

**Releasing the resources to meet  
the challenges ahead:  
value for money in the  
2007 Comprehensive Spending Review**

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July 2006



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value for money in the  
2007 Comprehensive Spending Review**

Presented to Parliament  
by the Chief Secretary to the Treasury  
by Command of Her Majesty

July 2006

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ISBN: 0-10-167892-4

Printed by The Stationery Office 07/06 5395685

This was printed on at least 75% recycled paper.

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# FOREWORD BY THE PRIME MINISTER AND CHANCELLOR OF THE EXCHEQUER

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Modern and efficient public services driven by the needs and choices of the public themselves are at the heart of our commitment to a country in which economic prosperity and social justice go forward hand in hand.

Our first Comprehensive Spending Review in 1998, by refocusing resources on our priorities, laid the foundations for achieving these goals.

And over the last decade, we have delivered unprecedented increases in spending on health, education and other public services to increase the numbers of nurses, doctors and teachers; and to address the historic backlog of underinvestment in schools, hospitals and transport infrastructure. We have matched this investment with far reaching reforms to deliver major improvements in performance and outcomes across public services, dealing with areas of unacceptable performance, including virtually abolishing waits of over six months in the NHS, substantially improving performance at every key stage of schooling, and cutting crime year on year. And we are continuing to push ahead with a radical programme of public service reform, combining strategic leadership at the centre with diversity and competition among providers, greater power and choice in the hands of service users and measures to build the capacity of civil and public servants, so that we can get the best use of resources at the frontline.

Now to ensure that Britain is equipped to meet and master the challenges of the next decade, the Government is conducting a second Comprehensive Spending Review, reporting next year.

In preparation for this, the Government is undertaking a fundamental assessment of its expenditure. By driving efficiency savings at all levels of public service, starting with zero-based reviews of each department's baseline expenditure, and making the right decisions about our priorities as a Government and a country, we are able to lock in for the long term investment in these priorities: ensuring every child has the best start in life and each pensioner has dignity in retirement; meeting our long-term infrastructure needs; and guaranteeing the security of our country.

This paper reports the significant progress we have made, both in delivering efficiencies in the current spending review period and laying the foundation for further efficiencies in the next. A number of departments have already agreed spending settlements with efficiencies for the next five years.

Our work has enabled us to identify a set of core criteria by which the next set of departmental submissions to the spending review process will be judged in areas like asset disposals, service modernisation, making better use of information technology, procurement, pay and productivity. As this paper sets out, we have already identified important areas for savings under these headings but much more remains to be done ahead of our next update in the Pre-Budget Report.

As a Government we have new ambitions for our public services, and as a country we face major new challenges and demands. For all these reasons, it is vital that the current spending review process is comprehensive, open and demanding. This paper marks an important staging post in that process.



# EXECUTIVE SUMMARY

In July 2005 the Chief Secretary to the Treasury announced the launch of a second Comprehensive Spending Review (CSR), which will report in 2007 and set departmental spending plans and priorities for the years 2008-09, 2009-10 and 2010-11. A decade on from the first Comprehensive Spending Review, the 2007 CSR provides the opportunity for a fundamental review of the balance and pattern of public expenditure, taking stock of what the investments and reforms have delivered to date and identifying what further steps are needed to meet the challenges and opportunities of the decade ahead.

As part of its preparations for CSR07, the Government is taking forward a comprehensive and in-depth value for money programme across all departments. By entrenching the gains of the 2004 Spending Review (SR04) efficiency programme and pursuing even more ambitious reforms over the CSR07 period, this programme will enable the Government to maintain its investment in frontline public services and release the resources needed to meet new priorities and challenges. This document provides an interim report on this programme, setting out progress on both the implementation of the current efficiency programme and the Government's strategy for driving further value for money improvements over the CSR07 period, announcing that:

- **by the end of March 2006, departments and local authorities had already reported annual efficiency gains totalling £9.8 billion** against a target of 2.5 per cent per year or over £20 billion by 2007-08, and delivered over half of the 84,000 workforce reductions planned by 2007-08;
- building on this success and based on initial findings of departments' CSR07 value for money reviews, **the Government has identified at this stage scope to deliver savings of at least 2.5 per cent per year over the CSR07 period**, by harnessing the potential of new technologies, transforming the delivery of services and reforming existing policies and programmes to reflect the changing environment of the decade ahead. Within the CSR07 value for money programme, the Government will aim to maximise the proportion of cash-releasing reforms to free-up resources to meet new challenges;
- having frozen administration budgets in nominal terms over the 2004 Spending Review period, **the Government will go further over the CSR07 period with a nominal reduction in administration budgets across government**, thereby releasing resources for reallocation to frontline services;
- **Sir David Varney is reviewing the opportunities for transforming service delivery across government**, looking at how the channels through which services are delivered can be made more efficient and responsive to the needs of users;
- to lock in the hard won macroeconomic stability and put departmental workforce planning on a sustainable footing over the CSR07 years, **pay settlements across the public sector will be based on the achievement of the Government's inflation target of 2 per cent**; and

- following a comprehensive survey of their asset bases, **departments have identified candidates for asset disposals that confirm the Government is on track to meet its target of £30 billion of disposals by 2010-11**. The Government will continue to consider further options for disposals and will provide an update at the Pre-Budget Report.

Budget 2006 announced early CSR07 settlements for the Department for Work and Pensions, HM Revenue and Customs, HM Treasury, the Cabinet Office and the Home Office, which took account of the scope for substantial further efficiency savings that could be realised by these departments over the CSR07 period. This report provides an update on the value for money reforms that these departments are now taking forward.

Budget 2006 also announced that the CSR will be informed by the analysis and conclusions of a series of reviews on key cross-cutting issues where innovative policy responses will be required in order to meet the challenges ahead. The terms of reference for these reviews are set out in an annex to this document.

# INTRODUCTION

**1.1** Modern and efficient 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, which is well placed to prosper in the increasingly competitive global environment.

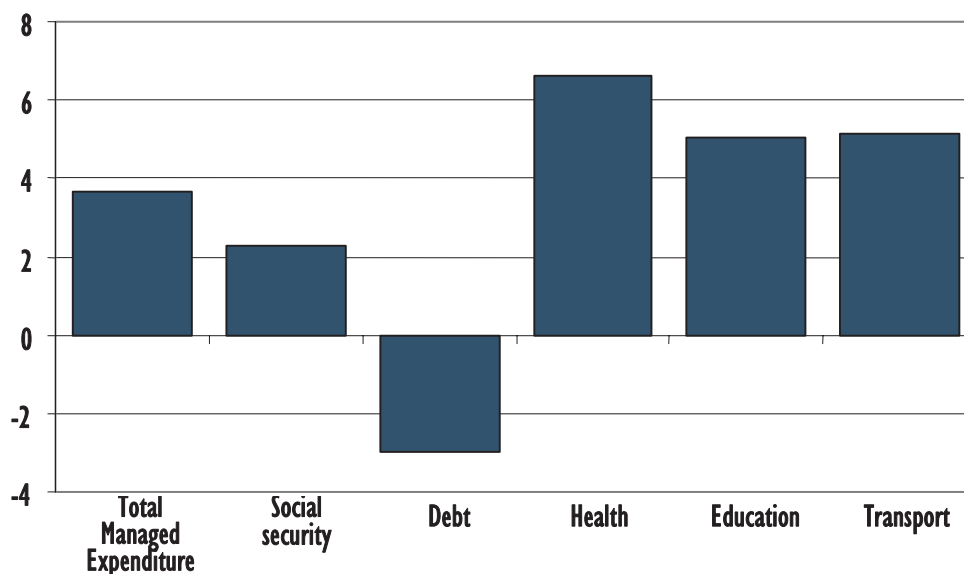
## Investing in priorities

**1.2** In June 1997 the incoming Government launched the first Comprehensive Spending Review (CSR), to re-focus resources on its priority areas such as health, education and transport. The review concluded in 1998, following the most fundamental and in-depth examination of public spending ever attempted. Building on the platform of stability provided by the new fiscal rules, the 1998 CSR and subsequent Spending Reviews in 2000, 2002 and 2004 delivered sustained increases in spending for key public services. By 2007-08, compared with 1997-98:

- spending on the National Health Service will be nearly 90 per cent higher in real terms, and UK health spending as a proportion of GDP is expected to rise from 6.8 to over 9 per cent, in line with the EU average;
- total spending on education will be over 60 per cent higher in real terms, and as a proportion of GDP is set to rise from 4.5 to 5.6 per cent – from one of the lowest in the industrialised world to among the highest;
- public expenditure on transport is planned to increase by over 60 per cent in real terms;
- spending by the Home Office on crime, justice and security will be 75 per cent higher in real terms; and
- funding for the Department for International Development has doubled in real terms from £2.6 billion to £5.3 billion, strengthening the UK's fight against world poverty.

**1.3** These increases in spending were made possible by stable and sustainable economic growth with falling debt interest payments and low unemployment, as illustrated by Chart 1.1.

**Chart 1.1: Releasing resources for priorities – real annual average growth rates, 1997-98 to 2007-08**



Source: HM Treasury

### Building the framework for delivery

**1.4** These historic increases in investment have been matched by steps to reform the public spending and performance management frameworks to drive improvements in frontline service delivery and ensure value for money, in particular:

- the 1998 CSR saw the introduction of the first systematic, transparent, outcome-based performance management system for public services, in the form of the Public Service Agreements (PSAs) framework. It also 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 supporting the efficient planning of expenditure over the medium term;
- the Spending Reviews in 2000 and 2002 saw the improvement of the PSA framework and targets, including formal monitoring of PSA delivery, together with the introduction of selected value for money targets within PSAs; 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 business and bringing the performance of all business units up to the level of the best.

### Reforming public services

**1.5** Alongside this development of the public spending and performance management frameworks, the Government has taken forward a wider programme of public service reform designed to raise standards of service, reduce inequalities and increase responsiveness to users. Key elements include:

- establishing clear goals, national standards and accountability for performance;
- devolving decision-making to the frontline and improving the capability and capacity of public servants;
- engaging public service users and communities in the design, delivery and governance of public services; and
- empowering users, including through the exercise of choice.

### **Improvements in frontline services**

**1.6** Over the last decade the Government has shown how it is possible to deliver a strong economy and sound public finances at the same time as sustained increases in investment in public services. By matching this growth in spending with ambitious reforms to support the efficiency, delivery and accountability of public services, the Government has been able to achieve major improvements in the outcomes achieved across frontline services:

- increased resources for the National Health Service (NHS) have helped save over 160,000 lives from 1996 to 2004 as a result of reductions to mortality rates from cancer and circulatory diseases among people aged under 75;
- in education, over 56 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;
- between 1997 and 2004-05 overall crime rates fell by 35 per cent, and the risk of being a victim of crime is now the lowest recorded by the British Crime Survey since it began in 1981;
- over 600,000 registered childcare places have been created since 1997, and the 800<sup>th</sup> Sure Start Children's Centre opened recently – Sure Start Centres now reach over 650,000 children;
- the transport system is improving, with over 100 road schemes completed, people travelling further by rail than in any year since the 1940s, bus use increasing year on year for the first time in decades and guaranteed free fares for off peak travel on local buses for older and disabled people; and
- it is estimated that UK aid to developing countries is helping to reduce permanently the number of people living in poverty by 2 million.

## **PREPARING FOR THE DECADE AHEAD**

### **Social, economic & technological changes**

**1.7** While much has been achieved in the past decade, the world is changing rapidly, with new challenges emerging that must be addressed in order to lock in these benefits for the decade to come. Since the 1998 CSR, huge 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, the development of the internet and other far-reaching changes have created new and rising demands on public services ranging from childcare, to education and training, to health and social care. In addition, as real incomes have grown and educational attainment has risen, so too have people's expectations of public services, as they become more accustomed to greater choice and control over their lives.

## 2007 Comprehensive Spending Review

**1.8** These developments will accelerate over the decade ahead, with fundamental and far-reaching implications for public services that require innovative policy responses, co-ordination of activity across departmental boundaries and sustained investment in key areas. To meet these challenges, in July 2005 the Chief Secretary to the Treasury announced the launch of a second Comprehensive Spending Review reporting in 2007, which will set departmental spending plans and priorities for the years 2008-09, 2009-10 and 2010-11. A decade on from the first Comprehensive Spending Review, the 2007 CSR provides the opportunity for a fundamental review of the balance and pattern of public expenditure, taking stock of what the investments and reforms have delivered to date and identifying what further steps are needed to meet the challenges and opportunities of the decade ahead.

**1.9** Over the last year the Government has been laying the groundwork for the CSR, by taking forward a detailed programme of analytical work involving:

- **an examination of the key long-term trends and challenges** that will shape the next decade;
- **detailed reviews on specific cross-cutting issues** where innovative policy responses across departmental boundaries will be required in order to meet the challenges ahead;
- **an ambitious and far-reaching value for money programme** to release the resources needed to address these challenges, involving both further development of the efficiency programme in the areas identified by the Gershon Review, and a set of zero-based reviews of particular areas of departments' baseline expenditure to assess their effectiveness in delivering the Government's long-term objectives;
- **a more strategic approach to asset management and investment decisions**, ensuring the UK is equipped with the infrastructure needed to support both public service delivery and the productivity and flexibility of the wider economy; and
- **a review of the performance management framework** to continue driving outcome-focussed improvements and ensure that public services are accountable and responsive to the needs and expectations of users.

## Meeting the challenges ahead

### Long-term challenges

**1.10** The environment in which public services operate will continue to be transformed over the next decade by a number of long-term trends, creating new opportunities and challenges which the UK must address, in particular:

- **demographic and socio-economic change**, such as the rapid increase in the old age dependency ratio as the 'baby boom' generation reaches retirement age;
- **the intensification of cross-border economic competition** as the balance of international economic activity shifts toward rapidly growing emerging markets such as China and India;
- **the acceleration in the pace of innovation and technological diffusion** and a continued increase in the knowledge-intensity of goods and services;

- **continued global uncertainty and poverty**, with continued threats of international terrorism and global conflict; and
- **increasing pressures on our natural resources and global climate** from rapid economic and population growth in the developing world and sustained demand for fossil fuels in advanced economies.

**1.11** HM Treasury is leading work with departments and external experts to examine these challenges, and will set out its assessment of their implications for policy making and public service delivery later this year, providing the basis for a wider national debate on how public services should respond.

**CSR07 policy reviews** **1.12** Budget 2006 announced that the CSR will be informed by the analysis and conclusions of a series of reviews on key cross-cutting issues where innovative policy responses will be required in order to meet the challenges ahead. These reviews are described in more detail below.

**Supporting housing growth** **1.13** Over the next decade the UK's population is expected to rise overall, with particularly marked growth in the South and East of England. Future infrastructure investment will need to adjust to support the needs of the UK economy in a more globally competitive environment and reflect these demographic changes. Building on the Government's response to Kate Barker's Review of Housing Supply, **a policy review on Supporting Housing Growth will inform the CSR to improve the responsiveness of the social, transport and environmental infrastructure necessary to enable sustainable housing growth.**

**Supporting sub-national growth** **1.14** Increased global economic competition and technological changes mean that economic activity can more easily be transferred between locations. Business location decisions are becoming increasingly complex. Macroeconomic stability and flexible product, labour and capital markets are prerequisites for economic success in a globally competitive environment. But in order to ensure that all regions, localities and countries prosper, we must ensure the right frameworks are in place to support sub-national growth. **The Government is therefore reviewing the effectiveness of sub-national interventions on economic development and the regeneration and renewal of deprived areas.**

**Increasing fairness & social justice** **1.15** In the 1980s and early 1990s, technological change and the changing global economy contributed to rising levels of inequality and poverty. Since 1997, the Government has shown that fairness and prosperity can go together. The number of children living in absolute poverty has more than halved and 700,000 children have been lifted out of relative poverty.

**1.16** Against a background of continuing technological and economic change, the Government is committed to making further progress on tackling social exclusion and increasing fairness and social justice, including eradicating child poverty by 2020. Public services have a key role to play, and **the CSR will be informed by policy reviews on children and young people and on mental health and employment outcomes.** Spatial dimensions of disadvantage will be addressed through the review of sub-national economic development and regeneration.

**Strengthening security** **1.17** Whilst the UK has faced terrorist threats in the past, the global reach, capability and sophistication of international terrorist groups places the current threat on a scale not previously encountered. More broadly, global security in the decade ahead will be shaped by a range of factors, including international responses to poverty, future conflict and areas of instability. **As part of its response to these challenges, the**

Government will review the delivery of its counter-terrorism and security strategies to inform the CSR.

### Working with the third sector

**1.18** The Government alone cannot meet these challenges: citizens, communities, businesses and non-governmental organisations will all play a vital role in shaping the future of UK society. To inform the CSR and develop a shared understanding of how the country must respond to the challenges of the decade ahead **the Government has launched the largest ever consultation with the third sector as part of a review of the third sector's future role in social and economic regeneration.**

### Independent studies underway

**1.19** The terms of reference for these reviews are set out in Annex A, explaining in more detail their scope and methodology. In addition to these reviews, the CSR will also be informed by a range of other independent reviews already underway:

- the Leitch Review of Skills, which will set out the skills profile that the UK should aim to achieve in 2020 in order to maximise productivity and growth over the long term;
- the Eddington Transport Study, which is reviewing the long-term impact of transport decisions on economic productivity, stability and growth;
- the Barker Review of Land Use Planning, which is looking at how planning policy can better deliver economic growth and prosperity alongside other sustainable development goals;
- the Review of the Economics of Climate Change, led by Sir Nicholas Stern, which is examining the consequences of climate change in both developed and developing countries, and the specific implications for the UK; and
- Sir Michael Lyons' Inquiry into the funding, role and function of local government.

## Embedding value for money in the CSR

**1.20** The sustained increases in public spending since the first CSR in 1998 are addressing the legacy of under-investment in the nation's health service, education system and other key public services. And with significant efficiency improvements being delivered as part of the current spending review programme, the Government is extracting more value from every pound of extra investment. By entrenching these efficiency improvements and pursuing even more ambitious value for money reforms over the CSR07 period, the Government will be able to continue improving public services within a prudent fiscal framework over the CSR07 period, locking in the macroeconomic stability established since 1997.

**1.21** The value for money programme is therefore a central plank of departments' preparations for the CSR, and provides the focus for this document. Building on the achievements of the 2004 Spending Review efficiency programme, every department is preparing for CSR07 by developing proposals to deliver new **operational efficiencies** from right across their budgets, considering reforms in specific policy or spending areas through **zero-based reviews**, and exploring the scope for **transforming services and working across departmental boundaries**, drawing all these together into a coherent value for money strategy for the CSR07 years that also integrates their **pay and workforce plans** and **asset management strategies**. Through this work departments will be able to release the resources needed to sustain the momentum of public service modernisation and respond to the challenges of the decade ahead.

**Outline of this report** **1.22** Chapter 2 of this report sets out the strong foundations that have been laid in the 2004 Spending Review efficiency programme. Chapter 3 describes the potential for delivering even greater value for money gains over the CSR period, by harnessing the potential of new technologies, transforming the delivery of services and reforming existing policies and programmes to reflect the changing the environment of the decade ahead. Chapter 4 looks at the steps the Government is taking to ensure that departments have the right skills and capabilities in place to deliver ambitious value for money reforms, and outlines how the performance management framework will evolve to drive further improvements to frontline service delivery. The report concludes with Chapter 5, which provides an update on how the Department for Work and Pensions, HM Revenue and Customs, HM Treasury, the Cabinet Office and the Home Office are taking forward their value for money programmes to deliver the CSR07 spending settlements agreed at Budget 2006. Annex A sets out the terms of reference for the policy reviews that will inform the Government's preparations for CSR07.



# 2

## IMPLEMENTING THE CURRENT EFFICIENCY PROGRAMME

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**2.1** Sir Peter Gershon's review of public sector efficiency, currently being implemented over the 2004 Spending Review period, marked a major step forward in embedding value for money into the planning and delivery of public services. The Government has committed to delivering:

- efficiency gains across the public sector of 2.5 per cent a year over the 2004 Spending Review period, resulting in annual efficiencies worth in excess of £20 billion a year by 2007-08 across central and local government;
- a gross reduction of over 84,000 civil service posts by 2007-08; and
- the relocation of 20,000 other posts away from London and the South East by 2010.

**2.2** This chapter reports on progress in delivering these ambitions based on the latest departmental and local government data.

### DELIVERING THE GERSHON EFFICIENCY PROGRAMME

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**2.3** The current programme has taken a systematic approach to delivering efficiencies across both central and local government, creating a common methodology that facilitates collaboration, the sharing of best practice and benchmarking of performance across public sector organisations. As the National Audit Office have noted<sup>1</sup>, the programme is the first to look at the efficiency of the public sector as a whole. The Office of Government Commerce is responsible for overseeing its implementation, challenging and supporting progress across departments.

**2.4** The programme focuses on driving out operational efficiencies from the key processes that are common across government business, including:

- **procurement** - getting better value from goods and services bought by government;
- **productive time** - freeing up more time for frontline service delivery;
- **corporate services** - reducing running costs in HR, IT support and finance;
- **transactional services** - streamlining interactions with customers; and
- **policy, funding and regulation** - streamlining government machinery.

### Procurement

**2.5** The public sector is one of the largest purchasers of goods and services in the economy, spending over a £125 billion a year. There is therefore significant potential to use its buying power to purchase more effectively and strategically, and in doing so achieve a better deal for the taxpayer. Strong progress is already evident: based on the latest returns, **departments and local authorities had reported provisional procurement savings of £3.7 billion by the end of the first year of the programme.** Examples include:

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<sup>1</sup> *Progress in Improving Government Efficiency*, National Audit Office, February 2006.

- an innovative ‘contract for availability’ awarded for Merlin helicopters that will improve the level of support to the frontline and save approximately £1 billion over the aircrafts’ 25 year life;
- recently renegotiated national procurement contracts for NHS supplies and services which are already providing annual savings of £180 million; and
- nine e-auctions facilitated by Regional Centres of Excellence in 2005-06 which have generated savings of over £12.9 million across local government. Six Councils in the South West, for example, collaborated on the provision of agency staff and will benefit from a 25 per cent saving over the life of the three-year contract, releasing a total of £5.7 million.

## Productive time

**2.6** Frontline staff in public services such as health, education and the police routinely divide their time between active service delivery and fulfilling necessary support and administrative work. The productive time workstream aims to increase the amount of time that key public service workers are able to spend on frontline delivery, making better use of this time and reducing time spent on administrative activities. Various strategies are being used to achieve this, including process redesign, changing the workforce mix and harnessing new technologies. Based on the latest returns, **departments and local authorities have reported provisional productive time savings worth £2 billion by the end of the first full year programme**, including:

- over 800 Emergency Care Practitioners have been employed by ambulance trusts to treat emergency patients in-situ, reducing the need for patients to visit Accident & Emergency and saving over £15 million in 2005-06;
- the Defence Health Change programme had streamlined the diagnosis, treatment and rehabilitation of service personnel with orthopaedic injuries. End of year figures show that over two years this has saved a total of 1.7 million deployable days of duty, an efficiency gain of £105 million; and
- the Defence Information Infrastructure is being rolled out in 2006, replacing hundreds of legacy systems worldwide and improving information capability and productivity, thereby releasing £30 million of efficiency gains.

## Corporate services

**2.7** Many departments are implementing reforms to their corporate functions of human resources, finance and IT in order to reduce cost and improve service. This can take many forms, for example sharing back office services across similar organisations, or reforming information systems to enhance functionality. On the basis of the latest returns, **provisional savings of £884 million have been reported from reforms to corporate services in the first full year of the programme**, for example:

- local authorities are forecast to achieve over £170 million of efficiencies in the provision of corporate services. Chester City Council for example has partnered with Crewe and Nantwich Council to save £350,000 on ICT services; and
- the Royal Navy's merger of its two headquarters was successfully delivered on 1 April 2006, on time and within budget. This is on track to deliver annual savings of £10 million by the end of the SR04 period, through

streamlining of back office functions to avoid duplication of effort, and has already achieved 414 of the planned 456 post savings.

## Transactional services

**2.8** Citizens interact with government in a number of ways, including paying taxes, receiving benefits and providing and receiving necessary information. This workstream aims to improve the operation of routine processes with a view to reducing cost and improving customer experience. **Departments and local authorities have reported provisional efficiency gains of £451 million from improvements to transactional services over 2005-06**, including:

- the Department for Work and Pensions (DWP) has streamlined its call centre operations to enable customers to claim three key benefits – Pension Credit, Housing Benefit and Council Tax Benefit in a single phone call. A new three page brochure has replaced the previous 26 page Housing and Council Tax Benefit form. These simplified processes enable faster processing of claims and increased productivity as well as a step change in customer service. In addition, by end the March of 2006 DWP had realised efficiency gains worth around £250 million a year by modernising its customer payment arrangements; and
- the Department for Transport is making annual efficiency gains of £1.4 million through online booking of driving tests, with the convenience of the service being available 24 hours a day. Online bookings are now being made for more than half of all theory tests and approaching half of all practical tests.

## Policy, funding and regulation

**2.9** One of the primary functions of government is to create and maintain the regulatory and policy frameworks in which government, citizens and businesses operate. Ensuring that the government uses effective strategy, evidence-based policy and focused inspection and regulation can release significant efficiency gains for both the public and private sectors. **Departments and local authorities have reported provisional efficiency gains of £1 billion by the end of 2005-06 from reforms to policy, funding and regulation**, including:

- the introduction of Continuous Registration and other measures which have enabled the DVLA to cut evasion rates for Vehicle Excise Duty. This has enabled the Exchequer to collect an additional £137 million since 2004; and
- the first phase of NHS Arms Length Bodies (ALB) reduction and restructuring has reduced the number of bodies from 38 to 26. By 2008, the number of bodies will fall to 20 generating annual savings of £250 million.

**2.10** Efficiency savings have been generated across all departments and local authorities and in all the workstream areas identified by Sir Peter Gershon. In addition to the areas discussed above, efficiency initiatives currently being pursued by departments and local authorities that cut across these workstream boundaries have provisionally delivered annual gains totalling £1.64 billion to the end of 2005-06. For example:

- the Defence Aviation Repair Agency is centralising the process for repairing Lynx, Chinook and Sea King helicopters at its Fleetlands base, saving £10 million annually.

## WORKFORCE REFORM AND ADMINISTRATION SAVINGS

**Redeployment 2.11** The Government is committed to improving public services, and this requires using the most modern processes and technologies to support those working at the frontline. As part of departments' efficiency programmes, the 2004 Spending Review set out plans for a gross reduction of 84,150 civil service and military posts in administrative and support functions by 2007-08, with 13,550 staff reallocated to frontline services, resulting in a net reduction of 70,600 posts. Delivery on workforce reform in the first year of the SR04 programme has been strong, with departments reporting a gross reduction in over 45,500 civil service posts by March 2006 - more than halfway to the target by 2007-08.

**Table 2.1: Workforce reductions across departments**

Department	Workforce reduction	
	Gross	Net
DWP	24,436	17,769
HMRC	6,995	4,323
Other departments	14,116	14,116
<b>Total</b>	<b>45,547</b>	<b>36,280</b>

**Relocations 2.12** As part of the 2004 Spending Review the Government accepted the recommendations made in Sir Michael Lyons' report on public sector relocation, which highlighted the need to move away from the current concentration of activity in and around London in order to support the Government's objectives for efficiency and regional development. Departmental efficiency plans therefore included proposals for the relocation of staff out of London and the South East. Solid progress has already been made: at the end of March 2006, 7,800 posts had been relocated across all nations and regions of the UK, against a target of 20,000 by 2010, including:

- 1,623 to the North West, including 228 HM Revenue and Customs (HMRC) posts and 114 DWP posts;
- 1,874 to Yorkshire and the Humber, of which over 1,200 are MoD post moves, as well as over 150 posts moved within the Home Office;
- 442 to the South West, including over 300 from HMRC and DWP; and
- 1,549 to Wales, which comprises over 1,000 posts within DWP and 150 posts from the Office of National Statistics.

**Box 2.1: The Northern Ireland Review of Public Administration**

In June 2002 the Northern Ireland Executive launched the Review of Public Administration, with the aim of revitalising public services in Northern Ireland by replacing current structures with a new, more accountable, efficient and effective public sector. The review covered around 150 bodies, including the 26 district councils, the 4 Health Boards and 18 Trusts, the five Education and Library Boards, and about 100 other quangos. Decisions announced by the Secretary of State in November 2005 and March 2006 will radically streamline the public sector in Northern Ireland, leading to over £200 million annual savings that will be reallocated to frontline services.

Significant reductions in the number of local councils, health and education bodies were announced in November. Local councils will be reduced from 26 to 7 by 2009 and will have an increased range of powers including responsibility for local roads, planning, rural development and fire and rescue and they will also have a statutory duty to lead a community planning process. Police districts will be similarly reduced.

The four existing Health and Social Services (HSS) Boards will be replaced by one strategic health and social services authority; 18 HSS Trusts will reduce to five; a Patient and Client Council will replace the four existing HSS councils; and the five existing Education and Library Boards will become one Education Authority and a statutory Advisory Body.

The total number of public bodies in Northern Ireland will halve as a result of the review, falling from 154 to 76 organisations. This will be achieved in the main by merging bodies or transferring complete functions to local government or central government. Many of the remaining bodies will have reduced responsibilities through some of their functions transferring to local government. Examples include:

- a new Land and Property Agency which will incorporate the Valuation and Lands, Rate Collection, Land Registers and Ordnance Survey Agencies;
- a Library Authority will be created with responsibility for all libraries across Northern Ireland, and the Driver and Vehicle Licensing Agency will merge with the Driver and Vehicle Testing Agency;
- some of the funding currently administered by the Arts and Sports Councils will become the responsibility of local government as will some of the functions of the Northern Ireland Tourist Board and Invest NI;
- the Northern Ireland Housing Council, the Agriculture Wages Board and Enterprise Ulster will cease to exist; and
- to secure greater independence and more streamlined administration, responsibility for the administration of those Tribunals currently sponsored by departments will transfer to the Northern Ireland Court Service as part of the new Courts and Tribunal Service.

## Administration costs

**2.13** Administration budget limits are set for most civil service departments and help to drive economy and efficiency in the running of government itself. Around 50 per cent of administration costs are accounted for by civil service pay. A further 40 per cent is accounted for by procurement of goods and services such as accommodation, equipment and travel, and the remainder by other items, such as capital charges for buildings, IT equipment and other assets used by civil servants.

**2.14** Over the 2004 Spending Review period the Government is holding administrations costs broadly constant in nominal terms to ensure that additional resources go straight to improving frontline service delivery. The latest data on administration costs published in the May 2006 Public Expenditure Statistical Analysis show that **the Government is on track to do so, with administration costs falling as a percentage of overall public expenditure.**

## **OVERALL PROGRESS IN DELIVERING EFFICIENCIES**

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**2.15** Budget 2006 reported provisional annual efficiency gains totalling £6.4 billion based on departmental and local government returns submitted at end December 2005. On the basis of the latest departmental returns, **the Government can now confirm that by the end of March 2006, departments and local authorities had reported provisional annual efficiency gains totalling £9.8 billion.** These gains are currently being subject to verification and validation, building on recent improvements to the overall efficiency measurement system, including the refinement of departmental Efficiency Technical Notes which have been drawn up with the involvement of the National Audit Office.

**2.16** Based on this early progress on delivering efficiencies on the ground and the wider benefits that the current programme has had in engendering a culture of continuous value for money improvement in the public sector, the Government believes there is the potential to pursue even greater levels of ambition over the next spending review period. The next chapter sets out the Government's strategy for achieving these ambitions.

# 3

## EMBEDDING VALUE FOR MONEY IN CSR07

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**3.1** Building on the achievements of the SR04 efficiency programme, the Government is developing a more ambitious and far-reaching value for money programme for the CSR07 years, to release the resources needed to sustain the momentum of public service improvement and meet the global challenges of the decade ahead. As part of this programme the Government is:

- **deepening 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;
- **conducting a series of zero-based reviews of departments' baseline expenditure**, which will take a radical look at the way that government spends money on policies and programmes a decade on from the first CSR;
- **reviewing the opportunities for transforming service delivery across government**, looking at how the channels through which services are delivered can be made more efficient and responsive to the needs of users;
- **requiring all departments to prepare pay and workforce plans**, to maintain the pace of workforce modernisation across the public sector and ensure pay growth is put on a sustainable footing over the CSR period; and
- **delivering a step-change improvement in the management of the public sector asset base**, taking forward the recommendations of the Lyons Review of Asset Management.

**3.2** In preparation for CSR07, every department is pulling together these elements to develop a coherent and comprehensive strategy for improving services and driving value for money gains over the full range of their activities.

### OPERATIONAL EFFICIENCIES

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**3.3** The operational efficiency strand of the CSR value for money programme builds on the foundations of the SR04 efficiency programme by looking to drive further efficiency savings out of the common processes that underpin government business, focussing in particular on:

- **corporate services** – realising the potential for further savings through greater collaboration across departments and the wider public sector;
- **procurement** – getting better value from the public sector's £125 billion procurement budget, in particular through greater co-ordination of purchasing across organisational boundaries; and
- **productive time** – going further in freeing up frontline specialists from unproductive tasks to focus on core activities such as dealing with citizens.

### Corporate services

**3.4** Although improvements have been made to both the quality and efficiency of public sector organisations' corporate services since the Gershon Review,

benchmarking against the private sector and the best of the public sector demonstrates that there is still further to go. As part of their value for money preparations for CSR07, departments are therefore looking at simplifying and standardising processes across corporate services and are identifying options for further streamlining of these functions. In particular, best practice demonstrates that moving to a shared services model can generate significant savings, and in the CSR07 period all departments will be expected to develop plans to realise these benefits.

**3.5** To ensure more organisations reach a high level of performance, the Government will be promoting greater collaboration in the provision of corporate services, not only between central government departments but also with their delivery chains and arms length bodies. For example:

- in April 2005, the Department of Health (DoH) entered into a 50/50 joint venture partnership with Xansa to provide shared finance, accounting and other services to the NHS, called NHS SBS Ltd. Over the CSR07 period, NHS SBS will be extended to more NHS organisations, helping to modernise their financial services and deliver anticipated efficiency savings of over £220 million, to be released back into frontline patient care; and
- the Department for International Development (DFID) are already co-located with the Foreign and Commonwealth Office (FCO) in nearly three quarters of countries in which DFID operates. DFID and the FCO will produce a joint delivery plan by the autumn which will address, among other things, the scope to increase this number and to ensure more sharing of services. This should lead to reduced costs, increased efficiency and help DFID and the FCO work even more closely with each other.

## Procurement

**3.6** With over 40,000 public sector bodies separately carrying out their own procurement for goods and services, there remains further potential for achieving savings in government procurement, in particular through greater coordination and collaboration of purchasing across organisations.

**3.7** The Office of Government Commerce (OGC) are exploring the scope for aggregating demand to enable one department or public sector body to co-ordinate the procurement of a particular commodity on behalf of others. This approach will tackle the wide variety of prices paid for the same commodity across the public sector and maximise the public sector's market power. Pilots are currently underway for a selected number of key commodities in central government. For example, the OGC is working with departments to get better value on the procurement of basic commodities, such as print services, energy, fleet, construction materials and facilities management. OGC estimates that more strategic sourcing and collaborative procurement of such commodities could achieve potential annual efficiency gains of up to £700 million by March 2008.

**3.8** In their value for money preparations for CSR07, individual departments are also exploring the scope for taking a more strategic approach to procurement across their delivery units, for example:

- the Department for Transport (DfT) is exploring the scope for collaboration and sharing of best practice in procurement of local highways maintenance, building on and going further than the current SR04 programme. Analysis

from Transport for London suggests that significant savings are possible in London through collaborative procurement, and DfT is considering the scope for a similar scheme to operate nationally; and

- the Centre for Procurement Performance (CPP) in the Department for Education and Skills (DfES) is piloting the use of innovative e-Procurement systems that deliver benefits of choice and convenience to schools and savings to the taxpayer. e-Procurement provides buyers a choice of competitive deals across a number of procurement commodity types from a range of suppliers, delivering savings by promoting best deals, leveraging demand and reducing transaction costs. The CPP is using a pilot project in Yorkshire and Humberside, involving 2,500 users, to assess the potential for nationwide development of an e-Procurement system for schools and other educational institutions. The system will be rolled out from September 2006 and into the CSR07 period.

## Productive time

**3.9** Across the 5.5 million public sector workforce there remains considerable scope to make more effective use of frontline professionals' time. In some areas large improvements of 30 per cent or more have been achieved through the use of 'lean' techniques. These techniques enable departments to assess how to make processes more efficient, get the best from their workforce, and use tools and technology more effectively.

**3.10** Departments need to engage fully with their frontline workforce to assess the scope both for devoting more time to core activity and to achieve the most out of that time. All departments have been asked to adopt an ambitious approach in the CSR to improving the effective use of their workforces, and are being encouraged to use "opportunity audits" for at least 80 per cent of their operational areas to assess the potential for introducing more efficient working practices.

**3.11** The Department for Constitutional Affairs (DCA), for example, is planning to deliver further efficiency savings through productive time gains in Her Majesty's Court Service (HMCS). Under the HMCS business transformation programme, to be rolled out over the CSR07 period:

- courts will move from paper to electronic diaries, improving utilisation of buildings;
- current analogue reporting in the Crown Court will be replaced by digital systems, dispensing with the need to employ a court logger. It will also provide voice recognition software to produce draft transcripts of proceedings;
- further changes to the new IT system for the Magistrates' Court (LIBRA) will support efficiency gains in payment handling, case creation and information exchange with other criminal justice agencies; and
- the Penalty Notices Processing Project should serve to improve the efficiency of fixed penalty notice administration by the courts.

**3.12** DCA is also considering how to improve speed and efficiency of services by moving high-volume low-complexity cases out of courts, enabling quicker resolution of minor cases and freeing up court time for more serious cases.

## Administration budgets

**3.13** By harnessing the potential of new technologies and driving out operational efficiencies 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 administration. 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 a nominal reduction in administration budgets across government, thereby releasing resources for reallocation to frontline services.**

## ZERO-BASED REVIEWS

**3.14** The aim of the zero-based reviews now underway is to renew each department's baseline expenditure to reflect changing priorities a decade on from the first CSR. Whereas past spending reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives in the CSR provides an important opportunity – with many past objectives achieved and supporting programmes and spending potentially available for reallocation – for a more fundamental review of the balance and pattern of expenditure within and across departments.

**3.15** To identify areas for zero-based review, departments have conducted a high-level assessment of their baseline spending to identify specific areas where there is scope to:

- improve coordination with departmental and government-wide objectives;
- strengthen the links between spending and outcomes;
- reduce costs to historic, international or private sector benchmarks; or
- reduce performance variation across delivery units through the sharing and adoption of best practice.

**3.16** Departments have identified a range of such areas where there is greatest potential to deliver significant reforms. The areas that departments are reviewing generally fall into four broad categories set out below.

**3.17** Reviews of **individual policy areas or programmes** - undertaking a fundamental examination of entire programmes or areas of policy and their alignment with the Government's wider objectives, with departments exploring opportunities to deliver services and outcomes more effectively and efficiently and considering the potential to make allocative efficiencies within or between programmes. For example:

- as part of its Decent Homes programme, the Government is investing over £1 billion a year in the renovation of council houses, reducing the number of non-decent properties by over one million since 1997. In preparation for CSR07, the Department for Communities and Local Government (DCLG) have been conducting a review of this programme to consider how this funding can be brought together with other local funding streams to ensure that decisions about investment in the social housing stock are taken alongside decisions necessary to deliver sustainable mixed communities. As part of CSR07, DCLG will also explore the opportunity for Local Area Agreements to widen the scope of the Decent Homes programme;

- Lord Carter's review of legal aid procurement, published on 13 July 2006, sets out proposals for a market-based approach which rewards efficient firms providing a quality service at best value for the taxpayer - leading to the full introduction of best value tendering for legal aid contracts based on quality, capacity and price from 2009. These reforms will deliver efficiencies of around £100 million against spend in 2005-06, and efficiency improvements within criminal legal aid of some 20 per cent in real terms over the next four years; and
- analysis by the DfES shows significant variation in the cost and effectiveness of local authority provision for looked after children. There is therefore the opportunity to increase the choice and quality of placements for looked after children by improving the way in which they are planned and commissioned, thereby raising outcomes and delivering better value for money.

**3.18** Reviews of **individual bodies or organisations** - examining the full range of activity conducted by individual organisations, in the context of the parent department's key objectives and the latest evidence on the factors that drive delivery and service quality. For example:

- the Department for Transport is taking forward a zero-based review which has identified scope for the Driver and Vehicle Licensing Agency (DVLA) to collect Vehicle Excise Duty more efficiently, in particular by increasing the number of customers who transact through online channels. Furthermore, the review has identified the potential to make better use of DVLA records in order to increase the effectiveness of compliance and enforcement activities;
- the Ministry of Defence (MoD) will co-locate the Defence Logistics Organisation and Defence Procurement Agency, merging the two businesses into an integrated procurement and support organisation. This will help the MoD to implement the Defence Industrial Strategy's focus on procuring and supporting equipment effectively and efficiently on a whole-life basis;
- UK Trade and Investment are reviewing their foreign direct investment and trade activities with the aim of making them more focused and professional. As part of this they are developing a new five-year strategy for marketing the UK economy internationally, and are changing the way they operate to become more client focused. They are also developing a new research and development (R&D) strategy to attract more business R&D investment to the UK and to promote Britain's innovative firms abroad, and are reallocating resources in the overseas network towards emerging markets to exploit the potential that exists there; and
- the DWP is undertaking a fundamental review of the Health and Safety Executive, that aims to improve its ability to deliver its mission and targets within a framework that maximises value for money. The review focuses on five main themes: delivery, working with others, procurement, freeing up time and making the best use of science.

**3.19** Reviews of **key cross-departmental cost drivers** - looking carefully at specific components of government spending that have contributed to rising costs of service delivery across the public sector. For example:

- a number of departments have been conducting root and branch reviews of their workforce remuneration strategies to identify what structural reforms may be required to put them on a sustainable footing for the CSR07 years; and
- DCLG's review of their housing investment programme has identified opportunities to reduce construction costs in the procurement of new social housing and properties for low cost home ownership currently funded through the Housing Corporation. These proposals build on the substantial gains made in SR04, which increased competition and levered in more private finance, reducing the requirement for grant. There is scope to go further in the CSR07 period by optimising procurement processes for developers, house-builders and housing associations to deliver more affordable housing; pursuing greater private sector investment; and improving affordable housing contributions made through section 106 planning agreements.

**3.20** Reviews of **systemic delivery issues** - reviewing complex areas of service delivery, often those that cross-organisational boundaries, where changes to the way systems are organised can improve value for money. For example:

- the Department of Health (DoH) is looking at how better assessment processes and treatment pathways in the NHS could avoid hospitalisations for those with long-term conditions. This can improve the care that patients receive through clear care and self-care plans, and at the same time help reduce a significant and growing pressure on NHS budgets; and
- building on recent improvements in reducing hospital lengths of stay, which ensure a better service for patients alongside increased efficiency, DoH is also looking at the scope to make further progress in CSR07, bringing more NHS Trusts up to the standards achieved by the best performers in this area.

**3.21** Departments are now taking forward their zero-based reviews, aiming to release substantial resources to meet new priorities and challenges. Through this process departments are embedding value for money into their planning over the CSR07 period, based on a solid understanding of the drivers of costs and the relationship between their spending, inputs, outputs and outcomes.

**Box 3.1: Delivering the value for money programme in local government**

Local government has achieved considerable success in generating value for money gains over the SR04 period – reflecting the depth of experience and capacity within local authorities to deliver efficiencies in service delivery, thereby freeing up resources for reinvestment and helping to keep council tax rises low.

Councils reported a total of around £1.9 billion of efficiency gains in 2005-06, and expect to achieve a further £1.2 billion in 2006-07. This equates to a cumulative total achievement of efficiency gains in the order of £3.1 billion by the end of 2006-07 – surpassing the 2007-08 target for councils of around £3 billion, one year early.

A significant proportion of the efficiency gains expected in 2006-07 will be generated in the adult social care sector (£213.5 million). Other key sources of expected gains by local government in 2006-07 include corporate services (£197.3 million), procurement (£137.9 million), and environmental services (£102.1 million).

This early progress has helped to lay the foundation for a more radical and ambitious value for money programme for the CSR07 years, which will see local authorities securing far greater cashable efficiencies to meet new priorities.

In developing the CSR07 value for money programme, the Government remains committed to working closely with local government, whose continued engagement will be critical in securing the level of ambition needed over the CSR07 period – maintaining the momentum generated in the SR04 period and implementing the necessary reforms now that will enable local authorities to better respond to the challenges that lie ahead.

## TRANSFORMING THE DELIVERY OF SERVICES

**3.22** Budget 2006 announced that the Chancellor has asked Sir David Varney, Executive Chairman on HMRC and former CEO of O2, to advise him on the opportunities for transforming the delivery of public services, in particular by looking at how the channels through which services are delivered can be made more responsive to the needs of citizens and businesses.

**3.23** Over the next ten years there are significant opportunities both to provide better services for customers and to do so at a lower cost to the taxpayer by realising the full benefits of cross-government public service transformation. For example, there is scope to drive down the costs of delivering services by rationalising the number of contact centres and local offices, sharing provision across the public sector and reducing duplication through better sharing of data. These reforms would also help ensure that citizens and businesses have their wide range of needs met through single, more convenient points of contact with government. The programme of work being led by Sir David Varney aims to set these important reforms in train.

**3.24** The Government is committed to tackling the problems experienced by some citizens in accessing public services. At present, many people have to spend considerable time and effort to get what they want out of public services. For example, having just faced bereavement, a relative may need to contact government numerous times to provide the same or similar information, instead of achieving all they need in a single contact. However, there are positive examples of innovation across the public sector where departments and local authorities can deliver improved services at lower cost. These examples pave the way for wider transformational change.

**3.25** The Government is already seeking to improve access to services and reduce duplication by rationalising and improving websites across government. There are currently over 2,500 government websites. As announced in *Transformational Government, Enabled by Technology*<sup>1</sup>, the number of different websites each government department uses will be reduced and consistency introduced in line with their overall communications strategies. For customer information, self-service transactions and campaign support, services will converge on Directgov and Business Link as the primary online entry points.

**3.26** Transforming services in the CSR07 period and beyond will require greater collaboration across government, built on a deeper understanding of customers' needs and expectations. Public sector organisations will need to improve their capacity to carry out this analysis, which is essential to delivering genuinely customer-focused services. The next phase of the service transformation review will deliver a cross-government customer contact strategy to guide the interactions and quality of service that customers can expect from government.

### Contact centres and local office networks

**3.27** There are rapid and innovative developments occurring across the contact centre and local office landscape in the public sector, the private sector and internationally. Sir David Varney will explore the potential and measures necessary to bring government contact centres up to the best in public and private sector standards, including investigating the scope for rationalising provision across government, improving service quality and delivering efficiency gains.

**3.28** On local offices, a number of innovative developments are happening, such as the development of one stop shops in local government. The Government will explore:

- the scope for developing service provision around national and local service networks, thereby providing more single points of access for customers and opportunities for efficiency through sharing provision;
- the role of intermediaries in face-to-face services, including the voluntary and community sector and the wider public sector;
- wider public service integration, based around developing single sector networks (for example joint planning across the criminal justice system); and
- the scope for delivering face-to-face services in alternative and more convenient ways such as through mobile access.

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<sup>1</sup> *Transformational Government, Enabled by Technology*, Cabinet Office, November 2005.

**Box 3.2: Innovation in customer service – the Worcestershire Hub**

The Worcestershire Hub is an initiative that grew out of the Worcestershire Local Strategic Partnership in the late 1990s. It has been taken forward by the Worcestershire e-Government Partnership, which comprises seven councils.

Today the Hub comprises a web portal and a network of seven customer service centres supported by telephone contact centres. In time additional smaller centres will be put in place throughout the county.

The Hub provides customers with direct access to District and County Council services as well as those of a number of partner organisations. Customer services advisors handle all types of enquiries covering the complete range of services.

With customer service advisors handling 80 per cent of the calls at the first point of contact and customers increasingly using the self-service portal to meet their needs – time is being freed up in the back office and services are becoming more responsive and convenient for customers.

## Identity management and data sharing

**3.29** Better management of customer information and data sharing are essential to underpin efforts to transform services to the benefit of the customer. Identity management is the “front end” of better customer service. Too often the onus is on the citizen to prove their identity to government time after time. Improving cross-departmental sharing of data and management of customer information can enable government to provide better designed services, target resources more efficiently and reduce the need for repeated contact. Box 3.3 sets out how improved management of information is transforming patients’ experience in the NHS.

**3.30** The Government has recognised the importance of identity management by putting a new Identity Management Ministerial Committee in place. The Private: Public Forum on Identity Management chaired by Sir James Crosby will also provide further opportunities for learning, collaboration and innovation. The service transformation review is looking at opportunities for rationalising effort and optimising use of existing identity management assets, as well as considering the role wider data sharing may have in improving frontline services.

**Box 3.3: NHS National Programme For Information Technology**

The National Health Service has been implementing the National Programme for Information Technology across all NHS organisations with the aim of enabling NHS patients to make informed health choices and increasing the efficiency and effectiveness of clinicians and other NHS staff. This will be achieved by providing secure, authorised access to patient information, and working with health providers so that they have the information they need, whenever and wherever, to assist with patient diagnosis and treatment. There have been significant achievements to date in all aspects of the programme both nationally and locally, with the pace and scale of deployment of new services and systems accelerating on a weekly basis. For example:

- more than 674,000 hospital appointments have now been booked electronically;
- over 2.1 million prescription messages have been issued;
- there are 36 new Picture Archiving and Communications Systems now live and more than 47 million images stored digitally; and
- over 187,000 e-mail users have registered already, sending more than 500,000 e-mail messages every day.

As the National Audit Office have noted, the foundations have now been laid and the organisational and commercial infrastructure established to deploy the systems the NHS needs to deliver modern effective health care to patients. This will be achieved in carefully managed stages: major rollout of both national and local systems is well underway, and the NHS is on track to complete the National Programme, as planned, by 2010.

The successful procurement process ensured vigorous competition achieving significant price reductions from prime contractors with a difference between initial and final bids of £6.8 billion.

**Next steps**

**3.31** The next key step is the development of a strategy for service transformation over the CSR07 period. This will involve building on the opportunities outlined above to develop a specific set of proposals to achieve transformational change, including through pilot initiatives to test the extent of service improvement for customers and cost saving potential. Sir David will report to the Chancellor on his findings in time to inform the 2007 CSR. These findings will then be incorporated into departmental plans over the CSR07 period.

**PUBLIC SECTOR PAY AND WORKFORCE**

**3.32** Recognising that people are the most crucial asset in the public sector, the Government has targeted much of its increased investment on recruiting more professionals for key frontline services: there are now 85,300 more nurses, 27,400 more doctors and 14,000 more police compared with 1997. Given that it accounts for around a quarter of all public spending, controlling pay is essential for ensuring value for money and keeping inflationary pressures in check, and will therefore be a particular focus of the Government's preparations for CSR07.

**3.33** The 2005 Pre-Budget Report announced the establishment of the new Public Sector Pay Committee (PSPC), to improve the co-ordination of pay decisions across the public sector both in the remainder of the SR04 period and throughout the CSR07 years.

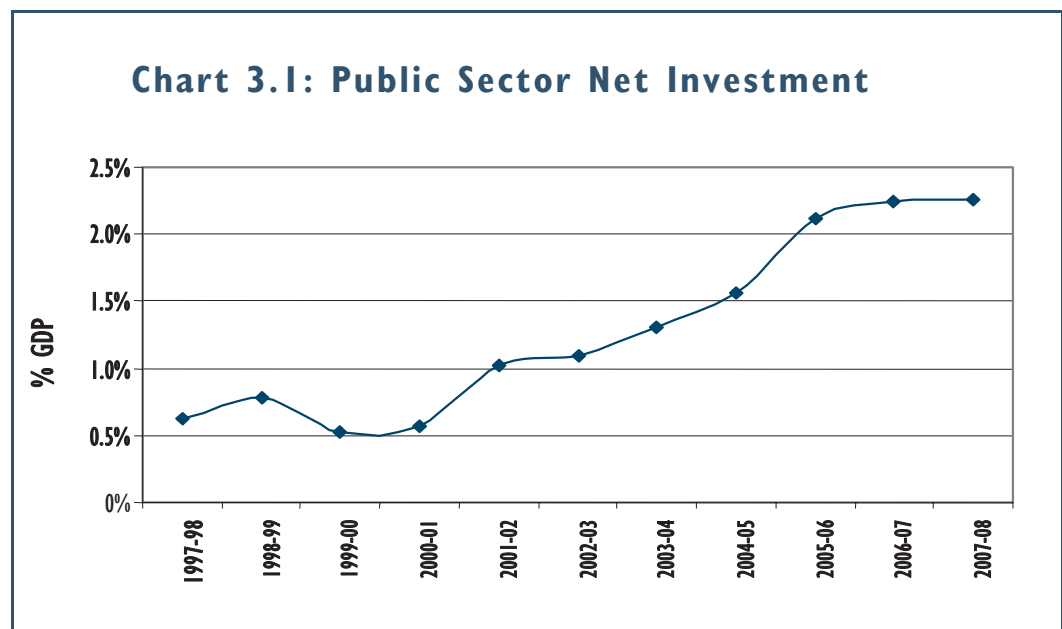
The PSPC will set common objectives for pay across government and will ensure that pay awards and pay systems are evidence based, consistent, represent value for money and financially sustainable over the long run. The PSPC has already led to real progress on pay restraint, with pay awards for 2006-07 averaging just 2.25 per cent, the lowest figure since 1993.

**3.34** The Chancellor has stated his commitment to maintaining this discipline both in the remainder of the SR04 period and throughout the CSR07 years, emphasising to departments that their pay settlements must be based on the achievement of the Government's inflation target of 2 per cent. **As part of their CSR submissions, all departments will be required to prepare pay and workforce plans** which set out how they will achieve this goal and ensure pay growth is put on a sustainable footing over the CSR07 period.

## PUBLIC INVESTMENT AND ASSETS

### Investing in the nation's infrastructure

**3.35** The 1998 CSR established public investment as a long-term priority, recognising its crucial contribution to both public service delivery and the productivity and flexibility of the wider economy. Since then, the Government has substantially addressed the legacy of under-investment in the nation's public infrastructure, increasing public sector net investment from just 0.5 per cent of GDP in 1999 to a planned level of 2¼ per cent by the end of the 2004 Spending Review period, as illustrated in Chart 3.1. This substantial growth in public investment has been underpinned by the reforms to the budgetary and fiscal framework, including separate capital and resource budgets to safeguard long-run capital investment from short term resource pressures and the introduction of full Resource Accounting and Budgeting to provide better incentives for the management of existing assets.



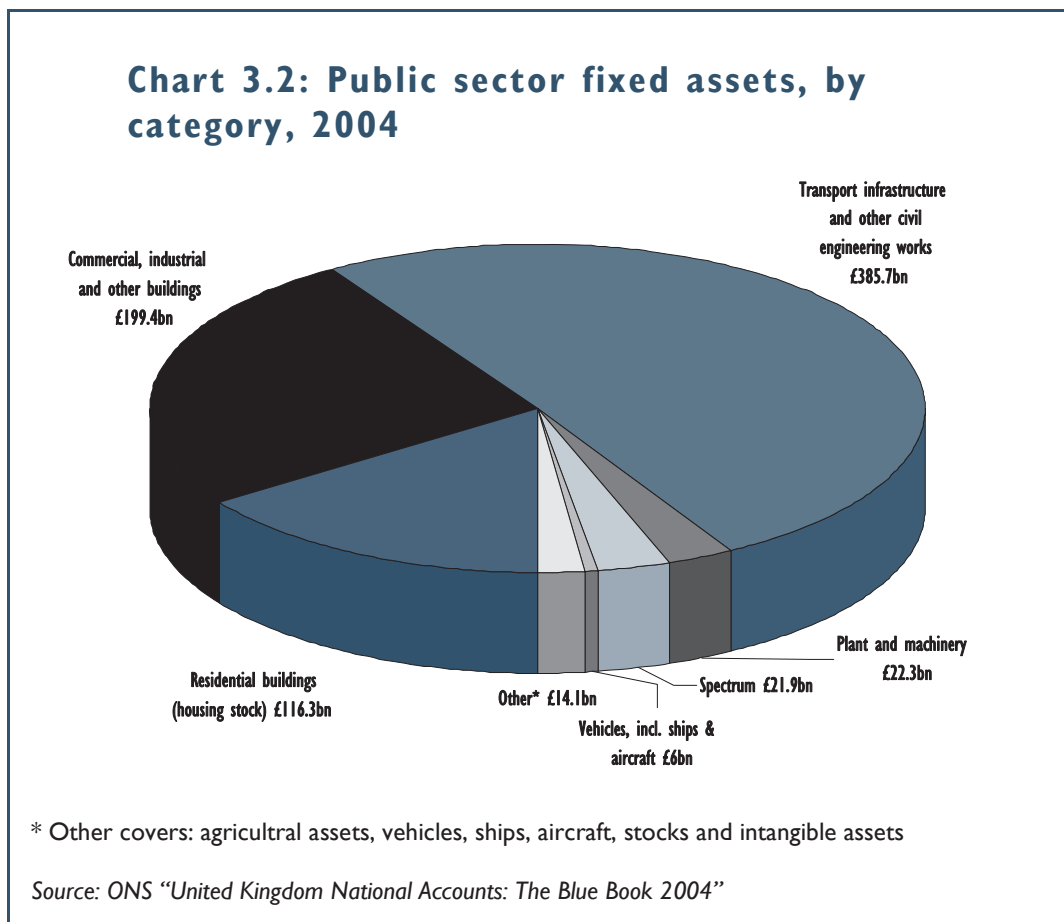
**3.36** Together with private investment, public sector investment is delivering significant improvements to the nation's infrastructure:

- the NHS is undertaking the biggest hospital building programme in its history, with 57 new hospital schemes open since 1997, and another 31 under construction;

- 20,000 schools have benefited from building improvements, and the Government has committed to providing twenty-first century facilities for all secondary pupils and rebuilding or refurbishing half of all primary schools; and
- over 4,000 new rail vehicles have entered service since 1999, as part of the biggest rolling stock replacement programme ever seen in the country.

### Maximising value from the public sector asset base

**3.37** In 2004 the public sector held a total of £766 billion of fixed assets, covering a wide range of holdings from defence equipment to local playing fields, from the Ordnance Survey mapping database to historic houses and museums. The largest part of this is accounted for by local authority infrastructure such as housing, roads and schools. Defence, the National Health Service and the highways form the next three main blocks. Together these four areas alone account for about 80 per cent of the public sector asset base. Chart 3.2 shows the composition of the public sector asset stock by asset category, showing that the bulk of these assets are buildings (both commercial and residential), civil engineering works and plant, machinery and vehicles.



### Capital & assets in the CSR

**3.38** Building on the recommendations of the Lyons Review of Asset Management, which the Treasury and OGC are taking forward with departments, CSR07 will place a particular focus on the condition and management of the underlying asset stock as a basis for investment decisions across the public sector. This will ensure that departments are realising the maximum value from the assets they hold by:

- disposing of assets that are no longer required for service delivery;

- improving the management and utilisation of assets retained in the public sector; and
- basing future investment decisions on a more complete assessment of the condition and performance of the existing asset base.

**Asset disposals 3.39** The disposal of surplus assets and the full exploitation of under-utilised assets are crucial to ensuring the efficient use of public sector resources. The 2007 CSR will continue to drive forward the Government's objective of realising £30 billion of asset disposals by 2010. Box 3.4 provides an update on progress in the disposal of surplus assets in central and local government.

**Box 3.4: Asset disposals over the CSR07 period**

In 2004 the Government announced an objective to dispose of £30 billion of surplus assets by 2010-11, in order to release under-utilised resources for the investment needed to meet future challenges. The Lyons Review of Asset Management assessed this ambition to be stretching but achievable.

The Government is on course to meet its asset disposals objective, with the public sector as a disposing of assets worth of £6.3 billion in 2004-05. As part of the preparatory work for the CSR capital review, departments have identified candidates for disposal that ensure the Government remains on track to meet its target of £30 billion by the end of the CSR07 period, including:

- MoD plans to rationalise its estate, for example through the redevelopment of its garrisons in Aldershot and Salisbury Plains and through the sale of its estate in Greater London;
- DfT plans to dispose of land and buildings held by the Highways Agency, Channel Tunnel Rail Link and the British Railways Board (Residuary) Ltd;
- over the next five years DoH plans to dispose of surplus assets with a value of around £100 million, and local NHS Trusts are also proactively disposing of surplus property assets;
- the DCA continuing to develop its plans to rationalise land and buildings held by Her Majesty's Court Service; and
- the Department for the Environment, Food and Rural Affairs plans to sell between £15 and £20 million of assets in 2006-07 and a further £10 million in 2007-08. These disposals will include the sale of grain stores, the proceeds of which are being reinvested in the Rural Payments Agency change programme, a number of small Forest Enterprise England buildings and other farm dwellings.

The Lyons Review noted that local authority asset sales would make a substantial contribution to the Government's objective. In 2004-05 and 2005-06 English local authorities secured asset sales totaling £8.1 billion. Latest projections from the DCLG indicate that local authorities are on track to deliver their share of £30 billion of disposals by 2010-11. Present trends suggest that housing sales should contribute around half of total local authority receipts by this date.

**Public corporations 3.40** In addition to the sale of £30 billion of fixed assets by 2010-11, the Government will continue to pursue the sale of other assets, such as public corporations, where:

- they are no longer required to meet the Government's public service objectives;
- the private sector can generate operational efficiencies by taking over responsibility for the management of assets and services (through a sale or PPP structure); and
- resources are released from a sale that can be reinvested in public services.

**3.41** In line with its commitment to retain only those assets that are required to meet its public service objectives, the Government will be:

- completing the sale of Westinghouse for approximately £3 billion this financial year;
- considering the sale of part of its stake in British Energy after the Energy Review;
- finalising the sale of the Tote; and
- continuing to seek to realise value from our stake in Urenco.

**3.42** Building on this progress, as part of CSR07 the Treasury will be working with departments to realise the disposal of other public corporations, trading funds and assets where it is economically productive and represents value for money.

## Improving asset management and investment decisions

### Asset management

**3.43** Recognising that the efficient management of the public sector asset stock is crucial for effective public service delivery, the 2007 CSR will build on the recommendations of the Lyons Review of Asset Management in 2004 by focussing on effective asset management as the basis for new investment decisions:

- **a joint DCLG and HM Treasury taskforce is working to improve the release of surplus public sector land for housing**, aiming to identify an estimated 3,000 hectares of land that has the potential for development or redevelopment;
- to reinforce the effective management of assets across the public sector and to complement the approach being taken by central departments, **DCLG are leading work to explore opportunities for strengthening asset management by local authorities** – delivering improved outcomes for local communities through more efficient use of public assets and realising greater potential for disposal of surplus local assets; and
- in order to improve incentives for effective asset management, **HM Treasury is consulting departments on possible changes to the budgeting rules for impairments in order to remove any unnecessary barriers to asset disposal.**

## Improving investment decisions

### A zero based approach to capital budgeting

**3.44** Having addressed the most urgent backlogs in public investment, the challenge for the CSR is to ensure that new investment is focused on the areas where it is most needed to meet the global challenges of the decade ahead. The Government is therefore introducing a more strategic approach to capital budgeting in the CSR. This will involve:

- updating the National Asset Register, as part of a comprehensive survey of the condition and performance of the public service asset base, together with an assessment of what the sustained increases in investment have achieved at a sectoral level;
- introducing a more zero-based approach to setting capital baselines and capital budgets, to fully realise the benefits of separate capital and resource budgets;
- continuing to drive departments to dispose of assets that are no longer required for service delivery; and
- building on the recommendations of the Lyons Review of Asset Management by requiring departments to prepare asset management strategies to realise the maximum value for money from the assets they hold.

## CONCLUSION: AMBITIONS FOR THE CSR

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**3.45** Based on the early progress in delivering efficiency savings under the current programme, the initial results of departments' value for money preparations for the CSR07, and the scale of ambition reflected in the transformation strategies being taken forward by the departments whose CSR07 settlements were agreed in Budget 2006, **the Government has identified at this stage scope to deliver savings of at least 2.5 per cent per year over the CSR07 period<sup>2</sup>**. Furthermore, within departments' value for money programmes the Government will be aiming to maximise the proportion of cash-releasing reforms to free-up resources to meet new challenges.

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<sup>2</sup> Prior to the current and capital envelopes for the CSR07 period being fixed, it is not possible at this stage to give the cash-equivalent figure implied by this annual savings rate.



# 4

## STRENGTHENING GOVERNMENT'S CAPACITY TO DELIVER

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**4.1** The coordinated focus on efficiency across the public sector engendered by the Gershon Review has had broader positive effects over and above the headline efficiency figures. As the National Audit Office has noted, departments are increasingly mainstreaming value for money considerations in their core business planning, embedding a culture of efficiency across the public sector. Most departments have created specific high-level teams to manage and drive their efficiency programmes, successfully attracting high calibre staff, and often reporting directly to departmental boards and permanent secretaries.

**4.2** This chapter sets out the further steps the Government is taking to build departments' capacity to deliver greater efficiencies and sustained improvement in performance in both the SR04 and CSR07 periods by:

- building departments' **financial management** and **strategic leadership capabilities**;
- strengthening **central support** for efficiency delivery;
- improving the way **departments account for value for money gains**; and
- continuing to develop the **wider performance management** framework.

### **BUILDING DEPARTMENTAL CAPACITY**

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#### **Strengthening financial management**

**4.3** Sir Peter Gershon's review identified strong financial management as essential for the efficient use of resources and a pre-requisite to the successful delivery of major efficiency programmes. To ensure that departments are equipped with the financial management skills necessary to deliver modern and efficient public services, the 2004 Spending Review announced that HM Treasury would conduct a series of reviews of the effectiveness of financial management in each department. The first round of these reviews was completed at the beginning of this year, and each department has now agreed an action plan with the Treasury to take forward the recommendations of their reviews. Follow-up work with each of the larger departments is planned for the coming winter.

**4.4** Whilst the reviews have highlighted that the quality of financial management has increased markedly across government in recent years, they have also identified areas where further significant improvements can be made. Most larger departments are, for example, engaged in programmes to reform corporate information systems. These will both deliver improved management data and free up finance resources to provide enhanced challenge and support to business planning activities.

**4.5** Strong progress has also been made by departments in meeting the requirement set at the 2004 Spending Review that they should all have professional Finance Directors with a seat on the departmental board by December 2006. By July 2006 two thirds of departments have reached this target, with three larger departments currently engaged in recruitment campaigns. Most have also significantly strengthened the complement of senior finance professional resource supporting the policy and delivery processes, with further progress to be made.

**4.6** Action is also being taken to improve financial management capacity more generally in departments, with improved training and guidance on the governance and management of public expenditure and projects to improve the clarity of lines of responsibility and accountability for delivering public services effectively and efficiently. All civil servants now have access to e-learning, classroom training and senior level master-classes on managing finances to promote enhanced delivery.

**4.7** As part of ongoing improvements in financial management, departments have also recognised that the delivery of challenging efficiency targets can require a new and different set of skills. Supported by the OGC, departments are developing an increasingly professionalised approach in areas such as procurement, improving their ability to manage supplier relationships and buy goods at competitive and best value prices.

### **Building departmental capability**

**4.8** These financial management reviews will be complemented by the programme of departmental capability reviews announced by the Cabinet Secretary in October 2005, which aim to improve the capability of the civil service to meet current and future delivery challenges. The Government will shortly be publishing the conclusions of the first four capability reviews for the Department for Education and Skills, Home Office, Department for Constitutional Affairs, and Department for Work and Pensions as part of a rolling programme to be completed by summer 2007.

## **STRENGTHENING CENTRAL SUPPORT AND COLLABORATION FOR EFFICIENCY**

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**4.9** Despite solid progress on the current programme, departments' SR04 efficiency targets remain challenging. In recognition of the scale of the task, the Government has established a number of bodies to support departmental ambitions, facilitate change and accelerate delivery. Specifically the Government has created dedicated support in a number of areas where greater attention from the centre has the potential to yield significant results.

**4.10** Within procurement savings for example, which constitutes the largest single workstream in the SR04 programme, the Government has created several units to facilitate change across the public sector:

- the procurement change agent located in OGC, which is working closely with central and local government to ensure that departments and the wider public sector are able to take advantage of the best deals possible on commonly bought items and work to leverage maximum value from the government's collective buying power;
- the continuing work of OGCBuying solutions is generating procurement savings for the public sector by facilitating access to framework deals on a wide range of goods and services and acting to both aggregate demand and reduce procurement transaction costs; and
- the Regional Centres of Excellence, which are now operating in all English regions, act as centres of expertise and best practice on a number of issues, including procurement, in order to help share knowledge and experience between local authorities as they deliver their efficiency targets.

**4.11** Change agents are also active in the areas of productive time, relocation and asset management. They are playing a similar role with regard to sharing best practice, becoming a centre of expertise for the wider public sector and offering support to departments with particular challenges.

### **Working together, working better**

**4.12** While better central support and sharing of best practice are helping to leverage substantial gains at the departmental level over the SR04 period, a key part of still greater savings over the CSR07 years will be harnessing the collective power of the public sector as a single actor. The maximum efficiency and service transformation benefits will only be achieved if there is a step change in the level of collaboration across public sector organisations, including arms length bodies and local government, and quicker adoption of best practice.

**4.13** The Government is considering what further levers may be required to ensure cross-departmental collaboration and compliance with best practice, including:

- publication of departmental performance against government-wide benchmarks for common services or activities;
- making financial performance and value for money a more prominent part of the responsibilities of departmental Accounting Officers, local authority Chief Executives and a more explicit element of staff performance assessments;
- establishing a default expectation that public bodies will collaborate wherever that delivers value for money for the public purse and require departments to justify why they need to opt out; and
- a more directive role for central governance bodies in mandating compliance with best practice.

### **Collaborating outside government**

**4.14** The Gershon Review also recommended that the Government continue to work with the voluntary and community sector to maximise service delivery. Peter Gershon set out four principles in his report to improve the relationship between voluntary and community sector groups and departments, building on existing principles for cooperation between the two sectors:

- improving stability by moving to longer-term, multi-year funding arrangements where possible;
- considering carefully the appropriate assignment of risk between the statutory body and the voluntary or community organisation where contracting for service provision;
- making further progress towards full acceptance of the principle of full cost recovery, ensuring publicly-funded services are not subsidised by charitable donations or volunteers; and
- streamlining and rationalising monitoring, regulatory and reporting requirements.

**4.15** This approach will continue to yield benefits in the CSR07 period where departments work together with voluntary and community groups to delivery public services. The Office of the Third Sector and the Treasury will be working together with departments on embedding and cascading these principles into financial planning and management systems at national, regional and local levels. The terms of reference for this and other CSR07 policy reviews are provided in Annex A.

## ACCOUNTING FOR VALUE FOR MONEY GAINS

### Measuring efficiencies in the SR04 programme

**4.16** The SR04 efficiency programme has also engendered a step-change in the measurement, transparency and reporting of value for money improvements in the public sector – something the NAO has noted in their recent report into efficiency. The existing reporting structure allows for delivery to be closely monitored:

- Departmental Efficiency Technical Notes set out where and how departments intend to make efficiency gains. These were updated in December 2005;
- departments have reported progress against the relevant targets in their departmental reports and autumn Performance Reports;
- the Budget and Pre-Budget Report outline the overall gains made to date across the programme;
- the National Audit Office have conducted a review of the programme which reported in February 2006, and are engaged in a further review; and
- the OGC updates the Prime Minister and Chancellor twice a year on progress towards the targets.

**4.17** The reporting framework helps assure progress across the public sector since local authorities and departments are publicly accountable for delivering their respective targets, thereby fostering an increased focus on efficiency in mainstream business planning. It also inculcates a strong emphasis on service quality to ensure that the original vision of Sir Peter Gershon's review is met – that efficiencies are delivered in such a way that service quality does not decline. Each initiative has in place service quality checks to ensure this is the case. In many cases the reforms generate efficiency gains and service delivery improvements in tandem. For example, as set out in Chapter 5 the Department for Work and Pensions has introduced direct payment of benefits for over 14 million people, saving money, reducing fraud and error and speeding up services for customers.

**4.18** The Government will continue to improve its measurement processes for efficiency and service quality over the 2004 Spending Review period, working with the National Audit Office to ensure robust monitoring and scrutiny arrangements with all efficiency gains subject to independent external validation.

### Accounting for value for money gains in CSR07

**4.19** Building on this progress, CSR07 will further refine the way in which departments account for savings, with the aim of fully integrating value for money gains into departments' financial management and medium term expenditure planning. Specifically, in their preparations for the CSR, departments are being asked to:

- develop robust, evidence-based counterfactual profiles against which to measure the value for money savings associated with each initiative;

- take account of the up-front costs of making savings to arrive at a clear understanding of both the gross and net savings attached to a particular reform proposal; and
- separately identify the cash-releasing and non-cashable components of projected value for money savings.

**4.20** As part of these preparations, the Government will be looking to increase the net cashable component of each department's value for money programme so as maximise the resources available for reallocation to new priorities. As with the early CSR settlements announced at Budget 2006, these savings will be fully integrated into departments' CSR settlements, to embed value for money into departmental budgeting over the medium-term.

## THE PERFORMANCE MANAGEMENT FRAMEWORK

**4.21** Introduced at a time when past investment in public services was low and capacity was weak, Public Service Agreements (PSAs) have played a key role in focusing effort on outcomes and raising standards overall, as well as delivering unprecedented levels of transparency and strengthening accountability. Resulting improvements in performance, capacity and the availability of transparent data have also provided the impetus for a more devolved approach. In successive spending reviews the PSA framework has continued to evolve, with a rationalisation of targets and an increased focus on clearly measurable outcomes to enable greater freedom for providers to decide upon the most effective method of delivery.

**4.22** The Government's approach to performance management also recognises that PSAs do not function in isolation: in different delivery contexts, drivers and support mechanisms ranging from inspection and regulation to user voice, leadership and professional networks play a critical role in creating the conditions for improved performance in public services.

### Developing the performance framework in CSR07

**4.23** With 90 per cent of existing PSA targets due to come to an end in the forthcoming spending period, CSR07 offers the opportunity for further development of the PSA framework to ensure that, as the Government pursues a more ambitious approach to value for money reforms, the framework continues to drive performance effectively, strengthen accountability, and improve service quality whilst responding to new challenges.

**4.24** In particular, increasing and diverse user expectations of public services require the Government to move further away from 'one size fits all' and towards public services that are personalised to meet the needs of each individual. Equally, improving complex public service outcomes, in health, education and elsewhere, will be as dependent on the actions of citizens themselves as on the work of public service professionals. The capacity and capability of both frontline professionals and users of services to work together to secure more responsive and effective services is therefore key.

**4.25** In preparation for CSR07, the Government is considering how the PSA framework can most effectively foster the conditions needed to ensure that individuals, empowered to act as informed champions for improvement and service quality, have a genuine role to play and can expect more responsive services in return. The

Government will go further to re-balance public sector performance management and ensure that investment and reform is informed by genuine engagement with users, so that public services are answerable to the communities and citizens they serve and not only focussed on meeting the demands of the centre. This requires the framework to strike a balance between setting clear objectives for national priorities with the flexibility to allow greater devolution, accountability and participation.

### Focus on priority national outcomes

**4.26** To ensure that priority PSAs drive effective and efficient delivery and to mitigate any perverse consequences, over the coming year the Government will seek input from public service professionals, stakeholders and, critically, the users of public services to ensure that the next generation of PSAs are underpinned by data and performance indicators that can both drive performance and ensure consistency, accountability and equity whilst enabling services to be responsive and flexible in meeting local and citizen needs.

**4.27** PSAs will also be supported by robust plans for delivery at the outset, to ensure clear accountability throughout the delivery chain and a coherent balance of levers and drivers to support the achievement of outcomes. The Government will ensure this central focus on key priority outcomes in the PSA framework is complemented by further measures to improve the capacity, capability, skills and ambition of departments to deliver efficiently and effectively across the full range of their business, including supporting improved financial management through greater understanding of the link between departmental performance and resources.

### Devolution and local accountability

**4.28** Any reform to the PSA framework must have clear public accountability at its heart. Recognising that greater accountability should not only be about 'reporting upwards' to the centre and at national level, the Government will build on the recommendations of the *Devolving Decision Making* review to further embed bottom-up accountability into the framework.

**4.29** Local Area Agreements provide the opportunity for the Government to focus on those national priorities that are shared at a local level, matching ambitious national standards with the promotion of local autonomy and accountability. This clearer focus should enable greater local flexibility to match services more efficiently to local needs, as recommended by Sir Michael Lyons in his May report<sup>1</sup>.

**4.30** Better information is essential to make this vision a reality, as experience on both sides of the Atlantic has shown. In America, the Compstat model pioneered by Mayor Guiliani in New York helped cut crime by two thirds in ten years, transforming it from one of America's most dangerous to one of its safest cities; and the Citistat model in Baltimore is being applied not just to policing but across all local services. Building on this model, with the roll out of neighbourhood policing across England and Wales more comprehensive and frequent police performance data will be made available to the public. And local authorities across the country now have web portals that allow people to customise the information they receive about the services they use.

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<sup>1</sup> *National prosperity, local choice and civic engagement: A new partnership between central and local government for the 21st century*, Sir Michael Lyons, May 2006.

**4.31** The PSA framework has fostered a public service culture focussed on outcomes – where ambition, transparency and accountability matter. It has thus driven significant, measurable improvements since 1997 across key outcomes - education, health, crime and employment. Further evolution of the framework in the CSR will both build on the strengths of the system and enable it to respond effectively to key challenges and changes over the coming decade – locking in the improvements made, ensuring ever higher quality of service alongside a continued drive for service transformation and efficiency, and delivering on the Government's commitment to provide world class public services that meet the needs of citizens and communities.



# 5

## DELIVERING THE EARLY CSR07 SETTLEMENTS

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**5.1** Budget 2006 announced that early CSR07 settlements had been agreed with five departments: HM Revenue and Customs (HMRC), the Department for Work and Pensions (DWP), the Cabinet Office, HM Treasury and the Home Office. These early settlements took account of the scope for substantial further efficiency savings that could be realised in these departments over the CSR07 period, enabling them to continue to deliver high-quality services at a reduced cost.

**5.2** Reflecting this, Departmental Expenditure Limits (DEL) for HMRC, DWP, Cabinet Office and HM Treasury will decline by 5 per cent per year in real terms over the three years of CSR07. These settlements embed ambitious efficiency savings into the departments' medium-term expenditure plans, and will release nominal savings of over £1.8 billion in total over the three years of CSR07 for reallocation to other frontline services. To help meet the transitional costs of transforming these departments, the Government set aside modernisation funding of over £800 million.

**5.3** As part of CSR07 the Home Office agreed an early settlement that maintains its DEL in real terms over the CSR period. This early settlement locks in the substantial extra resources that have been directed to reducing crime, fighting terrorism and securing the nation's borders and enables the department to retain the savings from their ambitious value for money programme for re-investment in frontline policing and corrections over the CSR07 years.

**5.4** This chapter provides an update on how these departments are building on their SR04 efficiency programmes to deliver still greater value for money savings over the CSR07 period as part of the Government's long-term strategy for:

- **transforming transactional services** for citizens and business;
- **streamlining the centre of government**; and
- capturing the benefits of **system wide reform of policing and corrections**.

### TRANSFORMING TRANSACTIONAL SERVICES

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**5.5** HMRC and DWP have played a leading role in the current efficiency programme, and their SR04 DEL settlements reflected the substantial efficiency savings to be realised from:

- up-front investment in IT to move from paper-based to electronic processing of transactions with their customers through, for example, the DWP's Payment Modernisation Programme and HMRC's shift to electronic filing;
- the merger of business units into single customer-focused organisations through, for example, the rollout of Jobcentre Plus and the creation of HMRC itself; and
- re-engineering of business processes to reduce workforce requirements while continuing to improve services. The significant workforce reforms being taken forward by DWP and HMRC over the SR04 period account for more than half of the Government's workforce reduction target and entail an

overall gross reduction of 56,000 staff as well as redirection of posts from back office functions to frontline service delivery.

**5.6** The early CSR07 settlements agreed with HMRC and DWP and announced in Budget 2006:

- reflected the scope for realising further efficiency savings over the CSR07 period and embedded those savings in the departments' medium-term expenditure plans;
- provided the departments with additional planning and preparation time to enable the realisation of full system-wide benefits from combining further investment, process re-engineering and workforce reform; and
- created a strong incentive for the departments to identify and exploit cross-departmental synergies in areas such as customer contact, data handling and information sharing.

## DEPARTMENT FOR WORK AND PENSIONS

**5.7** DWP has played a lead role in the SR04 efficiency programme. Currently around two thirds of the total expected financial efficiency gains have already been delivered. To support these efficiency gains, good progress has been reported on workforce reduction, where the department has one of the most challenging targets across government. Headcount reductions of over 17,500 have already been achieved.

**5.8** A guiding principle of the department's programme is that efficiency and service improvements should go hand-in-hand. Services and processes are being redesigned to be both more effective at delivering their objectives while costing less. DWP's existing programme has focused on achieving gains in three broad areas:

- transactional processing – reducing the costs connected with the delivery of services, for example by modernising the way that payments are made to customers;
- procurement – reducing demand and getting better outcomes from contracts; and
- central services – streamlining corporate functions (HR, finance, IT) and establishing more effective and efficiency shared services.

**5.9** CSR07 offers the opportunity for continuation and deepening of the DWP efficiency programme in each of these areas.

### Transactions – building on existing transformation

**5.10** Improving and reforming the processing of DWP customer transactions is already accounting for the majority of DWP savings over the 2004 Spending Review period, with DWP expecting to achieve £450 million in efficiencies from programmes aimed at changing the way the department deals with the day-to-day business of routine processing. For example, over the past two years, DWP's Payment Modernisation Plan has changed the method of payment for over 14 million people, meeting the DWP's public sector agreement target 12 months early and delivering savings of around £1 billion over the next 5 years. 97 per cent of benefits are now paid by direct payment.

**5.11** DWP has also achieved significant gains from the rationalisation of services to different client groups through the creation of JobCentre Plus and the Pensions Service. The former JobCentre and social security office networks are being rationalised and new contact centres have been introduced. These are standardising customer contact and processing work, enabling the department to achieve significant economies of scale. These reforms have allowed the department to achieve a high level of service with fewer staff. In the case of the Pensions Service, the workforce has declined by 27 per cent and the number of Pension Centres will have reduced from 29 to 10 by 2008, while customer satisfaction has continued to improve.

**5.12** Going into the CSR07 period, DWP is exploring the scope for realising further savings from:

- adopting elements of best practice 'lean' processing techniques;
- considering where a revised and comprehensive delivery channels strategy can make a positive difference to both cost and customer service by using the full spectrum of face-to-face, telephone and web-based contact; and
- better integrating call centre networks, both within the department and across government, as part of the work being led by Sir David Varney.

## Procurement

**5.13** The existing programme, driven by the department's Commercial Strategy, which sets specific value for money and efficiency targets, has made significant gains through better procurement and by achieving a reduction in the costs of goods, services and estates across the department's business. By simplifying and reorganising separate IT contracts, over the next five years, the department will be spending around £520 million a year on services delivered by its main supplier, compared to more than £700 million a year spent since the DWP was created. Procurement savings are expected to have reached £174 million by March 2006.

**5.14** Going into the CSR07 period, DWP will be looking to build on these procurement improvements through:

- category management, including vertical and horizontal reviews of supply chains, ensuring that departmental suppliers are able to reduce costs and that these savings are passed on to the department;
- examining further opportunities for collaboration with other departments on purchasing; and
- improving capacity for demand management, including consumption based performance measures to better benchmark the use of resources.

**5.15** The Government has already put in place procurement support in order to help join up departments' purchasing strategies to drive better value deals. Collaborative purchasing, often using e-auctions of common commodities, is leading to significant savings across central government and the wider public sector. There is clear scope for DWP and other departments to continue working together to secure further savings.

## Evaluating employment programmes

**5.16** CSR07 offers the opportunity to consider the department's employment programmes in more detail, ensuring that they offer best value in terms of supporting

the Government's aspiration of an employment rate equivalent to 80 per cent of the working age population. Reviewing activity in these areas will align closely with the transactions and procurement workstreams to deliver additional savings.

### Other areas for investigation

**5.17** The existing programme rightly focuses on those areas of DWP business where the largest and most immediate gains can be made. CSR07 will allow for a widening of the scope of value for money considerations to include a number of other, smaller, areas where significant savings can be made. For example, DWP will be looking at:

- existing in-house shared services functions (which already include debt management, payroll and other HR and finance functions), and their possible extension to include closer working with other departments or wider public sector bodies; and
- the work of the Health and Safety Executive, focussing on five main themes: delivery, working with others, procurement, freeing up time and making the best use of science.

**5.18** The DWP will be publishing a revised Five Year Strategy later in the year, setting out detailed proposals for transforming the delivery of its services and achieving the efficiency savings necessary to deliver its CSR07 settlement.

## HER MAJESTY'S REVENUE AND CUSTOMS

**5.19** Like DWP, HM Revenue and Customs have played a lead role in delivering the 2004 Spending Review efficiency programme, building on the successful merger of the two former Revenue departments, which has created a more efficient tax service in its own right. By March 2006, HMRC's efficiency programme had reported £105 million worth of annual efficiency savings. Furthermore, through a combination of process redesigns and workforce reforms the department has been able to reduce staff numbers by around 7,000 full-time equivalent posts - against a target of 16,000 by March 2008 - enabling significant reallocations to the frontline. The savings generated are being used to improve service delivery and pay for the IT upgrades necessary to ensure a better customer experience alongside increased efficiency.

**5.20** These efficiency gains have been made in four key areas:

- **transactional services** - moving customers to better value and more convenient communication channels, in particular through a major shift towards online services which reduces the amount of time and paperwork associated with processes such as PAYE returns;
- **corporate services** - including the replacement of finance and procurement legacy systems with a more effective Enterprise Resource Planning (ERP) system for the entire organisation;
- **procurement** - using the new ERP system to drive greater value for money in purchasing; and
- **productive time** - using risk management techniques and improved intelligence systems to manage resources and operational activities more effectively, as well as reducing sickness absence. The department is re-

engineering business processes to improve productivity and customer service.

## Delivering further savings over CSR07

**5.21** Following the early CSR07 settlement agreed at Budget 2006, HMRC is developing a programme of service transformation that will put customers at the heart of what it does and further increase efficiency. The department is developing a Five Year Plan with four broad aims for achieving transformational change over the CSR07 period:

- helping and supporting customers to get it right first time;
- simplifying and redesigning main business processes;
- improving risk targeting to increase compliance; and
- implementing different and more flexible ways of working.

## Delivering customer focused services

**5.22** By proactively supporting customers and improving their experience HMRC will reduce errors, delays and the need for customers to contact them for reassurance or chase progress. This will also reduce the work HMRC has to do to put things right. In this way it will reduce costs and burdens on both customers and HMRC and reduce levels of non-compliance due to error and mistake. A fundamental shift towards a 'one and done' approach will improve departmental efficiency by reducing the work volumes experienced downstream in tax processing. Key activities will include:

- gaining a better understanding of the department's customers and how best it can support them;
- developing interactive guidance so that customers can self-serve easily and HMRC staff can provide clear, relevant and consistent advice;
- revising and improving the HMRC website and key customer products; and
- providing a single customer record so that HMRC can provide a joined up service to customers.

**5.23** These ambitions will require a better understanding of customer behaviour and expectations, as well as investment in a more robust identity management and customer data system.

## Improving compliance

**5.24** A better understanding of customer behaviour and associated risk will enable HMRC to improve the effectiveness of its compliance work, targeting interventions where they are most likely to yield results. Key activities will include:

- overhauling the department's approach to understanding behaviour and risk;
- introducing better targeted, systematic national interventions;
- intensifying HMRC's strategy for tackling avoidance; and

- increasing the downsides of serious non-compliance so that it does not pay.

## Streamlining HMRC's main business processes

**5.25** CSR07 also offers an opportunity for HMRC to reassess its main business processes in light of the changing nature of customer behaviour, identifying where frictional costs are being borne by both the department and taxpayers. This will include work with other departments to improve data quality and to continue the increase in take up of online services.

### Box 5.1: HMRC's PaceSetter programme

In HMRC frontline staff have been directly involved in designing new business processes to raise both the speed and quality of delivery through the PaceSetter programme. The PaceSetter programme aims to improve efficiency, customer experience and quality in the processing of tax returns through the use of 'lean' tools and techniques, which look at business processes from a customer's point of view. The programme has been trialled in a number of locations over the SR04 period to prove the concept works and results to date have been very encouraging:

- the time taken to process tax returns has reduced by 50 per cent;
- productivity has improved from 11 to 21 tax returns per person per day; and
- "right first time" quality has improved from 55 per cent to 90 per cent.

HMRC are now planning to roll out the programme through the CSR07 period.

## Efficiency in central functions

**5.26** The existing HMRC efficiency programme already targets core departmental functions to drive efficiencies across a number of areas. This approach will be extended in the CSR07 period to identify and achieve further savings. Areas under consideration include:

- corporate services – reducing the costs of IT, estates, HR and finance. This will involve both leveraging existing contracts to obtain maximum value, and also rationalising the estate and IT infrastructure across the department to generate significant savings;
- internal productivity – the results of the existing lean processing pilots are encouraging. Rolling these approaches out across the rest of the organisation offers the scope for significant savings as processing chains become increasingly efficient; and
- shared services – work is ongoing with other departments to assess the scope for sharing core services across government departments to realise economies of scale and maximise existing investment in successful core services functions.

## MEETING THE EFFICIENCY CHALLENGE ACROSS DEPARTMENTS

**5.27** HMRC and DWP's existing efficiency programmes contain much in common. In developing their plans for realising further savings over CSR07, both departments will be working closely with the Transformational Government Strategy and Sir David

Varney's service transformation programme to identify and exploit cross-departmental synergies, including:

- an early practical trial of joint working focusing on improving the service to a particular customer group – people who move in and out of work and therefore have to deal with both departments on a regular basis;
- developing joint customer insight and research, starting with the customer group used in the joint working trial, with a view to redesigning and improving customer transactions and interfaces; and
- working together and with other government departments to obtain the most value from IT-enabled identity management, more collaborative approaches to procurement and greater sharing of services.

## STREAMLINING THE CENTRE OF GOVERNMENT

**5.28** HM Treasury and the Cabinet Office also agreed early spending settlements in Budget 2006 which will see their budgets fall by five per cent in real terms in each year of the CSR07 period. The savings that have been factored into these settlements reflect the substantial dividend from ongoing work in and across both departments to improve their strategic focus and streamline their organisational structures while enhancing the service provided at the centre of government. This section reports progress in taking this work forward in both the SR04 and CSR07 periods.

### Cabinet Office

**5.29** The Cabinet Office has already undertaken significant reform and change as part of the existing efficiency programme, delivering over £9 million of annual efficiencies by end of March 2006, on course to reach £25 million by the end of the SR04 period.

**5.30** The department has also begun to implement a strategic change programme to refocus its activities, with the aim of becoming a smaller, more strategic centre of government with a remit to serve the Prime Minister and Cabinet, and strengthen the civil service. Looking forward, a declining real terms settlement over the CSR07 period will embed and mainstream further reforms, with the Cabinet Office pursuing significant efficiency gains by:

- rationalising its estates and accommodation, reducing from twelve sites to three, allowing the disposal of nine sites in London;
- consolidating management and governance structures, including greater integration with other parts of the civil service where their respective remits are similar; and
- improving core functions, for example through re-examining existing IT provision and creating a more cost-effective framework for employing agency staff.

### HM Treasury

**5.31** HM Treasury and the wider Treasury Group will face similar challenges to the Cabinet Office in terms of reforming business practices and prioritising functions in order to continue its policy and leadership role at the centre of government.

**5.32** Progress on delivering the SR04 efficiency targets is encouraging. The Treasury Group is on course to meet its 2004 Spending Review commitments to reduce the number of full time equivalent staff by 150 between April 2004 and April 2008 and also on course to meet its target to achieve annual efficiency savings of £18.7 million by 2007-08. By the end of 2005-06 HM Treasury Group had already recorded gains worth up to £12 million a year and made workforce reductions of 114.

**5.33** Since that time HM Treasury has continued to drive efficiencies from its core business in preparation for the CSR period, including by:

- reviewing human resource, information services and finance functions to identify opportunities for sharing services across the Treasury group;
- exploring the possibility of joining a wider shared services environment in the future, with new structures being developed accordingly;
- reviewing the use of accommodation across the Treasury Group, with plans being established to consolidate the London estates of HM Treasury and OGC into a single building, as well as continuing to rent space to other departments. Further rationalisation of the Group's estate will be considered in the context of the zero based reviews of frontline operations; and
- conducting a range of zero-based reviews across Treasury group direct functions and expenditure to identify the cost drivers and scope for savings over the next five years.

## HOME OFFICE

**5.34** Between 1997-98 and 2007-08, spending by the Home Office on crime, justice and security will have risen by 75 per cent in real terms. To lock in this increased funding, Budget 2006 announced as part of the CSR an agreed spending settlement for the Home Office which maintains its 2007-08 Departmental Expenditure Limit in real terms over the years 2008-09, 2009-10 and 2010-11.

**5.35** In the context of continued global uncertainty and security challenges at home, this funding agreement provides the Home Office with the long-term certainty needed to lead the fight against crime and terrorism, and guarantees that it will be able to retain the efficiency gains from its ambitious value for money programme. This will enable the Home Office to pursue ambitious reform programmes in policing and the immigration and offender management systems.

## Achievements to date

**5.36** The Home Office CSR07 value for money programme will build on the reforms being delivered as part of the SR04 efficiency programme, which has a target to achieve £1,970 million efficiency gains by March 2008, including 1.5 per cent annual cashable efficiencies. Of this target, £1,584 million had been delivered by April 2006, including an estimated £652 million in the police service, and a reduction of 1,089 full time equivalent posts in the Home Office headquarters.

**5.37** Efficiency measures already adopted include:

- all police forces in England and Wales moving to the use of video identification parades;

- outsourcing of police custody management, which in South Wales has released the equivalent of 55 police officers to the frontline;
- new accommodation contracts for asylum seekers, which saved £40 million in 2004-05 alone; and
- new contracts for electronic monitoring of offenders which will save a total of £50 million by 2007-08.

**5.38** To release the resources needed to meet its future priorities, the Home Office will deliver a minimum of 3 per cent net cashable savings over the CSR period. These savings will be achieved through an efficiency programme across the department, with focused work in priority areas, including procurement, shared corporate services, productive time and service transformation.

## Police reform

**5.39** Building on the Government's existing police reform agenda, the Home Office is conducting a review of policy around the police workforce. This review is considering ways in which the service ensures it has the right people in the right jobs with the right skills to deliver policing in the most effective and cost-effective way possible. In addition to skills and deployment, the review is examining the productive use of time.

**5.40** The 2005 review of police information technology demonstrated that police spend on IT remains well above private and public sector norms. In the light of the findings of the review, the new National Policing Improvement Agency will assume responsibility from April 2007 for the central provision of information and communications technology to the police, with a clear mandate to achieve a step change in efficiency and effectiveness of the way systems are procured, operated and implemented. At force level, new benchmarking data will underpin work to realise savings through rationalisation and collaboration of IT systems, and through more effective procurement.

## National Offender Management Service

**5.41** As part of its development, the National Offender Management Service will roll out commissioning and contestability across prisons and probation. Contracts will be awarded on the basis of delivery of public protection and reducing reoffending. The introduction of new providers from the private and voluntary sectors will bring innovation and drive improved efficiency and effectiveness across providers. The experience of prison performance testing, most recently in the Isle of Sheppey, will inform the ongoing programme.

**5.42** The probation service is undergoing a far-reaching programme of change to ensure it can compete effectively. This includes learning from current best practice and using benchmarks of performance and cost to release up to £100 million initially to reinvest in improving public protection and reducing reoffending. The Prison Service is also exploring how it can improve its processes in areas such as prisoner escort, and increasing the use of prison-court video links.

## Asylum

**5.43** The New Asylum Model will be implemented so that by April 2007 all new asylum claims will be managed end-to-end by a single case owner. This will deliver faster case conclusions with reduced processing times and support costs.

## Identity management

**5.44** The Identity and Passport Service is leading a cross-government initiative to streamline the approach to identity management. Work to develop shared capabilities and services across departments, including the Home Office, will achieve efficiency gains and improve service delivery to individuals interacting with government, and forms part of Sir David Varney's work on service transformation across government.

## Drugs treatment

**5.45** The Drugs Review will be looking at ways of improving efficiency and cost effectiveness in reducing drug related harms, for example by looking at options for reducing the unit cost of treatment, and whether savings can be generated through different procurement strategies and better targeted interventions.

## Criminal Justice System IT

**5.46** The Criminal Justice System (CJS) IT programme is continuing to drive delivery of the benefits of around £2 billion by providing the CJS with modern, joined-up IT infrastructure and case management systems. An ambitious programme of process modelling will help identify areas where new working practices can bring about efficiencies. For example, one area reduced the time taken for forensic analysis from 71 to 23 days as a result of identifying and changing working practices, speeding up case progression and bringing about efficiencies for other agencies. With only around 10 per cent of the benefits from CJS IT accruing across the CJS rather than to one specific agency, there is clear scope for increasing the realisation of cross-system benefits through this work over CSR07.

## Wider operational improvements

**5.47** In addition to these intensive areas of work, the Home Office has a proactive efficiency programme in place across the department, to build on the progress made under the existing programme to drive efficiencies in core functions. This work includes:

- improvements to the management of citizen data and identity, including exploring opportunities for increased cross-departmental working;
- new work on departmental procurement;
- an ongoing programme to share finance and HR services within the Home Office group; and
- a more proactive efficiency focus within Non-Departmental Public Bodies.

**5.48** The scope for impressive improvements in effectiveness from changes in staff deployment and operating processes has been demonstrated by pilot studies in the police service. For example, some forces have substantially reduced officer overtime costs through changes in the way they deploy their people. Similarly redesigning key

processes can achieve double-digit improvements in staff productivity. Likewise, in the Immigration and Nationality Directorate, pilots at the Local Enforcement Offices in London, Solihull, Manchester and Liverpool have shown scope to increase removals significantly through staff-led reform of basic processes. Rolling out these changes nationally over the coming months will help to deliver a step change in productivity in policing and the Immigration Service.

**5.49** The Home Office is also working with the Department for Constitutional Affairs and the Attorney General's department to support the wider programme to improve the efficiency and performance of the Criminal Justice System. Measures to simplify and speed up the handling of low-level cases such as motoring and TV license offences will free up resources for dealing with more serious and complex cases and reduce waiting times for these cases to be held in court. Increasing the use of fines where appropriate will further refocus resources to deal with serious and complex cases. In addition resolving other suitable cases outside court through conditional cautions will mean that justice is dispensed faster, with reparation to the victim or community forthcoming in a matter of days rather than the weeks or months it can currently take to bring a case to court.

**5.50** The Home Office is also examining how it can make a full contribution to the Government's target of £30 billion worth of asset sales by 2010. This will involve in particular asset recycling within the police service and prison estate.



# A

## TERMS OF REFERENCE FOR THE CSR07 POLICY REVIEWS

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### SUPPORTING HOUSING GROWTH REVIEW

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**A.1** To ensure that appropriate infrastructure will be provided to support housing and population growth, the terms of reference of the review into supporting housing growth are to:

- determine the social, transport and environmental infrastructure implications of housing growth in different spatial forms and locations;
- establish a framework for sustainable and cost-effective patterns of growth, including by examining the use of targeted investment through the Community Infrastructure Fund and Growth Areas funding to support the fastest-growing areas; and
- ensure that departmental resources across government are targeted appropriately for providing the national, regional and local infrastructure necessary to support future housing and population growth.

**A.2** The Review will report to the Chief Secretary to the Treasury as part of the 2007 Comprehensive Spending Review.

## REVIEW OF THE FUTURE ROLE OF THE THIRD SECTOR IN SOCIAL AND ECONOMIC REGENERATION

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**A.3** The terms of reference of the review are to:

- consult with the range of organisations in the third sector, including charities, voluntary and community groups, mutuals, co-operatives and social enterprises, to examine their future role in the social and economic regeneration of England; and
- ensure that the future role of the sector, in the context of the long-term challenges, is defined through a sector-led consultation process.

**A.4** Undertaking:

- a series of Minister-led regional and sub-regional (city or district based) consultation events, in every region of England;
- a series of visits to local grass-roots third sector organisations;

**A.5** To examine:

- the evidence that the third sector has an added or distinctive value in its roles including in; public service reform and delivery; in advocacy on behalf of under-represented groups; in promoting volunteering and giving; in local economic regeneration; and, in promoting social capital and building communities;
- the impact the sector can have in various key outcomes – enterprise, health, social capital, economic regeneration, community cohesion;
- what currently promotes or inhibits the sector in its roles; and
- the priorities for third sector development in all of its respective roles and how Government can contribute to this development over the long-term.

**A.6** As part of the Comprehensive Spending Review 2007, the Review reports to a cross-Departmental Ministerial group, chaired by Ed Miliband, MP Minister for the Third Sector.

**A.7** The review will be conducted in two key phases, the consultation phase and the analytical phase. The key workstreams of the analytical phase will be informed and guided by the consultation.

**A.8** Campbell Robb will play a leading advisory role in the review.

**A.9** The review will build on previous cross-cutting reviews of the third sector, which particularly examined its role in public service delivery, in 2002 and 2004.

## SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION REVIEW

**A.10** The terms of reference for this review are to identify ahead of the 2007 Comprehensive Spending Review how to further improve the effectiveness and efficiency of existing sub-national structures in England – including governance, incentives and powers – and identify options going forward that maximise value for money and deliver changes on the ground, in order to:

- strengthen economic growth so that the Government achieves its ambitions as set out currently in the Regional Economic Performance Public Service Agreement (PSA) target<sup>1</sup>; and
- deliver regeneration and neighbourhood renewal to meet the Government's objectives for tackling disadvantage as set out in the neighbourhood renewal PSA target<sup>2</sup>.

**A.11** The study will build on progress made since 1997 to devolve decision-making to regional and local levels including city-regions, for example through the Northern Way. It will develop the analysis set out in several Government publications including *Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility*, *Productivity in the UK: 4 – the local dimension*, *National Strategy for Neighbourhood Renewal, Jobs and Enterprise in Deprived Areas*, *Making the Connections – final report on Transport and Social Exclusion*, *State of the English Cities Report* and *Improving the prospects of people living in areas of multiple deprivation in England*.

**A.12** To address this objective, the study will:

- consider the optimal geographical levels for governance and decision-making for functions directly linked to successful economic development and regeneration of deprived areas;
- map the current governance arrangements and incentives for encouraging economic growth and regeneration at all sub-national levels, establishing in particular the interfaces between regional and local institutions;
- establish the value for money and effectiveness of key current interventions for encouraging regional economic growth, and develop proposals for improvements, including:
  - through a zero-based assessment of the Regional Development Agencies (RDAs), which will identify ways to enhance their role in promoting strategic economic development at the regional level; and
  - working with the DTI-led work on business support simplification and the review of the RDAs, to develop a clear rationale for business support programmes delivered regionally and sub-regionally, and setting out a

<sup>1</sup> Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. Joint target held by HM Treasury, the Office of the Deputy Prime Minister and the Department of Trade and Industry.

<sup>2</sup> Tackle social exclusion and deliver neighbourhood renewal, working with departments to help them meet their PSA floor targets, in particular narrowing the gap in health, education, crime, worklessness, housing and liveability outcomes between the most deprived areas and the rest of England, with measurable improvement by 2010. Target held by the Office of the Deputy Prime Minister.

substantial rationalisation of the same, including their delivery systems and relationships with national-level interventions;

- build on existing work to identify the key drivers of neighbourhood renewal and regeneration, addressing in particular how socially excluded groups and deprived areas can both share in and contribute to sub-national economic growth; and
- establish the value for money and effectiveness of interventions aimed at tackling spatial deprivation, including targeted regeneration funding e.g. Neighbourhood Renewal Fund (NRF) and the New Deal for Communities (NDC), and mainstream funding, including drawing on DCLG work on housing investment and mixed communities.

**A.13** Many elements of this study will inform the development of the programme of simplification of business support also announced in the Budget 2006. Likewise, early work on that programme should make a significant contribution to the objectives of this study.

**A.14** The study will report to the Chief Secretary to the Treasury ahead of CSR07.

## CHILDREN AND YOUNG PEOPLE REVIEW

**Objective A.15** This review will consider how services for children and young people from 0 to 19 and their families can build on the three principles identified in *Support for Parents, the best start for children*<sup>3</sup> - rights and responsibilities, progressive universalism and prevention - to improve outcomes for children and young people. Under the umbrella of the children and young people review, sub-reviews will focus on:

- how services can provide greater support to families with disabled children to improve their life chances;
- what strategy should be adopted over the next ten years to deliver a step change in youth services and support for young people; and
- how services for families and children at risk of becoming locked in a cycle of low achievement, high harm and high cost can be reformed to deliver better outcomes.

**A.16** The terms of reference covering each component of the children and young people's review are set out below.

**Scope of the review A.17** The review will develop the analysis set out in *Support for Parents, the best start for children* by focusing on the following factors that influence outcomes for children and young people:

- family prosperity,
- parenting and parents' behaviour,
- neighbourhood; and
- public services.

**A.18** The review will look at risk and protective factors across these different areas and identify those that are most significant and the potential for and impact of more preventative services and early intervention on the life chances of children and young people.

**A.19** The review will exclude direct government financial support for families but include other aspects of policy as it relates to family prosperity such as support for employment. The Review will not address classroom teaching and learning practice, school admissions or other school organisation issues.

**Key questions A.20** The key questions the review will address are:

- What should be the role of universal services in providing access to protective and preventative support, risk assessment and referral?
- How can targeted and specialist services intervene earlier to address problems before they become acute?
- How can the impact of intervention to prevent children, young people and families with complex needs repeatedly moving in and out of contact with targeted services be sustained?;

<sup>3</sup> HM Treasury and Department for Education and Skills (2005) *Support for Parents: the best start for children*.

- How can rights and responsibilities for individuals, families and communities be integrated into services to improve the lives of children and young people?
- What would be the impact of more preventative services and early intervention on the life chances of children and young people and on the value for money of public spending on children, young people and families?

## Review of services for disabled children

**Objective A.21** The objective of the review is to improve outcomes and life chances of disabled children through the development of effective and accessible services for disabled children and their families.

**Scope A.22** The scope of the review will cover:

- services specifically for disabled children, including how specialist services for disabled children support access to universal services, specialist services provided in a universal setting and how universal services refer children to specialist services;
- childcare services, which are of particular importance in the early years for children's development and to support their parents;
- appropriate support for disabled children during the school years and in making the transition into adulthood; and
- how expenditure by one service/department can avoid or reduce concurrent or later expenditure by another department.

**A.23** The Government recognises that financial support and benefits have played an important role in reducing the risks of poverty and delivering economic wellbeing. This provides the foundation on which families, communities and government can work together to secure better outcomes for disabled children and their families. Although financial support and benefits will not be a focus, the review will consider the interrelationship between poverty and service delivery needs.

**A.24** The review will consider the actions that can lead to better outcomes for those children already with a disability, including family support e.g. respite provision, rather than prevention and risk factors, which will be considered as part of the wider Children and Young People's Review.

**Key questions A.25** The key questions and issues the review will address include:

- The changing profile of disabled children, for example, due to increases in complex disability and rise in Autistic Spectrum Disorders, profound and multiple learning disabilities and low birth-weight babies and the challenges this poses to services.
- What progress has already been made in addressing the needs of disabled children and their families?
- What are the barriers currently restricting access to services and therefore effective intervention?
- Are services sufficiently co-ordinated at local level to allow families to access sufficient support to meet their needs?

- How does the system of support for disabled children and their families compare across the country and abroad? Are there lessons we can learn to improve outcomes?
- What family support services i.e. key workers, short breaks, sibling support, behavioural management are currently available and how do these relate to other services?
- What are the most cost effective interventions in delivering better outcomes?
- Are there interventions which, if made earlier, could reduce more costly interventions later? How can we identify the need to intervene earlier?
- What lessons can we learn from the legal frameworks in other countries that might inform the review?

## Strategy for youth services

**Objective A.26** The objective of this study is to review the current provision of youth services and support for young people with a view to identifying longer term policy directions that will bring about improvements in the life chances of young people.

**Scope A.27** The scope of the review will cover the services and support provided for young people in the following areas:

- positive activities to engage young people and also places for young people to go;
- opportunities for active citizenship such as mentoring or volunteering;
- young people's access to youth activities and places, for example their location and consideration of transport needs; and
- the current role and practice of the youth worker and the support and advice they provide as an integral part of youth activities.

**A.28** The review will examine existing provision, the impact of different services and support on outcomes for young people and how outcomes could be further enhanced. The review will also consider the role and opportunities for children and young people's participation in the design of services and decision-making.

**Key questions A.29** The key questions the review will address include:

- What is the current distribution of youth services and youth engagement activities available across the country? How is that likely to evolve following the Youth Green Paper?
- Building on the Youth Green Paper, is there more that could be done to improve and sustain the effectiveness in the delivery of existing services and activities?
- What are the particular barriers faced by different groups of young people, including disabled young people, in accessing services, and what are the policy issues that arise?
- What is the national and international evidence on the effectiveness of different types of services and activities in terms of better life outcomes?

- How can we best combine demand led provision for young people with provision that is planned and structured to have the best impact on outcomes for children and young people?
- What more can we do to support and enable young people to exert a strong demand side influence on provision? What would we expect in return from young people – their rights and responsibilities?
- What principles and priorities should guide the allocation of current and future resources? And who do we need to target?
- What measures and milestones need to be in place to ensure that performance can be assessed and delivery monitored at a local level.

## Review of high cost, high harm families

**Objectives A.30** The objectives of this review are to:

- improve services' effectiveness in preventing families from getting caught in a cycle of low attainment, high cost and high harm;
- for those families already in this category, to reduce the costs and harm they impose on others including their negative impact on children and young people; and
- to support families to emerge from being high cost, high harm on a sustainable basis.

**Scope A.31** The scope of the review will cover the 'stock' of families already regarded as high cost, high harm, those at high risk of moving into this situation and those cycling in and out of this category. Early intervention aiming to prevent families moving towards such poor outcomes in the first instance will be considered as part of the prevention element of the Children and Young people's Review.

**A.32** The key questions the review will address include:

- Who are these families? How can we define them and how many of them are there?
- What progress has already been made in addressing the needs of high cost, high harm families?
- Can we better align local services to improve identification of these families earlier on and before they become high cost high harm?
- Are current incentives and levers adequate to deliver co-ordinated responses for families across relevant services such as health, education, housing, social services and the police at a local level?
- What interventions here and abroad have been shown to work in reducing the harm caused by these families and supporting them to exit the cycle of low achievement?
- What is the appropriate balance between support and sanctions for these families?

## MENTAL HEALTH AND EMPLOYMENT OUTCOMES REVIEW

**A.33** People with mental health conditions are less likely to be employed and more likely to be economically inactive than those without mental health conditions. Nearly 40 per cent of all Incapacity Benefit claimants have mental health conditions as their main health issue but have one of the lowest outflow rates compared to those with other health conditions.

**A.34** The aim of this review is:

- to develop costed, practical and evidence based recommendations for how to improve the employment rates of people suffering from mental health conditions; and
- to ensure resources across key government departments are targeted appropriately and in line with evidence of what works.

**A.35** In particular:

- to develop a clear understanding of the support and assistance currently available for working age people with mental health conditions and which can help them to remain or get back into work, including identifying existing policies, levers and any gaps in current service delivery;
- to identify existing best practice in the NHS, Welfare and other services where they are effectively supporting employment outcomes for those with mental health conditions;
- to assess the effectiveness of existing labour market policies, including Pathways to Work, in supporting people with mental health conditions to remain in, or get quickly back to, work;
- to identify ways to improve the provision of, and access to, effective interventions for managing mental health conditions;
- to determine how the NHS, Welfare and other services can work together to improve the employment rate of people with mental health conditions; and
- to engage with key stakeholders, including through field visits, to understand their views and inform analysis.

**A.36** The Review will report to the Chief Secretary to the Treasury as part of the 2007 Comprehensive Spending Review.

## REVIEW OF COUNTER-TERRORISM AND SECURITY

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**A.37** As part of the 2007 Comprehensive Spending Review, the Government will review the delivery of its counter-terrorism and security strategy, which was published by the Government on 10 July 2006<sup>4</sup>. The review will:

- map existing counter-terrorism spend across government;
- examine the effectiveness of structures for ensuring prioritisation within that spend, and the criteria for establishing the value for money of different strands, and the balance of resources across the Government's counter-terrorist strategy;
- consider the systems of governance and accountability for counter-terrorism spending and delivery, including the case for a single security budget; and
- assess the potential for increased efficiency and effectiveness in delivering the counter-terrorism programme. In particular, the review will look at the opportunities which flow from:
  - co-operation between departments and other bodies charged with delivering the programme; and
  - co-operation with international partners.

**A.38** The review will be led by HM Treasury, reporting to the Chief Secretary, Treasury, as part of the 2007 Comprehensive Spending Review. While the Treasury will be responsible for leading the work, given the CSR context, it will be conducted with the help of, and in close consultation with, the key counter-terrorism departments and agencies in government.

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<sup>4</sup> Available at <http://security.homeoffice.gov.uk/news-and-publications/1/publication-search/general/Contest-Strategy>.



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