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14 December 2009

Dear Una

## **2010/11 BUSINESS PLANNING AND INDICATIVE BUDGET FOR THE CARE QUALITY COMMISSION**

Thank you for your letter dated 16 November 2009 in respect of the business planning and indicative budget for 2010/11.

### **Background**

As you are aware, CQC is in the process of defining and implementing significant change across the organisation to enable us to deliver against the requirements of the Health and Social Care Act 2008. Implementation of Registration and ongoing compliance for all health and social care providers including the NHS, from 1 April 2010 will ensure that our objective of being a modern regulator with an integrated approach across health and social care will be achieved.

The changes we need to make within the organisation are significant. Bringing together three diverse workforces who previously operated with different policies, methodologies and management structures is a major challenge in itself. Combined with the implementation of a new regulatory model constitutes a major transformation programme for CQC.

A great deal of the work required to implement our strategy is already complete. We have finalised plans for the introduction of a risk-based approach to our regulatory model through setting up Quality and Risk Profiles for all providers, and we are transforming our field force to deliver our new regulatory requirements efficiently and effectively.

Further, we are mindful of the ongoing efficiency programme and have launched an efficiency drive in the second half of 2009/10 to stabilise our recurring cost base and to create a platform from which our Business Transformation Programme will be launched to ensure that CQC is fit for purpose and can deliver our objectives within an affordable cost envelope.

As you know we have delivered recurring savings of £44m compared to the costs of the three legacy Commissions. We have also identified savings of £5m against the 2009/10 budget allocation as declared in the Spring Supply Forecast. In the second half of 2009/10, all directorates have been challenged to revisit existing structures, encourage non recruitment into vacant posts and to thoroughly examine non staff expenditure to ensure costs are incurred in meeting strategic objectives and that value for money and efficiency are achieved.

With this emphasis on efficiency, which will continue throughout 2010/11, we are confident that we can deliver all regulatory requirements on a like-for-like basis within the £164.4m recurrent operating budget limit as proposed and within the cash envelope of £82.1m.

There are however, two areas that we would wish your team to consider in respect of the 2010/11 financial year.

#### **Transition funding for 2010/11**

There are further 'one off costs' that will be necessary in 2010/11 in order for us to satisfy our obligations before CQC reaches 'steady state'.

1. Registration Programme costs
2. Redundancy costs

1. The Registration Programme costs are one-off costs, specifically relating to bringing all social care and independent healthcare into registration and preparation for primary care registration in 2011/12. Other set up costs included relate to training and development of the field force to deliver the new requirements, and associated additional legal costs expected to be incurred. In total, Registration costs are estimated at £10.0 m, the detail of which can be discussed with the DH sponsor and finance teams.
2. A new field force model has now been devised and this was approved by our Board on 9 December 2009. Whilst we do not envisage any reductions to front line headcount in Operations, we do anticipate reductions in operational support and functional areas. We also anticipate that a number of middle management will not be matched to the new roles and will be made redundant. It should be noted that this work on the field force model has required completely re-working the models of inspection both in social care and in health, neither of which were fit for purpose for the new regulatory role. It is undoubtedly the case that we require a better skilled, better trained workforce for the new regulatory role. The funding requirements for this 'upskilling' is dealt with in "Additional funding for 2010/11" below.

Current analysis shows that the redundancy programme is likely to cost c. £12m – some £6m of this being the unutilised proportion of the 2009/10 Transition redundancy provision. The programme will affect 120 WTEs and produce a future recurring saving of £3.5m per year, with full payback and a positive NPV within four years. Within the calculation, it is assumed that the field force element will deliver

no payback, as these roles will be filled with appropriately skilled staff. The business model is available for review by the DH sponsor and finance teams.

### **Additional funding for 2010/11**

As noted above, to satisfy our future regulatory requirements, a reshaping of our operational field force is required.

We have undertaken a fundamental review of the field force that we need to deliver against the new regulatory framework - and in particular the move to an on-going, dynamic registration system for the NHS.

It is clear that there are significant capability, capacity and consistency issues in relation to the inherited field force. This applies across sectors but there are particular issues around the NHS where the previous model had too much of a focus on audit of policies and processes rather than inspection to test outcomes and the experience of people using services.

2010/11 will be a very challenging year with the introduction of the new registration system for the NHS and the re-registration of the large number of adult social care providers. It is important that we have the right resources to do a professional job in giving the public assurance about the quality and safety of care, and that we are able to operate in a more flexible, nimble and responsive way in the on-going monitoring of compliance - with sufficient capacity for unannounced inspections.

This letter therefore requests £7m in 2010/11 for the costs of putting in place a 'fit for purpose' field force structure, with appropriate 'upskilling' of the staff available to us. This will allow us to provide effective management grip and assurance to the public in moving all providers into the new registration system. It will also allow us to review the workflow and capacity needed for the new regulatory model in 2011/12 and beyond on the basis of the actual experience of operating the new system. We recognise that we will need to have a further review ahead of 2011/12 to drive out further efficiencies (drawing on the learning from implementation of registration) and to minimise any additional costs in bringing dentists and GPs into the regulatory system.

The DH indicative funding proposal is that our Grant in Aid in 2010/11 will be reduced by NHS Fees received i.e. Grant in Aid will be £82.1m as noted above, reduced by £17.5m of fees receivable from the NHS, i.e. £64.6m. In response to the indicative funding proposal it is proposed to offset the £7m in respect of the above costs in 2010/11 against the NHS fees receivable. In effect this would mean that our Grant in Aid will reduce by £10.5m, not the full £17.5m, (on the assumption that consultation yields the £17.5m proposed).

### **Conclusion**

All other points noted within your letter are noted and agreed. We attach hereto the completed Annex A as requested, setting out in Section 1 the adjusted Grant in Aid funding proposed. We will welcome an early discussion with the sponsor and finance

teams to clarify the details of the above and to finalise the business planning process for 2010/11.

Yours sincerely,

**Cynthia Bower**  
Chief Executive  
Care Quality Commission

CC: Alastair MacLellan  
Director of Group Finance, Department of Health

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CQC Sponsor Section, Department of Health

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ALB Support, Department of Health

**ANNEX A - INDICATIVE FUNDING 2010/11**  
**ALB: CARE QUALITY COMMISSION**  
**Date of Issue: October 2009**

Highlighted sections to be completed by ALB

**SECTION 1**

REVENUE FUNDING		INDICATIVE 2010/11	
		Resource	Cash Limit
		£000	£000
<b>Near Cash</b>			
1	Baseline Allocation (net of payment of provisions)	82,093	82,093
2	Payment of Provisions	0	0
3	<b>Total Near Cash</b>	<b>82,093</b>	<b>82,093</b>
<b>Non Cash</b>			
4	Depreciation	0	18,500
5	Cost of Capital	0	500
6	New Provisions	0	
7	Other (Impairments etc)	0	
8	(Profit)/Loss on disposal of Fixed Assets	0	
9	Less Payment of Provisions	0	
10	<b>Total Non Cash</b>	<b>0</b>	<b>19,000</b>
11	<b>Total DH Revenue/Grant in Aid Funding</b>	<b>82,093</b>	<b>82,093</b>
	<b>Additional Fee Income</b>	17,500	17,500
	Additional cost (job evaluation)	7,000	7,000
	<b>Revised total DH Revenue/Grant in Aid Funding</b>	<b>71,593</b>	<b>71,593</b>

**SECTION 2**

CAPITAL FUNDING		INDICATIVE 2010/11	
		Capital	Cash Limit
		£000	£000
12	Baseline Allocation	17,000	17,000
13	<b>Total Near Cash</b>	<b>17,000</b>	<b>17,000</b>

**SECTION 3**

Headcount		WTE Posts
14	Expected Headcount (as at 31.03.11)	2,050

**SECTION 4**

TRANSITION FUNDING		INDICATIVE 2010/11	
		Transition	Cash Limit
		£000	£000
	Registration	10,000	10,000
	Redundancy	12,000	12,000
	<b>Baseline Allocation</b>	<b>22,000</b>	<b>22,000</b>