

**BOARD PAPER - NHS COMMISSIONING BOARD AUTHORITY (NHS CBA)**

**Title:** Update on end state running cost position of the NHS Commissioning Board (NHS CB) 2013-14 and 2014-15.

**Clearance:** Paul Baumann and Bill McCarthy

**Purpose of Paper:**

- To present the current position on the running cost estimates for the NHS Commissioning Board in 2013-14 and 2014-15, and the changes which have been made under delegated powers by the Future Design Group since the Board's last approval on 2nd February 2012.

**Key Issues and Recommendations:**

- The revised running cost allowance for the NHS CB in 2014-15 is £527m.
- There are a number of areas where further clarification of the running cost position is required.
- It is not anticipated that a separate running cost allocation will be made to the NHS CB for 2013-14 or 2014-15, but that it is an allowance within the total allocation and is a particular aspect of spending which the NHS CB needs to constrain. It will be calculated and audited each year as part of the annual accounts process.

**Actions Required by Board Members:**

- To note the latest running cost position for 2013-14 and 2014-15 based on the latest organisational design proposals.

## **NHS Commissioning Board Authority**

**Date of Meeting 31<sup>st</sup> May 2012**

### **Update on end state running cost budgets 2014-15**

#### **1. Introduction**

The Board of the NHS Commissioning Board Authority (NHS CBA) considered a report at its meeting on 2<sup>nd</sup> February 2012 regarding the organisational design of the NHS Commissioning Board (NHS ) CB for 2014-15 and gave its approval to the proposals therein. The Board gave delegated authority to the Future Design Group (FDG) to make appropriate amendments to the design and for regular updates to be brought back to the Board.

This update concentrates on the running cost consequences of the updated design proposals and gives some background on the concept of running costs.

#### **2. Running Costs**

Administrative budgets are set for most civil service departments by Her Majesty's Treasury (HMT) in order to help drive economy and efficiency in the running of government.

The NHS (Health) administration budget for 2014-15 has been set as £4.166 billion – which is a 15% reduction on the planned figure for 2011-12.

The Department of Health (DH) manages this responsibility by setting running cost targets for all organisations, which consolidate into their control total position for the administrative budget. This is done, not by giving a separate allocation for running costs, but as an allowance which is recorded each year as a note in the accounts of those organisations.

The definition of running costs has been broadly set by the DH as *“it will include any cost incurred that is not a direct payment for the provision of healthcare or healthcare related services”*.

#### **3. Current Running Cost Estimate 2014-15**

The NHS CBA is continuously revising its organisational structure in the light of the latest information regarding responsibilities, and through the detailed design process being undertaken in each of the nine directorates.

The table below gives a summary of the current running cost position of the latest organisational design, and compares this to the position last reported to the Board in February 2012.

**NHSCBA RUNNING COST ESTIMATES 2014-15**

	Jun-12		Feb-12
	£m	£m	£m
<b>PAY BUDGETS</b>			
Medical	£10.3		£7.5
Nursing	£5.0		£5.0
Operations	£256.9		£190.0
Commissioning Development	£5.5		£5.5
Improvement & Transformation	£17.5		£5.0
Patient Engagement, Insight & Informatics	£11.0		£5.5
Finance	£9.4		£8.9
Policy, Partnership and Corporate	£3.5		£3.2
Chief of Staff	£5.9		£5.9
<b>TOTAL PAY COSTS</b>		<b>£325.0</b>	<b>£236.5</b>
<b>NON PAY BUDGETS</b>			
Fixed Non Pay (accomodation, Travel etc)	£70.0		£154.0
Other Discretionary Non Pay	£28.5		
Corporate/ Outsourced Costs	£43.5		£41.5
Ring Fenced Depreciation	£30.0		
Contingency Resrve	£30.0		£60.0
<b>TOTAL NON PAY COSTS</b>		<b>£202.0</b>	<b>£255.5</b>
<b>TOTAL RUNNING COSTS</b>		<b>£527.0</b>	<b>£492.0</b>

The detailed supporting working papers for the revised organisational proposals, together with the explanation of the changes, has been available on the NHSCBA web site since 3<sup>rd</sup> May 2012

([www.commissioningboard.nhs.uk](http://www.commissioningboard.nhs.uk)). The proposals have also been discussed in detail with senior NHS staff and other key interested parties

The areas where further work remains to be undertaken are:

- NHS Informatics – where significant amounts of non-running cost work (programme costs) is proposed to be commissioned by the NHSCB, where the running cost consequences are not clear
- Public Health –where the running cost implications of managing the contract on behalf of Public Health (England) for immunisation and screening etc. needs to be assessed and

- Clinical senates and clinical networks – where the running cost implications need to be assessed

From the DH working papers it is clear that the reduction in administrative budgets to the "end state" in 2014-15 should allow for some latitude in running cost allowance in 2013-14 (as reflected in an allowance for transitional costs amounting to £108m for the NHSCB). This figure has yet to be finally confirmed with DH, but it is a working assumption of the NHS CBA staff that some functions, most notably Family Health Services, may be re-organised in 2013-14, once the local arrangements of the operations directorate have been established, rather than prior to transfer during 2012-13.

It is not yet clear how running cost allowances will be uplifted, year on year, for inflation, if at all. The current working assumption is that further efficiencies would be required to keep the running cost allowance at an equivalent cash figure in future years

#### **4. Conclusions And Recommendations**

The revised running cost allowance for the NHS CB in 2014-15 is £527m.

There are some areas where further clarification of the running cost position is required.

It is not anticipated that a separate running cost allocation will be made to the NHSCB for 2013-14 or 2014-15, but that it is an allowance within the total allocation, which will require the NHS CB to constrain this particular aspect of spending. It will be calculated and audited each year as part of the annual accounts process

The Board are asked to note the latest running cost position for 2013-14 and 2014-15 based on the latest organisational design proposals.

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14<sup>th</sup> May 2012