

28 May 2010

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cc: Dame Jo Williams, Chair
Una O'Brien, Senior Departmental Sponsor

Dear Cynthia

Care Quality Commission revised budget 2010-11 and implementing efficiencies to support £6bn savings

As you will know, on 24 May the Chancellor of the Exchequer and the Chief Secretary to the Treasury announced the action that the Government will be taking to secure some £6 billion of efficiency savings in 2010-11, with a corresponding reduction in spending limits across all departments except MOD, DfID and DH. For some departments, the reductions represent up to 5 per cent of their planned expenditure. As part of this package of savings, the Government has set out a range of priority efficiency measures affecting the Civil Service and the work that departments and ALBs do. These involve placing tighter controls over spending on procurement, IT, advertising and marketing, consultancy, recruitment, property, pay and business travel. These measures have immediate effect and represent a change to our delegated authorities from the Treasury.

Although as a protected department DH will not see a reduction in its 2010-11 budget, we are not and should not be exempt from the need to make savings and tighten our financial controls in the current financial year. We are discussing with Ministers the scale of the savings that we will deliver and how they will be re-invested, but as a minimum we will be:

- seeking to deliver savings across the full range of central budgets that are not contractually committed or built into local government or NHS plans;
- reducing the Department's administration spend by an additional 3 per cent this year;
- reducing all ALB budgets by 3 per cent; and
- reducing SHA running cost budgets by 3 per cent.

I spoke about the key implications for the Department's ALBs at the ALB CEO event 26 May 2010. As promised, I am writing formally to inform you of your revised near cash (and capital where appropriate) budget, and to highlight the key areas where action will be required.

ALB 2010-11 Near Cash and Capital Budgets

Initial recurrent near cash baseline figures have been adjusted to deliver an additional 3% cash efficiency saving. The following table provides an audit trail from that baseline to your revised initial budget:

2010-11 ALB NEAR CASH BUDGETS		£000
2009-10 Recurrent Baseline		85,070
3.5% Efficiency		2,977
Initial Indicative Budget		82,093
Sponsor approved adjustments	Included in 3% calculation	
	Excluded from 3% calculation	17,500
Initial Budgets issued to ALBs		99,593
3% Additional Efficiency (on 2009-10 Recurrent Baseline plus adjustments)		2,553
Revised Initial Budget		97,040

An initial capital budget is confirmed to meet the legal and other commitments identified in your capital submissions. Please note that this does not constitute approval for individual capital schemes, and expenditure on schemes which have already been approved should be consistent with the general direction of travel across government. Existing governance arrangements for capital apply and spend must comply with efficiency measures set out in this letter, in particular the restrictions around ICT. The amount of capital budget confirmed for the Care Quality Commission is £15.2m. Further work is underway to consider budget requests for uncommitted and new capital schemes and we will send out notifications week commencing 7th June 2010.

Implementing Efficiencies

In implementing tighter controls over spending, the Government has recognised the need for a coordinated approach to exploit economies of scale and reduce duplication, particularly in the areas of procurement and negotiations with common suppliers. Therefore, a new **Efficiency and Reform Group (ERG)** will be established whose Board will be chaired jointly by Chief Secretary to the Treasury and the Minister for the Cabinet Office and Paymaster General. The Group will drive savings, and set priority measures.

The priority measures on which the Department is required to take immediate action, and on which we will need to work with ALBs, are listed below:

Conduct centralised procurement for commodity goods and services to drive down prices.

With effect from the termination date of any existing or term contracts, or immediately if goods are procured on an ad-hoc basis, all spending on common goods and services categories (energy, fleet, office solutions, travel, professional services, ICT, facilities management, food and construction) across government should take place through centrally-agreed contracting routes, in order to drive down prices and achieve savings through economies of scale. Exceptions will be permitted only where they clearly improve VFM for government as a whole. They also state that over time, procurement will evolve to a "shared service" model.

Centralised Procurement of Commodity Goods and Services

OGC have yet to clarify the precise meaning of centrally contracting vehicles, nor how shared service models will operate. In the meantime, we need to establish how the department and ALBs currently procure the items in the common goods category, and I would be grateful if you could arrange to have the form completed (Annex A) by **Friday 4 June**.

It is also necessary to include in the "Commentary" column details of whether it is believed current practice is consistent with new policy.

Once OGC clarify details of how the new policy will work, we will be able to determine if current practices are acceptable, or if changes are required.

In completing the pro forma, could you please adopt the following rules:

- It is better to provide too much information than too little;
- Reports need not cover all expenditure, particularly small one offs – only core contracting methods or rates need to be covered. If total spend is very small – say less than £5,000 – nothing need to be declared beyond confirming this fact;
- If local contracts are used, and it is thought they provide best vfm, a separate note detailing why must be included (note: this has to be viewed from the perspective of the taxpayer, not the individual organisation), and
- Any queries or questions should be e mailed to me in the first instance.

Implement a freeze on all new ICT spend above £1m.

There is an immediate freeze on all new ICT spend over £1 million, pending a review of all major ICT projects with a view to making recommendations for improving VFM. We cannot sign any new ICT contracts, or extensions, or modifications to existing ones above £1 million in value, without specific agreement from the Treasury. Any agreement would be given only after approval by the Minister for the Cabinet Office. If we want to make an exception, there will be a process to follow. The exact details are still being agreed but it will require everything to be submitted to Christine Connelly's (the departmental Chief Information Officer) Office for formal review. Where appropriate, the necessary approvals will be sought and a submission then made to the Cabinet Office.

Christine will be writing round about this next week. In the meantime all queries should be discussed with your ALB IT contact Steve.Mordey@dh.gsi.gov.uk (0113 2545139)

With immediate effect, start renegotiating contracts with major suppliers across government to reduce costs.

As with centralised procurement this should be coordinated with, and through, Neil.Griffiths@dh.gsi.gov.uk

Freeze all new spend on marketing and advertising

There is a freeze on all new advertising and marketing spend. Spend in these areas will be restricted to essential campaigns and will only be allowable under certain conditions and approval in all cases will be required (ministerial or from Treasury). All potential exceptions should be submitted through the Department, who will review before onward approval is sought. The departmental contact for any questions is Naresh.Chohan@dh.gsi.gov.uk (0113 2545544)

An immediate freeze on Consultancy spend

There is an immediate freeze on all new consultancy spend unless it is deemed an operation necessity. And any contract proposed by the department and its ALBs with a value above £20,000 will now need ministerial approval. The sole exception is for legal counsel advice, which should be taken to mean **only** any formal legal advice on a specific issue, either from a firm of lawyers that could end being referred by Counsel, or to Counsel direct. **This process also applies to contacts for in-house consultants/contractors, but not agency or temporary staff, for which different measures apply.**

In addition, all spend approved under £20,000 in value has to be reported, on a monthly basis, to Ministers, Treasury Spending Team and OGC Departments and ALBs also have to publish exceptions or approvals on-line. By this action, Treasury have, in effect, removed normal departmental delegations and is a demonstration of their commitment to limit spend to genuine requirements only.

In view of this, all delegated authorities to commission consultancy expenditure is removed. In future, all DGs in DH and all ALB CEs must seek approval for consultancy spend.

The new policy applies to all contracts for consultancy let by the department and the ALBs, as defined by the Office of Government Commerce ("OGC"), namely:

“the provision to management of objective advice and assistance relating to strategy, structure, management or operations of an organisation in pursuit of its purposes and objectives.”

The consultancy category is further broken down into 11 sub-categories that can be used to define, more precisely, the nature of the service as follows:

- Strategy
- Finance
- Organisation and Change Management
- IT/IS
- Property and Construction
- Procurement
- Legal Services (but not legal counsel – see above)
- Marketing and Communication
- Human Resource, Training * Education
- Programme and Project Management
- Technical

All requests for approval must use the department's Professional Services Business Case ("PSBC") process and are signed off according to value by an escalating series of approvers. Annex B shows the new approval process and a Blank forms is attached as Annex C.

Business expenses double

The Government has announced an immediate review of Civil Service expenses policy, and the attached letter from HM Treasury, dated 27 April 2010 indicates the likely direction that we will take our expenses policies in DH. This should also be taken as guidance on how ALBs as employers should review their own expenses policies. If you do have any queries please contact Naresh.Chohan@dh.gsi.gov.uk (0113 25 45544).

Freeze on recruitment

The Government has announced a freeze on all external recruitment into ALBs, except in important frontline positions (requiring approval by CEO and reported monthly to the Department) and business critical areas (requiring Secretary of State approval). The ALB Support Unit working with NHS Colleagues will develop a workable definition on what constitutes a frontline post, and an approval process, and will look to communicate that definition by 11 June. In the meantime, advice should be sought through Greg.Gleeson@dh.gsi.gov.uk (020 797 23781)

Significantly reduce the number of temporary staff (including Agency staff and inward secondees)

In line with the freeze on external recruitment, we will require ALBs to significantly reduce their reliance on temporary staff. We ask that you review and provide details of your temporary staffing arrangements, identifying where temporary staff fill business critical and/or frontline posts, along with overall numbers over the next 2 weeks. Please send returns to Francesca.dellapietra@dh.gsi.gov.uk and if you have any queries please contact Greg.Gleeson@dh.gsi.gov.uk (020 797 23781)

Review ALB pay structures and terms and conditions and Implement a programme to simplify HR functions across Whitehall and, wherever possible, eradicate and duplication.

Both these areas form part the current ALB Review. Departmental contact Greg.Gleeson@dh.gsi.gov.uk (020 797 23781)

Pay Remits 2010-11

All pay remits 2010-11 to be submitted to Chief Secretary of the Treasury for his consideration, following review and agreement by the Department under existing Departmental arrangements. Departmental contact Greg.Gleeson@dh.gsi.gov.uk (020 797 23781)

Approval of proposed posts with salary in excess of £142,500

The Chief Secretary to the Treasury will sign off any proposed post with a salary in excess of £142,500, prior to going to advertisement. We are currently seeking clarification from HM Treasury whether this includes medical consultants. However please note that the initial approval of ALB CEO and NED appointments rests with the Department. The Pay and Performance Oversight Committee (PaPOC) will have oversight and make recommendations to the Secretary of State, after which it will submitted to the Chief Secretary to the Treasury. Any queries in the meantime should be addressed to Greg.Gleeson@dh.gsi.gov.uk (020 797 23781)

No signing of any new property leases or lease extensions unless these are approved centrally.

The Government wants to consolidate and reduce the size of the government estate by extending controls over new leases, including lease extensions and property acquisitions across the UK. This means that all lease extensions or new leases will now need to be approved by the Departments PAM (Property and Asset Management) Board and OGC with immediate effect. Departmental contact Chris.Hardy@dh.gsi.gov.uk (0113 254 5126).

There will be some areas that will require further advice from HM Treasury and the Cabinet Office, and the outcome of our enquiries about these areas will be communicated to you separately. The measures listed will apply to all the Department's ALBs (Agencies, ENDPBs and SpHAs).

I realise that further clarification will be required on many of the issues I have set out in this letter and I am grateful for your patience on those. The new controls are, however, an essential part of the way in which we all now have to operate. So, I ask for your full co-operation and support in taking these forward. In the meantime, if you have any general or urgent problems please contact Naresh Chohan (naresh.chohan@dh.gsi.gov.uk or 0113 2545544). I have put in place an escalation process that will ultimately lead to me.

Yours sincerely

A handwritten signature in black ink, appearing to be 'RD' followed by a long, sweeping horizontal stroke.

RICHARD DOUGLAS CB
DIRECTOR-GENERAL FINANCE & CHIEF OPERATING OFFICER

