

Over the last ten years the Government has laid the foundations for improved public services – with sustained investment, more frontline professionals, increased efficiency and rigorous performance management raising standards and outcomes across the board. The challenge now is to continue this progress by creating world-class public services that respond to people’s rising aspirations and equip the UK for global change.

The 2007 Comprehensive Spending Review therefore launches a new strategy for transforming public services over the decade ahead, focused on:

- **driving forward the next stage of reform**, including through a new performance management framework which defines the Government’s top 30 priorities for the coming period, and empowers the public and frontline professionals to shape the services needed to deliver excellent outcomes and experiences for all;
- **investing in Britain’s future**, with total public spending over the CSR07 period rising from £589 billion in 2007-08 to £678 billion in 2010-11 – an average increase of 2.1 per cent a year in real terms consistent with the fiscal rules – enabling further investment in the Government’s priorities of education, health, transport, the Olympics, security and housing. Within these plans the continued strength of the UK’s public finances have enabled an addition of £2 billion to the plans set at Budget 2007 to take forward vital capital investment in public services;
- **embedding value for money across government** – with savings of at least 3 per cent a year over the CSR07 period, releasing £30 billion by 2010-11 to reinvest in further improvements in key public services, building on the success of the SR04 efficiency programme and implementing the results of a series of zero-based reviews of spending in each department.

### The Government’s goals for public services

**3.1** Excellent public services are at the heart of the Government’s vision of a society in which economic prosperity is underpinned by social justice, providing stability, security and opportunity for all. High quality education and training, a modern health service, a fair and effective criminal justice system and a fast and reliable transport network provide the essential foundations for a flexible economy and a fair society, equipped to meet the global challenges ahead. To deliver this vision, the Government is committed to public services that deliver three mutually reinforcing goals:

- first, **excellent outcomes for all** – unlocking the talent and potential of every individual by providing first class education and skills, ensuring people are healthy and cared for, and ensuring all citizens live in safe, secure and thriving communities;
- second, **excellent personal experiences for all** – meeting rising expectations by matching the standards offered by the best of the private sector, with flexible, personalised, tailored public services that treat people with care, respect personal preferences and appreciate the value of people’s time; and
- third, **value for money for the taxpayer** – ensuring that world-class public services are not just pursued through increased spending alone, but by targeting resources on the most effective policies, reforming delivery to raise productivity and increase efficiency wherever possible – thereby ensuring sustainable levels of public spending which entrench macroeconomic stability and maintain the UK’s competitive position in the global economy.

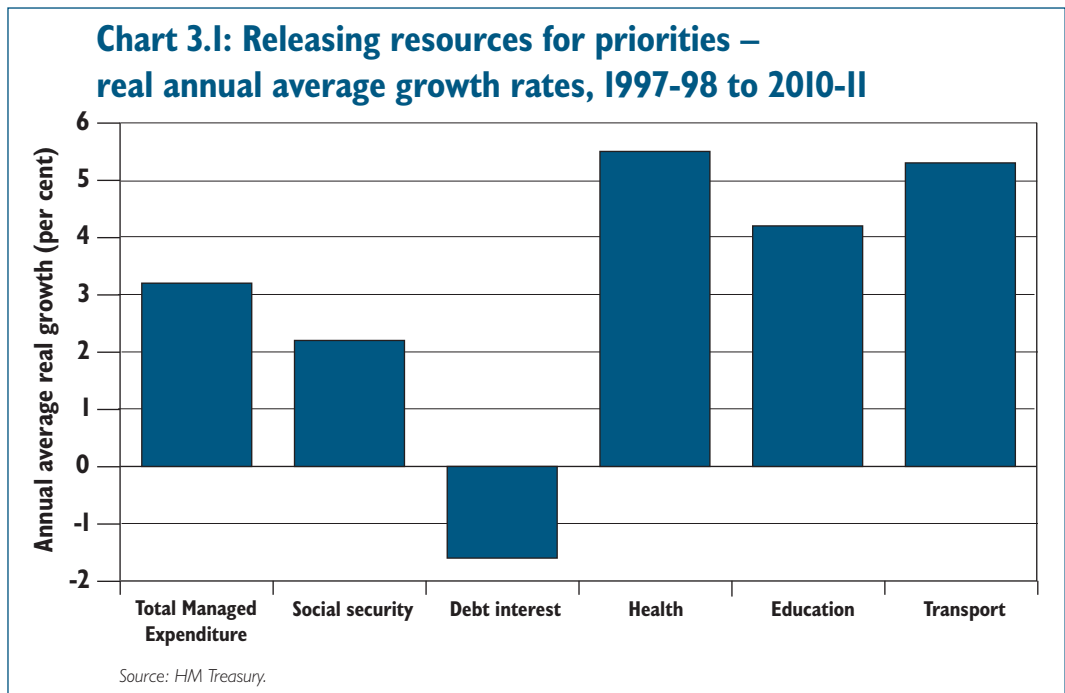
## Progress over the last decade

### Sustained investment in public services

**3.2** Ten years ago the Government began its programme of public service transformation with the launch of the first Comprehensive Spending Review (CSR) – a fundamental and in-depth examination of public spending to re-focus resources on its urgent priorities such as health and education. Building on the platform of stability provided by the new macroeconomic and fiscal frameworks described in Chapter 2, the 1998 CSR and subsequent Spending Reviews in 2000, 2002 and 2004 delivered sustained increases in spending for key public services, tackling the legacy of decades of under-investment. This year, compared with 1997-98:

- spending on the National Health Service is nearly 90 per cent higher in real terms;
- total spending on education is over 60 per cent higher in real terms, and as a proportion of GDP has risen from 4.5 to 5.5 per cent – from one of the lowest in the industrialised world to among the highest;
- public expenditure on transport is over 60 per cent higher in real terms; and
- spending on the police, criminal justice system and wider public order and safety is over 50 per cent higher in real terms.

**3.3** These increases in spending have been made possible by the stable and sustainable economic growth described in the last chapter, with falling debt interest payments and low unemployment releasing resources for key priorities, as illustrated by Chart 3.1.



**Building the framework for delivery** **3.4** This additional investment has been matched by a series of steps to reform the public spending and performance management frameworks, driving improvements in outcomes and increasing value for money:

- the 1998 CSR set for the first time fixed, three-year budgets for all departments, separated into resource and capital spending, removing the previous bias against investment and enabling public services to plan for the long term. Departments were given full end-year flexibility to carry forward any underspends from one year to the next to help prevent wasteful end-year surges in spending. The 1998 CSR also saw the introduction of the first systematic, transparent, outcome-focused performance management system for public services, in the form of Public Service Agreements (PSAs);
- the 2000 and 2002 Spending Reviews saw the introduction of Resource Accounting and Budgeting to capture accurately the full cost of running public services and sharpen asset management incentives. They also saw further improvements to the PSA framework and targets, including the introduction of selected value for money targets within PSAs and formal monitoring of PSA delivery; and
- the 2004 Spending Review represented the first systematic attempt to drive operational efficiencies across the public sector through the review led by Sir Peter Gershon, focusing on key processes that are common across government and bringing the performance of all delivery units up to the level of the best.

**Improvements in frontline services** **3.5** By matching this sustained growth in spending with ambitious reforms to support the efficiency, delivery and accountability of public services, the Government has been able to raise standards and achieve major improvements in outcomes across key services:

- deaths from cancer have fallen by 14 per cent, and from heart disease by 31 per cent. In total, over 200,000 lives have been saved since 1996 as a result of reductions to mortality rates from cancer and circulatory diseases among people aged under 75;
- in education, over 58 per cent of 16 year olds now achieve five or more good GCSEs, up from 45 per cent in 1997, with some of the biggest improvements seen in disadvantaged areas with a history of low achievement;
- the number of offences brought to justice has increased by 40 per cent in the last five years, overall crime has fallen by around a third in the last ten years, the fear of crime has reduced and re-offending rates fell by 6.9 per cent between 1997 and 2004; and
- the transport system is improving, with over 100 road schemes completed, people travelling further by rail than in any year since the 1940s and bus use increasing year on year for the first time in decades.

## The next decade

**3.6** While much has been achieved in the past decade, the context in which public services operate is changing rapidly, becoming increasingly challenging and complex. The social, economic and environmental trends affecting the UK are generating new pressures on public services, and these developments together with the achievements of the past ten years are generating rising expectations from the public.

**2007 Comprehensive Spending Review**

**3.7** To ensure that public services are ready to respond to these challenges, over the last two years the Government has been consulting with frontline professionals, outside experts and the public to prepare for a second Comprehensive Spending Review, which a decade on from the first CSR lays the foundations for the transformation of the UK's public services over the next ten years. The departmental spending plans and priorities set by the 2007 CSR for the years 2008-09, 2009-10 and 2010-11 are described in detail in the chapters that follow. This chapter sets out the overarching strategy for the delivery of these priorities, consisting of three strands:

- **driving forward the next stage of reform**, including through a new performance management framework which defines the Government's top 30 priorities for the coming period, and empowers the public and frontline professionals to shape the services needed to deliver excellent outcomes and experiences for all;
- **investing in Britain's future**, focusing sustained additional resources on the key services that are crucial to meet long-term challenges and tackle the barriers to individual fulfilment and economic success; and
- **embedding value for money** in departmental expenditure planning, building on the SR04 efficiency programme with more ambitious reforms to release £30 billion of savings by 2010-11 to reinvest in further improvements in public services.

## DRIVING FORWARD THE NEXT STAGE OF REFORM

**The changing context for public services**

**3.8** Over the last decade far-reaching social, economic and technological changes have transformed the environment in which public services operate. An ageing population, changing patterns of work and family life, globalisation, technological innovations such as the internet and other developments are creating new and rising demands on a range of public services including childcare, education and training, and health and social care.

**3.9** There have also been substantial changes in public attitudes and expectations. As real incomes have grown – the benefit of a strong and stable economy – so too have people's expectations of public services. Across the economy standards of service have improved enormously, the result of rising disposable incomes and intensifying competition for businesses. Opening hours fit around the needs of the customer, new methods of payment and delivery have been created, and a much greater focus is placed on high quality customer service.

**3.10** People are therefore now accustomed to much greater choice and control over their lives. Higher educational levels mean they are better equipped to exercise this choice, less likely to accept advice without question and less likely to allow others to make choices on their behalf. With the advent of the internet and other new media, people now have immediate and unfettered access to information on virtually any topic that interests them. The old divides between producers and users, experts and amateurs, are being broken down and blurred. Public services need to be ready to respond to these trends.

**3.11** Alongside these responsibilities for government, citizens will also need to take on a more active and responsible role themselves in order to fulfil their aspirations and meet the challenges of the decade ahead. For example, in order to tackle climate change, regulation and investment by the Government will be crucial, but not sufficient unless individuals also act with greater environmental and social responsibility in the way they use resources. Likewise, public investment in education and training will not be enough to meet the

challenges of an increasingly competitive global economy unless individuals also take responsibility for upgrading their own skills and seeking out new career opportunities. Collaborative action is a key theme for the Government's policy and reform agenda over the CSR07 period.

**Principles for the next stage of reform** **3.12** In order to create the conditions in which better public service outcomes are forged in partnership with citizens, the Government is building a new model of public service delivery for the next decade based on three key principles:

- **setting a clear focus on ambitious priorities**, consulting with the public and professionals to define the key goals for the next ten years in order to respond to the challenges facing the UK, and ensuring the resources and policies are in place to deliver these ambitions;
- **putting users at the heart of services**, through new channels of engagement that help the public shape services; new mechanisms to deliver accountability, including greater use of real-time data; new opportunities for people to exercise choice in how to access and tailor their services, coupled with clear responsibilities for all; and
- **freeing up the frontline to drive public service improvements**, placing greater trust in those delivering services to respond to the priorities of individual areas, communities and citizens.

## The new performance management framework

**3.13** Since their introduction in the 1998 CSR, Public Service Agreements (PSAs) have played a vital role in ensuring that the sustained increases in resources have been translated into higher standards across public services and led to major improvements in outcomes. But the challenges of the next decade are different, and so following extensive consultation with the public and frontline professionals over the last two years the Government has decided to make a decisive shift in the way it sets its priorities and drives performance. **The 2007 CSR therefore announces a new performance management framework based on a stronger relationship with public sector professionals, with a streamlined set of 30 new PSAs setting the Government's priority outcomes for the CSR07 period.** Box 3.1 describes the key elements of the new framework.

**Box 3.1: The new performance management framework**

The new performance management framework consists of the following elements:

- a streamlined set of 30 new Public Service Agreements (PSAs), which articulate the Government's highest priority outcomes for the CSR07 period and span departmental boundaries, setting out a shared vision and leading collaboration at all levels in the delivery system;
- a single Delivery Agreement for each PSA, developed in consultation with frontline workers and the public, and published to strengthen accountability and ownership across organisational boundaries;
- new Cabinet Committees announced in July which will play a key role in driving performance on cross-government PSAs by regularly monitoring progress and holding departments and programmes to account. The Government is also examining the scope for building PSAs explicitly into the performance management framework for the civil service – ensuring a relentless focus on PSA delivery in Whitehall;
- a small basket of national, outcome-focused indicators to support each PSA, ensuring robust and transparent performance measurement alongside genuine rationalisation, with a significant reduction in the overall number of priority indicators attached to PSAs;
- targets used where appropriate to deliver improved performance and accountability; with nationally set targets reserved for a small subset of PSA indicators that require firm central direction, and far greater space for increased local target setting;
- a more comprehensive approach to performance monitoring, with each department publishing a set of Departmental Strategic Objectives (DSOs) for the CSR07 period, alongside the smaller, prioritised set of PSAs. This will for the first time bring all performance monitoring into a single framework, covering both the Government's highest priorities (PSAs) and the wider span of departmental business; and
- across the whole framework, a premium on the use of high quality, timely data while freeing up the frontline by reducing low value data burdens.

The full set of PSAs and their indicators are set out in Annex C.

**3.14** The new framework creates the conditions for public services to work collaboratively in delivering excellent outcomes and excellent experiences for all. By prioritising a radically reduced set of PSA indicators and rationalising the use of targets attached to PSAs, the new framework will allow more space to deliver innovative and flexible services, with a greater role for local communities to focus action on their priorities. The changes represent a new balance of accountability where central co-ordination works in synergy with greater direct accountability to service users and local communities; citizens' personal experiences of services will increasingly shape design, delivery and measurement of success; and staff in the public sector will be empowered – respecting their skills and professionalism – to respond to citizens' needs.

**3.15** Alongside reforms to the national framework, the Government has agreed a single, aligned framework for the performance management of outcomes delivered by local government working alone or in partnership, with a much smaller and more focused set of 198 performance indicators, down from an estimated 1,200. The new set of indicators will be published by the Secretary of State for Communities and Local Government, and includes

all relevant PSA and DSO outcomes, replacing the range of current issue-specific performance indicator sets and reducing the reporting burden for local authorities. Local authorities and their partners will shortly begin negotiating new Local Area Agreements, with designated local improvement targets for up to 35<sup>1</sup> of the indicators from the national set. The Government will not mandate targets for any Local Area Agreement, so even where targets are set out for PSAs at national level, local areas will have the flexibility to respond to these national ambitions in the most appropriate way, in negotiation with regional Government Offices.

**Reducing data burdens** **3.16** The availability of good quality, timely data at all levels is critical to drive strong accountability and improved outcomes in public services. Alongside reforms to the performance management framework, the Government will take steps to ensure that all data it requests from the frontline is proportionate, appropriate and collected efficiently. **To reduce unnecessary burdens on the frontline, the Government is announcing a commitment to reduce by 30 per cent by 2010 the total amount of data that central departments and agencies request from the frontline.** With work led by the Better Regulation Executive, this commitment will be delivered through departmental simplification plans, which are already being used successfully to reduce administrative burdens on businesses.

## Empowering the workforce and public to shape services

**3.17** At the heart of the Government's programme of public service reform for the CSR07 period are new plans to ensure the public has a greater say in the design, delivery and governance of their services, giving them more control over and responsibility for their outcomes in health, education and other key areas. This will be accompanied by steps to give frontline professionals greater opportunities and more power to shape service delivery and respond to the needs of the public, including through the reforms to the performance management framework outlined above. Bringing the public and workforce together in this way will help contribute to greater innovation and efficiency, improved outcomes and higher levels of customer satisfaction and staff motivation. This vision will be realised by:

- **strengthening people's voice in service provision** – for example through the roll-out of Parent Councils in schools and the establishment of local involvement networks allowing clients to express their views on their needs and experiences of health and social care services; and through new participatory budgeting pilots to involve communities directly in decisions over how to prioritise local budgets on the issues that matter most to them;
- **driving forward the personalisation of services** to ensure they more effectively meet the particular needs and preferences of different individuals. Following the Gilbert Review, schools will extend the provision of personalised learning so that teachers can tailor support to each student's specific learning goals. Individualised budgets for social care will be rolled out, giving people greater ability to shape their own care packages;
- **enabling service providers and the public to work collaboratively together** to shape positive outcomes – for example by rolling out the Expert Patient Programme across the NHS that enables patients and frontline professionals to work together in improving management of chronic illnesses;

<sup>1</sup> Plus 17 statutory early years target for DCSF.

- **enhancing the accountability of local services**, for example, neighbourhood charters will allow local citizens and service providers to agree on expected levels of service and provide mechanisms for users to hold service providers to account;
- **reaching out to all of society by improving approaches that engage hard-to-reach groups**, harnessing third sector expertise where appropriate. The Government will develop a more flexible approach to New Deal, with support tailored to meet the individual needs of long-term benefit claimants, lone parents, and incapacity benefit claimants. The views of local communities will be better represented in the delivery of justice, through Community Legal Advice Centres and Community Justice Centres, delivered in partnership with third sector organisations; and
- **working with individuals and businesses to encourage behavioural changes that benefit them and society** – for example, the Healthy Schools Programme will be rolled out, encouraging healthy eating and active lifestyles to help reduce childhood obesity. To tackle the problem of climate change, the Government will improve information about the steps individuals can take to reduce their energy consumption, introducing a web-based personal emissions calculator and providing advice on green electricity and gas tariffs.

## Transforming service delivery

**3.18** The investment and reforms of the last decade have raised standards of delivery across individual public services. The challenge now is for more radical cross-government reform that will be the foundation of personalised public services. This means moving away from the old model of service provision which meets the public's various needs through a number of separate government agencies, each with their own interactions with customers. This compartmentalisation of delivery means that, to date, the Government has struggled to keep pace with the expectations set by the leading edge of the new service economy that has emerged over the last decade, which, by focusing on the totality of the relationship with the customer is able to deliver more immediate and convenient services with less intrusion on their time.

**3.19** The Prime Minister has appointed Sir David Varney, former Executive Chairman of HMRC and Chairman of O2, to advise the Government how to meet this challenge and put in place the vision set out in his report on Service Transformation.<sup>2</sup> The Government recognises that succeeding in this aim, and securing a cross-departmental commitment to build services around the needs of citizens and businesses, will be integral to the achievement of each of the PSA outcomes set in the 2007 CSR. In order to deliver this, **the Government is publishing for the first time a Service Transformation Agreement, which underpins delivery of the whole of the new PSA framework.** The Agreement sets out an ambitious programme of reforms which will be taken forward across government as part of the PSA framework, including:

- piloting a new 'Tell Us Once' service that enables citizens to inform public services just once about changes of circumstances, starting with bereavement;
- rationalising the plethora of government websites by closing down the

<sup>2</sup> Service Transformation: A better service for citizens and businesses, a better deal for taxpayers, December 2006, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

majority and moving their citizen and business content to the Government's two single access websites, Directgov and Businesslink.gov.uk, thereby giving customers access to the information and services they need with greater speed and ease;

- requiring all publicly funded call-centres to undergo formal published accreditation to ensure faster and better services for citizens and businesses;
- reducing avoidable or duplicated contacts with call centres and local offices;
- empowering individuals to influence their services, with greater opportunities and direct involvement to influence the way they are designed and delivered; and
- improving management of information and identity across the Government's delivery systems to reduce wasted time and inconvenience for citizens, businesses and frontline workers.

**3.20** In addition, the Service Transformation Agreement commits all departments to specific plans for transforming the services they provide across all delivery channels, coordinating with other departments where relevant. Examples of the initiatives that are being developed include the Driver and Vehicle Licensing Agency (DVLA) and Department for Work and Pensions (DWP) working to merge the application processes for driving licences and National Insurance numbers; DWP, HM Revenue and Customs (HMRC) and some local councils developing a single transaction approach for working age benefits, housing benefit and tax credit; and HMRC and the Department for Environment Food and Rural Affairs (Defra) working to develop an International Trade Single Window to enable traders or their agents to submit all regulatory information required in a single message that can then be shared by the relevant government departments. Local government will also play a vital role in delivering this agenda, including on reducing avoidable contact which has been included in the new National Indicator Set.

**3.21** The Minister for the Cabinet Office, who chairs the new Cabinet Committee on Public Engagement and Delivery, and the Chief Secretary to the Treasury will hold departments to account for delivery of these commitments as part of the overall performance management framework, and will continue to identify new opportunities for transforming services over the CSR07 period and beyond.

## INVESTING IN BRITAIN'S FUTURE

**The fiscal framework** **3.22** Continued investment will be needed in key areas in order to underpin this new model of public service delivery and meet the long-term challenges facing the UK. The last decade has shown how it is possible to deliver a strong economy and sound public finances at the same time as sustained investment in public services. The Government's fiscal rules have been central to this achievement, and will continue to provide the framework for the CSR07 period, ensuring that the public finances are prudently managed over the economic cycle and that spending and taxation impact fairly between generations – removing the past discrimination against capital spending and ensuring that borrowing for investment is conducted in a sustainable way. This framework has helped protect significant increases in the level of public sector net investment from ½ per cent of GDP in 1997-98 to 2.1 per cent of GDP this year – addressing the backlog of under-investment in public services and putting in place some of the vital infrastructure required to promote the UK's economic growth and productivity.

**Spending plans for the CSR07 period** 3.23 The challenges of the decade ahead require a balance to be struck between delivering further investment in public services to equip the country for change, while entrenching the macroeconomic stability that is essential in the increasingly competitive global economy. Budget 2007 set out the overall spending envelope for the CSR07 period, locking in the historic increases in investment since 1997 while allowing total public spending to increase by an average of 2 per cent per year in real terms. Having assessed the future investment needs of the country, the continued strength of the UK's public finances with net debt remaining below 39 per cent throughout the forecast period, enables **the Government to announce an addition of £2 billion to total public sector net investment in 2010-11**, to take forward vital capital investment in public infrastructure. With this addition, total public spending over the CSR07 period will rise from £589 billion in 2007-08 to £678 billion in 2010-11, an average increase of 2.1 per cent a year in real terms, with:

- current spending increasing by an average of 1.9 per cent per year in real terms; and
- net investment rising to 2<sup>1</sup>/<sub>4</sub> per cent of GDP.

**Table 3.1: CSR07 spending envelopes**

	£ billion			
	Estimate	Spending Plans		
	2007-08	2008-09	2009-10	2010-11
<b>Total Managed Expenditure</b>				
Budget 2007	586.6	615	644	674
<i>Effect of neutral classification and depreciation changes to TME<sup>1</sup></i>	2.1	2.0	2.2	2.5
<i>Discretionary policy additions<sup>2</sup></i>	0.4	0.0	0.0	2.0
<b>CSR 07</b>	<b>589.2</b>	<b>617.4</b>	<b>646.6</b>	<b>678.3</b>
<i>of which public sector current expenditure</i>	<i>541.2</i>	<i>566.0</i>	<i>592.5</i>	<i>620.3</i>
<i>of which public sector net investment</i>	<i>29.7</i>	<i>32.3</i>	<i>33.9</i>	<i>36.7</i>
<i>of which depreciation</i>	<i>18.3</i>	<i>19.1</i>	<i>20.2</i>	<i>21.2</i>

<sup>1</sup>Includes changes to take account of the inclusion by the Office of National Statistics of imputed subsidies from Local Authorities to the Housing Revenue Account within public spending and changes to depreciation that reduce TME but leave net investment and current spending unaffected.

<sup>2</sup>Includes additional public sector net investment in 2010-11 and addition to the Special Reserve in 2007-08.

**Setting the CSR07 DEL envelope** 3.24 Within these overall envelopes, the 2007 CSR sets out the forecast for Annually Managed Expenditure (AME), consistent with the economic assumptions and policy decisions included in this report, and fixes firm departmental spending plans for the years 2008-09, 2009-10 and 2010-11. Table 3.2 sets out real growth over the CSR07 period in AME and Departmental Expenditure Limits (DEL) both of which grow at 2.1% per year on average. A detailed breakdown of the AME forecast is set out in Annex B.

**Table 3.2: CSR07 DEL envelope**

	£ billion				Annual Average Real Growth
	Estimate	Spending Plans			
	2007-08	2008-09	2009-10	2010-11	
Departmental Expenditure Limits	344.6	361.1	377.5	396.9	2.1%
Annually Managed Expenditure	244.6	256.4	269.2	281.4	2.1%
<b>Total Managed Expenditure</b>	<b>589.2</b>	<b>617.4</b>	<b>646.6</b>	<b>678.3</b>	<b>2.1%</b>

**Investing in  
priorities**

**3.25** Together with the resources released from the Government's ambitious value for money programme for the CSR07 period, described in more detail below, these increases in departmental spending will enable the Government to sustain the pace of improvement in public services and focus additional resources on its key long-term priorities, including:

- meeting the challenge of globalisation by investing in the human and physical capital that will keep the UK economy competitive over the long term, with additional spending by 2010-11 of £14.5 billion on education, £900 million on science and £3.6 billion on transport;
- making the UK a better place to live by continuing to improve the NHS with further investment of £19 billion by 2010-11 and progressing towards its objective of decent and affordable housing for all, with total spending on new housing of at least £8 billion over the next three years, a 50 per cent increase;
- protecting the nation from external and internal threats, with total spending on counter-terrorism and intelligence rising from £2.5 billion in 2007-08 to £3.5 billion in 2010-11 and continuing the longest period of sustained real increases in defence expenditure in over 25 years; and
- ensuring a lasting cultural and sporting legacy for the nation by investing £3.6 billion in the construction costs of the Olympics over the CSR07 period, with further funding to be confirmed in subsequent spending reviews.

**Improving transparency and accountability**

**3.26** As announced in *The Governance of Britain Green Paper*,<sup>3</sup> the Government intends to strengthen Parliament's ability to hold Ministers to account for public spending by ensuring that it reports to Parliament in a more consistent fashion, in line with the fiscal rules, on departmental budgets set in Spending Reviews, in annual Estimates and in resource accounts. The Government will be consulting Parliament and others with an interest on how best to take forward this reform, with the aim of introducing changes before the end of the CSR07 period.

**3.27** Budget 2007 announced that from 2008-09 the annual accounts of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The Government is developing an IFRS-based Financial Reporting Manual for the public sector and considering how best to manage the transition. Where necessary, IFRS standards may be adapted for the public sector to support the Government's wider aim of improving transparency from the fiscal rules through budgets, Estimates and accounts.

<sup>3</sup> *The Governance of Britain*, Ministry of Justice, July 2007, available at [www.justice.gov.uk](http://www.justice.gov.uk).

<sup>4</sup> *Releasing resources for the frontline: Independent Review of Public Sector Efficiency*, July 2004, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

## EMBEDDING VALUE FOR MONEY

### SR04 Efficiency Programme

**3.28** The Government recognises that additional resources alone are not enough to secure excellent and modern public services. Increased investment must be matched by an unwavering commitment to maximise the value of every pound of taxpayers' money. Sir Peter Gershon's Independent Review of Public Sector Efficiency in 2004<sup>4</sup> marked a major step forward in embedding value for money into the planning and delivery of public services. In line with his recommendations, and as part of the 2004 Spending Review, the Government set an aim to achieve annual efficiency gains of £21.5 billion by 2007-08, alongside significant reductions and relocations in the civil service and public sector workforce. The programme remains on track to deliver these goals, with departments and local authorities reporting at the end of June 2007:

- annual efficiency gains of over £20 billion, meaning that the Government has achieved the high-level ambition set out by the Gershon review, and is on track to deliver the goal of £21.5 billion by the end of March 2008, as agreed by departments at the 2004 Spending Review;
- gross reductions of over 79,000 civil service and administrative and support-related military posts towards the target of 84,150, with over 13,000 of these reallocated to frontline roles; and
- continued progress against the ambitions of the Lyons Review, with 13,300 public sector posts relocated away from London and the South East to destinations like Sheffield, to which over 1,000 posts have been moved since the programme began.

**3.29** As the National Audit Office noted earlier this year,<sup>5</sup> the programme is having a clear positive impact on the efficiency of public services, with many examples of improvements in the way public services are being delivered, including:

- the Ministry of Defence has rolled out a single personnel management system for all three armed services, improving services to staff – for example by reducing the time taken for service personnel allowances to arrive in bank accounts from six weeks to six days – and saving over £45 million a year;
- better management of patient admissions has reduced the average length of hospital stay, cutting costs by over £500 million a year and freeing up over 1 million bed days to treat more patients, more quickly; and
- the Department for Transport has achieved over £60 million of efficiency gains by switching services to online channels, such as the booking of driving tests, with the convenience of being available 24 hours a day.

<sup>4</sup> *Releasing resources for the frontline: Independent Review of Public Sector Efficiency*, July 2004, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

<sup>5</sup> *The Efficiency Programme: A Second Review of Progress*, NAO, February 2007, available at [www.nao.org.uk](http://www.nao.org.uk).

## Value for money in the 2007 CSR

**3.30** Building on the achievements of the SR04 efficiency programme, the Government has developed a more ambitious and far-reaching value for money programme for the CSR07 period – releasing the resources needed to sustain the pace of public service improvement and meet the global challenges of the decade ahead. As part of this programme the Government has:

- **deepened the government-wide efficiency programme in the operational areas established by the Gershon Review**, harnessing the benefits of greater collaboration across organisations and engaging with frontline professionals to identify opportunities for service improvements;
- **conducted a series of zero-based reviews of departments' baseline expenditure**, taking a radical look at the way that government spends money on policies and programmes ten years on from the first CSR;
- **provided over £1 billion in modernisation funding** to help departments meet the up-front costs associated with the implementation of their value for money programme;
- **integrated pay and workforce planning** more closely into departments CSR07 preparations, to ensure that pay spending represents value for money for taxpayers and supports macroeconomic stability; and
- **improving the management of the public sector asset base to underpin service delivery**, taking forward the recommendations of the Lyons Review of Asset Management.

**3.31** Each department has bought the elements together into a coherent and comprehensive strategy for improving services and driving value for money gains over the full range of their activities in the CSR07 period, enabling the Government to commit to:

- **at least 3 per cent value for money savings per year over the CSR period across central and local government**, all net of implementation costs, cash-releasing and totalling over £30 billion of annual savings by 2010-11, thereby maximising the resources available to improve frontline services and fund new priorities;
- **5 per cent annual real reductions in administration budgets across departments**, as a successor to the SR04 workforce reduction target and thereby ensuring significant additional resources are redirected to public service delivery; and
- **the release of £30 billion from fixed asset disposals between 2004-05 and 2010-11 as well as further funds from the sale of financial assets** for reinvestment in new infrastructure.

**Box 3.2: Examples from the CSR07 value for money programme**

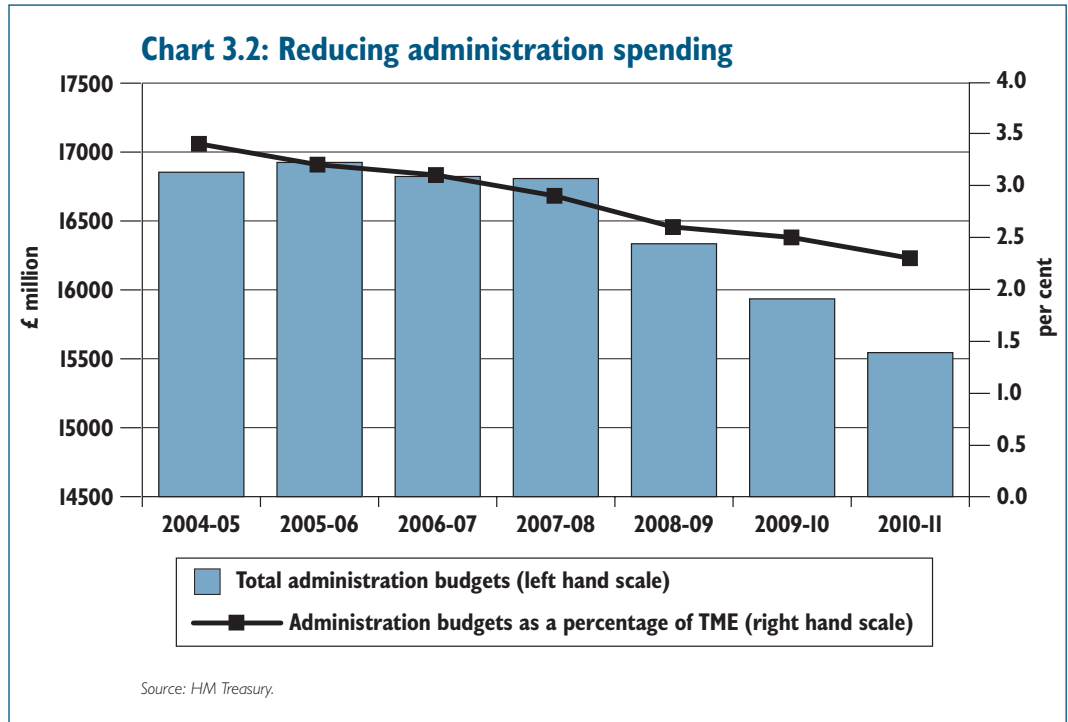
- Alongside increased investment, the NHS is delivering savings of at least £8.2 billion a year by 2010-11, including up to £500 million from improving community-based services so that people with long-term conditions can receive greater support in the community; £1.5 billion by reducing variations in productivity across the NHS through the use of new technologies and sharing best practice; and £1 billion from improved procurement practices.
- HM Court Service's Business Strategy aims to generate savings of around £100 million by 2010-11 through reforms aimed at placing the public at the centre of court operations, with services designed around their needs. HMCS aims to build on existing success in managing court caseloads by enabling better case progression through improved technology, introducing simpler, more proportionate procedures for the simplest cases and diverting cases that should not come to court to other methods of resolution.
- HMRC will generate total savings of £673 million by March 2011 through a programme of modernisation and reform across the department. £125 million of these savings will be achieved by investing in a modern, high capacity IT infrastructure to support higher take-up of online services, more efficient processing and communication of information and better risk-based compliance checks. In addition, the department will extend the use of lean processing techniques to make more efficient use of resources and undertake a major consolidation and transformation of HMRC's estate to release £280 million annual savings by 2010-11.
- The FCO has developed plans to save at least £22 million a year by 2010-11 by sharing services with other public bodies at home and overseas, including increased co-location with DFID.

**Monitoring  
CSR07 savings**

**3.32** The SR04 efficiency programme has demonstrated the importance of public accountability as a powerful driver for improved value for money. By the end of the year, departments will publish value for money Delivery Agreements setting out how they will achieve their proposed savings, and departments will monitor and report on progress throughout the CSR07 period. Reflecting the higher level of ambition in the CSR07 programme, the new monitoring and reporting framework will put more emphasis on mainstreaming value for money into core departmental business, including through stronger integration with the PSA framework. Greater accountability will therefore be devolved to departments, with common requirements for reporting progress to the public to ensure rigour and consistency. The Government also expects that the National Audit Office will play an important role in reviewing reported savings, providing Parliament and the public with a further level of assurance.

**Administration  
budgets**

**3.33** By harnessing the potential of new technologies and increasing efficiency in the running of departmental business, the Government will be able to make further progress in reducing the proportion of taxpayers' money that is spent on administrative functions within departments and the core civil service. Having frozen administration budgets in nominal terms over the 2004 Spending Review period to ensure that all additional expenditure went directly to frontline services, **the Government will go further over the CSR07 period with 5 per cent annual real reductions in administration budgets across all departments**, releasing over £1.2 billion by 2010-11 for investment in priority areas and reducing the running costs of central government to a record low as a percentage of public spending.



## Pay and workforce planning

**3.34** The Government’s commitment to high quality public services can only be realised through the skills and dedication of public sector workers. Over the last ten years the Government has therefore sought to increase the number of frontline professionals, with 36,000 more doctors than in 1997, 79,000 more nurses, 35,000 more teachers and 102,000 more teaching assistants. Training has been improved and pay increased significantly to reflect the crucial contribution of public service professionals to the country. The competitiveness of the public sector reward package, which includes valuable pension benefits, is demonstrated by healthy levels of recruitment and retention.

**3.35** Over the CSR07 period, the Government is committed to continuing to support public sector professionals in their efforts to deliver the best possible public services, with departments taking forward their workforce planning for the CSR07 period consistent with the following objectives:

- maintaining macroeconomic stability in order to promote growth and employment, with public sector pay settlements consistent with the achievement of the Government’s inflation target of 2 per cent, as set out in more detail in Chapter 2;
- ensuring total pay bills represent value for money and are affordable within departments’ overall expenditure plans, taking into account other spending that is key to service improvements and the ability of staff to do a good job, such as equipment and new technologies; and
- maintaining the necessary levels of recruitment and retention needed to support service delivery, taking into account the wider labour market conditions relevant to the public sector.

## Improving asset management

**3.36** Public investment in infrastructure is crucial both to underpin the delivery of high quality public services and to help increase the flexibility and productivity of the wider economy. In order to take full advantage of the sustained investment over the past decade, the 2007 CSR will introduce a more strategic approach to the management of public assets, driving better value for money and supporting improvements in frontline services. Each department is therefore developing an asset management strategy, to be published by the end of the year, which will ensure that:

- assets are adequately maintained and efficiently utilised to deliver high performing public services;
- future investment decisions are based on a more complete assessment of the condition and performance of the existing asset base; and
- there are plans in place for the disposal of surplus assets no longer required for service delivery.

**3.37** A key tool for helping to improve asset management practice is the updated National Asset Register, which was published in January 2007. The Register provides information on the assets held by over 370 different government bodies, constituting the most comprehensive list of central government assets and maintaining the UK's position at the forefront of international best practice in public sector asset management.

**3.38** The Government remains ahead of schedule to deliver its ambition to dispose of £30 billion of surplus fixed assets between 2004-05 and 2010-11, having already sold £18.3 billion for reinvestment in new equipment and infrastructure by March 2007. In addition, the Government is taking forward the sale of its financial assets, such as student loans, where private ownership delivers better value for money. Planned asset sales for the forthcoming period include:

- the Ministry of Defence is in the process of selling Chelsea Barracks, the proceeds from which will be reinvested to improve Armed Forces accommodation;
- the Department for Transport plans to dispose of land and buildings held by the Highways Agency, Channel Tunnel Rail Link and the British Railways Board (Residuary) Ltd;
- the Ministry of Justice is developing plans to rationalise land and buildings held by Her Majesty's Court Service, with the proceeds recycled into its courts modernisation programme; and
- over the CSR07 period the Department of Health will release over £500 million for reinvestment in the NHS through the disposal of surplus property.

**3.39** Box 3.3 sets out the Government's approach to improving procurement to support public service delivery, including through the Private Finance Initiative.

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<sup>6</sup> *Transforming Government Procurement*, HMT, January 2007, available at, [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

## Private Finance Initiative

**3.40** The Private Finance Initiative (PFI) plays a small but important role in the Government's investment in public services. Approximately 600 PFI projects have been signed, with a total capital value of £56.9 billion, and public authorities report a high level of user satisfaction. Over £10 billion worth of projects have been signed in the last 18 months. Full details of the PFI programme are published in the supplementary charts and tables.

**3.41** PFI projects worth a total of £22.2 billion are expected to reach financial close before April 2011. The Government believes PFI should continue to form a significant part of its strategy for delivering high quality public services, alongside a broader range of traditional and alternative procurement models depending on the circumstances. For the CSR07 period the Government has allocated a total PFI Credit envelope of £10.9 billion. Consistent with this allocation, the Government will continue to pursue PFI projects where they demonstrate value for money, alongside conventional capital programmes.

