons, (i) that to enable proper comparisons to be made between the costs of different hospitals, the costs should reflect the expenditure on administrative services provided centrally by group offices, e.g., secretarial, finance and supplies, and (ii) because it appeared to be simpler to re-allocate to hospitals the cost of services provided centrally than to take up to group level expenditure incurred on administration at hospital level. As regards the cost of administration of regional hospital boards, the Working Party came to the conclusion that recharging should be limited to agency services provided by boards, for example, punched-card accounting.

The allocation of rechargeable group and regional hospital board administration expenses should be decided locally.

This applies to all hospitals whether undertaking the Main Scheme or not.

APPENDIX C

The Bases Recommended for Re-Allocating the Expenditure of Departments and Services for the Purposes of the Main Scheme

54. The extent to which the expenses of departments and services are to be re-allocated for the purposes of the Main Scheme is referred to in paragraph 16 and exemplified in the pro-forma cost statements set out in Appendix D.

The following guidance is given as to the bases of re-allocation to be used:

Dispensary (Clearing) Account

55. Expenditure should be apportioned to the departmental accounts on the basis of an estimate, obtained from the pharmacist, of the time devoted to each department.

Cleaning and General Portering (Clearing) Account

56. The re-allocation to departmental accounts should be made in proportion to the floor areas of the departments.

Transport (Clearing) Account

57. The clearance of this account should be on the basis of the estimated user of the vehicles.

Medical (Records and Clerical) Services Account

58. The records department of a hospital serves in addition to in-patient and out-patient departments, the medical service departments (diagnostic x-ray, physiotherapy, etc.) and it had to be decided whether or not the expenses charged in the Medical (Records and Clerical) Services Account should be re-allocated to all these user departments.

The possibility of re-allocating the salaries and wages of records staff on the basis of an estimate of the time spent by staff on the work of each department was considered. This was thought to be practicable in cases where records staff could readily be identified with particular departments but impracticable in cases where a central records section serving all departments is operated.

The Working Party decided that the simpler proposition was to re-allocate the whole of the expenditure charged to Medical (Records and Clerical) Services to In-patients and Out-patients Accounts in proportion to the numbers of cost units (see paragraph 30) relating to in-patients and out-patients respectively and that there should be no re-allocation to the medical service departments.

Works and Maintenance (Buildings and Plant) Account

59. In clearing this account, purchases, renewals and replacements of and repairs to plant and equipment, where readily identifiable, should be re-allocated to the accounts for the particular departments concerned. Any balance of expenditure which cannot be re-allocated in this way should be re-allocated over departments on the basis of the cubic capacity of buildings (excluding corridors, etc.).

Boiler House (Steam Production) Account

60. The appropriate proportion of the expenditure charged to the Boiler House (Steam Production) Account should be re-allocated to Laundry Account, the laundry being a major user of steam. Ideally, the supply to the laundry should be metered but, failing that, assessed on the basis of an estimate by the engineer.

The whole of the balance of the expenditure then remaining in the Boiler House (Steam Production) Account should be re-allocated to the Power, Lighting and Heating Account. The basis to be used for clearing the latter Account, following this operation, is described in the next paragraph.

Power, Lighting and Heating Account

61. The expenditure included in the Power, Lighting and Heating Account prior to re-allocation will consist of:

(*a*) expenditure on forms of power, lighting and heating, other than steam.

(*b*) expenditure transferred from the Boiler House (Steam Production) Account excluding that relating to the supply of steam to the laundry, which will already have been re-allocated to Laundry Account as indicated in paragraph 60.

Metering appeared to be the only really accurate method of re-allocating the expenditure charged in the Power, Lighting and Heating Account but the cost of installing meters in all departments, for the various types of supply, would be considerable and the Working Party came to the conclusion that a less costly basis of re-allocation would have to suffice.

They accordingly recommend:

(*a*) that the supplies to the laundry and kitchens, being major users of power, lighting and heating should be metered, or assessed by the hospital engineer on the best possible basis and the relative expenditure charged to Laundry Account and Catering Account respectively;

(*b*) that the balance of expenditure then remaining in the Power, Lighting and Heating Account should be re-allocated to the Accounts for Staff Residences (where separately costed), the Medical Service Departments, In-Patient Departments and Out-Patient Departments on the basis of their cubic capacity.

The decision recorded in paragraph 31 that expenditure on power, lighting and heating (other than steam) for the laundry and also the cubic capacity of the laundry, should be disregarded when calculating the unit costs of the Power, Lighting and Heating Account was made for the purposes of securing uniformity of treatment, since under the above arrangements, the cost of steam applicable to the laundry will already have been taken out of the Boiler House (Steam Production) Account before the expenses in this account are re-allocated to Power, Lighting and Heating Account.

Laundry Account

62. Where the weighted units system is being operated the re-allocation to departmental accounts should be made on the basis of the number of weighted units applicable to the work taken from each department. Otherwise the re-allocation should be made on the basis of the numbers of articles laundered.

Catering Account

Staff Residences Account

63. Arrangements for feeding resident staff vary and to meet the differing circumstances the Working Party decided that in the selected hospitals which would be required to cost staff residences the expenditure on feeding the staff should be dealt with as follows:

(*a*) where a staff residence is completely self-contained and all meals are supplied on the premises, the costs of feeding the staff should be included in the Staff Residences Account as a direct charge;

(*b*) where no meals are supplied at the residence, the appropriate expenditure on feeding the staff should be re-allocated from the Catering Account to the Staff Residences Account on the basis of the number of staff in the particular residence fed per week;

(*c*) where some meals only (e.g., breakfast or light lunch) are supplied at the residence the relative expenditure should first be charged to Catering Account.

Transfers should then be made from the Catering Account to the Staff Residences Account on the basis of (*b*).

Apart from re-allocations from Catering Account to Staff Residences Account as above, the whole of the expenditure charged to Catering Account should be re-allocated to In-Patients Account. The expenditure charged to Staff Residences Account should be similarly re-allocated.

The Working Party decided that no part of the expenditure in the Staff Residences Account should be allocated to the Medical Service Departments or to the Out-Patients Departments. This is consistent with the decision that no part of the payments by staff for board and lodging should be allocated to the accounts for these Departments.

General Administration Account

64. The expenditure charged to General Administration Account should be re-allocated to In-patients and Out-patients Accounts only, in proportion to the total expenditure otherwise charged in those Accounts.

The Accounts of the Medical Service Departments

(*Radiotherapy, Diagnostic X-Ray, etc.*)

65. The expenditure charged in these Accounts should be apportioned between In-patients and Out-patients Departments on the basis of the number of units relative to each Department.

APPENDIX D

Exemplification of the Form of Annual Clearing/Cost Statements for the Purposes of the Main Scheme

66. A separate pro-forma statement is provided for each department and service to be separately costed and for the Clearing Accounts referred to in paragraph 14 of this Report. A suggested form of Summary of In-patient and Out-patient costs is also shown (No. 1).

Guidance on the completion of the statements, additional to that included in the preceding Appendices, is given in some cases in the form of a footnote.

1. SUMMARY OF IN-PATIENT COSTS

STATISTICAL DATA:.....

Description	Expenditure	Per Patient Week	Per case
In-patient departments (all wards) excluding Medical Service Departments	£	£ *s.* *d.*	£ *s.* *d.*
Maintenance of Grounds			
Trading Account deficiencies ..			
DEDUCT Direct Credits:	£	£ *s.* *d.*	£ *s.* *d.*
Staff (Rent, board, lodging, supplies and services)			
Payments by local authorities (user agreements, etc.)			
Trading Account surpluses			
Other direct credits (items not allocable to specific departments)			
Total Net Expenditure In-patient Departments and Unit Costs ..			
Medical Service Departments, etc. (proportion of expenditure relative to in-patients)			
Radiotherapy			
Diagnostic X-ray			
Pathological Laboratories			
Physiotherapy			
Operating Theatres			
Other Departments			
Total Medical Service Departments and Unit Costs			
Total In-patient Expenditure and Unit Costs			

NOTE: Payments by local authorities should wherever possible be broken down subjectively and deducted from the relevant subheads of expenditure in the departmental accounts.

SUMMARY OF OUT-PATIENT COSTS

STATISTICAL DATA:.....

Description	Expenditure	Per attendance	Per new Out-patient
	£	£ *s.* *d.*	£ *s.* *d.*
Out-patient departments (including Casualty) excluding Medical Service Departments			
Medical Service Departments, etc. (proportion of expenditure relative to out-patients)			
Radiotherapy			
Diagnostic X-ray			
Pathological Laboratories			
Physiotherapy			
Operating Theatres			
Other Departments			
Total Out-patient Expenditure		— — —	— — —

CLEARING ACCOUNTS

2. DISPENSARY (CLEARING) A/C

Description	Expenditure
	£
Salaries and wages of pharmacists, dispensers and other staff	
Staff uniforms and clothing	
Furniture and equipment	
Hardware and crockery	
Bedding and linen	
Other direct expenses	
Total	

NOTE: No part of the expenditure on drugs should be included in this account.

3. CLEANING AND GENERAL PORTERING (CLEARING) A/C

Description	Expenditure
	£
Salaries and wages of cleaners, porters, etc.	
Staff uniforms and clothing	
Appliances and equipment	
Hardware	
Cleaning materials	
Other direct expenses	
Total	

4. TRANSPORT (CLEARING) A/C

Description	Expenditure
	£
Salaries and wages of drivers, attendants and garage staff	
Staff uniforms and clothing	
Petrol, oil and grease	
Repair, renewal, maintenance and insurance of plant and tools	
Vehicles—Acquisition	
„ —Repair	
„ —Hire	
Other direct expenses	
Group Transport	
Total	

5. MEDICAL (RECORDS AND CLERICAL) SERVICES

Cost Unit: per weighted unit (New out-patients=1 unit, subsequent attendance=½ unit. New in-patients=2 units)

Number of weighted units .....

Description	Expenditure	Unit Cost
	£	£ s. d.
Salaries and wages:		
Administrative and clerical		
Professional and technical (Almoner)		
Staff uniforms and clothing		
Furniture, furnishings and equipment		
Printing, stationery and postages		
Other direct expenses		
Total		

6. WORKS AND MAINTENANCE (BUILDINGS AND PLANT)

Cost Unit: per 1,000 cubic feet of space of buildings (excluding laundry)

Number of Units .....

Description	Expenditure	Unit Cost
	£	£ s. d.
DIRECT EXPENDITURE		
Salaries and wages:		
Works and maintenance		
Other staff		
Staff uniforms and clothing		
Materials		
Repair, renewal, maintenance and insurance of plant and tools		
Group maintenance		
Outside contracts		
Other direct expenses		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE (*TRANSFERS FROM GENERAL SERVICES ACCOUNTS*)		
Transport		
Total of Direct and Indirect Expenditure and Unit Cost		

NOTE: Expenditure on works and maintenance in the laundry, and on laundry plant should be charged direct to Laundry Account.

7. BOILER HOUSE (STEAM PRODUCTION)

Cost Unit: per 1,000 lbs. steam raised

Number of Units .....

Description	Expenditure	Unit Cost
	£	£ s. d.
DIRECT EXPENDITURE		
Salaries and wages:		
Works and maintenance		
Staff uniforms and clothing		
Fuel, oil and grease (including handling of fuel and removal of ashes)		
Water		
Rent and rates		
Other direct expenses		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE		
(TRANSFERS FROM GENERAL SERVICES ACCOUNTS)		
Works and Maintenance (Buildings and Plant)		
Total of Direct and Indirect Expenditure and Unit Cost ..		

8. POWER, LIGHTING AND HEATING

Cost Unit: per 1,000 cu. feet of space of buildings (excluding laundry)

Number of Units .....

Description	Total Expenditure	Expenditure apart from Laundry	Unit Cost
	£	£	£ s. d.
DIRECT EXPENDITURE (OTHER THAN BOILER-HOUSE)			
Salaries and wages:			
Works and maintenance			
Other staff			
Staff uniforms and clothing			
Fuel, light and power:			
House coal, coke and firewood			
Electricity			
Gas			
Other direct expenses			
Total of Direct Expenditure and Unit Cost			
INDIRECT EXPENDITURE			
(TRANSFERS FROM GENERAL SERVICES ACCOUNTS)			
Boilerhouse (Steam Production)			
Total of Direct and Indirect Expenditure and Unit Cost			

NOTE: The cost of power, lighting and heating relative to the laundry, and the cubic capacity of laundry accommodation, should be omitted when calculating the overall unit cost (paragraph 61).

9. LAUNDRY

Cost Unit: per 1,000 weighted units or per 100 articles laundered

Number of Units . . . . . .

Description	Expenditure	Unit Cost
	£	£ *s. d.*
DIRECT EXPENDITURE		
Salaries and wages		
Staff uniforms and clothing		
Repair, renewal, maintenance and insurance of plant and equipment		
Maintenance of buildings (Note 2)		
Water		
Washing materials		
Hardware		
Rent and rates		
Other direct expenses		
Provision for depreciation		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE (*TRANSFERS FROM GENERAL SERVICES ACCOUNTS*)		
Cleaning and General Portering		
Transport		
Boilerhouse (Steam Production)		
Power, lighting and heating		
Total of Indirect Expenditure and Unit Cost		
Total of Direct and Indirect Expenditure and Unit Cost		
Laundry charges (outside contract or group service)		

NOTES:

1. Group Laundry cost statement should be included with those for the costed hospital having the major user.
2. Contract work, and work carried out by the maintenance department should be charged direct.

Cost Unit: per person fed per week

Number of Units . . . . . .

Description	Expenditure	Unit Cost
	£	£ s. d.
DIRECT EXPENDITURE		
Salaries and wages: Catering officers, dietitians, chefs, cooks, kitchen staff, dining room staff		
Provisions		
Staff uniforms and clothing		
Linen		
Furniture, furnishings and equipment		
Hardware and crockery		
Water		
Rent and rates		
Other direct expenses		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE (*TRANSFERS FROM GENERAL SERVICES ACCOUNTS*)		
Cleaning and General Portering		
Works and Maintenance (Buildings and Plant)		
Power, lighting and heating		
Laundry		
Total of Indirect Expenditure and Unit Cost		
Total of Direct and Indirect Expenditure and Unit Cost		
***Total of Direct and Indirect Expenditure and Unit Cost (Excluding Provisions) (Note 3)**		

NOTES:

1. The total cost of provisions should be charged to this account except as provided for in Note 2 and except for direct supplies and issues to canteens for which trading accounts are kept.
2. Where staff residences are costed separately and staff take all meals at the residence, the cost of feeding those staff, and the numbers of staff concerned, should be omitted when calculating the unit cost for catering. In such cases the expenditure will be charged direct to the Staff Residences Account.
3. The object of the Catering Account is to show the inclusive cost of feeding patients and staff, but the last line of the Account at * has been included to show additionally the cost of preparing and serving food only, i.e., the cost of provisions is excluded from this calculation.

11. STAFF RESIDENCES

(SEPARATE ESTABLISHMENT) (NOTE 1)

Cost Unit: per resident per week

Number of Units .....

Description	Expenditure	Unit Cost
	£	£ s. d.
DIRECT EXPRNDITURE		
Salaries and wages:		
Home sister, housekeeper, warden, etc.		
Domestic Staff (other than kitchen staff or those engaged in serving meals chargeable to catering)		
Other Staff (e.g., handymen, gardeners—wages to be apportioned direct if employed for a substantial proportion of their time at the residence)		
Provisions (Note 3)		
Staff uniforms and clothing		
Power, lighting and heating (Note 2)		
Water		
Furniture and furnishings		
Hardware and crockery		
Bedding and linen		
Cleaning materials		
Rent and rates		
Other direct expenses		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE		
(TRANSFERS FROM GENERAL SERVICES ACCOUNTS)		
Cleaning and General Portering		
Transport		
Works and Maintenance (Buildings and Plant)		
Power, lighting and heating		
Laundry		
Catering (Note 3)		
Total of Indirect Expenditure and Unit Cost		
Total of Direct and Indirect Expenditure and Unit Cost ..		

NOTES:

1. To include a separate building wherever situated, and an identifiable block of quarters within a hospital.
2. Where appropriate, power, lighting and heating should be a direct charge.
3. The expenditure on provisions and on preparation of food should be charged direct only where staff take all meals at the residence. In cases where some meals only are taken at the residence, or no meals are taken there, the cost of feeding the staff concerned should be charged initially to Catering Account and then re-allocated to Staff Residence Account.

Cost Units: (i) total expenditure as percentage of turnover; (ii) in-patient proportion —per bed (complement); (iii) out-patient proportion—per 100 out-patient attendances

Description	Expenditure	Percentage of turnover
	£	
DIRECT EXPENDITURE		
Salaries and wages:		
Nursing (matron, deputy and assistant matrons, administrative sisters, etc.)		
Works and maintenance (group engineer)		
Administrative and clerical		
Other staff		
Staff uniforms and clothing		
Furniture, furnishings and equipment		
Printing, stationery and postages		
Advertising (including medical staffing)		
Telephones		
Travelling and subsistence:		
Committee		
Staff		
Other direct expenses		
Total of Direct Expenditure		
INDIRECT EXPENDITURE		
Proportion of central or group administration expenses or R.H.B. agency services		
Total of Direct and Indirect Expenditure and percentage of turnover		

	£	£ *s.* *d.*
Amount allocated to In-patient Account and unit cost ..		
Amount allocated to Out-patient Account and unit cost ..		

MEDICAL SERVICE DEPARTMENTS

(A separate cost statement would be required for each department)

DEPARTMENT	*COST UNIT*
13. Radiotherapy	Per course of treatment per day.
14. Diagnostic X-Ray	Per 100 units weighted points value.
15. Pathological Laboratories	Per 100 units weighted points value.
16. Physiotherapy	Per 100 units weighted points value.
17. Operating Theatres	Per operation.

Number of Units. I.P..... O.P..... Total.....

Description	Expenditure	Unit Cost
	£	£ *s.* *d.*
DIRECT EXPENDITURE		
Salaries and wages :		
Medical (including R.H.B. allocation)		
Nursing		
Orderlies (ward, theatre, etc.)		
Professional and technical		
Other staff		
Staff uniforms and clothing		
Drugs		
Dressings		
X-ray films		
Other medical and surgical appliances		
Plant and equipment (purchases, renewals and repairs)		
Furniture and furnishings		
Hardware and crockery		
Bedding and linen		
Water		
Rent and rates		
Other direct expenses		
Provision for depreciation (Diagnostic X-ray Department only)		
Total of Direct Expenditure and Unit Cost		
INDIRECT EXPENDITURE (*TRANSFERS FROM GENERAL SERVICES ACCOUNTS*)		
Dispensary		
Cleaning and General Portering		
Works and Maintenance (Buildings and Plant)		
Power, lighting and heating		
Laundry		
Total of Indirect Expenditure and Unit Cost		
Total of Direct and Indirect Expenditure and Unit Cost		

IN-PATIENTS

(Standard pro forma for individual wards and all wards combined)

Cost Units: (i) per patient per week

(ii) per case

Number of patient weeks .....

Number of cases .....

Description	Expenditure	Per patient week	Per case
	£	£ s. d.	£ s. d.
DIRECT EXPENDITURE			
Salaries and wages:			
Medical (including R.H.B. allocation) ..			
Nursing			
Ward orderlies			
Professional and technical			
Other staff			
Staff uniforms and clothing			
Patients clothing			
Drugs			
Dressings			
Medical and surgical appliances			
Plant and equipment (purchases, renewals, repairs)			
Furniture and furnishings			
Hardware and crockery			
Bedding and linen			
Water			
Rent and rates			
Occupational therapy (expenditure less income)			
Patients allowances			
Other direct expenses			
Total of Direct Expenditure and Unit Costs			
INDIRECT EXPENDITURE (*TRANSFERS FROM GENERAL SERVICES ACCOUNTS*)			
Dispensary			
Cleaning and General Portering			
Transport			
Medical (Records and Clerical) Services ..			
Works and Maintenance (Buildings and Plant)			
Power, lighting and heating			
Laundry			
Catering			
Staff Residences			
General Administration			
Total of Indirect Expenditure and Unit Costs			
Total of Direct and Indirect Expenditure and Unit Costs			

19. OUT-PATIENT DEPARTMENTS (INCLUDING CASUALTY)

Cost Units: (i) per out-patient attendance
(ii) per new out-patient

Number of attendances .....
Number of new out-patients .....

Description	Expenditure	Per attendance	Per new out-patient
	£	£ *s.* *d.*	£ *s.* *d.*
DIRECT EXPENDITURE			
Salaries and wages:			
Medical (including R.H.B. allocation) ..			
Nursing			
Ward Orderlies			
Professional and technical			
Other staff			
Staff uniforms and clothing			
Drugs			
Dressings			
Medical and surgical appliances			
Plant and equipment (purchases, renewals and repairs)			
Furniture and furnishings			
Hardware and crockery			
Bedding and linen			
Water			
Rent and rates			
Patients travelling expenses			
Other direct expenses			
Total of Direct Expenditure and unit costs			
INDIRECT EXPENDITURE			
(TRANSFERS FROM GENERAL SERVICES ACCOUNTS)			
Dispensary			
Cleaning and General Portering			
Transport			
Medical (Records and Clerical) Services ..			
Works and Maintenance (Buildings and Plant)			
Power, lighting and heating			
Laundry			
General Administration			
Total of Indirect Expenditure and Unit Costs			
Total of Direct and Indirect Expenditure and Unit Costs			

APPENDIX E

Exemplification of the Form of Annual Cost Statement for use in Hospitals other than those to which the Main Scheme would apply

67. The pro-forma cost statement which follows exemplifies the costing arrangements which the Working Party recommend should, for the time being, be applied in all hospitals other than those which would be required initially to undertake the Main Scheme (paragraphs 18–22).

Attention is drawn to the notes at the foot of the cost statement.

COST STATEMENT

.....Hospital.....Type. Type No. .....

STATISTICAL DATA:

Head of Expenditure	Total Amount	Cost per In-patient week	Cost per Out-patient attendance
	£	£ s. d.	£ s. d.
1. Medical and Nursing:			
Salaries and wages:			
Medical (including R.H.B. allocation)			
Professional and Technical (excluding engineers, catering officers and dietitians)			
Nursing (including nursing orderlies)			
Drugs and Dressings			
Medical and Surgical Appliances and Equipment ..			
Occupational Therapy materials and Equipment ..			
2. Medical Service Departments:			
(i) Radiotherapy			
(ii) Diagnostic X-ray .. .. .. (Note 1)			
(iii) Pathological Laboratories ..			
(iv) Physiotherapy			
Salaries and wages:			
Medical (including R.H.B. allocation)			
Professional and Technical (excluding engineers, catering officers and dietitians)			
Nursing (including nursing orderlies)			
Drugs and Dressings			
Medical and Surgical Appliances and Equipment ..			
(i) (Cost per course of treatment per day)			
(ii), (iii) and (iv) (Cost per 100 units weighted points value) .. .. (Note 1)			
3. Catering:			
Salaries and wages (including catering officers, dietitians, chefs, cooks, kitchen and dining room staffs)			
Provisions			
(Cost per person fed .)			
4. Laundry:			
(i) *Hospital Laundry:*			
Salaries and wages			
Washing materials			
Plant and equipment			
Boiler House (proportion of expenditure) (Note 2 (*b*))			
(Cost per 100 articles laundered .)			
(ii) *Outside contract or group service*			
(Cost per 100 articles laundered .)			

Head of Expenditure	Total Amount	Cost per In-patient week	Cost per Out-patient attendance
	£	£ *s.* *d.*	£ *s.* *d.*
5. Domestic (Cleaning and Portering) Service:			
Wages (including maids, cleaners, porters, and other domestic staff and non-nursing orderlies) ..			
Cleaning Materials and Appliances			
6. Domestic Repairs, Renewals and Replacements (excluding cleaning materials)			
7. Power, Light, Heating and Water:			
Wages (boiler house) / Boiler Fuel .. { Excluding proportion relating to laundry (Note 2 (*b*)) }			
Other expenses			
((i) Cost per 1,000 lbs. steam raised) } (Note 2 (*a*))			
((ii) Cost per 1,000 cubic feet) .. } (Note 3)			
8. Maintenance of Buildings and Plant:			
Salaries and Wages			
Plant, equipment and materials			
Outside Contract or Group Service			
(Cost per 1,000 cubic feet.) (Note 3.)			
9. Maintenance of Grounds and Ornamental Gardens:			
Wages			
Materials and Outside Contract or Group Service..			
10. Administration:			
Salaries, Wages and Travelling Expenses			
Office Furniture and Equipment			
Printing, Stationery, Postages, Advertising, Telephones, etc.			
Proportion of Central or Group Administration expenses or R.H.B. agency services			
((i) Total expenditure as percentage of turnover ..			
(ii) In-patient proportion—per bed (complement) ..			
(iii) Out-patient proportion—per 100 Out-patient attendances)			
11. Other Expenses:			
Rent and Rates			
Transport and Travelling Expenses of Patients ..			
Trading Services (deficiency)			
Miscellaneous			
(i) Salaries and Wages			
(ii) Other expenses			

Head of Expenditure	Total Amount	Cost per In-patient week	Cost per Out-patient attendance
	£	£ s. d.	£ s. d.
12. TOTAL GROSS EXPENDITURE/UNIT COSTS ..			
13. DIRECT CREDITS:			
Staff: rent, board, lodging, supplies and services ..			
Trading Services (surplus)			
Other Direct Credits			
14. TOTAL DIRECT CREDITS/UNIT COSTS ..			
15. TOTAL NET EXPENDITURE/UNIT COSTS ..			
16. IN-PATIENT COST:			
(Total net cost adjusted by estimated out-patient expenditure)			
17. COST PER CASE			

NOTES:

1. The medical service departments should be costed individually except that in hospitals with an annual expenditure of less than £50,000 the expenditure on these departments might be merged with Medical and Nursing (Item 1 on the Cost Statement).
2. (*a*) The unit of cost "per 1,000 lbs. steam raised" should be applied only to that part of the expenditure relating to the boilerhouse, i.e., wages (boilerhouse) and boiler fuel. This unit cost should only be produced in hospitals where meters are available.

   (*b*) Where meters are not available the amount of steam supplied to the laundry should be estimated by the engineer.
3. In recommending that unit costs related to the cubic capacity of buildings should be produced for Items 7 and 8, the Working Party recognize that in hospitals where detailed or block plans are not available the ascertainment of cubic capacity might be a considerable task but it is a task which would have to be undertaken once only subject to adjustments being made for structural alterations or additions. They appreciate, therefore, that in such cases it might not be possible for hospitals to produce these costs at the outset but hope that they can be produced by the second year of operation of these costing arrangements.

APPENDIX F

With reference to paragraph 8 of this Report, the following is a form of annual summary of departmental expenditure and unit costs of hospitals undertaking the Main Scheme which the Working Party consider might be suitable as a minimum for presentation to Boards of Governors and Hospital Management Committees. Comparative figures for the previous financial period should be shown additionally:

SUMMARY OF DEPARTMENTAL EXPENDITURE AND UNIT COSTS

Departments and Services	Details for the Year Ended.....				
	Total Direct Expenditure	Total Indirect Expenditure (Transfers)	Total Direct and Indirect Expenditure	Number of Cost Units	Cost(s) Per Unit
	£	£	£		£ *s.* *d.*
GENERAL SERVICES					
1. Dispensary		—		—	—
2. Cleaning and General Portering		—		—	—
3. Transport		—		—	—
4. Medical (Records and Clerical) Services ..		—			
5. Works and Maintenance (Buildings and Plant)					
6. Boiler House (Steam Production) ..					
7. Power, Lighting and Heating					
8. Laundry					
9. Catering					
10. Staff Residences ..					
11. General Administration					(*a*) (*b*) (*c*)
MEDICAL SERVICE DEPARTMENTS					
12. Radiotherapy					
13. Diagnostic X-Ray ..					
14. Pathological Laboratories					
15. Physiotherapy ..					
16. Operating Theatres ..					
17. Other Departments ..				—	—
PATIENTS DEPARTMENTS					
18. In-Patients (Wards) (individually or combined)					(*a*) (*b*)
19. Out-patients (including casualty)					(*a*) (*b*)

UNITS EMPLOYED:

4. Weighted unit; 5 and 7. 1,000 cu. ft. space; 6. 1,000 lbs. steam; 8. 1,000 weighted units or 100 articles laundered; 9. Person fed per week; 10. Resident per week; 11(*a*). Percentage of turnover; 11(*b*). Per bed (in-patient proportion); 11(*c*). Per 100 out-patient attendances (out-patient proportion); 12. Course of treatment; 13–15. 100 weighted units; 16. Operation; 18(*a*). Patient week; 18(*b*). Case; 19(*a*). Attendance; 19(*b*). New out-patient.

SUMMARY OF IN-PATIENT EXPENDITURE AND UNIT COSTS:

STATISTICAL DATA

Description	Expenditure	Per Patient Per Week	Per Case
	£	£ *s.* *d.*	£ *s.* *d.*
In-patient departments (all wards) ..			
Maintenance of Grounds			
Trading Account Deficiencies			
DEDUCT Direct Credits:	£	£ *s.* *d.*	£ *s.* *d.*
Staff (rent, board, lodging, supplies and services)			
Payments by local authorities ..			
Trading Account Surpluses			
Other Direct Credits (items not allocated to specific departments) ..			
Total Net Expenditure in-patient departments and unit costs ..			
Medical Service Departments (proportion of expenditure relative to in-patients):			
Radiotherapy			
Diagnostic X-Ray			
Pathological Laboratories ..			
Physiotherapy			
Operating Theatres			
Other Departments			
Total in-patient expenditure and unit costs			

APPENDIX G

Representative Lists of Items Washed in Hospital Laundries

(Paragraph 32 of the Report refers)

Items

A. (1) *Unit "weight" 57*

Counterpanes—cot
large coloured
large white
small coloured
small white
Covers—bowl (theatre work)
couch and divan
mattress, bedspring and hessian
screen (heavy)
stretcher
Curtains, ward cubicle
Gowns, operation
Sheets—abdominal (thick)
bath
colporraphy and lithotomy
cot (large)
cot (small)
draw (double)
draw (single)
dust
flannelette (or bath blankets)
mortuary
orthopaedic
theatre
top (heavy twill)
top (light)
Table cloths (large)
Towels, roller, linen (large)

A. (2) *Aprons—Unit "weight" 30*

Coarse
Nurses', white
Pinafores
Porters', white

A. (3) *Unit "weight" 20*

Bags—glove
linen (small)
Bandages—crepe
flannel
many tailed
roller
T
triangular
Bibs
Binders—baby
large
Blouses, children's
Boots, linen
Caps—nurses' theatre (or theatre veils)
surgeons'

Items

A. (3) *Unit "weight" 20 (continued)*

Cases—bolster and pillow ticks
cot, pillow
pillow
Cloths—basin
bed pan
diet
kitchen and glass
lavatory
locker or rubbers
medicine and loin
oven
pudding
tea and patients' tea cloths
toilet
tray
vomit
Covers—air ring
basinette
bed pan
cot blanket
cushion
hot water bottle and sterilizer
instrument
sandbag
screen (light)
Dresses, children's
Drum linings
Dusters
Face flannels
Feeders
Handkerchiefs
Knickers, children's
Restrainers
Runners, toilet
Serviettes
Slings, arm
Socks—bed
children's
men's
women's
Stockings, operation
Swabs (taped)
Towels—anaesthetic
doctors'
dressing
enema
glove
hand
huckaback
lavatory
medicine

Items

A. (3) *Unit "weight" 20 (continued)*

Towels—operation
packing
perineal
small linen roller
spinal, white
tea
toilet
transfusion
trolley
Trousers cotton, boys'
Vests—babies' woollen
children's
men's
Wringers, fomentation

B. (1) *Unit "weight" 94*

Blankets—cot (large)
cot (small)
head
heavy coloured
heavy white
Capes, nurses'
Dressing gowns (heavy)
Quilts or wadded eiderdowns
Rugs
Sleeping bags

B. (2) *Unit "weight" 42*

Bath mats
Combinations
Dressing gowns (light)
Gowns—child's night
cotton, open back
flannel, open back
flannel, theatre
isolation
night, adult
nurses'
surgeons'
X-ray
Jackets, bed
Jackets and waistcoats, patients'
Jerseys, pullovers and cardigans
Knickers, ladies'
Leggings, perineal green
Overalls, patients'
Pants
Petticoats
Pyjama—coats
trousers
Sacks, laundry
Shirts—open back
patients'
Slings, cot
Suits, sleeping
Table cloths (small)
Towels—bath

Items

B. (2) *Unit "weight" 42 (continued)*

Towels—trolley
turkish (roller)
Trousers' patients'
Baby Clothes
Frocks and rompers
Gowns
Half towels
Matinee coats and smocks
Nightdresses
Pants, child's
Vests

B. (3) *Unit "weight" 10*

Masks
Muslin squares, babies'
Napkins, terry towelling, babies'

C. (1) *Unit "weight" 95*

Blouses
Boiler suits
Coats, white (long)
Dresses—mufti
nurses'
sisters'

C. (2) *Unit "weight" 64*

Cloths, altar
Coats—chefs
coloured
white (short)
Nightdresses
Overalls—coloured
white
Pants, silk
Pyjamas—coats
trousers
Shirts, doctors'
Skirts
Trousers—long cotton
mufti
Vests, silk

C. (3) *Unit "weight" 34*

Belts—suspender
white
Brassieres
Caps
Collars
Collars men's (stiff)
Cuffs (pairs)
Hats, chefs'
Knickers
Petticoats
Shorts
Sleeves
Strings
Ties
Vests

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