

Value for Money: Delivery agreement and asset management strategy

December 2007



HM TREASURY



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asset management strategy**

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INTRODUCTION

1.1 The 2007 Comprehensive Spending Review settlement for the Treasury Group¹ was agreed in Budget 2006. The settlement is challenging: a reduction in both resource and capital DEL spending of 5% per year in real terms, which is consistent with the cross-government aim to achieve at least 3% net cash releasing savings, on the 2007 – 2008 baseline budgets for near-cash resource and capital. The Treasury Group is in a strong position to capitalise on the savings already made through the SR2004 efficiency programme.

1.2 The Treasury Group has successfully managed the economy through a period of unprecedented growth and navigated domestic and international challenges. This delivery agreement outlines how the Group will identify, achieve and monitor Value for Money savings, and the Group's Asset Management Strategy, throughout the Comprehensive Spending Review (CSR) period (2008 – 2011).

Treasury Group's Vision

1.3 During the CSR period, the Treasury Group must deliver its Departmental Strategic Objectives (DSOs), with stretching objectives set for all areas of Treasury work. The DSOs, and their outcomes, for the Group are:

1. Maintain sound public finances
 - Meeting the fiscal rules;
 - Ensuring that the tax yield is sustainable and risks managed;
 - Managing public spending;
 - Professionalising and modernising the finance and procurement functions in government; and,
 - Managing government cash, debt and reserves efficiently and effectively.
2. Ensure high and sustainable levels of economic growth, well being and prosperity for all
 - Supporting low inflation;
 - Promoting the efficiency and fairness of the tax system;
 - Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;
 - Improving the quality and value for money of public services;
 - Supporting fair, stable and efficient financial markets;
 - Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions;

¹ HM Treasury Group comprises of HM Treasury, the Office of Government Commerce and the UK Debt Management Office.

- Protecting the environment in an economically efficient and sustainable way; and
- Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

1.4 In conjunction with the delivery of the DSOs, Treasury Group is a delivery partner for six cross-government Public Service Agreements (PSAs), and is the lead department for one PSA:

1. Raise the productivity of the UK economy;
2. Deliver the conditions for business success in the UK.
3. Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions;
4. Maximise employment opportunity for all;
5. Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020;
6. Lead the global effort to avoid dangerous climate change; and
7. Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals.

1.5 HM Treasury provides the lead for the child poverty PSA. To support the accomplishment of the DSOs, the Treasury Board has set an ambitious vision for where it sees the Group by the end of the CSR period:

1.6 In 2011, the Treasury will continue to be at the heart of government: a strong, respected and professional economics and finance ministry. As a Group, it shall provide consistently accurate and rigorous analysis and honest advice. It will actively encourage open debate, giving weight to the evidence and listening to, and challenging, its wide range of stakeholders. Stakeholders will view the Group as competent and prudent, as well as approachable, understanding and collaborative. As a smaller organisation, Treasury Group will be agile, prioritising its resources, streamlining our processes and working flexibly across traditional boundaries. The Group will continue to offer its people a compelling work experience – the chance to work in a fast moving and stimulating environment, with the right tools, training and systems. Its diverse and committed workforce will develop their skills, expertise and professionalism and apply them in demanding and rewarding jobs within the Treasury.

Value for Money Savings

1.7 Over the CSR period, the Treasury Group will deliver £30 million of Value for Money (VfM) savings, equivalent to 4.1% per annum. Delivering these savings will mean becoming a smaller and more efficient Group, focused on priority areas with the right systems in place to support and enable staff to deliver its objectives.

1.8 The VfM programme is based on a number of zero-based reviews that looked at specific areas of activity to determine:

- Where a good fit exists with the Group's vision and DSOs;
- The link between expenditure and outcomes;
- Where trends show rising baselines that will continue into the CSR period unless modified; and

- The scope for the extension, or introduction, of co-financing.

1.9 In headline terms the Group's VfM programme will:

- Establish a streamlined, cost conscious Treasury Group for 2011 by:
 - Setting a strong challenge across HM Treasury by restructuring its directorates to release savings and manage down its headcount;
 - Building on the innovative Group Shared Services (GSS) initiative which brings together corporate services for HM Treasury and Office of Government Commerce (OGC);
 - Rationalising the use of buildings to maximise efficiency from the estate and release surplus properties;
 - Revising the objectives for OGC to enable a material reduction in its headcount and recognising a higher skilled workforce; and
 - Refining UK Debt Management Office's (DMO's) procedures to increase automation and reduce support costs.
- Focus savings on the Group's administration budgets, as some of the programme budgets are demand led, so total programme costs are likely to increase over the CSR2007 period.

2

DELIVERY STRATEGY

2.1 The VfM programme is designed to ensure that Treasury Group delivers its DSO commitments whilst making the necessary savings. Each member of Treasury Group has developed a VfM delivery plan that outline their contribution to the VfM Programme and how their savings will be achieved. The distribution of funds will be reviewed each year in line with need, reflecting on progress on the transformation plans and other emerging priorities.

2.2 The VfM programme is built on an analysis of how the Group's resources (capital, financial and human) are deployed. The outcome from this analysis has helped identify areas where reductions and economies of scale, that do not affect the Group's outputs, can be made. Excellent progress in the implementation of the Group's VfM programme has already been made. It is expected that the early progress will enable VfM savings from the outset of the CSR period. Actions already taken include:

- Publication of Transforming Government Procurement, which outlines the future role of OGC;
- The transfer and rationalisation of OGC corporate service staff and budgets into a Group Shared Service operation under a single Director of Finance, Procurement and Operations;
- Co-location of OGC's London base with HM Treasury;
- Rationalisation of core Treasury's directorate structure to achieve synergies and deliver economies of scale; and
- The completion of the first phase of the DMO's major systems upgrade.

2.3 Over the CSR period, OGCBuying.solutions have been set a challenging target to improve their Return on Capital Employed. As a trading fund, the savings made by OGCBuying.solutions to achieve this target will be monitored, but do not form part of Treasury Group's VfM programme.

2.4 Compared to the 2007 – 2008 baseline, the programme is projected to achieve overall savings of £30 million recurrently by 2010 – 2011. Table 1 shows the indicative trajectories for the Groups VfM savings over the CSR period.

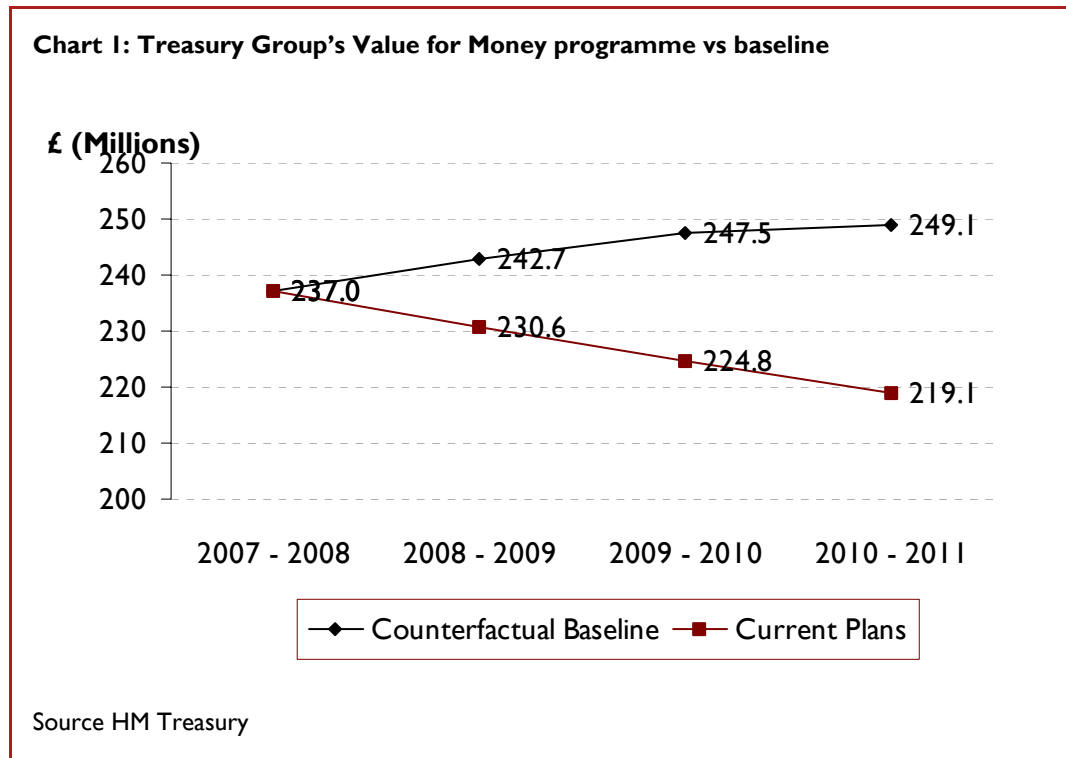
Table 1: Value for Money Savings

£ million	2008 – 2009	2009 – 2010	2010 – 2011	Nominal saving per annum
HM Treasury Group	12	23	30	4.1 ² %

2.5 The minimum projected savings have been calculated as the difference between the post-VfM programme expenditure and counterfactual expenditure, for near cash resource DEL plus capital DEL. The counterfactual expenditure is based on a 'do

² This figure is consistent with the cross-Government aim to achieve at least 3% net cash releasing savings over the CSR period.

nothing' scenario of baseline costs increasing by general inflation. Chart 1 outlines the post-VfM programme expenditure against the counterfactual baseline.



Core Treasury

2.6 HM Treasury is the United Kingdom's economics and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all. The Treasury is heavily dependent for its success on a high quality, well-motivated workforce who can work effectively with and through others.

2.7 Core Treasury will achieve its VfM savings by rationalising its organisational structure to exploit synergies across business areas. The restructuring provides the opportunity to ensure that core Treasury's workforce becomes more highly skilled and more flexible. Core Treasury's resources (capital, financial and human) will be focused on its priorities to enable the achievement of outputs and delivery of the necessary savings.

Group Shared Services

2.8 GSS was established as part of the SR2004 efficiency programme and is the consolidation of separate corporate services from HM Treasury and OGC. It will deliver enhanced services and efficiencies through the standardisation of processes and economies of scale. The VfM programme for GSS over the CSR period concentrate on building on the progress made since its establishment in June 2006 to create a one-stop shop for the Group's corporate services. The major initiatives in the VfM plan are the

rationalisation of Group's estate ³, with the disposal of excess property, and the further refinement of the Group's HR, Finance and IS functions. By 2011, GSS will deliver:

- Significantly improved utilisation of the Treasury Group Estate, with occupancy in fewer buildings;
- A single integrated service management centre for more efficient and effective Information and Communication Technology (ITC) support; and
- A self-service model for HR support and delivery.

Office of Government Commerce

2.9 OGC was created in April 2000 to lead a wide-ranging programme to modernise procurement in central government and deliver substantial value for money improvements. Since January 2007, it has been specifically responsible for improving value for money by driving up standards and capability in procurement, from commodities buying to the delivery of major capital projects, maximising the effective use of 60% of Government spending and a £30 billion property estate.

2.10 OGC is tasked with the transformation of government procurement and with driving up standards and procurement capability across central Government. OGC will do this through: setting the right procurement standards and ensuring they are met; capitalising on the government's collective buying power to achieve value for money and playing a stronger role in the successful delivery of major projects.

2.11 OGC will deliver its VfM savings over the CSR period as part of its broader programme to become a more efficient organisation that is better able to deliver the Transforming Government Procurement ⁴ agenda.

2.12 To ensure that the necessary improvements are delivered, OGC has been fundamentally redesigned to focus on its new agenda and deliver efficiencies through the creation of joint support functions. In line with Transforming Government Procurement, OGC will reduce its headcount from 310 FTE to 250 FTE over the SR2004 period. This reduction represents a decrease in costs that has been reflected in the baseline expenditure for OGC. As the OGC transforms itself into a smaller organisation, by streamlining its processes for delivering its new range of outputs further headcount reductions will realise significant VfM Savings.

UK Debt Management Office

2.13 DMO was established on 1 April 1998 with its main aim to carry out the Government's debt management policy of minimising the financing cost over the long term taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way. As the government's treasury manager, DMO's aim, with HM Treasury, is to lead, develop and deliver the government's debt, cash and fund management objectives.

2.14 DMO is a relatively new organisation and is accustomed to driving through change, making active use of technology and has also generated a culture of innovation

³ The rationalisation of the Group's estate is the main element of the Asset Management Strategy, set out in Chapter 5.

⁴ Transforming Government Procurement was published in January 2007 and is available from http://www.hm-treasury.gov.uk/media/E/6/government_procurement_pu147.pdf

and continuous improvement. Its small size has enabled it to be flexible in adapting to new situations and requirements and it has achieved a smooth transition from initial growth to consolidation over the last nine years. DMO will deliver its VfM savings by:

- Investing in enhanced technology to further streamline processes and reduce support costs;
- Consolidating teams and slimming down some functions;
- Increasing the skills of staff and making targeted recruitments to reduce need for contractors; and
- Negotiating reductions in non-pay costs with IT and other suppliers.

2.15 DMO intends to broadly retain the same organisational structure, with more focused teams and enhanced usage of technology, as it is imperative that as an operational entity it maintains the same high level of operational excellence and resilience to interruption.

3

MEASURING VfM SAVINGS

3.1 Achieving the 4.1% nominal VfM savings target for Treasury Group represents a challenge. Given the target requires cash releasing savings, the main measurement of VfM will be through expenditure savings in near-cash resource DEL for all members of Treasury Group and GSS. The VfM savings will be calculated as the difference between Treasury Group's actual expenditure (excluding non-recurrent restructuring costs) and its counterfactual, being the baseline costs adjusted for inflation. Calculating VfM savings in this manner demonstrates how the Group's expenditure is falling against its base costs and all of the savings made are cash releasing. Delivery against the Group's DSO outcomes and PSAs will ensure that the VfM programme is achieving the necessary savings without reducing the Group's performance.

3.2 The Treasury Group will publish its progress against its VfM programme on a six-monthly basis.

Programme Governance

3.3 As HM Treasury's Permanent Secretary, Nick Macpherson is the Senior Responsible Officer for the Treasury Group's VfM programme. He is the chair of the Treasury Board and the Principal Accounting Officer, with overall responsibility for Group's finances. During the planning and implementation stages the Permanent Secretary is supported by a Programme Board, which is providing oversight and challenge to the development of the delivery plans and ensuring that interdependencies and risks against the programme as a whole are managed.

3.4 The VfM plan will be fully integrated into delegated budgets so that performance against the plan corresponds to performance against budget. Performance against the Group's budget is monitored by Treasury Group's Finance Committee, which is chaired by John Kingman, Second Permanent Secretary, HM Treasury. The Finance Committee is a sub-group of Treasury Group's Board that meets on a monthly basis to discuss the financial performance of the Group and associated risks.

3.5 Treasury Board regularly receives summary information on the Group's financial and operational performance and associated risks.

4

RISK MANAGEMENT STRATEGY

4.1 Risks to achievement of VfM programme are being managed as part of the Treasury Group's overall risk strategy. Table 2 outlines the main risks to the delivery of the VfM programme.

Table 2: Main risks to the Value for Money Programme

Risk	Response
Pressure of CSR07 reductions leads to loss of talent, and failure to recruit and retain in the future appropriately skilled workforce, with a detrimental impact on Treasury Group performance.	Close consultation with staff and unions and the development of appropriate HR policies to ensure managers and staff are fully supported during the transition process. Close linkage of VfM programme to development of DSO delivery plans to ensure identification of the skilled resource needed
VfM Programme fails to identify and deliver activities necessary to fully achieve VfM savings.	Early identification of changes through the OGC review and GSS. Development of broader core Treasury change agenda.
Cost pressures affect in an unforeseen way distorting planned resource distribution	Development of a robust performance management framework to ensure strong performance against DSO outcomes.

4.2 The risks to the delivery of VfM, and their appropriate responses, will be monitored through the VfM programme's governance structure.

5

ASSET MANAGEMENT STRATEGY

Summary of the Group's capital spending

5.1 The Treasury Group's capital DEL allocation for the CSR period falls from £7.2 million, the 2007 – 2008 baseline, to £6.7 million in 2010 – 2011, a reduction of 5% per annum in real terms.

5.2 The Group's capital spending over the CSR period will be mainly on IT, including:

- The cyclical renewal/refreshment of desktop systems and the expansion of home and remote working capability;
- Investment in upgraded operational systems to support the DMO's trading activities; and
- Investment in an integrated HR information system.

5.3 Over the CSR period, there will be reviews of business critical applications, including the possible use of more modern technology for the COINS public expenditure management system and a move to a next generation electronic records and document management system.

5.4 The Group also contributes to the cost of the Whitehall Streetscape project, led by the Cabinet Office.

Capital stock and asset disposals

5.5 The Group's summarised fixed assets at 31 March 2003, 31 March 2007 and the forecast assets at 31 March 2011 are shown below.

£ Million	31 March 2003	31 March 2007	31 March 2011 (Forecast ⁵)
1 Horse Guards Road	88.56	94.42	94.42
100 Parliament Street (undeveloped value) ⁶	14.15	-	-
OGC Edinburgh ⁷	2.40	2.64	-
Trevelyan House (leasehold improvements)	3.84	2.80	-
Other (including Eastcheap Court & Rosebery Court leasehold improvements)	0.93	2.55	1.01
Total land & buildings	109.88	102.41	95.43
IT assets (tangible and intangible)	5.58	4.51	4.66
Whitehall systems ⁸	12.81	-	-

⁵ The 21 March 2011 forecasts assume no changes in the 31 March 2007 values for land and buildings or investments

⁶ Sold in 2004-05 (to HM Revenue & Customs) for £22.3m

⁷ Sold in 2007-08 for £2.4m

⁸ Sold in 2004-05 (to OGCbuying.solutions) for £11.3m

Other tangible fixed assets	2.87	3.53	2.57
Total tangible & intangible fixed assets	131.14	110.45	102.66
Fixed investments			
Bank of England	1,506.00	1,860.00	1,860.00
Royal Mint (public dividend capital)	5.50	5.50	5.50
OGCbuying.solutions (public dividend capital of £0.35m and loan)	0.35	3.07	0.35
Partnerships UK (equity and loan stock)	19.64	20.57	20.57
Total fixed investments	1,531.49	1,889.14	1,886.42
Total fixed assets	1,662.63	1,999.59	1,989.08

5.6 For more detail on the Group's assets please see the balance sheet and supporting notes of the 2006-07 Annual Report & Accounts, available from http://www.hm-treasury.gov.uk/about/departmental_reports/annual_report07.cfm.

5.7 From 2001-02 to 2006-07, the Treasury Group generated £180m in asset disposal proceeds, from the sales of the last surplus government properties managed by the Office of Government Commerce, the Treasury's last shareholdings in privatised utilities, 100 Parliament Street (to HM Revenue & Customs), and the Whitehall standby heating and power systems (to OGCbuying.solutions).

5.8 In 2007-08, OGC's Edinburgh office has been sold for £2.35m. OGC has also completed an interdepartmental transfer of the lease on Trevelyan House, having moved its London based staff into 1 Horse Guards Road, saving around £3m a year in running costs.

5.9 With the disposals in 2007-08, the Treasury group will have met the government's aim that each department should dispose of at least 10% of its asset stock in the period 2004-05 to 2010-11. There will be limited opportunities to make any further disposals in the remainder of the period through to 2010-11.

Land and buildings

5.10 Following the assignment of the Trevelyan House lease, the Group's main land and building assets are

- 1 Horse Guards Road Offices, London SW1, occupied by core Treasury, GSS and OGC's London staff, and held under a PFI contract running until 2037, under which the contractor is responsible for maintenance, lifecycle replacement costs and ongoing services
- Eastcheap Court, London EC3, occupied by the DMO and held under an effective full repairing and insuring lease until 2021
- Rosebery Court, Norwich, occupied by OGC and GSS staff and held under a full repairing and insuring lease until 24 June 2009.

5.11 The main plank of the Group's asset management strategy is the rationalisation of the estate, maximising the use of 1 Horse Guards Road and enabling the disposal of other London premises. This strategy has been developed since the Treasury moved back into the redeveloped 1 Horse Guards Road building in 2002; utilisation of 1 Horse Guards Road has increased from around 1350 to 1680 workstations over that period. Before redevelopment, the Treasury had occupied the largest part of the Government Offices Great George Street site, but the more effective use of space after refurbishment freed the 100 Parliament Street end of the site for disposal to HM Revenue and Customs in 2004-05, who occupy it with some 1600 workstations.

IT assets, including policy for maintenance

5.12 Treasury group ICT assets can be considered in six categories, summarised as follows.

- Underlying communications and network facilities. Our policy is to replace on a rolling cycle as follows:
 - Switches: 7 years
 - Firewalls: 5 years
- Servers and computer room management systems. Our policy is to replace on a rolling 5-year cycle.
- Printers. Our policy is to replace on a rolling 5-year cycle.
- Desktop and laptop end-user computers. Our policy is to replace on a rolling 3-year cycle, reflecting advances in end-user technology, but as each item is less than £5k, they are written down in year. As technology and security advances, our use of laptop computers to support flexible working has been and will continue to increase as a proportion of the IT asset estate.
- Software systems and applications – such as EDRMS, COINS, ACME, Budget Database, Finance, Procurement and HR business support systems, information architecture and content management designs for Intranet and Internet web-based tools. Our policy is to write these down over a 5-year period.
- Other end-user devices, such as personal digital assistants, mobile phones and blackberries. These are treated in two parts, such that the devices themselves are written down in year, reflecting the frequent changes of models available, although users are expected to achieve at least a 3-year working life from them. Where back-end management systems are required, such as Blackberry Enterprise Servers, these will be managed on a 3-5 year life, reflecting the changes in technology in this area.

5.13 The strategy to implement a new, shared network for OGC and Treasury has now been designed, and implementation will take place in early 2008, taking advantage of opportunities to build economies of scale in network topology and the shared systems that operate on them.

5.14 As part of the GSS programme we will benchmark our service performance on this model and consider an ICT shared service arrangement with other government

departments and this may involve an asset transfer. This decision will be made on the balance of business benefit to each part of the group, as there are significant risks to meeting the specialist strategic needs of each relatively small and specialised business within the Group

Investments

5.15 The Treasury owns the share capital in the Bank of England, but the asset is effectively inalienable. The investment in the Bank is valued in the Group's accounts at net asset value. The Group also holds investments in the Royal Mint, OGCBuying.solutions and Partnerships UK.

5.16 The Royal Mint and OGCBuying.solutions are trading funds, and the investments are valued at the historic cost of the Public Dividend Capital, in accordance with the Financial Reporting Manual. The net asset values of the Royal Mint and OGCBuying.solutions at 31 March 2007 were £55.5m and £11.2m respectively. Partnerships UK is a private sector body in which the Treasury holds a 45% equity stake, which is valued at net asset value, and loan stock, valued at cost.

5.17 Work on vesting of the Royal Mint as a government-owned company is well advanced, but is currently on hold pending the next stage in the Royal Mint's strategic development. OGCBuying.solutions' business model depends to a large extent on its ability to offer pre-competed framework contracts to public sector bodies, and that facility would not be possible if it were not a public body. Therefore full disposal of OGCBuying.solutions is not considered a viable option. The option of reducing the Treasury's holding in Partnerships UK will be kept under review.

Asset management practices

5.18 The Group's office premises are maintained and serviced by the PFI contractor and the lessors; the Information Systems and Facilities team in GSS manages those contracts, working closely with suppliers to ensure that an excellent working environment is provided.

5.19 The Programme Board has oversight over the VfM programme and GSS plans, and the key group corporate services have been brought together into GSS under a single Director of Finance, Procurement & Operations. This has promoted the integration of estates and IT issues, and the integration of HR and Finance management information systems.

5.20 The Group Finance Committee scrutinises and approves bids for capital spending, requiring investment appraisals on significant capital projects.

5.21 The ways in which the Group manages its relationships with its investee bodies are described in paragraphs 6.33 to 6.49 of the 2006-07 Annual Report & Accounts, available from

http://www.hm-treasury.gov.uk/about/departmental_reports/annual_report07.cfm

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