

Releasing resources to the front line

The Government is committed to maximising efficiency within the public sector and reducing administration costs while continuing its ambitious programme of public service reform and delivery. Greater efficiency will enable the Government to release significant extra resources for front-line services such as schools and hospitals and deliver further improvements in the performance of the whole public sector.

Building on measures introduced since 1997 and the evidence gathered by Sir Peter Gershon's review of public sector efficiency on the scope for further savings, Budget 2004 announced the Government's ambition to cut administration costs in real terms and achieve efficiency gains across the public sector of 2.5 per cent a year over the 2004 Spending Review period. This would deliver efficiencies equivalent to £20 billion a year by 2007-08 to improve front-line public services.

The 2004 Spending Review announces:

- agreed departmental targets for achieving annual efficiencies in excess of £20 billion a year in total by 2007-08;
- departmental plans for meeting these agreed targets, including proposals for a gross reduction of over 84,000 civil service posts and the relocation of 20,000 others away from London and the South East;
- administration budgets for departments that will reduce administration costs as a proportion of total spending to a record low; and
- under the leadership of John Oughton, a robust implementation, measurement and monitoring framework for the Government's efficiency programme.

INTRODUCTION

2.1 The 2004 Spending Review sets out the priorities and next steps in the Government's drive for excellent public services for all. Achieving greater efficiency in the public sector is a key element of this agenda. Improved efficiency will enable the Government to make the most of historic increases in investment and deliver better public services by releasing extra resources for the front line. Efficiency gains also enable the Government to fulfil its responsibility to pursue best value for money for taxpayers and will help ensure that departmental programmes remain effective in delivering the objectives set out in their Public Service Agreements (PSAs).

2.2 Raising efficiency in the public sector involves making best use of the resources available for the provision of public services. This includes maximising the return on the significant investment in information and communications technology (ICT), workforce reform and the sharing of best practice delivered in the 2002 Spending Review. Pursuing efficiency also includes efforts to minimise bureaucracy, including both reducing central administration costs and freeing-up more time for front-line professionals to spend directly meeting customers' needs. Box 2.1 below describes how the work being undertaken by Sir Tony Atkinson's review of the measurement of government output complements the Government's commitment to efficiency and the delivery of its PSA targets.

Box 2.1: The Atkinson Review

Improving efficiency plays an important role in raising the productivity of the public sector which is key to the delivery of the Government's objective of excellent and equitable public services. Reliable measures of public sector output are crucial in gaining an accurate sense of how productivity is changing and to inform policy decisions.

Reflecting the greater demands on, expectations of and increased interest in measures of government output, Sir Tony Atkinson, Warden of Nuffield College Oxford, was asked by the National Statistician last December to undertake an independent review of the future development of measures of government output, productivity and associated price indices. Sir Tony will publish an interim report in July 2004, and a final report by January 2005.

The purpose of the Atkinson Review's work is to produce improved measures of government output, productivity and associated price indices in the context of National Accounts (in other words, aggregate indicators of broad trends). The National Accounts are an essential tool for managing the economy. National Accounts measures of output and productivity will complement more disaggregated and wide ranging performance measures, such as those used to assess progress against PSA and efficiency targets. These are designed to drive performance and management improvements in individual government departments and agencies. All of these indicators are necessary to inform policy decisions and to help ensure public accountability and transparency.

It is widely accepted that no single indicator, however comprehensive and methodologically sound in a National Accounts, PSA or efficiency context, can ever fully describe the performance of complex public services producing multiple outputs and influencing multiple outcomes. For example, in health, National Accounts measures of public service productivity will not, and should not, take account of distributional changes like a reduction in health inequalities, yet this important objective is included in PSA and efficiency targets.

National Accounts, PSA and efficiency performance measures are therefore complementary, as all are required to build a comprehensive picture of public sector performance.

The public spending framework

2.3 Since 1997, the Government's commitment to improving standards in the public services has been matched by a focus on the efficiency of spending. Many of the Government's reforms to the system for managing public expenditure are already delivering greater efficiency:

- firm three-year plans for public spending and full End-Year Flexibility (EYF), allowing departments to carry over unspent resources and any efficiency savings into later years;
- PSAs, including value for money targets, provide an outcome-focused contract for delivery and put the spotlight on efficiency and effectiveness in departmental programmes;
- resource budgeting and Departmental Investment Strategies have put a new emphasis on asset management and estate rationalisation in departments; and
- administration cost limits for government departments, translating the previous running cost controls to a resource budgeting basis, promote more economical and efficient administration within central government.

Departmental efficiencies since 1997 2.4 Individual departments and the wider public sector have also made significant improvements in the efficiency and effectiveness of their programmes since 1997. For example:

- significant investment in information and communications technology (ICT) by both central and local government in the 2002 Spending Review is streamlining the delivery of services to the public, cutting transaction costs and reducing paperwork. The Department for Work and Pensions (DWP), for example, now pays over 60 per cent of benefits directly into its customers' bank accounts and is working towards increasing this figure, and is on track to deliver savings of £400 million a year by 2006 as a result of this efficiency measure.
- shared back office projects have been developed in the wider public sector such as the NHS Shared Financial Services with pilot centres operating in Leeds and Bristol;
- the use of standard management tools for driving up efficiency such as activity based costing in the Department for Environment, Food and Rural Affairs (Defra) and by the police;
- savings delivered by e-auctions. For example, the NHS Purchasing and Supply Agency renewed its £40m budgeted requirement for ICT hardware through an e-Auction. The successful supplier was able to offer a £12.7 million (31 per cent) saving over the prices paid in the previous contract; and
- the establishment of the Office of Government Commerce (OGC) in 2000 has helped departments improve the efficiency of their procurement activities, achieving value for money gains of over £1.6 billion in its first three years.

The Efficiency Review 2.5 Building on these achievements, Budget 2003 announced a cross-cutting review of efficiency in the public sector to identify the scope for further efficiencies in public spending that would release resources to frontline priorities. Sir Peter Gershon, former chief executive of the OGC, was asked to lead this review. He drew on his own extensive experience and consulted widely to identify opportunities for sustainable efficiencies in the use of resources within both central government and the wider public sector. Sir Peter Gershon's report, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, is being published alongside the 2004 Spending Review.

2.6 The Government has accepted Sir Peter Gershon's recommendations, and this Spending Review sets out ambitious and stretching efficiency targets that have been agreed with each department, based on the efficiency programmes that he has helped them prepare.

DEPARTMENTAL EFFICIENCY PROGRAMMES

2.7 Budget 2004 announced the Government's ambition to cut administration costs in real terms and achieve efficiency gains across the public sector of 2.5 per cent a year over the 2004 Spending Review period. This would deliver efficiencies equivalent to £20 billion a year by 2007-08 for redeployment to front-line public services. In response to the target laid down in Budget 2004, and on the basis of the efficiency programmes that departments have developed in conjunction with Sir Peter Gershon and other stakeholders, this Spending Review sets out agreed efficiency targets for each department and announces reductions in civil service workforce numbers and in administration budgets, and describes the framework established to deliver and monitor their efficiency programme.

Efficiency targets 2.8 Table 2.1 below sets out the agreed efficiency targets that each department will deliver over the 2004 Spending Review period. Each target is specified in terms of the headline figure for annual efficiency gains that departments will realise by 2007-08, and are equivalent to efficiencies of at least 2.5 per cent a year for every department. **In aggregate, departments are committed to achieving annual efficiencies in excess of £20 billion by 2007-08. Of these efficiencies, at least £6.45 billion will be found within local government expenditure.**

2.9 In response to one of the Efficiency Review's recommendations, and in order to create incentives to ensure that efficiency is raised throughout the public sector, departments will seek to cascade their three-year 2004 Spending Review settlement down to all those public sector bodies that they fund to the maximum extent possible. Where this is not possible, departments will consider what other incentives could be used to encourage recipients to generate the maximum level of efficiency compatible with the delivery of excellent and fair public services.

Table 2.1: Public sector efficiencies

Department	Agreed efficiency target (£ million) 2007-08
Education and Skills	4,350
Health	6,470
Transport	785
Office of the Deputy Prime Minister	620
Home Office	1,970
Constitutional Affairs	290
Law Officers' Departments	40
Defence	2,830
Foreign and Commonwealth Office	120
International Development	310
Trade and Industry	380
Environment, Food and Rural Affairs	610
Culture, Media and Sport	260
Work and Pensions	960
Northern Ireland Office	90
Chancellor's Departments	550
Cabinet Office	25
Smaller Departments	20
Local Government	6,450
Total forecast efficiencies¹	21,480

¹Total forecast efficiencies are the sum of agreed efficiency targets, less forecast overlap of £5,650 million efficiencies across central and local government.

A MODERN AND PROFESSIONAL PUBLIC SECTOR WORKFORCE

2.10 The Government is committed to improving public services, and this requires using the most modern processes and technology to support those working at the front line. Front-line workforce capacity is forecast to increase by 250,000 in key areas such as policing, criminal justice, teaching and health by 2008. The Government will continue to reform the Civil Service to ensure it remains world class and supports effective front-line delivery.

Redeployment 2.11 Departmental efficiency programmes include plans to achieve a gross reduction in Civil Service and military posts in administrative and support functions of 84,150 by 2007-08, including a redeployment of 13,550 posts to further support key frontline activities. The total net reduction in posts will therefore be 70,600.

2.12 The Government has a number of activities in place to support these radical changes to the workforce. For example, the Cabinet Office is co-ordinating redeployment initiatives across the Civil Service, including the provision of a central brokerage unit for sharing best practice and information. In addition, the Government has created an Efficiency Challenge Fund that will provide resources to assist departments with their transition and implementation costs.

2.13 To get the most out of investments in public services, public sector pay policy needs to recognise the need to recruit and retain talented individuals and properly motivate them in work while, at the same time, ensuring that public sector pay remains sustainable overall. The Government will therefore continue to manage carefully pay growth across the public sector so that resources are directed to front-line delivery. Within this environment, resources need to be targeted to specific recruitment and retention needs, particularly at the local level, in order to support front-line service improvement. Greater focus will need to be given to the total reward package for public service workers, including flexible work arrangements and pensions.

Sickness absence 2.14 Better management of sickness absence in the public sector should release resources to meet priorities and release employees with good attendance records from the pressures of covering for absent colleagues. Box 2.2 below sets out the measures the Government is planning to take to ensure better management of sickness absence within the public sector.

Box 2.2: Managing sickness absence in the public sector

Better management of sickness absence in the public sector should release resources to meet priorities and release employees with good attendance records from the pressures of covering for absent colleagues. Public sector employers, both in the Civil Service and the wider public sector, should consider how to improve the management of sickness absence as part of their negotiations on pay and conditions, including appropriate entitlements to self-certify absences.

The Secretary of State for Work and Pensions, with the close involvement of all stakeholders, will commission a review of the public sector's management of long-term sickness absence to report in the autumn. The scope of the wide-ranging review will include, but not be limited to:

- the relative cost to the public sector of long-term absences;
- trends in the level and causes of long-term absence;
- good practice from across the public and private sectors, including contact with line managers, HR and occupational health professionals and management of the return to work; and,
- the scope for piloting innovative approaches across the public sector, including incentives for good attendance.

Because the present arrangements for self-certifying absence are open to abuse, the Minister for the Cabinet Office and the Cabinet Secretary will consult on, and negotiate changes to, the current arrangements for self-certifying absence in the Civil Service, with the objective of implementing changes in time for the 2004 Pre-Budget Report. This change will serve as an example of good practice for the wider public sector.

Relocation 2.15 The Government has accepted Sir Michael Lyons¹ report on public sector relocation, published on 15 March. The report raises important issues for the future pattern of government services, demonstrating that the current concentration of activity in and around London is inconsistent with the Government's objectives for efficiency and regional development. Departmental efficiency programmes include plans for implementation of the Lyons Report proposals as part of the Spending Review and relocation plans have been developed alongside efficiency programmes. The Government's full response to Lyons' recommendations is set out in Box 2.3.

2.16 Table 2.2 sets out the workforce reductions and relocated posts² that departments have committed to as part of the 2004 Spending Review. Further details of individual departmental efficiency programmes, including their workforce and relocation proposals, are set out in departmental chapters.

¹ *Well placed to deliver? – Shaping the pattern of Government service*, Sir Michael Lyons, March 2004.

² Relocated posts are defined as full-time equivalent permanent posts (including military personnel), net of posts lost through efficiencies, which have moved from, or would otherwise be, in the government regions of London or the South East. These posts are from a government department, its executive agencies, or the public bodies it sponsors. The baseline date for all locations is set as 1 April 2004.

Box 2.3: Relocation

The Government has accepted all of the recommendations in Sir Michael Lyons' report on public sector relocation:

1. *Take forward relocations* – Departments have confirmed 20,000 jobs for dispersal from London and the South East, which should be completed by 2010.
2. *Provide investment and incentives for relocation* – this Spending Review allocates resources that take account of relocation plans, including contributions from the Efficiency Challenge Fund to assist with upfront costs. The Government will continue to review the incentives for encouraging location out of the South East.
3. *Align pay with local labour market conditions* – the Government recognises that pay flexibility is an important part of achieving its objectives for efficiency and regional development. Departments will address specific recruitment and retention pressures by pursuing pay policies that reflect local labour market conditions wherever possible.
4. *Slim down Whitehall headquarters* – many departments are fundamentally reviewing the size and functions of their London headquarters. As part of the implementation of efficiency proposals there will be continued focus on this issue.
5. *Enforce presumption against London and the South East* – there will be a presumption against these locations for all government functions other than face-to-face services. This will be reflected in guidance to departments.
6. *Ensure leadership for location decisions* – the Lyons Review is being taken forward as part of the overall implementation of the Government's efficiency programme.
7. *Integrate location issues into business planning* – the efficiency implementation framework will ensure that locational considerations are mainstreamed in departmental planning. In particular, Finance Directors will be expected to take full account of location in their business strategies.
8. *Take responsibility for whole pattern of locations* – Government is preparing initial guidance to departments on location choice.
9. *Tightly manage the office portfolio* – the Office of Government Commerce is strengthening mechanisms for coordinating the use and size of the Government's office estate. The Government will tighten the requirement for departments to consult HM Treasury before taking on any significant new property in London and the South East.
10. *Coordinate approach to relocation and redundancy* – both Lyons and the efficiency programme raise questions of coordination across departmental boundaries about location choice, use of the government estate, and human resources. These issues are being addressed as part of the implementation of the wider efficiency programme.

Table 2.2: Civil Service workforce reductions and relocation plans by Department

	Estimated reductions in Civil Service ^{1,2} workforce from efficiency ³ (April 2004 to April 2008)		Expected relocations by 2010
	Gross reductions in posts ⁴	Net reductions in posts after re-allocations ⁴	
Education and Skills	-1,960	-1,960	800
Health	-720	-720	1,110
Transport	-700	-650	60
Office of the Deputy Prime Minister	-400	-400	240
Home Office	-2,700	-2,700	2,200
Constitutional Affairs	-1,100	-1,100	200
Law Officers' Departments	-50	-50	—
Defence ¹	-15,000	-15,000	3,900
Foreign and Commonwealth Office	-310	-310	450
International Development	-170	-170	85
Trade and Industry	-1,280	-1,280	685
Environment, Food and Rural Affairs	-2,400	-2,400	390
Culture, Media and Sport	-30	-30	600
Work and Pensions	-40,000	-30,000	4,000
Northern Ireland Office	-130	-130	8
Chancellor's Departments	-16,850	-13,350	5,050
Cabinet Office	-150	-150	250
UK Trade and Investment	-200	-200	—
Total	-84,150	-70,600	20,028

¹ Civil Service, and military posts in administrative and support functions.

² Financial Year Averages for permanent staff, measured on a Full Time Equivalent (FTE) basis. Figures cited include workforce changes within core departments, their agencies and other non-departmental bodies.

³ Excludes reclassifications and other changes to the civil service workforce.

⁴ The gross reduction is the total reduction in posts as a result of efficiency gains. The net reduction is the gross reduction in workforce excluding re-allocations to front-line roles in the Civil Service. Reductions are rounded to the nearest ten.

ADMINISTRATION BUDGETS

Reduced administration costs

2.17 Administration budgets are set for most Civil Service departments. These budgets help to drive economy and efficiency in the running of these departments. While reducing administration costs is instrumental to releasing resources to the front line, some departmental administration budgets such as the Home Office and Law Officers' Departments have historically included considerable numbers of staff who deliver key front-line services such as immigration control and domestic security. In his report, Sir Peter Gershon has recommended that the costs of staff such as prison and immigration officers – who are front-line staff, not administrative staff – should be reclassified, a recommendation the Government accepts.

2.18 As Table 2.3 shows, the administration budget for each department has been set at or below the 2005-06 nominal level for 2006-07 and 2007-08 representing a real terms reduction of at least 5 per cent, aside from the Security and Intelligence Agencies and the Foreign and Commonwealth Office because of additional spending on vital security needs. These savings will lock in the reductions in Civil Service staff numbers that have been agreed as a result of the Efficiency Review. Administration budgets for departments are set out in individual departmental chapters.

Table 2.3: Administration budgets by Department, 2005-06 to 2007-08

	£ million			Real terms growth between 2005-06 and 2007-08
	Baseline 2005-06	Plans 2006-07	Plans 2007-08	
Education and Skills	276	269	262	-10.0%
Health	319	290	277	-17.7%
Transport	248	243	238	-9.0%
Office of the Deputy Prime Minister	334	332	330	-6.3%
Home Office ¹	733	672	672	-13.1%
Constitutional Affairs ¹	477	477	477	-5.2%
Law Officers' Departments ¹	105	105	105	-5.2%
Foreign and Commonwealth Office	638	740	772	14.7%
International Development	239	235	232	-7.9%
Trade and Industry	449	414	404	-14.8%
Environment, Food and Rural Affairs	317	307	297	-11.2%
Culture, Media and Sport	49	48	47	-9.0%
Work and Pensions	6,049	5,885	5,828	-8.6%
Northern Ireland Office	193	188	186	-8.6%
Chancellor's Departments	4,962	4,962	4,962	-5.2%
Cabinet Office	205	205	205	-5.2%
Security and Intelligence Agencies	621	704	747	14.1%
Total administration budgets	16,214	16,076	16,041	-6.2%

¹ Front-line staff reclassified in line with the Efficiency Review's recommendation.

Devolved Administrations

2.19 The Scottish Executive and Welsh Assembly Government have announced that they are engaged in spending review efficiency and evaluation exercises as ambitious as those in England, including rationalising back office and related areas. Under suspension of devolution, the Northern Ireland departments report to Northern Ireland Office Ministers and are committed to delivering at least 2.5 per cent a year efficiency gains to recycle into front-line delivery with administration costs flat at nominal levels. It will announce details of these in its spending plans in the autumn. These announcements, combined with the 2.5 per cent a year efficiency target agreed for English local government, will allow for a reduction of a further 20,000 civil service posts in addition to the 84,000 within UK departments and their sponsored bodies.

Assistance with implementation costs **2.20** In most cases, the Spending Review has confirmed that the initial costs of departments' efficiency proposals will be met from within their existing expenditure limits. Budget 2004 announced that, where departments could present a strong business case, HM Treasury would consider excluding some element of the transitional cost of departments' efficiency proposals from their administration budgets. HM Treasury has agreed to exclude from administration costs early exit costs for the Department for Work and Pensions, the Department for Transport, HM Treasury and the Department for Culture, Media and Sport. These costs are directly associated with the departments' plans to achieve efficiency savings by reducing the size of their operations. They will amount to £60 to £80 million in each year from 2004-05 to 2007-08 (less than 0.5 per cent of total administration costs in those years).

Efficiency Challenge Fund **2.21** In Budget 2004, the Chancellor announced that departments would be able to bid in 2004-05 and 2005-06 from the £300 million Efficiency Challenge Fund for an element of match funding for restructuring costs. A first tranche of bids have been approved as part of the Spending Review, based on the following criteria:

- progress made by the department in delivering efficiency gains;
- the size of the savings to be generated relative to the size of the bid for resources (or relative to the scale of the administration costs exemption);
- evidence that the transitional costs cannot be absorbed either through existing administration cost provision or other flexibilities;
- the proximity of the savings in time and the certainty of the savings;
- the effectiveness of the proposals in meeting the objectives of the efficiency review; and
- the existence of a relocation component.

2.22 The Chief Secretary has approved the allocation of £132.5 million in 2004-05 and £167.5 million in 2005-06 from the Efficiency Challenge Fund that will support the early exit costs of 47,000 staff and over 7,000 relocations out of London and the South East.

CROSS-CUTTING EFFICIENCY MEASURES

2.23 In addition to helping departments prepare their individual efficiency programmes, Sir Peter Gershon has also made a number of cross-cutting recommendations for improving efficiency within the public sector. These include:

- strengthening financial management arrangements within government;
- improving the approach to procurement across departments;
- reinforcing processes to achieve higher rates of take-up of e-enabled transactional services;
- a review of the efficiency and effectiveness of key delivery chains; and
- simplification of the funding and regulation of services delivered by the voluntary and community sector (VCS), and reinforcement of the principle of full cost recovery.

Strengthening financial management **2.24** As set out in Chapter 1, significant progress has been made already in the last five years in improving the management of resources in government. At the same time, it is clear from the work of the Efficiency Review that further work is needed in this area to ensure that departments are able to stay within their budgets and improve efficiency.

2.25 As recommended by the Efficiency Review, HM Treasury will conduct a department-by-department review of the effectiveness of financial management. The review will begin with those departments with the biggest spending programmes. It will be led by Mary Keegan, who takes up appointment in September as Head of the Government Accountancy Service, working closely with John Oughton's Efficiency Team and supported by a steering group drawn from private and public sectors. It will provide an objective and professional assessment of each department against a common framework leading to a departmental action plan. In addition, as recommended by the Efficiency Review, all departments will have professional Finance Directors reporting to the Permanent Secretary with a seat on the departmental board, at a level equivalent to other board members, by December 2006.

2.26 The public sector auditors will also support the achievement of greater efficiency across government. The National Audit Office (NAO) will be involved in the review of financial management mentioned above, while the Audit Commission will strengthen its measurement of local authorities' use of resources within the revised Comprehensive Performance Assessment from 2005. Value for money will form a key theme throughout the overall Assessment.

2.27 In addition, as proposed by the Efficiency Review, the Treasury will consider the role audit committees can play in helping management focus on the efficient use of resources and circulate appropriate guidance.

Improving procurement management **2.28** On advice from Sir Peter Gershon, and in order to strengthen the management of public sector procurement, the Government has required every department to consider and agree with the OGC by December 2004, how to:

- improve the value for money of direct and indirect procurement activity across the core department, agencies, NDPBs and related areas of local authority spend, through enhanced scrutiny, monitoring and accountability arrangements;
- enhance their procurement capacity by improving leadership and professional skills together with the strong, consistent application of best-practice tools and techniques across their expenditure;
- improve the strategic management of key supply markets, including the provision of demand information and engagement with suppliers, by providing functional leadership across all the areas of spend identified above through faster implementation of the recommendations of Sir Christopher Kelly's report on the management of public sector procurement markets¹, and by having an effective focus that enables wider Government policy (for example, innovation and SMEs) to be advanced through public procurement;
- ensure all procurement in those public sector bodies that they fund is conducted either (a) via a process (for example, a framework agreement, catalogue, or procurement card) that has been put in place by a professional procurement specialist; or (b) has the direct support of procurement professionals; and

¹ *Increasing Capacity and Improving Long Term Capacity Planning in the Government Marketplace*, Sir Christopher Kelly, December 2003.

- pursue improvements in the value for money of all procurement of external professional services, ensuring that costs are scored against administration budgets where it is appropriate to do so, putting in place strong controls on the engagement of external service providers and ensuring public visibility of expenditure on these services.

Modernising transactional services 2.29 The Efficiency Review has also identified variations in the quality of departments' planning to encourage the take-up of cheaper, electronic services. To help departments achieve greater take-up of electronic services, the Treasury and the e-Government Unit (eGU) will issue guidance that details the essential elements of a high quality plan. Departments will be required to develop plans that meet this benchmark for all their key e-government services.

Delivery chain reviews 2.30 In response to a recommendation by Sir Peter Gershon, certain departments will be carrying out delivery chain reviews to identify particular opportunities for process or organisational reform which could enable more efficient service delivery in a particular policy area and point the way towards reform in other similar areas of delivery.

Non-departmental public bodies 2.31 Non-departmental public bodies (NDPBs) have an important role to play in the delivery of the Government's efficiency programme. Lynton Barker of the Public Services Productivity Panel has carried out a study of board governance in executive NDPBs. The study has found scope for improving the performance of boards by reviewing and, where necessary, providing clarity around the remit of the executive NDPB and its relationship with the sponsor department. Lynton Barker will publish his report in the Autumn. The report will recommend ways that board chairs and members can enhance their corporate and individual performance to ensure the efficient delivery of the Government's priorities.

Voluntary and community sector 2.32 In light of Sir Peter Gershon's recommendations relating to the VCS, and following a recent seminar with representatives of the VCS and departments, the Government is reiterating the need to further improve its funding relationship with the VCS by:

- 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 and community organisation when 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.

2.33 The Active Communities Directorate in the Home Office has lead responsibility for driving forward this agenda across Government, in direct partnership with the Efficiency Team reporting to John Oughton.

DELIVERING EFFICIENCIES

2.34 Agreeing efficiency targets with all departments is an important first step in implementing the recommendations of the Efficiency Review. But targets will only be met if they are underpinned by effective delivery mechanisms. Informed by the recommendations

of Sir Peter Gershon's review, and the experience of the Public Service Agreement (PSA) delivery architecture, this Spending Review announces a robust framework to ensure planned efficiency gains are realised, including:

- measurable efficiency targets for which departments will be publicly accountable; and
- a strong central Efficiency Team, with specialist support, to advise departments and drive progress across the efficiency agenda.

Measurable targets with public accountability

Measuring efficiencies **2.35** Each department will be required to set out transparently in Efficiency Technical Notes (ETNs) the precise measures and methodologies that they are using to assess efficiency gains. These notes will cover the whole range of efficiencies and will be a key mechanism for ensuring accountability of progress towards the Government's headline target of £20 billion of efficiency gains a year by 2007-08. In order to ensure confidence and credibility of these measures, the Government is inviting the NAO and the Audit Commission to scrutinise departmental ETNs before publication.

2.36 Departments will publish ETNs on departmental websites by the end of October. Subsequent additions and amendments to ETNs will be allowed, subject to prior scrutiny by the NAO and Audit Commission.

Accountability for results **2.37** There will be effective and continuing parliamentary and public accountability systems for the delivery of agreed efficiency targets. As with PSA targets, this will be a highly transparent system. Each departmental Secretary of State will be ultimately responsible and accountable for delivering efficiencies within their department. Progress on meeting the efficiency targets will be publicly reported so that the Government is accountable for the results. Departments will report progress through their departmental reports and on their websites.

Driving implementation of the efficiency agenda

2.38 Budget 2004 announced that John Oughton, Chief Executive of the OGC, has been given overall responsibility for implementing the Government's efficiency programme, working closely with HM Treasury and reporting directly to the Prime Minister and the Chancellor. An Efficiency Team has been established reporting to John Oughton that will drive and coordinate implementation of the Efficiency Review as a cross-departmental programme and draw on relevant expertise.

Meeting efficiency targets **2.39** Departments will work with John Oughton's Efficiency Team to deliver their agreed efficiency targets. The Efficiency Team will assure the quality of departmental efficiency programmes, and departments' capacity to implement them through robust monitoring and scrutiny arrangements. From Autumn 2004, there will be formal assessments of departments' progress towards delivering their efficiency targets.

2.40 More generally, John Oughton's Efficiency Team will bring in outside expertise to support and challenge departments, including senior figures from the private and public sectors, for example from the Public Services Productivity Panel. Sir Peter Gershon will remain involved in the efficiency implementation process by participating in the oversight arrangements being established by John Oughton. By embedding changed culture and practice in public sector management, it should be possible to secure ongoing efficiency gains not only over the 2004 Spending Review period but also beyond 2007-08.

Specialist support **2.41** Departments will receive further specialist support on the implementation of certain aspects of their efficiency programmes. These specialists will be teams of people who have experience of delivering change in the areas examined by the Efficiency Review. Specialists will help in particular by:

- providing expertise to enable departments to realise the full savings potential in their area of focus;
- delivering incremental savings through identifying cross-departmental collaborative opportunities that would not otherwise be captured; and
- delivering savings earlier than would be possible merely using departmental resources and skills.

2.42 Specialist support teams will be established for the 2004 Spending Review period in the following sectors:

- **the e-Government unit will take over existing work on e-Government delivery plans, and supplement this with additional work on non-electronic transactions.** The aim will be to drive cross-government solutions, to facilitate best practice, to improve the measurement of performance in the transactions area, and to support departments to carry out proper segmentation of their customers and to greatly improve their strategies for promoting the use of electronic services ('take-up strategies');
- **back office specialist support teams will be created**, staffed by people who have had experience of back office reform in other organisations. Their tasks will be to develop a common definition of each back office function (Human Resources, IT and Finance), to develop comparable measures as benchmarks, to advise departments on the necessary changes to implement back office reform and to understand the supply market in order to achieve better procurement; and
- **the Office of Government Commerce will establish specialist support teams in construction and facilities management, and commodities procurement.** These teams will address the problems created by highly fragmented markets that cross many departmental boundaries. They will focus on overall market shaping, clustering and requirements analysis and be integrated with other procurement bodies, such as regional centres of excellence, as appropriate.

2.43 The OGC will also take on a wider role as a coordinator of procurement activity in the wider public sector as well as central civil government, while departments that sponsor other parts of the public sector (for example local government, health and defence) will lead on developing capability in their sectors. Specialist support teams will be established in these sectors as appropriate.

Public sector estate **2.44** The implementation of departmental efficiency and relocation programmes will clearly have implications for the management of the public sector estate. Departments will therefore be reviewing their property holdings to ensure they are properly configured and to unlock resources for re-prioritisation, including through asset sales. The Chancellor has asked Michael Lyons to facilitate this process, working closely with John Oughton and departments.