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The 2007 Comprehensive Spending Review

First Report of Session 2007–08

Report, together with formal minutes, oral and written evidence

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Summary

Overall spending prospects

In this Report we consider the prospects for public spending up to 2010–11. The planned rate of growth in overall spending in coming years is significantly slower than the rate of growth delivered in recent years—2.1% from 2008–09 to 2010–11 compared with 4.0% from 1999–2000 to 2007–08. The impact of the slowdown on departmental spending within Departmental Expenditure Limits because Annually Managed Expenditure in the coming years is projected to rise at the same rate as overall public spending, whereas such expenditure has generally risen more slowly in recent years than spending within Departmental Expenditure Limits. Pressures on spending may be exerted by cost pressures in particular sectors, the impact of population growth and public sector wage settlements.

Efficiency and value for money

The efficiency programme for the period covered by the Comprehensive Spending Review are stretching and highly ambitious. Efficiency savings must be measured net of implementation costs and must be cash-releasing. We recommend that the Government state explicitly that financial savings during that period will only be recorded as efficiency savings if there is sufficient evidence that service standards have at least be maintained and that such evidence be the subject of regular external audit by the National Audit Office. We welcome the Government's decision not to impose explicit targets for reduction in Civil Service numbers for the period from 1 April 2008.

Child poverty

We emphasise that efforts to meet child poverty targets, including the new target relating to material deprivation, should not lead to an insufficient concentration upon the worst forms of child poverty in the very poorest households. We note a possible tension between the target to halve child poverty by 2010–11 and that to eliminate child poverty by 2020. We are concerned that the Government may have drawn back from a whole-hearted commitment to meeting the 2010–11 target. A failure to meet that target would represent a conscious decision to leave hundreds of thousands of children in poverty for longer than is necessary or desirable. We conclude that the Government must either initiate a public debate on the possible trade-off between the 2010 and 2020 targets, or rededicate itself to meeting the 2010–11 target, making clear at the earliest opportunity available both that the necessary resources are available within the Comprehensive Spending Review settlement and that the Government is committed to deploying those resources.

1 Introduction

1. On Tuesday 9 October, the Rt Hon Alistair Darling MP, Chancellor of the Exchequer, presented to the House of Commons the outcome of the 2007 Comprehensive Spending Review, alongside the 2007 Pre-Budget Report.[1] In June 2007, we published a Report on the prospects for the Comprehensive Spending Review.[2] In the current Report, we examine particular aspects of the Review, including some pressures on public spending, the efficiency programme, the new performance management framework, plans for reducing and then eliminating child poverty, and some aspects of individual spending settlements.

2. As part of this inquiry, we took oral evidence on 22 October from the Rt Hon Andy Burnham MP, Chief Secretary to the Treasury, and HM Treasury officials. We also received a range of written evidence, most of which is published with this Report and the remainder of which has been reported to the House and is available for public inspection.[3] We have also taken this opportunity to publish correspondence between Mr Nicholas Macpherson, Permanent Secretary to the Treasury, and the Chairman of this Committee about HM Treasury's Public Service Agreements and Departmental Strategic Objectives.[4] In preparing this Report, we have also drawn upon evidence taken from expert witnesses,[5] from Treasury officials and from the Chancellor of the Exchequer as part of our inquiry into the 2007 Pre-Budget Report, evidence which is being published with our separate Report on that subject,[6] and evidence taken by our Sub-Committee from Mr Macpherson on 14 November on HM Treasury's administration and expenditure in 2006–07.[7] We are most grateful to all those who gave evidence during our inquiry into the 2007 Comprehensive Spending Review, and to Professor David Heald of Sheffield University and Professor Colin Talbot of Manchester Business School for their specialist advice.

1 HC Deb, 9 October 2007, cols 167–175; HM Treasury, Meeting the aspirations of the British people: *2007 Pre-Budget Report and Comprehensive Spending Review*, October 2007, Cm 7227 (hereafter *Pre-Budget Report and Comprehensive Spending Review 2007*)

2 Treasury Committee, Sixth Report of Session 2006–07, *The 2007 Comprehensive Spending Review: prospects and processes*, HC 279

3 For a list of published written evidence and a list of other evidence reported to the House, and details of how such evidence may be inspected, see p 42.

4 See Ev 21–34.

5 Mr Robert Chote, Institute for Fiscal Studies, Ms Bridget Rosewell, Volterra Consulting, Dr Martin Weale, National Institute of Economic and Social Research, Professor Colin Talbot, Manchester Business School, and Mr John Whiting, PriceWaterhouseCoopers.

6 Treasury Committee, Second Report of Session 2007–08, *The 2007 Pre-Budget Report*, HC 54. All references in the current Report to oral evidence taken during the inquiry into the 2007 Pre-Budget Report are in the form HC (2007–08) 54, Q …

7 Treasury Sub-Committee, Uncorrected transcript of oral evidence, Mr Nicholas Macpherson, *HM Treasury's administration and expenditure in 2006–07*, 14 November 2007

2 Overall spending issues

The final spending totals

3. We explored the background to the 2007 Comprehensive Spending Review in our earlier Report on the subject published in June 2007.[8] As we noted then, in accordance with the practice in 2002 and 2004, the overall spending totals for the period to be covered by the Comprehensive Spending Review—from 2008–09 to 2010–11—were announced in the preceding Budget. Thus, in the 2007 Budget, the then Chancellor of the Exchequer, the Rt Hon Gordon Brown MP, announced that total public spending would rise by an average of 2.0% a year in real terms in the period from 2008–09 to 2010–11.[9] In announcing the outcome of the Comprehensive Spending Review in October 2007, the new Chancellor of the Exchequer confirmed that total spending in 2008–09 and 2009–10 would rise in line with those earlier plans, but also indicated that there would be additional spending on health and education of £2 billion in 2010–11, so that total public spending is now expected to rise at 2.1% a year in real terms over the period from 2008–09 to 2010–11.[10] Projected net borrowing in 2010–11 has risen from £26 billion to £28 billion in consequence of this decision.[11] The Chancellor of the Exchequer told us that his decision to increase planned expenditure in 2010–11 arose from a judgement that "the investment is needed" and that it would be "prudent" to increase spending in this way.[12]

4. As we noted in June 2007, the planned rate of growth in public expenditure in coming years is significantly below the rate of growth delivered by the preceding Spending Reviews in 2000, 2002 and 2004. Total Managed Expenditure rose or is planned to rise at an annual average rate of 4.0% between April 1999 and March 2008, broadly twice the rate of growth envisaged for the period from 2008–09 onwards.[13] The Chief Secretary stated that this slowing in the pace of growth followed "ten years of significant if not unprecedented investment in public services", had been "well signalled" and was "the right response to the situation that faces us today".[14]

Annually Managed Expenditure

5. When we considered prospects for this Comprehensive Spending Review, we noted the importance of the decision to be announced as part of the final outcome of the Review on the division of Total Managed Expenditure between Departmental Expenditure Limits to be set for a three-year period and Annually Managed Expenditure. The latter comprises those elements of public spending that the Government does not consider it appropriate to subject to firm multi-year limits at a departmental level. Annually Managed Expenditure

8 HC (2006–07) 279, paras 4–13

9 *Ibid.*, paras 17–18

10 HC Deb, 9 October 2007, col 175; *Pre-Budget Report and Comprehensive Spending Review 2007*, paras 3.23–3.24, p 40

11 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 2.2, p 24

12 HC (2007–08) 54, Qq 273–276

13 HC (2006–07) 279, paras 19–21

14 Q 2

includes expenditure on social security benefits and tax credits, locally-financed government expenditure, central government gross debt interest and net expenditure transfers to EU institutions. During the period since 1998, Annually Managed Expenditure has generally grown more slowly than Total Managed Expenditure as a whole, principally due to the savings in social security expenditure from falling unemployment and the reductions in debt interest payments arising from improvements in the overall state of the public finances. This has meant that the Government has been able to plan to increase spending within Departmental Expenditure Limits more rapidly than public spending as a whole and to re-allocate shortfalls in spending within Annually Managed Expenditure to programme expenditure in addition to initial allocations in Spending Reviews.[15]

6. During the period covered by the 2007 Comprehensive Spending Review, in contrast to most of the preceding decade, both expenditure within Departmental Expenditure Limits and Annually Managed Expenditure are forecast to rise at the same average annual rate of 2.1% in real terms.[16] Because the growth rate of expenditure within Departmental Expenditure Limits had previously exceeded that of Total Managed Expenditure as a whole, this means that the slowdown in the rate of growth of expenditure within Departmental Expenditure Limits will be sharper than the slowdown in public expenditure as a whole.[17]

7. By its nature, Annually Managed Expenditure is not easy to forecast, and is not subject to firm multi-year controls of the kind that apply to expenditure within Departmental Expenditure Limits. By far the largest component of Annually Managed Expenditure is that on social security benefits. This is forecast to rise slowly, based in part on the "cautious assumption" that United Kingdom claimant unemployment will rise slowly from recent average levels of 0.86 million to 0.92 million at the end of 2009, and stay constant thereafter.[18] Expenditure on tax credits is forecast to grow slightly faster than that on social security benefits, although we have noted previously that this forecast is made on the basis of existing take-up rates, while the Government is seeking ways to increase take-up rates, particularly the low take-up rate of 25% of entitlement in 2004–05 for Working Tax Credit among those entitled to claim it and who do not have children.[19] Net expenditure transfers to EC institutions are forecast to rise at above the overall rate of increase of Annually Managed Expenditure as a whole. Treasury officials confirmed that this was partly due to changes to the United Kingdom's abatement arrangements, while also pointing to other factors affecting net expenditure transfers.[20] Overall, the Treasury was confident that its forecasts for Annually Managed Expenditure were "prudent, sensible and consistent with recent trends in social security, for example".[21] Mr Robert Chote of the Institute of Fiscal Studies broadly supported this characterisation of the Treasury's forecasts, subject to the

15 HC (2006–07) 279, paras 22–28

16 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 3.2, p 41

17 HC (2007–08) 54, Q 41. See also HC (2006–07) 279, paras 23–24

18 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table B.11 and Box B1, pp 173, 163

19 HC (2006–07) 279, para 26

20 Qq 141–144; Ev 47. See also HC (2006–07) 279, para 26

21 HC (2007–08) 54, Q 136

point that no additional provision had been made for spending to reduce child poverty,[22] a matter to which we return later in this Report.[23]

Understanding growth in "real terms"

8. As we have noted previously, both increases in overall spending and individual spending settlements are generally referred to by the Government as percentages in "real terms". This approach is generally clearer than describing percentage increases in "nominal terms"—in other words, without taking account of the effect of inflation. The use of nominal terms would have the effect of overstating increases. For the purposes of determining "real terms", the Treasury uses the GDP deflator, which is a measure of general inflation in the domestic economy. For the years covered by the Comprehensive Spending Review, the Treasury is currently using a GDP deflator of 2¾% in each year.[24] The use of the GDP deflator in describing public sector budgets is a long-standing practice of the Treasury, but this measure can be of limited value in understanding the actual effect of expenditure allocations of a particular size in particular areas, partly due to the Relative Price Effect—in other words, the movement over time of a specific price index relative to a general price index such as the GDP deflator.[25] Dr Martin Weale of the National Institute of Economic and Social Research pointed out to us that the cost of Government consumption during the period from 1997 to 2006 relative to 1996 prices had risen 1.7 percentage points per year faster than the GDP deflator, so that, if that pattern persisted, claimed real terms growth of 2.1% a year over the period of the Comprehensive Spending Review would only generate a real increase in Government consumption of 0.4% a year.[26]

9. Treasury officials argued that the GDP deflator was still the most appropriate measure to use for calculating public expenditure in "real terms", arguing that overall cost pressures across the public sector were not substantially higher than cost pressures across the economy as a whole.[27] Both they and the Chief Secretary stressed that individual spending settlements took account of the particular cost pressures in particular sectors so that, for example, the transport settlement took account of construction costs.[28]

The impact of population growth

10. The overall value of spending settlements is also likely to be affected by the size of the population using particular public services. When we examined the prospects for the Comprehensive Spending Review, we noted the potential impact on public spending of population growth in coming years, as a result of both natural growth and net inward migration. We concluded that the Government could have provided more information on the likely impact of net migration on demand for public services over the period covered

22 HC (2007–08) 54., Q 129

23 See paragraphs 55–64.

24 HC (2006–07) 279, para 36;
http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm

25 HC (2006–07) 279, para 37

26 HC (2007–08) 54, Q 40

27 Qq 7–8

28 Qq 8–10

by the Comprehensive Spending Review and we recommended that, in advance of the final outcome of the Comprehensive Spending Review, the Treasury commission an analysis of the impact of net migration on demand for individual public services, to be published as part of the final announcement on the outcome.[29] In its response to our earlier recommendation and in oral evidence, the Treasury pointed to the analysis that had previously been undertaken on demographic pressures.[30] The Chief Secretary assured us that "population change was very much part of [the] planning process that underpinned the whole exercise", with the settlements for individual departments reflecting that analysis.[31]

11. Shortly after we took evidence from the Chief Secretary, the Office for National Statistics (ONS) published updated forecasts of the population of the United Kingdom in coming years.[32] The central projection of the ONS is that the population of the United Kingdom will rise from 61.0 million in mid-2007 to 62.3 million in mid-2010. The House of Commons Library estimated that, on the basis of these figures and the public spending totals given in the 2007 Comprehensive Spending Review, public spending per head will grow in real terms by 1.3% in 2008–09, 1.2% in 2009–10 and 1.4% in 2010–11.[33] The Chancellor of the Exchequer noted that population growth had been a feature for a number of years and stated that the spending settlements had taken full account of the ONS's projections. He pointed to individual spending settlements, such as those for the National Health Service, housing and transport infrastructure, which took particular account of population pressures.[34]

Public sector pay

12. At the time of the 2007 Budget, the Government indicated that it saw restraint on public sector pay spending as an essential way of securing value for money for overall spending throughout the period to 2010–11, making it clear that "pay settlements must be consistent with the achievement of the CPI [Consumer Prices Index] inflation target of 2%".[35] In oral evidence to us in January, the Rt Hon Stephen Timms MP, the then Chief Secretary to the Treasury, implied that upward pressure on public sector wage settlements might lead to job reductions.[36]

13. We received some evidence that questioned the sustainability of restraint in public sector wage settlements. Ms Bridget Rosewell, Chairman of Volterra Consulting, thought

29 HC (2006–07) 279, paras 39–42

30 Treasury Committee, Seventh Special Report of Session 2006–07, *The 2007 Comprehensive Spending Review: prospects and processes: Government Response to the Committee's Sixth Report of Session 2006–07*, HC 1027, pp 2–3; Q 12

31 Q 11

32 Office for National Statistics, 2006-based national population projection (UK, principal projection)

33 House of Commons Library calculation, based on *Total Managed Expenditure data in Pre-Budget Report and Comprehensive Spending Review 2007*, Table B.11, p 173, GDP deflator in *ibid.*, Table B.3, p 162 and ONS population projection.

34 HC (2007–08) 54, Qq 286–288

35 *Budget 2007*, para 6.29, p 148

36 HC (2006–07) 279, para 38

that industrial relations problems "will intensify under these circumstances".[37] Dr Weale thought that the Government's ambitions to deliver an increase in the volume of services might be threatened if public sector workers obtained higher settlements than the Government was planning for, a view echoed by Mr Chote.[38] The Public and Commercial Services Union argued that "a continuation of the current 2% cap on public sector pay awards is both unjustified and unsustainable … The policy will fail to recruit, retain and motivate staff with the necessary skills for the wide variety of tasks and jobs across the public sector."[39]

14. Treasury witnesses emphasised that the pay policy applied to overall wage bills rather than individual pay. Overall settlements at 2% were likely to result in individual public sector wages rising by about 3½% a year, which was consistent with real income growth.[40] They contended that overall pay restraint was compatible with measures to address localised problems, most notably those associated with lower paid workers, including those within the National Health Service.[41] Overall, however, the Chief Secretary emphasised the need for continuing "discipline" with regard to pay to "help departments reach their value for money targets and also live within their overall spending allocation".[42]

37 HC (2007–08) 54, Q 41

38 *Ibid.*, Qq 42, 43

39 Ev 36

40 HC (2007–08) 54, Q 143

41 *Ibid.*, Qq 144, 218–219; Qq 18–20

42 Qq 17, 47

3 Efficiency and value for money

The overall importance of efficiency and value for money

15. In seeking to convey that the slowdown in the rate of growth of public spending was not incompatible with continued improvements in public services, the Chief Secretary placed great emphasis on the role of the new efficiency programme that forms part of the 2007 Comprehensive Spending Review settlement. He said that, "if departments make the headway on efficiency, as I have every confidence they will, we have said all along that they will be able to maintain the rate of improvement in public service within the tighter spending climate they are now working in".[43] He thought that "we have moved away from a period where people generally thought that the public services were under-funded to one where now people are looking more critically at what the return is for that investment".[44] He left little doubt of the dependence of the overall settlement on the efficiency programme:

> It is quite simply the case if [departments] do not extract those savings they will not be able to deliver the spending plans and the goals that they have set themselves for this CSR period, so that should be a reassurance to everybody.[45]

The Chancellor of the Exchequer similarly remarked that what some of the spending departments "want to do will have to be achieved through being more efficient".[46]

Setting the efficiency targets

16. In the 2006 Pre-Budget Report, the then Chancellor of the Exchequer announced that, "for the years to 2011, I have reached agreement with Secretaries of State for net efficiency savings in their overall budgets of 3% a year".[47] When we reported on the emerging efficiency programme for these years in June 2007, we noted that the targets set for the period covered by the 2004 Spending Review were varied between departments to reflect an assessment by Sir Peter Gershon of each department's capacity to secure efficiency savings and that the Government was apparently now adopting a different approach, imposing a minimum requirement to meet an annual target of savings of 3% of total departmental budget on an across-the-board basis for all departments.[48] The Chancellor of the Exchequer emphasised that the 3% target had served as a baseline for negotiations, with some departments able to offer greater savings than that minimum.[49] The Treasury subsequently provided us with information about the targets for each department set out in Table 1.

43 Q 2

44 Q 3

45 Q 80

46 HC (2007–08) 54, Q 277

47 HC (2006–07) 279, para 67

48 *Ibid.*, para 71

49 HC (2007–08) 54, Qq 278–279

Table 1: Annual value of efficiency targets for 2010–11 by department

Department	**Net Cash-releasing VfM Savings by 2010–11**	**Net Cash-Releasing VfM Savings by 2010–11 (% of 07–08 vfm baseline)**
Attorney General's Dept.	£79m	3.5%
Cabinet Office	£35m	3.2%
DBERR	£307m	3.1%
Dept. for Children, Schools and Families	£4,491m	3.0%
Dept for Culture, Media & Sport	£148m	3.0%
Dept for Environment, Food and Rural Affairs	£379m	3.6%
Department for Innovation, Universities	£1,543m	3.0%
Dept for International Development	£492m	3.0%
Dept for Transport	£1,762m	5.4%
Dept for Work & Pensions	£1,225m	5.1%
DCLG	£887m	4.9%
Dept of Health	£8,200m	3.0%
Foreign and Commonwealth Office	£144m	3.0%
HM Revenue & Customs	£673m	4.9%
HM Treasury	£30m	4.1%
Home Office	£1,414m	3.0%
Local Government	£4,900m	3.0%
Ministry of Defence	£2,700m	3.0%
Ministry of Justice	£1,025m	3.6%
Northern Ireland Office	£108m	3.4%
TOTAL	**£30,542m**	**3.2%**

17. The monetary targets relate to the annual value of savings achieved by 2010–11.[50] The percentage figures in the final column relate to a value for money baseline based on departmental budgets within Departmental Expenditure Limits.[51] Thus, for example, the Ministry of Justice has a baseline budget in 2007–08 of £9,465 million. If it were to follow an even path towards its target of savings with an annual value of £1,025 million by 2010–

50 *Pre-Budget Report and Comprehensive Spending Review 2007*, para 3.31, p 43

51 HC (2007–08) 54, Q 282

11, it would be expected to report savings of around £341 million in 2008–09, secure additional savings of around the same level in 2009–10 as well as ensuring that all savings reported in 2008–09 were recurring, and obtain further savings of around £343 million in 2010–11, as well as ensuring that all savings obtained in previous years continued to recur. For savings to be treated as recurring, it is assumed that they will continue to be measured against a 2007–08 baseline, so that the Ministry of Justice would be required to secure savings with a value of £682 million in 2009–10 against its 2007–08 baseline.

18. If the targets were simply to be assessed in monetary terms, the annual value of the overall efficiency target for the period from 2008–09 to 2010–11 of £30.54 billion would be seen as around one third more stretching than the target of £21.48 billion for the period from 2005–06 to 2007–08. However, this simple comparison understates the extent to which the new target is more demanding. First, only around 60% of the earlier targets were "cashable", whereas all the new savings have to be achieved by savings that are cash-releasing.

19. Second, the earlier Gershon target excluded most investment or implementation costs necessary to achieve the savings, in part because some up-front capital investment was begun before the Gershon efficiency programme began. Although the Government's own measurement guidance recognised that accounting for such additional ongoing costs arising from reforms was best practice, only four out of the 10 departments contributing most to the £21.48 billion target tried to subtract such costs from their reported savings.[52] The Committee of Public Accounts recently suggested that, "by not including on-going costs, six out of the ten largest departments may be over-stating their efficiency gains".[53]

20. In the 2007 Budget, the Government announced that all of the savings delivered under the 2007 Comprehensive Spending Review value for money programme would be net of implementation costs.[54] Treasury officials argued that the recording of savings net of implementation costs was "a better reflection of the budgetary flexibility of departments".[55] They noted that this element, together with the requirement for all savings to be cash-releasing, meant that the new programme was "more ambitious" than the Gershon efficiency programme that preceded it.[56]

21. In June 2007, we recommended that the Government clarify, at the time the final outcome of the Comprehensive Spending Review is announced, the reporting requirements relating to implementation costs, indicating whether standard accounting conventions will be used for identifying and distributing such costs.[57] In its response, the Government stated that it would set out value for money "definitions" and information about the monitoring and reporting system "alongside the conclusion of the CSR".[58]

52 HC (2006–07) 279, para 68

53 Committee of Public Accounts, Forty-eighth Report of Session 2006–07, *The Efficiency Programme: a Second Review of Progress*, HC 349, Conclusions and Recommendations

54 HC (2006–07) 279, para 70

55 Q 81

56 HC (2007–08) 54, Q 139

57 HC (2006–07) 279, para 72

58 HC (2006–07) 1027, pp 5–6

However, when the conclusion of the Comprehensive Spending Review was announced, the Government stated that further information about the departmental detail of the new efficiency programme would be provided in value for money Delivery Agreements to be published by the end of 2007.[59] **We recommend that, in its response to this Report, the Government provide a definitive answer to the issue we posed in June 2007, namely whether standard accounting conventions will be used for identifying and distributing implementation costs under the new efficiency programme. We further recommend that the Government confirm in its response whether the presumed methodology for calculating savings in monetary terms set out in paragraph 17 of this Report is correct and, if not, clarify the methodology to be used.**

Achievability, verification and service standards

22. Treasury witnesses emphasised that the target of efficiency savings with an annual value of £30.54 billion by 2010–11 had been arrived at after reviews of departmental expenditure and drawing upon the experience of the Gershon efficiency programme.[60] The Permanent Secretary viewed the new target as "a perfectly sensible number".[61] The Chief Secretary stated:

> The figures that departments have produced for us are worked through in detail. They are … costs that they will have to extract to deliver their plans in full, and I have every confidence that these steps can be taken without damaging quality of services.[62]

The Chancellor of the Exchequer similarly viewed the target as "demanding", but "one that is eminently doable".[63]

23. In our previous consideration of the efficiency programme, we highlighted a number of outstanding issues relating to measurement and verification of reported efficiency savings, including a lack of clarity about the extent to which savings had been fully verified and audited. In particular, we noted that there has been a lack of measurable and externally verifiable evidence to support the contention that all efficiency savings reported as delivered had been secured without a diminution in service quality.[64] In June 2007, we recommended that the Government ensure that a clearer performance measurement framework be established for the efficiency programme from 2008–09 onwards, including a greater role for external audit of service quality than hitherto. We further recommended that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis be established as part of the post-2008 programme and that the Government set out the details of such a framework in publishing the final outcome of the Comprehensive Spending Review.[65]

59 *Pre-Budget Report and Comprehensive Spending Review 2007*, para 3.32, p 44

60 HC (2007–08) 54, Q 139

61 *Ibid.*, Q 138

62 Q 83

63 HC (2007–08) 54, Q 278

64 HC (2006–07) 279, para 64

65 *Ibid.*, para 78

24. Mr Macpherson told the Sub-Committee in November 2007 that the Treasury adhered to the practice whereby the Treasury would not "score" savings being offered by departments unless departments could prove to the Treasury that "service has at least been maintained in the area in question".[66] He also indicated that the Treasury was keen to use all ways to ensure that standards of service were monitored effectively, including through greater use of internal audit.[67]

25. **The efficiency targets that have been set for the period from 2008–09 to 2010–11 are stretching and highly ambitious. In view of the unresolved issues concerning the effects of the current Gershon efficiency programme on service delivery, it is important that there is parliamentary and public confidence in claims about the effects of the efficiency programme for the period from 2008–09 to 2010–11 on service delivery. We recommend that the Government state explicitly that financial savings during that period will only be recorded as efficiency savings if there is sufficient evidence that service standards have at least been maintained. We further recommend that such evidence be the subject of regular external audit by the National Audit Office. We expect that this Committee and other select committees will wish to examine departmental value for money Delivery Agreements to ensure that clear baseline standards are established against which contentions about the impact of efficiency savings on service standards can be tested.**

Administration budgets and Civil Service numbers

26. Alongside the monetary savings targets set under the 2004 Spending Review, departments were set targets for reductions in Civil Service numbers. A number of concerns have been expressed about this programme, including that an undue focus on headcount reductions could simply lead to a shift of resources from direct employment to the use of consultants and that workforce reductions could have a direct and detrimental effect on service quality and delivery.[68] Partly in response to such concerns, we recommended in our Report on the 2006 Budget that, "in seeking to embed a culture of efficiency in Government departments during the period covered by the Comprehensive Spending Review, the Government places greater emphasis on delivering and reporting on targets for continued reductions in departmental administration budgets rather than on workforce reductions attributed to efficiency projects".[69] In the 2006 Pre-Budget Report, the Government announced that all departments had agreed to cut their administration budgets by 5% a year in real terms over the period covered by the 2007 Comprehensive Spending Review.[70] In June 2007, we concluded that

> The Government's highly ambitious target for reductions in all departmental administration budgets of 5% a year in real terms over the period from 2008–09 to 2010–11 is likely to exert downward pressure on Civil Service numbers. A separate

66 Treasury Sub-Committee, Uncorrected transcript of oral evidence, *HM Treasury's administration and expenditure in 2006–07*, 14 November 2007, Q 55

67 *Ibid.*

68 HC (2006–07) 279, para 81

69 Treasury Committee, Fourth Report of Session 2005–06, *The 2006 Budget*, HC 994–I, para 79

70 Treasury Committee, Second Report of Session 2006–07, *The 2006 Pre-Budget Report*, HC 115, para 58

target for Civil Service reductions runs the risk of distorting the efficiency programme, encouraging the replacement of civil servants with external consultants who may prove more expensive.[71]

27. In announcing the outcome of the Comprehensive Spending Review, the Government confirmed that the target for reductions in administration budgets of 5% a year in real terms would be "a successor to the SR04 workforce reduction target".[72] The Chief Secretary to the Treasury indicated that the decision to forgo explicit workforce reduction targets was partly a response to the "sensible" recommendation by this Committee, and also reflected "a desire … to give more freedom, more ability at local level to manage these pressures without constraining people in a particular direction around managing workforce pressures".[73] Mr Macpherson also acknowledged that, while headcount targets had been a good way of kick-starting staff-related efficiency savings, such targets had a potential to distort decision-making and encourage "game playing". He noted that "wage pressures" would be a factor to be borne in mind by departments in meeting their targets for reductions in administration budgets.[74] Professor Talbot believed that it was "much more sensible to target administration budgets" than Civil Service numbers, while pointing out that the dividing line between administration budgets and programme expenditure was not always clear cut.[75] **We welcome the decision of the Government not to impose new explicit targets for reduction in Civil Service numbers for the period from 1 April 2008. We will monitor the implementation of reductions in departmental administration budgets, including classification issues and the effect of such reductions on the Civil Service workforce.**

71 HC (2006–07) 279, para 87

72 *Pre-Budget Report and Comprehensive Spending Review 2007*, para 3.31, p 43

73 Qq 80, 47

74 Treasury Sub-Committee, Uncorrected transcript of oral evidence, *HM Treasury's administration and expenditure in 2006–07*, 14 November 2007, Q 51

75 HC (2007–08) 54, Qq 101–103

4 The new performance management framework

Background

28. In 1998, in the first Comprehensive Spending Review, the Government introduced a new performance measurement framework based on Public Service Agreements, which sought to "bring together in a single document important information on aims and objectives, resources, performance and efficiency targets and related policy initiatives": each Agreement was expected to include an introduction setting out the Minister or Ministers accountable for achievements; the aims and objectives of the department or cross-cutting area; the resources allocated to it in the Spending Review; and key performance targets.[76] The framework and the role of Public Service Agreements within it have evolved significantly since 1998, but a number of concerns have been expressed about the operation of Public Service Agreements in evidence to this Committee and our predecessors and in reports on Public Service Agreement targets by the National Audit Office and the Statistics Commission:

- that the system was too top-down and unwieldy, so that, for example, 14 Public Service Agreement targets for health in England were translated into 206 health targets and measures for NHS Trusts and Primary Care Trusts;
- that the quality of data measurement and the statistical infrastructure were not sufficient to measure with accuracy the extent to which Public Service Agreement targets had been met;
- that the long time-lags before data became available, coupled with the different sets of Public Service Agreement targets established under successive Spending Reviews, created confusion and difficulties for those seeking to assess performance against targets; and
- that particular difficulties arose from targets held jointly between departments and that some issues which involved more than one department were not adequately captured within a framework predominantly composed of departmental Agreements and targets.[77]

29. In preparation for the 2007 Comprehensive Spending Review, the Government promised significant reforms to the performance management framework to address such concerns, including:

- "a refreshed and smaller suite of 'corporate' PSAs … focused more tightly on the Government's highest priority outcomes";[78]

76 HM Treasury, *Public Services for the Future: Modernisation, Reform, Accountability*, Cm 4181, December 1998, p 5

77 HC (2006–07) 279, para 89

78 *Ibid.*, para 90

- a requirement to publish "a single, coherent, cross-departmental Delivery Agreement for each PSA, informed by consultation with the delivery chain", Agreements which would "clearly set out the level of ambition, strategy for delivery, and the role of each organisation involved";[79] and
- the introduction of new Departmental Strategic Objectives to cover the "broader business of Government", which would be defined in the Comprehensive Spending Review and would be "effectively linked to the focused set of PSAs".[80]

30. When we reported on prospects for the Comprehensive Spending Review in June 2007, we welcomed signs that the Government was seeking to learn lessons from the operation of the framework of Public Service Agreements in the years since 1998. In particular, we welcomed the commitment to fewer, but better Public Service Agreements. However, we noted that the proposed reduction had to be genuine; its value would be undermined if new Agreements simply brought together diverse topics within a single Public Service Agreement or if a reduction in the number of Public Service Agreements did not lead to a matching reduction in targets down the delivery chain. We were also concerned that some of the data measurement issues relating to targets seemed unresolved, and we recommended that, in finalising Public Service Agreements, the Government had regard to the importance of ensuring that targets were measurable, that there was clarity about the methods of measurement and that data used for measurement was of adequate quality.[81]

Public Service Agreements and Departmental Strategic Objectives

31. In announcing the outcome of the 2007 Comprehensive Spending Review, the Government outlined the new performance management framework, including "a streamlined set of 30 new Public Service Agreements … which articulate the Government's highest priority outcomes for the CSR07 period and span departmental boundaries, setting out a shared vision and leading collaboration at all levels in the delivery system".[82] These 30 Public Service Agreements supersede 110 Public Service Agreements at the time of the 2004 Spending Review.[83] Alongside the Public Service Agreements, the Government also announced a total of 103 Departmental Strategic Objectives for the period of the Comprehensive Spending Review.[84] The Chief Secretary to the Treasury rejected the suggestion that the reduction in the number of Public Service Agreements had simply been achieved by switching areas of performance from such Agreements to Departmental Strategic Objectives, and drew attention to the difference in nature between Public Service Agreements and Departmental Strategic Objectives.

32. The Chief Secretary explained that the new Public Service Agreements were "a distilled expression of the Government's over-arching and main priorities".[85] Those Agreements

79 HC (2006–07) 279, para 91

80 *Ibid.*, para 92

81 *Ibid.*, para 95

82 *Pre-Budget Report and Comprehensive Spending Review 2007*, Box 3.1, p 36

83 Q 61–63

84 Q 62

85 Q 49

"set the big goals, the areas where as a Government we want to see the kind of social progress that we believe in".[86] The Agreements were by their nature cross-departmental, involving a commitment from more than one Government department in each case, although there would be a lead department for each such Agreement.[87]

33. The Chief Secretary said that Departmental Strategic Objectives, in contrast, were intended to cover the range of business that was carried out by a particular department.[88] They reflected a decision to "operationalise" certain targets to which the Government had been committed for a number of years.[89] Departmental Strategic Objectives were, according to the Chief Secretary,

> business as usual; they are mainstream, core functions of the department in question and often will relate purely to the department.[90]

34. We pursued the difference between Public Service Agreements and Departmental Strategic Objectives by reference to the requirement to meet the Government's fiscal rules, a commitment that was formerly the subject of a Public Service Agreement, but is now to be subsumed within one of HM Treasury's Departmental Strategic Objectives.[91] The Chief Secretary told us that meeting the fiscal rules had "become pretty much entrenched in the way the Treasury works in terms of how established they are as a guide for the way in which the macroeconomic framework works".[92] Mr Dave Ramsden, Managing Director, Macroeconomic and Fiscal Policy, HM Treasury, pointed out that

> Meeting the fiscal rules is an absolutely core Treasury objective … The fact that it is not a PSA does not mean that it is in any way reduced in importance or the emphasis we put on it, it is just that it is a Treasury-specific DSO; we will lead on it, we will be held responsible for it.[93]

Outcome indicators and the burden of measurement

35. Alongside a division between Public Service Agreements and Departmental Strategic Objectives, the Government has made a commitment to streamline the performance measurement framework and reduce the burden of data collection by:

- Introducing "a small basket of national, outcome-focused indicators to support each PSA … with a significant reduction in the overall number of priority indicators attached to PSAs";[94] the Chief Secretary told us that there were 150 indicators

86 Q 51

87 Qq 54–56

88 Q 49

89 Q 51

90 Q 56

91 Ev 33

92 Q 52

93 Q 54

94 *Pre-Budget Report and Comprehensive Spending Review 2007*, Box 3.1, p 36

underpinning the 30 new PSAs, compared with 500 indicators for the 110 PSAs during the period covered by the 2004 Spending Review;[95]

- Establishing "a single aligned framework for the performance management of outcomes delivered by local government working alone or in partnership, with a much smaller and more focused set of 198 performance indicators, down from an estimated 1,200";[96] and

- Committing to a reduction by 30% by 2010 in the total amount of data that central departments and agencies request from the frontline.[97]

36. Professor Talbot pointed out that the range of outcome indicators required as part of the new performance measurement framework was not yet clear, because the number of indicators associated with the new Departmental Strategic Objectives had not yet been published. Based on information provided to this Committee on the proposed indicators for the Treasury's Departmental Strategic Objectives, he suggested that there might be about 1,400 indicators for Departmental Strategic Objectives across Government.[98] The Chief Secretary confirmed that the indicators to accompany Departmental Strategic Objectives remained to be finalised, and would be "later in the year", but he assured us that he would be working hard to reduce the number of indicators and to ensure that the overall number of indicators associated with the new framework would fall compared with the previous total: "if that is not the effect in reality of the system we create then it will be a big disappointment to me".[99]

Conclusions

37. **It is not possible to draw definite conclusions about the new performance measurement framework on the basis of the information published alongside the outcome of the 2007 Comprehensive Spending Review. In particular, the nature of Departmental Strategic Objectives, and the extent to which they have become different in kind from Public Service Agreements, will not be evident until the outcome indicators associated with those Objectives have been published. The decision to distinguish between Departmental Strategic Objectives and Public Service Agreements which are cross-departmental in nature is in principle a welcome one. We also welcome the clear assignment of a lead department in respect of each Public Service Agreement. However, the cross-departmental nature of all new Public Service Agreements poses a challenge for a system of accountability currently based on departmental reporting and the work of departmental select committees. We recommend that performance against outcome indicators in new Public Service Agreements be reported on in new cross-departmental publications on a bi-annual basis in relation to each such Agreement, separate from departmental annual reports and Autumn performance reports. These**

95 Qq 70, 63

96 *Pre-Budget Report and Comprehensive Spending Review 2007*, para 3.15, p 36

97 *Ibid.*, para 3.16, p 37

98 HC (2007–08) 54, Q 90

99 Qq 69–70

new publications could encourage more effective cross-cutting scrutiny of Public Service Agreements between select committees concerned.

5 Child poverty

The commitment, PSA targets and progress to date

38. In 1999, the then Prime Minister committed the Government to the goal of eradicating child poverty within a generation. This goal was encapsulated in the 2002 Spending Review in objectives set for the Department for Work and Pensions and HM Treasury within the framework of Public Service Agreements to reduce the number of children in low-income households by at least a quarter by 2004, as a contribution to the broader target of halving child poverty by 2010 and eradicating it by 2020.[100] The commitment to halve child poverty by 2010 and eradicate it by 2020 was subsequently reaffirmed in the 2004 Spending Review.[101] The baseline for progress against the intermediate targets was the Government's estimate that 3.4 million children were living in poverty in 1998–99.

39. We considered the first target of reducing the number of children in low-income households by at least a quarter between 1998–99 and 2004–05 in our Report on the 2006 Budget. As we noted then, although the Government took significant steps towards meeting this target, the target was not met.[102] By 2005–06, the Government had successfully lifted 600,000 children out of poverty since 1998–99, a development which was highlighted by the Chief Secretary in evidence.[103] The Government's proposals in the 2007 Budget—including increasing the child element of Child Tax Credit by a further £150 above earnings indexation—are expected to mean that child poverty will be 200,000 lower than it would have been had no changes to tax credits or benefits been announced in that Budget.[104] At that time, the IFS suggested that, following the measures announced in the 2007 Budget, a further 800,000 children would need to be lifted out of poverty in order for the Government's 2010–11 target to halve child poverty to be met.[105]

Our previous consideration

40. A range of measures are available to the Government to meet its child poverty targets. These include measures to increase the proportion of parents of children in poverty who are in work, measures to increase the availability of affordable childcare, and various forms of financial support for families. In providing financial support for families, the Government has emphasised the importance of a balance between universal support through child benefit and more targeted support through tax credits.[106] The Government has been reluctant to commit to a particular cost of meetings its targets, in part because of the interdependence between the cost of financial support and levels and types of

100 HM Treasury, *2002 Spending Review: Public Service Agreements White Paper*, July 2002, para 1, p 31

101 HM Treasury, *2004 Spending Review: Public Service Agreements White Paper*, July 2004, para 1, p 37

102 HC (2005–06) 994–I, para 86

103 Q 35

104 *Budget 2007*, para 5.13, p 107

105 Treasury Committee, Fifth Report of Session 2006–07, *The 2007 Budget*, HC 389–II, Ev 70

106 HC (2006–07) 115, para 69

employment.[107] In January 2007, following the 2006 Pre-Budget Report, we recommended that

> either in the 2007 Budget or in reporting the outcome of the Comprehensive Spending Review, the Government outline its strategic position with respect to the 2010–11 target. The Government should both set out its progress to date towards achieving the target … and specify how it intends to achieve the target, including the extent to which it expects various measures to contribute towards achieving the target.[108]

41. We reiterated this recommendation following the 2007 Budget, and also recommended that the Government publish its analysis of the impact of improving incentives to work on meeting its child poverty targets.[109]

Setting new targets for child poverty

42. In considering the 2007 Budget measures, we also analysed the case for an additional measure of child poverty that focused particularly on children in families in the very lowest income levels. We recommended that, in publishing the outcome of the Comprehensive Spending Review, the Government set out its latest understanding of the dynamics of the very poor, perhaps in the context of the Government's work on its new deprivation index. We called for further explanation of the Government's views on a possible additional target focused on child poverty in the very poorest households.[110]

43. In publishing the outcome of the 2007 Comprehensive Spending Review, the Government reiterated its commitment to halve the number of children in poverty by 2010–11, on the way to eradicating child poverty by 2020. In the accompanying Delivery Agreement, the Government stated that it would use three indicators to measure progress against child poverty in coming years, as follows:

- Indicator 1: the number of children in absolute low-income households—designed to measure whether the poorest families are seeing their incomes rise in real terms;
- Indicator 2: the number of children in relative low-income households—designed to measure whether the poorest families are keeping pace with the growth in incomes in the economy as a whole; and
- Indicator 3: the number of children in relative low-income households and in material deprivation; the introduction of a material deprivation indicator for child poverty is designed to provide a wider measure of living standards and reflects the view that tackling poverty is about more than simply raising income levels.[111]

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107 HC (2005–06) 994–I, para 91

108 HC (2006–07) 115, para 71

109 HC (2006–07) 389–I, para 48

110 *Ibid.*, paras 49–50

111 HM Treasury, *PSA Delivery Agreement 9: Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020, October 2007* (hereafter *PSA Delivery Agreement 9: Child poverty*), para 2.1, p 5

44. Mr Chote outlined what he saw as the main elements of the Government's approach to measuring progress in relation to child poverty:

> Essentially there are three targets running in parallel, that is the key. There is the material deprivation one … do you have access to goods and services that you would expect et cetera, then there is a relative poverty measure which is the one we typically focus on and then there is an absolute poverty measure which typically is easier to hit anyway, hence the focus mostly still being on the relative income measure although the Government would like to see more emphasis on the material deprivation scores.[112]

45. The material deprivation indicator measures those families who are both materially deprived because they lack certain goods and services and who also have an income below 70% of median household income. Material deprivation is assessed through a series of questions generally starting in the form "Do you and your family have …" or "Are you and your family able to afford …". Questions include:

- Replace or repair major electrical goods such as refrigerator or washing machine when broken;
- Have friends or family around for a drink or meal at least a month;
- Enough bedrooms for every child over 10 of different sex to have his or her own bedroom;
- Swimming at least once a month.[113]

46. Professor Talbot suggested that some of the survey questions used to measure material deprivation had only a limited connection with the economic status of families:

> For example, having friends or family around for a drink or a meal once a month I suspect has more to do with social norms and behaviour than it does with material deprivation levels. You have to look through this fairly carefully because there are a number of things in here which have got nothing to do with the material status of the family.[114]

47. **We accept the value of an additional target relating to child poverty including a measure of material deprivation, not least in highlighting that poverty is not just about income. However, there is a risk that consideration of material deprivation will move focus away from the most pressing cases of child poverty and, in that context, we are disappointed that the Delivery Agreement does not respond to the recommendations of this Committee for a fuller analysis of the particular issues surrounding child poverty in the very poorest households. It is important that efforts to meet targets do not lead to an insufficient concentration upon the worst forms of child poverty in the very poorest households. We recommend that, in its response to this Report, the**

112 HC (2007–08) 54, Q 123

113 *PSA Delivery Agreement 9: Child poverty*, pp 25–26

114 HC (2007–08) 54, Q 111

Government set out the role played in its strategy by measures concerned in particular with the very poorest households.

Departmental responsibilities

48. As part of the refashioning of Public Service Agreements that we discussed earlier,[115] the PSA targets held jointly by the Treasury and the Department for Work and Pensions have been replaced as part of the 2007 Comprehensive Spending Review by a single Public Service Agreement with an accompanying Delivery Agreement. The previous PSA targets were held jointly between the Treasury and the Department for Work and Pensions, with the latter department generally to the fore in reporting progress in relation to the targets. The Delivery Agreement for the new Public Service Agreement states:

> The Chancellor of the Exchequer, the Secretary of State for Children, Schools and Families and the Secretary of State for Work and Pensions will be responsible for child poverty, and in addition the Chancellor of the Exchequer is the lead minister for this PSA … The Senior Responsible Officer within Government for the PSA will be the Director for Personal Tax and Welfare Reform in HM Treasury, who will chair a Senior Official PSA Delivery Board, comprising all lead and supporting departments.[116]

49. Nicholas Macpherson explained the rationale for the Treasury's lead role in relation to the child poverty PSA as follows:

> The primary reason the Treasury has led on Child Poverty is that we control the levers which are critical for meeting the 2010 target, as we set the levels of financial support for families. Employment will have an important impact on achieving our goal of halving child poverty, but financial support is the most important lever … The Treasury also led on production of the 2004 *Child Poverty Review* which contains [the] Government's comprehensive strategy for achieving our child poverty targets. As with the Child Poverty Review, the Child Poverty PSA Delivery Agreement has been coordinated by the Treasury, but with substantial input from a number of departments.[117]

50. On 29 October 2007, the Department for Work and Pensions and the Department for Children, Schools and Families announced the creation of a Child Poverty Unit to be located within the Department for Children, Schools and Families. It was stated that the new Unit would "bring together experts from the Department for Work and Pensions and the Department for Children, Schools and Families with the remit of co-ordinating and developing policy with HM Treasury and across Whitehall that will support the ongoing work to end child poverty". The unit would "act as a first point of contact for stakeholders and interest groups, local and national government departments and government agencies".[118] Mr Macpherson explained the rationale of the division of responsibilities

115 See paragraphs 31–34.

116 *PSA Delivery Agreement 9: Child poverty*, paras 3.34–3.35, p 17

117 Ev 24–25

118 Department for Children, Schools and Families press notice, 'New team to tackle UK child poverty', 29 October 2007

between the PSA Delivery Board to be chaired by a Treasury official and the Child Poverty Unit to be located within the Department for Children, Schools and Families. He said that the former was concerned principally with short to medium term measures to meet the 2010–11 target, which would be principally about transfer payments, while the latter was concerned principally with meeting the longer term target for abolition of child poverty, where the role of wider public services would be more important than such payments.[119] **We note the Government's explanation for the decision to assign HM Treasury lead responsibility for the new PSA framework relating to child poverty. However, in view of the decision to establish a Child Poverty Unit located in the Department for Children, Schools and Families, we remain to be convinced that the division of departmental responsibilities will not accentuate the possible tension between the 2010–11 target and the final target to eradicate child poverty.**

Measures in the 2007 Pre-Budget Report

51. The 2007 Pre-Budget Report contained a number of measures intended to contribute towards meeting the Government's child poverty targets. First, the Government announced that it would raise the child element of the Child tax credit by £25 a year above earnings indexation, in April 2008, in addition to the Budget 2007 commitment to increase the child element by £150 and that it intended to raise it again by a further £25 above indexation in April 2010.[120] Second, the Government said that it would substantially increase the child maintenance disregards in income-related benefits. The maintenance disregard for Income Support is to be increased to £20 and will be accompanied by an increase in the maintenance disregard in Housing Benefit and Council Tax Benefit, from the current £15 per week to a full disregard.[121] Third, the Government announced that it would roll out the In-work Credit, a £40 per week (£60 in London) payment for lone parents who have been on Income Support (IS), during their first twelve months in employment.[122] The combined cost of these measures is approximately £600 million.[123] The Chief Secretary said the combined effect of these measures, together with the rise of Child benefit in line with Retail Prices Index in April 2008, would be to lift a further 100,000 children out of poverty.[124]

52. The Chief Secretary told us that the Government believed that Child Tax Credit was the most effective way to tackle child poverty:

> That [Child Tax Credit] has been and we believe remains the most effective way of targeting children with real need. It is obviously possible to do that through other mechanisms, through increases in child benefit, but it is the government's view that increasing the child element of child tax credit is a very, very effective way of making further progress towards the child poverty target. There are obviously other things

119 Treasury Sub-Committee, Uncorrected transcript of oral evidence, *HM Treasury's administration and expenditure in 2006–07*, 14 November 2007, Q 10

120 *Pre-Budget Report and Comprehensive Spending Review 2007*, para 5.25, p 78

121 *Ibid.*, para 5.27, p 78

122 *Ibid.*, para 5.12, p 75

123 HC (2007–08) 54, Q 104

124 Q 23

> that can be done to make that progress. I think it is important. I do not want to be misunderstood in saying that that alone is the only mechanism that we use.[125]

53. Barnardo's agreed that the child tax credit had to be the cornerstone of any strategy to target resources at tackling child poverty. Barnardo's observed that some measures in the 2007 Pre-Budget Report, such as the child maintenance disregard and the in-work credit, would only assist poor children living in lone parent families. Barnardo's noted that, while children living in lone parent families were a significant group at risk of poverty, they were not the only poor children in the United Kingdom. This made child tax credit essential as the most effective mechanism to reach all poor children in the United Kingdom.[126]

54. The 2007 Pre-Budget Report also announced the uprating of all elements of the Working Tax Credit, except for the childcare element, in line with the Retail Prices Index. Mr John Whiting of PriceWaterhouseCoopers believed the Government had taken the decision not to uprate the childcare element in the same way because "there was a substantial increase [in childcare tax credit] last year, including the percentage of childcare costs that was covered by that".[127] This analysis was confirmed by Treasury officials who noted that the upper threshold limits for the childcare element of Working Tax Credit had been increased in April 2005, from £135 and £200 per week to £175 and £300 respectively, while in April 2006 the Government had increased the proportion of childcare support covered from 70% to 80%. The Government stated that it would continue to keep the threshold limits under review.[128]

Prospects for meeting the 2010–11 target

55. The measures announced in the 2007 Pre-Budget Report are expected by the Government to lift 100,000 children out of poverty. Mr Chote confirmed to us that this meant that the Government would have to reduce child poverty by a further 700,000 to meet its interim target of halving child poverty by 2010–11.[129] CPAG pointed out that the rate of progress to be achieved by the measures in the 2007 Pre-Budget Report "will mean we will not succeed in halving child poverty until many years after the target date".[130] Barnardo's also expressed disappointment that the proposed increases in tax credits were less than 10% of the level of investment required if the Government was to meet the 2010–11 target and considered that "the minimal increases in tax credits" announced in the 2007 Pre-Budget Report made it "virtually impossible that the Government will be able" to meet the 2010–11 target in practice.[131]

56. Following the 2007 Budget and the measures announced at that time, the IFS had calculated that the Government would need to spend an additional £3.8 billion a year in order to meet the 2010–11 child poverty target, assuming that additional expenditure was

125 Q 22

126 Ev 43

127 HC (2007–08) 54, Q 115

128 Ev 46

129 HC (2007–08) 54, Q 104

130 Ev 34

131 Ev 43

targeted on the most effective measures, principally increases in the child element of child tax credit.[132] Mr Chote acknowledged that the likely annual cost of meeting that target had fallen as a consequence of the measures in the 2007 Pre-Budget Report, although he did not think that the fall was equivalent to the total annual cost of those measures—£600 million—because the new expenditure was not necessarily the best use of resources in the context of meeting the 2010–11 target.[133]

57. The exact extent of progress towards child poverty targets has generally been considered to be linked to the progress in raising the proportion of households with adults in work. However, shortly before the 2007 Pre-Budget Report and Comprehensive Spending Review, the Institute of Public Policy Research (IPPR) announced a finding that, while child poverty among workless households had fallen over the last decade, it had risen amongst working households.[134] Mr Chote believed that the rise in child poverty amongst working households could be explained by the use of a relative income measure to assess child poverty:

> The increase in the proportion would presumably be that the growth rate of incomes at that level of the income distribution has been growing less quickly than in the median. You are measuring how far people are falling behind the middle. The success in terms of how people in work towards the bottom of the income distribution are doing relative to the median is not only a function of how much incomes are right at the bottom but what the target is and effectively are they having to run to stand still.[135]

Dr Weale expanded upon possible reasons for this:

> I think we have had an element of downward pressure on wages at the low end of the distribution from a combination of international trade competition from low wage economies and also probably from migration. There are also questions of how full-time some of the people who are working are actually working. Indeed, there have to be questions about how many hours a week they are actually working. We have seen a general widening of the income distribution, partly at the top but also downward pressure at the lower part of the distribution and that does have implications for people who work..[136]

58. Treasury officials acknowledged that, because the child poverty target was based on relative income, it was very sensitive to changes in income in the economy as a whole and to changes in employment rates.[137] They referred to possible reasons why child poverty amongst working households could have risen and agreed that one explanation could be that the working adult in some lower income families might only be employed part-time. The Chancellor of the Exchequer told us that he was aware of the IPPR's findings and had

132 HC (2006-07) 389–I, para 47

133 HC (2007–08) 54, Q 104

134 Institute of Public Policy Research press notice, 'Darling should prioritise child poverty', 7 October 2007

135 HC (2007–08) 54, Q 120

136 *Ibid.*, Q 121

137 *Ibid.*, Q 220

already asked his officials to make contact with IPPR to discuss their methodology and conclusions.[138]

59. When the Government first announced its intention to introduce Delivery Agreements, it stated that Public Service Agreements

> will … 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.[139]

We have previously referred to our recommendations that the final form of the child poverty target for the 2007 Comprehensive Spending Review should be accompanied by a new statement of strategy and a clear indication of how resources would be deployed on particular measures.[140] In written evidence, the Child Poverty Action Group voiced disappointment that the Government had failed to "state alongside the CSR how it intends to meet the 2010–11 target to halve the number of children in poverty and where the resources will come from".[141]

60. In response to the suggestion that the Comprehensive Spending Review did not appear to contain the provisions necessary in order to meet the 2010–11 target or outline the Government's strategy as to how the target would be achieved, the Chancellor of the Exchequer explained that before 2010 the Government still had two Budgets and two Pre-Budget Reports to move towards the target.[142] Treasury officials told us:

> The fact is that because our target on child poverty is based on relative income it is very sensitive to changes in income in the economy as a whole and to changes in employment rates. Therefore, we tend to look at this from each PBR to Budget to PBR and make incremental changes rather than make one big change.[143]

61. Both the Chancellor of the Exchequer and Chief Secretary spoke of the need also to look at wider Government initiatives to tackle child poverty. The Chancellor of the Exchequer said that meeting the child poverty targets would depend upon a combination of spending money and helping people into work.[144] The Chief Secretary spoke of relevant initiatives such as extending New Deal Plus for lone parents, as well as the resources that "the CSR makes available for skills and for adult learning".[145]

62. The Government's emphasis on longer-term broader measures to tackle child poverty, including increasing the employment rate, particularly amongst lone parents, and improving skills levels, combined with the fact that it has not earmarked resources to meet

138 HC (2007–08) 54, Q 218

139 HM Treasury, *Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review*, Cm 6889, July 2007, para 4.27, p 42

140 See paragraphs 40–41.

141 Ev 34

142 HC (2007–08) 54, Q 328

143 *Ibid.*, Q 220

144 *Ibid.*, Q 329

145 Q 45

the 2010–11 target, has led to speculation that the Government may be shifting its focus from the 2010–11 target to the 2020 target to eradicate child poverty.[146] Mr Chote outlined the possible trade-off in that the 2010–11 target could put pressure on the Government to go down the quickest cost-effective route of getting there, which would be to increase transfer payments, whereas focusing on the 2020 target might lead the Government to prioritise investment in longer term social investments but potentially at the cost of making it more likely that the 2010 target would be missed.[147]

63. The Chancellor of the Exchequer assured us that the Government remained committed to meeting the 2010 target, and rejected the suggestion that the target was something that might need to be re-examined.[148] However, the Chief Secretary did say he would not see it as a huge failure if the Government only got 85% or 95% towards meeting its 2010 child poverty target because it would still mean the Government would have made substantial progress towards reducing child poverty.[149]

64. **The Comprehensive Spending Review is not accompanied by a clear explanation of the linkage between the Government's target to halve child poverty by 2010–11 and the proposed deployment of resources to meet that target. We are concerned that the Government may have drawn back from a whole-hearted commitment to meeting this target. A failure to meet that target would represent a conscious decision to leave hundreds of thousands of children in poverty for longer than is necessary or desirable. While we accept that there may be a long-run trade-off between meeting the 2010–11 target and longer term ambitions to increase employment, the linkage between child poverty and working households is by no means clear cut. We consider that the Government must either initiate a public debate on that trade-off, or rededicate itself to meeting the 2010–11 target, making clear at the earliest opportunity available both that the necessary resources are available within the Comprehensive Spending Review settlement and that the Government is committed to deploying those resources.**

146 "Ministers are 'falling years behind' on targets to banish child poverty, *The Times*, 29 October 2007, p 23

147 HC (2007–08) 54, Q 112

148 *Ibid.*, Q 328

149 Q 42

6 The individual spending settlements

Determining the baselines and related reporting issues

65. As we noted in June 2007, the process for the 2007 Comprehensive Spending Review differed significantly from that for previous Spending Reviews in the extent to which individual departmental settlements preceded the final spending announcement. Five departments agreed their spending allocations up to 2010–11 at the time of the 2006 Budget; six further settlements were announced in the 2006 Pre-Budget Report, with three more announced in the 2007 Budget.[150] The spending settlement for the Ministry of Defence was announced in July 2007.[151] In June 2007, we commented on the marked variation in the quality of the information provided about the early settlements, with many allocations being expressed only in terms of a real terms percentage increase or reduction.[152] As we noted then, settlements expressed in these terms had limited value in terms of the information provided because the actual baselines of expenditure in 2007–08 that would be used for settlements were not generally stated.[153]

66. The baselines of expenditure in 2007–08 were set out in the final Comprehensive Spending Review documentation.[154] The departmental figures given there did not amount to the total expenditure within Departmental Expenditure Limits (£344.6 billion) provided in the final row of the relevant table, and the initial documentation did not give an account of the differences, amounting to around £3.5 billion. The Treasury subsequently explained:

> As a routine part of the spending review process, to ensure both equitable treatment between departments and that ongoing provision is not made for programmes that do not carry forward into the next spending round, forward plans are determined by allocations to a department's baseline rather than in-year spending plans. Baselines therefore differ from in-year plans in that they exclude time-limited and one-off items of expenditure.[155]

The Treasury provided us with information on expenditure by departments in 2007–08 including such time-limited and one-off items, which is published with this Report.[156]

67. The Chief Secretary and Treasury officials made it clear that agreeing baselines for expenditure was an important and recurring feature of spending negotiations between the Treasury and spending departments. The Chief Secretary also pointed out that it would be wrong to base expenditure increases on estimated outturns for the baseline year.[157] He indicated that he was willing to examine whether the documentation supporting the

150 HC (2006–07) 279, para 11

151 HC Deb, 25 July 2007, cols 865–867

152 HC (2006–07) 279, para 105

153 *Ibid.*, para 54

154 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 1.3, p 12 and Annex D

155 Ev 44

156 Ev 44–45

157 Qq 5–6

Comprehensive Spending Review could have explained the reasons for the differences between the sets of figures more clearly.[158]

68. We accept that it is appropriate for the baselines for departmental expenditure within a Spending Review to be based on spending which excludes certain time-limited and one-off items of expenditure. However, the use of baselines which differ substantially from expected outturns for 2007–08 has presentational implications which the Government may not have clearly acknowledged in the documentation accompanying the outcome of the Comprehensive Spending Review. For example, actual levels of expenditure within Departmental Expenditure Limits by the Department of Health and the Ministry of Defence are forecast to rise by an annual average of 3.4% and 0.5% respectively between 2007–08 and 2010–11, compared with the headline increases of 3.9% and 1.5% from the agreed baselines in 2007–08. **We recommend that the documentation accompanying future Spending Reviews include up-to-date figures on forecast outturns for the baseline year, as well as baselines used for the purposes of spending allocations, and an account of the differences between those sets of figures.**

Settlements for devolved administrations

69. The overall annual average rate of increase in real terms in public expenditure within Departmental Expenditure Limits in the period up to 2010–11 from the 2007–08 baseline including time-limited and one-off items of expenditure is 2.1%.[159] The annual average increases in the funding provided to the devolved administrations over the same period are 1.8% in the case of the Scottish Executive, 2.4% in the case of the Welsh Assembly Government and 1.7% in the case of the Northern Ireland Executive.[160] The Chief Secretary and Treasury officials confirmed that these rates of increase were a result of the application of the Barnett formula. The rates of increase differed in part because of areas of increase in spending—such as spending by the Department for International Development—which did not affect the Barnett formula and in part because the formula was designed to provide the devolved administrations with the same absolute nominal increase per head as United Kingdom departments received in England; rates of increase were lower because the baseline levels of spending per head were higher.[161] The Chief Secretary indicated that the adjustments to the baselines of expenditure in 2007–08 by United Kingdom Government departments in England had no effect on the actual spending allocations to the devolved administrations.[162] The Chancellor of the Exchequer also indicated that, in accordance with established practice under the Barnett formula, spending allocations to the Department of Transport in relation to the Crossrail project were reflected in the total amounts available to Scottish Executive, which was a consequence of the Government's policy to apply the Barnett formula consistently.[163]

158 Q 4

159 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 1.3, p 12

160 *Ibid.*

161 Qq 104–109

162 Q 103

163 HC (2007–08) 54, Qq 363–376

The local government funding settlement

70. The 2007 Comprehensive Spending Review announced that resource Departmental Expenditure Limit support for local government would increase by an average of 1% in real terms over the period up to 2010–11.[164] The Chancellor of the Exchequer stated that the Government had "provided sufficient resources to ensure that local authorities can keep council tax rises substantially below 5%".[165] The settlement assumes that £4.9 billion of annual net cash-releasing value for money savings will be achieved by local government by 2010–11, including up to £1.8 billion of annual savings by that date from "business process improvement and collaboration initiatives", and up to £2.8 billion of annual savings by the same year from "smarter procurement".[166]

71. Mr Chote questioned whether the initial spending settlement for local government would prove realistic, or whether there might be subsequent pressure for additional central government support to prevent faster rises in council tax bills.[167] Professor Talbot suggested that the efficiency targets for local government were demanding and, in view of the increased demands placed on local authorities, saw the overall settlement as "a very, very stiff challenge to … local government".[168]

72. The Chief Secretary indicated that he had no wish to see the pattern repeated whereby an initial allocation of central support for local authorities had to be revisited.[169] He thought that the overall allocation met the Local Government Association's requirements for "business as usual" spending. He pointed to increased spending flexibility in relation to grants that had previously been ring-fenced and funding for concessionary fares. While he recognised that it was a "challenging settlement", he thought that it offered both growth and flexibility.[170] Treasury officials pointed to the fact that local government was "ahead of the game" in producing cash-releasing efficiency savings during the 2004 Spending Review period,[171] and the Chief Secretary also drew attention to increased central government funding for local authority value for money initiatives.[172]

Spending on health and social care

73. In May 2006, planned expenditure on the National Health Service in England in 2007–08 amounted to £93,261 million, including planned capital expenditure of £6,199 million.[173] By May 2007, planned expenditure on the National Health Service in England in 2007–08 had been scaled back to £91,775 million, including capital plans for £4,177

164 *Pre-Budget Report and Comprehensive Spending Review 2007*, Annex D6, p 221

165 HC Deb, 9 October 2007, col 173

166 *Pre-Budget Report and Comprehensive Spending Review 2007*, para D6.6, p 223

167 HC (2007–08) 54, Q 41

168 *Ibid.*, Q 117

169 Q 129

170 Q 132

171 HC (2007–08) 54, Q 139

172 Q 134

173 Department of Health, *Department of Health: Departmental Report 2006*, May 2006, Cm 6814, Annexes A2 and A3, pp 139, 140

million.[174] By October 2007, the estimated outturn of expenditure on the NHS in England was £90.7 billion.[175] For the purposes of the spending settlement announced in the 2007 Comprehensive Spending Review, the baseline for expenditure on the NHS in England was £90.4 billion.[176] The Chief Secretary, who had been a Health Minister at the time of the revisions of capital expenditure in the Spring of 2007, stated that the downward revision was necessary to ensure that the spending assumptions reported to Parliament were "reliable", "taut", "realistic" and "credible".[177] One effect of successive downward revisions relating to NHS spending in 2007–08 has been to establish a baseline in relation to which planned expenditure on the NHS in England can be reported as rising on average in real terms by 4.0% a year over the period covered by the Comprehensive Spending Review.

74. As part of the Comprehensive Spending Review, the Government announced that direct funding for social care would increase by £190 million to £1.5 billion by 2010–11 and that the Government would consult on reform of the public support and care system.[178] The Chief Secretary accepted that "to some degree social care has been a neglected area in recent times" and that there were "significant" pressures on local authority social care funding.[179] He thought that "the time has come to make some searching assessment of how we are going to fund social care into the future".[180] The Chancellor of the Exchequer pointed out that the lead responsibility for funding social care remained with local authorities and that the Government "can reasonably expect local authorities who have a great deal of responsibility in this area also to make funds available".[181]

Education spending

75. In the 2006 Budget, the then Chancellor of the Exchequer set out a "long-term aim" for State spending per pupil to match the average level of spending per pupil in private sector day schools in 2005–06 of £8,000 per pupil. Treasury officials told us at the time that there was "no timetable attached" to this "pledge". On the basis of the Comprehensive Spending Review settlement for education, spending in the State sector is expected to rise from £4,800 per pupil in 2005–06 to £6,600 per pupil in 2010–11 (the equivalent of £5,800 per pupil in 2005–06 prices). The Institute for Fiscal Studies has forecast that, if education spending were to continue to rise in line with the rates of spending increase now set for the period from 2008–09 to 2010–11, the level of private sector spending per pupil in 2005–06 would be matched by the level of State sector spending per pupil in 2020–21. Treasury officials indicated to us following the 2007 Budget that spending announcements since the 2006 Budget had provided for around one-fifth of the expenditure required to match private sector spending levels per pupil in 2005–06 in real terms.[182] The Chief Secretary re-

174 Department of Health, *Department of Health: Departmental Report 2007*, May 2007, Cm 7093, Figure A.1, p 192

175 Ev 44

176 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table D3, p 207

177 Q 85

178 *Pre-Budget Report and Comprehensive Spending Review 2007*, Annex D2, p 204

179 Qq 136–137

180 Q 138

181 HC (2007–08) 54, Q 338

182 HC (2006–07) 389–I, para 83

stated that there was no timetable for meeting the original target, but also referred to forecasts of education spending per pupil in the independent sector in 2010–11.[183] **We recommend that the Government, in its response to this Report, clarify whether its ambition to match independent sector spending per pupil in schools relates to a static target, of such spending per pupil in 2005–06, albeit updated so as to be expressed in real terms, or a moving target, relating to projected future levels of spending per pupil in the independent sector.**

The Home Office and the Ministry of Justice

76. In the 2006 Budget, the then Chancellor of the Exchequer announced a Home Office spending settlement that would see that Department's budget remain constant in real terms over the years 2008–09 to 2010–11. In January 2007, the then Chief Secretary told us that "I am satisfied, and the Home Secretary is satisfied, that he can manage his department within the resources that have been provided for the Home Office".[184] The then Chief Secretary also stated that "The benefit for the Home Office of having that early settlement was a really quite unprecedented degree of certainty about the Department's future funding for, in that case, a whole five-year period".[185]

77. On 29 March 2007, the Prime Minister announced his intention to create a Ministry of Justice, moving the National Offender Management Service and lead responsibility for criminal law and sentencing policy from the Home Office to the Department for Constitutional Affairs. In June 2007, we concluded that the value of early spending settlements on a departmental basis for the Home Office and the Departmental for Constitutional Affairs might be diminished as a result of the subsequent decision to transfer some Home Office functions to a new Ministry of Justice. We recommended that the Government clarify its funding intentions with regard to the Home Office and the Ministry of Justice at an early stage and in advance of the final outcome of the Comprehensive Spending Review, stating clearly whether the new Departments will be bound by the combined totals agreed by the Home Office and the Department for Constitutional Affairs and providing a breakdown of the expenditure allocation between the Departments.[186] In response, the Government stated that "the early spending settlements announced at the 2006 Budget and the 2006 Pre-Budget Report have not been re-opened. These provide the basis for the resources the new departments will have available over the spending review period."[187]

78. In announcing the outcome of the 2007 Comprehensive Spending Review, the Chancellor of the Exchequer stated that there would be a new single budget for intelligence and security, including £700 million for the next three years for the Home Office for its work in combating the terrorist threat.[188] The budget of the Home Office is now expected to rise by 1.1% a year on average in real terms over the period covered by the

183 Qq 95–96

184 HC (2006–07) 279, para 46

185 *Ibid.*, para 12

186 *Ibid.*, paras 46–49

187 HC (2006–07) 1027, p 3

188 HC Deb, 9 October 2007, col 169

Comprehensive Spending Review.[189] The Chief Secretary told us that he believed that the settlement gave the Home Office the resources needed to take forward neighbourhood policing, but confirmed that final decisions about the use of additional funds, including final allocations for terrorism and for neighbourhood policing, were a matter for the Home Office.[190]

79. The budget of the Ministry of Justice is planned to fall by 1.7% a year in real terms on average over the period covered by the Comprehensive Spending Review.[191] In July 2006, the then Home Secretary announced plans to expand prison capacity by 8,000 places by 2012.[192] In announcing the outcome of the Comprehensive Spending Review, the Chancellor of the Exchequer said:

> Overall, I am allocating additional resources to the Home Office and the Ministry of Justice that will now rise to £20 billion by 2010, as we … build 9,500 extra prison places …[193]

In oral evidence, the Chief Secretary confirmed that only 8,500 additional prison places were funded within the Comprehensive Spending Review settlement. An allocation had been made for the further 1,000 prison places, but the timing of those places was dependent upon the outcome of the review of the prison estate being conduct by Lord Carter.[194]

189 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 1.3, p 12

190 Qq 118–121; Ev 46–47

191 *Pre-Budget Report and Comprehensive Spending Review 2007*, Table 1.3, p 12

192 *Budget 2007*, para 6.93, p 163

193 HC Deb, 9 October 2007, col 169

194 Qq 87–91

Conclusions and recommendations

Efficiency and value for money

1. We recommend that, in its response to this Report, the Government provide a definitive answer to the issue we posed in June 2007, namely whether standard accounting conventions will be used for identifying and distributing implementation costs under the new efficiency programme. We further recommend that the Government confirm in its response whether the presumed methodology for calculating savings in monetary terms set out in paragraph 17 of this Report is correct and, if not, clarify the methodology to be used. (Paragraph 21)

2. The efficiency targets that have been set for the period from 2008–09 to 2010–11 are stretching and highly ambitious. In view of the unresolved issues concerning the effects of the current Gershon efficiency programme on service delivery, it is important that there is parliamentary and public confidence in claims about the effects of the efficiency programme for the period from 2008–09 to 2010–11 on service delivery. We recommend that the Government state explicitly that financial savings during that period will only be recorded as efficiency savings if there is sufficient evidence that service standards have at least been maintained. We further recommend that such evidence be the subject of regular external audit by the National Audit Office. We expect that this Committee and other select committees will wish to examine departmental value for money Delivery Agreements to ensure that clear baseline standards are established against which contentions about the impact of efficiency savings on service standards can be tested. (Paragraph 25)

3. We welcome the decision of the Government not to impose new explicit targets for reduction in Civil Service numbers for the period from 1 April 2008. We will monitor the implementation of reductions in departmental administration budgets, including classification issues and the effect of such reductions on the Civil Service workforce. (Paragraph 27)

The new performance management framework

4. It is not possible to draw definite conclusions about the new performance measurement framework on the basis of the information published alongside the outcome of the 2007 Comprehensive Spending Review. In particular, the nature of Departmental Strategic Objectives, and the extent to which they have become different in kind from Public Service Agreements, will not be evident until the outcome indicators associated with those Objectives have been published. The decision to distinguish between Departmental Strategic Objectives and Public Service Agreements which are cross-departmental in nature is in principle a welcome one. We also welcome the clear assignment of a lead department in respect of each Public Service Agreement. However, the cross-departmental nature of all new Public Service Agreements poses a challenge for a system of accountability currently based on departmental reporting and the work of departmental select committees. We recommend that performance against outcome indicators in new Public Service

Agreements be reported on in new cross-departmental publications on a bi-annual basis in relation to each such Agreement, separate from departmental annual reports and Autumn performance reports. These new publications could encourage more effective cross-cutting scrutiny of Public Service Agreements between select committees concerned. (Paragraph 37)

Child poverty

5. We accept the value of an additional target relating to child poverty including a measure of material deprivation, not least in highlighting that poverty is not just about income. However, there is a risk that consideration of material deprivation will move focus away from the most pressing cases of child poverty and, in that context, we are disappointed that the Delivery Agreement does not respond to the recommendations of this Committee for a fuller analysis of the particular issues surrounding child poverty in the very poorest households. It is important that efforts to meet targets do not lead to an insufficient concentration upon the worst forms of child poverty in the very poorest households. We recommend that, in its response to this Report, the Government set out the role played in its strategy by measures concerned in particular with the very poorest households. (Paragraph 47)

6. We note the Government's explanation for the decision to assign HM Treasury lead responsibility for the new PSA framework relating to child poverty. However, in view of the decision to establish a Child Poverty Unit located in the Department for Children, Schools and Families, we remain to be convinced that the division of departmental responsibilities will not accentuate the possible tension between the 2010–11 target and the final target to eradicate child poverty. (Paragraph 50)

7. The Comprehensive Spending Review is not accompanied by a clear explanation of the linkage between the Government's target to halve child poverty by 2010–11 and the proposed deployment of resources to meet that target. We are concerned that the Government may have drawn back from a whole-hearted commitment to meeting this target. A failure to meet that target would represent a conscious decision to leave hundreds of thousands of children in poverty for longer than is necessary or desirable. While we accept that there may be a long-run trade-off between meeting the 2010–11 target and longer term ambitions to increase employment, the linkage between child poverty and working households is by no means clear cut. We consider that the Government must either initiate a public debate on that trade-off, or rededicate itself to meeting the 2010–11 target, making clear at the earliest opportunity available both that the necessary resources are available within the Comprehensive Spending Review settlement and that the Government is committed to deploying those resources. (Paragraph 64)

The individual spending settlements

8. We recommend that the documentation accompanying future Spending Reviews include up-to-date figures on forecast outturns for the baseline year, as well as baselines used for the purposes of spending allocations, and an account of the differences between those sets of figures. (Paragraph 68)

9. We recommend that the Government, in its response to this Report, clarify whether its ambition to match independent sector spending per pupil in schools relates to a static target, of such spending per pupil in 2005–06, albeit updated so as to be expressed in real terms, or a moving target, relating to projected future levels of spending per pupil in the independent sector. (Paragraph 75)

Formal minutes

Tuesday 20 November 2007

Members present:

John McFall, in the Chair

Nick Ainger
Mr Graham Brady
Mr Colin Breed
Mr Philip Dunne
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
Mr George Mudie
Mr Siôn Simon
John Thurso
Mr Mark Todd
Peter Viggers

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The 2007 Comprehensive Spending Review

Draft Report (The 2007 Comprehensive Spending Review), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 and 2 read and agreed to.

Paragraph 3 read, amended and agreed to.

Paragraphs 4 to 6 read and agreed to.

Paragraph 7 read, amended and agreed to.

Paragraphs 8 to 23 read and agreed to.

Paragraph 24 read, amended and agreed to.

Paragraphs 25 and 26 read and agreed to.

Paragraph 27 read, amended and agreed to.

Paragraphs 28 to 42 read and agreed to.

Paragraph 43 read, amended and agreed to.

Paragraphs 44 to 46 read and agreed to.

Paragraph 47 read, amended and agreed to.

Paragraphs 48 and 49 read and agreed to.

Paragraph 50 read, amended and agreed to.

Paragraphs 51 to 79 read and agreed to.

Summary agreed to.

Resolved, That the Report, as amended, be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Thursday 29 November at 9.30 am.

Witnesses

Monday 22 October 2007	*Page*
Andy Burnham MP, Chief Secretary to the Treasury, **Ms Mridul Hegde**, Director, Public Spending, **Mr Richard Hughes**, Team Leader, Comprehensive Spending Review, and **Mr David Ramsden**, Managing Director, Macroeconomic and Fiscal Policy, HM Treasury	Ev 6

List of written evidence

1	Letter from the Permanent Secretary, HM Treasury	Ev 21
2	HM Treasury DSO framework (in development)	Ev 23
3	Letter from the Chairman to the Permanent Secretary, HM Treasury	Ev 24
4	Letter from the Permanent Secretary, HM Treasury	Ev 24
5	HM Treasury Group Departmental Strategic Objectives	Ev 25
6	Letter from the Chairman to the Permanent Secretary, HM Treasury	Ev 32
7	Letter from the Permanent Secretary, HM Treasury	Ev 33
8	Letter from the Permanent Secretary, HM Treasury	Ev 33
9	Child Poverty Action Group	Ev 34
10	PCS	Ev 35
11	Professor Colin Talbot and Dr Jay Wiggan, The Herbert Simon Institute	Ev 36
12	Professor David Heald, specialist adviser to the Committee	Ev 38
13	Barnardo's	Ev 42
14	HM Treasury	Ev 44
15	HM Treasury, further supplementary memorandum	Ev 45

List of unprinted evidence

The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

Nordic Enterprise Trust

List of Reports from the Treasury Committee during the current Parliament

Session 2007–08

		Report
First Report	The 2007 Comprehensive Spending Review	HC 55
Second Report	The 2007 Pre-Budget Report	HC 54

Session 2006–07

		Report
First Report	Financial inclusion: the roles of the Government and the FSA, and financial capability	HC 53
Second Report	The 2006 Pre-Budget Report	HC 115
Third Report	Work of the Committee in 2005–06	HC 191
Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
Fifth Report	The 2007 Budget	HC 389
Sixth Report	The 2007 Comprehensive Spending Review: prospects and processes	HC 279
Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
Eighth Report	Progress on the efficiency programme in the Chancellor's department	HC 483
Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
Tenth Report	Private equity	HC 567
Eleventh Report	Unclaimed assets within the financial system	HC 533
Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299
Thirteenth Report	Financial inclusion follow-up: saving for all and shorter term saving products	HC 504
Fourteenth Report	Globalisation: prospects and policy responses	HC 90

Session 2005–06

		Report
First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	"Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion	HC 1717

Oral evidence

Taken before the Treasury Committee

on Monday 22 October 2007

Members present

John McFall, in the Chair

Mr Graham Brady	Mr Andrew Love
Mr Philip Dunne	Mr George Mudie
Mr Michael Fallon	John Thurso
Ms Sally Keeble	Mr Mark Todd

Witnesses: **Andy Burnham MP,** Chief Secretary to the Treasury, **Ms Mridul Hegde,** Director, Public Spending, HM Treasury, **Mr Richard Hughes,** Team Leader, Comprehensive Spending Review, HM Treasury, and **Mr David Ramsden,** Managing Director, Macroeconomic and Fiscal Policy, gave evidence.

Q1 Chairman: Minister, welcome to this evidence session with your colleagues. Can I ask you to introduce them for the shorthand writer, please?
Andy Burnham: Good afternoon. On my far left is Dave Ramsden who is managing director and who you have probably heard before. On my immediate left is Richard Hughes who is the head of the CSR team. On my right is Mridul Hegde, who is director of public spending.

Q2 Chairman: Between 1999 and 2008 expenditure within Departmental Expenditure Limits will have grown at 4.9% a year in real terms but between 2008 and 2011 that growth will be cut to 2.1%. What leads you to believe that the public sector is prepared for such a dramatic deceleration in growth?
Andy Burnham: There has been a lot of planning put in place for this Comprehensive Spending Review. As you rightly say, the context for it is ten years of significant if not unprecedented investment in public services. The Comprehensive Spending Review, in my view, consolidates that investment and continues the growth in key departments and on key priorities. It has been well signalled that there would be a slowing of the pace in the growth of public spending. It has been well known in the main departments over the period running up to the Comprehensive Spending Review. The same spending assumptions that were there, that underpinned the PBR 2004, have been maintained underpinning this spending review. It is the right response to the situation that faces us today but if departments make the headway on efficiency, as I have every confidence they will, we have said all along that they will be able to maintain the rate of improvement in public service within the tighter spending climate they are now working in.

Q3 Chairman: There has been a view that the largesse has not been spent as well as possible. Now there is less money. What guarantee can you give us that, with even less money, your spending is going to be better?
Andy Burnham: I hear that said frequently. This idea is just tossed out that the money has not been spent well and it has not produced results. I would like to challenge that and say that across the key departments you can see the improvements are quite staggering, in my view. If I look at the department that I was previously a minister in before coming to the Treasury, you can see there enormous improvement in waiting and waiting times and on the big killers, cancer, coronary heart disease and stroke, that I would say is a major return for the investment that has gone in. In education, the Government's stated priority, again you can see considerable improvement in the numbers of pupils gaining five A to Cs. I do not have the figure directly to hand but there is a real improvement of around about 10% in the numbers of pupils getting five good GCSEs. That is a direct result of the investment. Having said that though, I do accept that in this spending review period there should be further pressure on departments to focus and really ensure that every pound that we put in gets the maximum return for the public. I think there is a growing focus on that issue now, whereas five years ago people would have just looked at the headline increases that departments were receiving as being an end in themselves. I think we have moved away from a period where people generally thought that the public services were underfunded to one where now people are looking more critically at what the return is for that investment.

Q4 Chairman: While it is understandable that baselines for spending settlements may not tally with expected outturns for 2007–08, do you agree that it is unfortunate that the Comprehensive Spending Review document did not provide clearer information on current estimates of outturn expenditure for 2007–08, given the scale of the difference between the two? I am considering here the 2007–08 baseline components in table 1.3 which add up to 341.4 billion less than the total DEL that is shown as 344.6 billion.

Andy Burnham: I know the Committee have pointed out that difference to the Department. There is a very good explanation for it which would be common to any spending review, which is that one time limited and one off items of expenditure are removed from the departmental baseline, that would account for the roughly £2.1 billion that explains the difference between the two figures. If the point you are making to me is: was that explained clearly enough in the documentation that supported the CSR, that is something I will take on board and have a look at, but there is a very good and a very sound explanation as to why there is a discrepancy.

Q5 Chairman: At which stage in the spending negotiations were the baselines agreed?
Mr Hughes: It is part of the overall spending review process that we do this with the departments and to some extent it was a rolling programme of looking at particular things within departmental baselines. In some cases, these things were agreed as early as January of this calendar year. In some cases, it was not until the Budget that we finally agreed on what the amount of time limited spending was to be removed from their baseline. In other cases, it was not until the summer or just before the spending review that we reached a final set of figures. The only thing to bear in mind is that there was a big machinery of Government change announced over the summer so part and parcel of setting new departmental baselines was not just removing time limited expenditure from within those baselines but also to some extent moving resources around to follow the functions that were being transferred between the old Department for Education and Skills and the new Department for Children, Schools and Families, deciding where the different functions go, what amount of expenditure to attach to each of those functions and then getting those reflected in the final set of allocations that we set out in the spending review. This is a bit more of a challenge than we have usually had in previous spending reviews because we had quite a lot of new departments which we had to create budgets for and that took a good part of the summer for us.

Q6 Chairman: Using estimated outturns for 2007–08 as opposed to baselines, the spending increases for the Department of Health, the Department for Children, Schools and Families and the MoD appear to average 2.6%, 3.4% and 0.5% respectively in real terms of the CSR period compared with the figures stated in the CSR document of 3.1%, 3.9% and 1.5%. Is it a coincidence that these high profile departments are among those most affected by differences between baselines and estimated outturns?
Andy Burnham: I think that is a very important point to raise. If I may, it is a point that needs clarification because it would be absolutely wrong for us to take as a baseline a departmental allocation that included spending that was time limited, had expired or was one off. It would be to inflate the overall DEL allocation if we were to do that. As Richard Hughes was explaining, it was quite proper to take out from those baselines the items that will not recur in the spending period so that we have a proper assessment of the underlying budget of the department. From my point of view, having come into the spending review at a late stage, it was a process of discussion with each department as we reached the final stages of the spending review. Some of the items that account for this change between the DEL plans and the baselines were issues that were matters for discussion between myself and the relevant Secretary of State until the conclusion of the spending discussion.

Q7 Chairman: One of our advisers told us last week that the cost of Government consumption from 1997 to 2006 rose 1.7 percentage points faster than the GDP deflator so that, on the basis of similar rates in future, 2.1% real terms growth calculated according to the GDP deflator amounts to 0.4% real growth. Do you accept his figures on the cost of Government consumption between 1997 and 2006?
Mr Hughes: We do not accept those figures in the sense that the deflator we use for all public spending is the GDP deflator, the same one we use for economic output, so we can have a consistency reaching across all public spending and we have a sense for how much economic output is being used by the public sector to deliver the resources that it spends in different departments. We have always reported them this way and, if you take the GDP deflator that we needed to deflate public spending figures over the last five years, overall spending on public sector current expenditure, which I think is the same as what you would call public sector consumption, is somewhere closer to 3% or 4% in real terms since 1997.

Q8 Chairman: Do you expect the cost of Government consumption to grow at the same rate in coming years?
Mr Hughes: Different cost pressures are different on different departments. Some of them are higher than the GDP deflator; some of them are lower than the GDP deflator. I would not expect overall cost pressures across the public sector to be substantially higher than cost pressures across the economy as a whole. After all, that is where Government purchases its services.

Q9 Chairman: Do you agree that the relative price effect substantially diminishes the value of spending increases in areas where costs rise faster than the GDP deflator, such as costs in relation to, for example, defence equipment?
Mr Ramsden: I think it is fair to say that we are very comfortable with our approach at a macro level whereby, as Richard has been setting out, we relate everything to the GDP deflator in terms of the deflator and also we compare growth rates in real spending with what we are assuming about real growth in the economy. As you highlighted, at a micro level, when you are looking at individual department settlements within departments' individual programmes, we do look at the relevant deflators in order to work out our calculations. For

example within the MoD, what is the rate of inflation in procurement there; within transport looking more at construction; within the health service looking at the drugs bill. At the macro level you have to have coherence, which is why we do focus on the GDP deflator and real growth and on nominal GDP as a combination of the two. At the micro level, we draw these distinctions.

Q10 Mr Love: If that is the case, do you accept what Mr Weale said to us last week, that the deflators that you use for individual departments are significantly different from the overall deflator for the economy and that therefore the rates of growth that you have been talking about overall, using the GDP deflator, are not the same as the rates of growth that are going to happen because there is this difference at a departmental level?
Mr Ramsden: In terms of thinking of what the contribution different departments make at a macro level, it is right to calculate real growth by using the GDP deflator.
Mr Hughes: I do not think we do accept the point that Mr Weale was making in the sense that the reason you use the deflator to try to get a comparable serious across departments and across time, if you are using a different set of deflators for different Government services and you would defeat the purpose of having a single deflator to use across the whole of Government spending. For the services where they are expecting much more significant cost pressures over the spending reviews than you would expect for the Government as a whole that that is reflected in the fact that they are getting a better settlement than you would otherwise get.
Andy Burnham: Obviously that is reflected in the allocation. You mentioned defence. We can perhaps take the NHS. Obviously pressures are growing at a rate above perhaps other departments with the effects of an ageing population, the cost of drugs and treatment, but those calculations are taken into account the overall DEL allocation made to a department. And obviously construction inflation has been a particular issue that I have been looking at in the context of some of the large capital projects that have received the go ahead during this Comprehensive Spending Review period. Those pressures are taken into account when setting the overall allocation.

Q11 Mr Brady: Earlier this year this Committee recommended that the CSR ought to contain an overall analysis of the impact of inward migration and population growth on public expenditure. Why is that not there?
Andy Burnham: When the Government embarked upon this Comprehensive Spending Review process, as you will know, we looked at the long term challenges that the country faces, long term opportunities and challenges for the UK analysis for the 2007 Comprehensive Spending Review, and population change was very much a part of that planning process that underpinned the whole exercise. Now that the overall allocations have been made underpinned by this analysis of population change, it is for individual departments to make a judgment in terms of their own allocation formula about population change in particular localities over recent times. I think I am right in saying that practically all departments have committed to using the very latest data available to support the allocations that they will now seek to make on the back of the spending review.

Q12 Mr Brady: You have made a specific assessment nationally of the impact of inward migration on public expenditure?
Andy Burnham: Yes. That was at the very beginning of the process when the Government laid out the broad demographic changes that the Comprehensive Spending Review had to focus on. If you look at the document that I was referring to, there were a couple of paragraphs on page 33 which were not just looking at the inward migration but also other trends in the population such as the numbers of people aged over 85. These were projections that underpinned the overall analysis. As you will see, paragraph 3.2.6 gives some particular figures about levels of net migration so it was very much in the detailed planning work which underpinned the CSR as a whole.

Q13 Mr Brady: You say you have looked in detail at the inward migration impact on public expenditure. Have you also looked at the wider question of all the departmental spending figures on a per capita basis? For example, could you give me what the specific rate of increase you expect in health spending per capita would be over the CSR period?
Andy Burnham: That is the basis of the detailed discussion that happens at official level between the Treasury and the Department of Health and, in the latter stages, at ministerial level. It is for departments to bring to us the pressures that they are facing as a result of demographic change or the effects of net migration. It is at that level where the overall pressures can be brought to our attention but it is very much for departments now to develop a funding formula that recognises, if there are additional pressures on services, that they have a funding allocation that is sensitive to those changes. All are planning to use the latest population data and there are well established funding formulae to pick out these pressures.

Q14 Mr Brady: Can you tell us what the change will be in per capita expenditure on health over the CSR period?
Andy Burnham: As a result of net migration?

Q15 Mr Brady: The change in per capita expenditure. Obviously it will be as a result of changes in the overall size of the population.
Andy Burnham: I could. I do not have that figure directly to hand. Obviously the per capita allocation differs across the country. You are asking for a figure for the whole health care unit divided by all the people in the country and how that might have changed according to—

Q16 Mr Brady: Yes.
Andy Burnham: I am sure we could provide you with that figure.[1]

Q17 Mr Brady: Do you accept that all of your plans to enhance spending on public services in the coming years are absolutely dependent on success in restraining the public sector pay bill?
Andy Burnham: Obviously it is a spending review that requires vigilance and discipline in terms of the way in which spending is allocated but also the way in which pressures are managed. That is quite clearly the context in which all departments are operating in the forthcoming period. The Government's policy with regard to these matters will remain unchanged, which is that public sector pay awards should be consistent with the Government's overall headline target for the Government's overall inflation target. There will be no change at all in terms of that position. Given the climate in which departments are operating, there does need to be a discipline with regard to pay. At the very beginning I began by responding to the Chairman, saying that it is important to see the 10-year context for this CSR and particularly in relation to pay and workforce I think there is a very important 10-year context which is that, progressively over the last 10 years, workforce shortages in key professions have been—I would not say eradicated—but addressed. The increases in pay to bring in professionals to the degree that they were needed have largely been successful in my view. Hence, for that very reason, we are now in a different period with regard to public sector pay. It is not so much a period of catch-up to get staff in post and aid recruitment and retention. It is a different period that we are now in.

Q18 Mr Brady: I take it what you are saying essentially is that you increased pay a lot in previous years so now you think you can control pay growth very stringently in an effective way. Do you think, from a pure management point of view, that is a sensible way of approaching individuals' remuneration over a period of years?
Andy Burnham: I would make no apology for the steps the Government took to ensure that key, front line professionals were adequately rewarded. Also, there was an incentive to bring in extra staff where they were needed and I would make a robust defence of that. The headline growth rate in pay often does not tell the full story around pay trends within a particular profession. Let me take for example Agenda for Change. Additional to the headline pay increase, lots of staff in the health service would receive an incremental or a developmental payment relative to the banding and the progression that they make on the Agenda for Change pay spine. There will be similar comparable systems across the public sector. If you are asking me: is there a need for ongoing discipline with regard to these matters, with regard to the potential effect on inflation, I would say to you absolutely. There is no change there. The Government believes that that is the case. The changes in the economy around perhaps inflation in terms of food or energy prices make it all the more important that there is discipline around public sector pay, which can provide an anchor to keep a grip over inflation.

Q19 Mr Brady: You said that some groups of public sector workers will get bigger increases, whether it is Agenda for Change or whatever it might be. Presumably though, within these very rigorous public expenditure totals and ceilings for pay restraint, that means that some will receive less than the headline level of growth.
Andy Burnham: The point I was making was that there are incremental payments throughout most of the Civil Service and the public sector which do not tell the whole story when people are looking at the pay settlement. Overall—I cannot remember the words you just used—I think we are looking for fair settlements, are we not, that recognise the increase in pay that some professions have seen in the last ten years. It is also true to say there has been a particular grip around pay at the top end of the scale and I think that is something that most people would recognise as being important. Having said that, in this year's discussions with the Secretary of State for Health, there has been a recognition that staff at the lower grades within the Agenda for Change system have perhaps not done as well as others in recent times. There was a particular focus on the very lowest paid staff in the National Health Service. It is essentially a judgment for each Secretary of State and each department to review these matters and make sure there is a pay system which is fair and which recognises where there are particular pressures in the system.

Q20 Mr Brady: Very simply and very briefly, you are confirming that some groups of workers will get pay increases which are below the headline rates of increase?
Ms Hegde: As the Chief Secretary has been explaining, the way public sector pay scales are structured tends to mean that those at the bottom of pay scales will receive proportionately larger increases to those at the top. It is not obvious to me why anyone should be receiving less than the headline increase. It may be that workers at the very top of their pay scale will receive only the headline increase but by and large those will be a minority of workers and the worst paid people on the pay scales will be receiving proportionately more increases. For example, on top of the basic settlements that were settled last year, additional increases of 5% to 9% were available for individual prison officers, 3% to 4% for individual nurses, 4% to 8% for teachers and 2% to 6% for police officers.

Q21 Mr Brady: I am not a mathematician but as far as I can see what you are saying to me is that it is possible, when you have a single, headline level of increase for public sector pay, to pay some people an increase of more than the headline without paying some people an increase of less.

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Mr Ramsden: We discussed this with you as well at the hearing last week. The headlines for the pay awards to not include these additional things such as when people are promoted through the grade and all of that kind of thing, so you are comparing slightly different things. That is why public sector earnings are still growing—and have done over the last couple of years—at about 3% or a bit more; whereas our pay awards have been closer to 2% because we have these additional things that are added in as people move up through pay bands.

Q22 Ms Keeble: I want to ask about child poverty and some of the measures that you have in here to deal with that. Looking through it, it appears that the main measure to tackle child poverty is through the increase in the child element of the child tax credit. What is the rationale for that?
Andy Burnham: That has been and we believe remains the most effective way of targeting children with real need. It is obviously possible to do that through other mechanisms, through increases in child benefit, but it is the Government's view that increasing the child element of child tax credit is a very, very effective way of making further progress towards the child poverty target. There are obviously other things that can be done to make that progress. I think it is important. I do not want to be misunderstood in saying that that alone is the only mechanism that we use.

Q23 Ms Keeble: What are the other measures?
Andy Burnham: The Chancellor announced in the PBR further increases in the child maintenance disregard which essentially doubled to £20 and doubles again in April 2010 to £40. Child benefit is rising in line with prices in April next year. The combined effect of these measures explains the further 100,000 children who will be lifted out of poverty as a result of these steps. As with all budgets and prebudget reports, a view is taken at any particular time with regard to the state of the economy and numbers in work and obviously then further steps remain open to be taken at the appropriate time.

Q24 Ms Keeble: Have you looked at the real impact the child maintenance disregard will have on earnings of low income families? Obviously it assumes that that money is being paid, which is a very big assumption. It would be interesting to know what analysis has been done of the impact on household incomes in real terms.
Andy Burnham: It is a good question. I do not have that analysis to hand. I can write to the Committee with that.[2] I take your point that it may not reach universally the children that—

Q25 Ms Keeble: For most of us who look at these cases in our surgeries, we suspect that the impact would be much lower than is projected. How about the child care element of the working tax credit? I did notice that in the list it said that all elements of tax credits were going to be inflation proofed with the exception of the child care element. For my constituents, that is one of the most important elements. I wondered if I had read that correctly and, if so, what the rationale was.
Andy Burnham: Again, that is something I will have to come back to you on. I know the Chancellor is appearing before you later this week and I think he has indicated that he wants to talk to the Committee about child poverty and further steps to be taken.

Q26 Ms Keeble: This is a really key one. There must have been some reason. Either I did not read the note properly or else there must have been some very specific reason that, in all the elements of tax credits, one was excluded.
Andy Burnham: Rather than giving a long answer that does not answer the question, can I just say I do not know the reason? I think what you are saying is right.

Q27 Ms Keeble: Can you confirm that it was actually excluded from the uprating?
Andy Burnham: My understanding is that it was. The recent change that you are referring to is to the child element of child tax credit. I will confirm for you that your understanding is correct. In terms of why that was done, I suspect it would be done because of changes around investment in Surestart and children centres and other increases in provision that the Government is making, although I do not know for sure.

Q28 Ms Keeble: Dave Ramsden is nodding. You must have had people in earlier seeing the questions that were being asked at previous sessions of this Committee. I specifically asked about that so I am surprised that nobody can confirm exactly what the position is, or perhaps somebody else can?
Mr Ramsden: My understanding was that the Chancellor would be confirming to you the answers to these questions on Thursday because he was going to be taking questions on child poverty rather than departmental spending.

Q29 Chairman: We have the Chief Secretary of the Treasury here. This is spending. This is why we want answers.
Mr Ramsden: This is just a factual point.

Q30 Chairman: I understand but as a Committee you cannot decide when you are going to answer questions and when you are not. I have a bunch of bolshie people here and they want to ask questions on that.
Andy Burnham: I do not have the answer to the question that Sally is raising. I will endeavour to provide an answer.
Ms Keeble: One of the things that really concerns me is that for women in my constituency who are trying to get out of poverty this is the single most important payment that they can get. It is not £20 or £40 a week. It is not like the £125 a year. Child care costs around about £200 a week for most women and that is just for one child and they have to pay retainers for

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period that they do not get the child care element. It cannot be an issue about Surestart. Women have to pay for private placements. You cannot take a child to Surestart and then come out of work and take them to their afternoon child care. I cannot understand why nobody here has a focus on the benefit which is the most important for working mothers who want to get out of poverty, because that is what this measure is.
Chairman: If you write to us before Thursday, we can have a look at this before the Chancellor comes.[3]

Q31 Ms Keeble: What happens if I cannot come on Thursday?
Andy Burnham: I appreciate that we do owe a specific answer on the point. Obviously the changes that were announced in the Budget this year amount in my view to a fairly serious increasing of the child element of tax credit by £150 per annum above standard uprating. There are further increases planned over the course of this Parliament. That benefits the population that you are talking about. I appreciate that that is not in the child care element. The figures we have are 3.7 million families, 6.9 million children. That is the course that the Government is taking with regard to child tax credit.

Q32 Ms Keeble: What is the relationship between £150 a year and £200 a week? That is what we are talking about: outgoings of £200 a week and it is proposed that those be met by an increase in benefit of £150 a year. It does not equate, does it?
Andy Burnham: I will come back to you with a fuller answer on why that decision was taken.

Q33 Mr Mudie: I am intrigued by the Chancellor saying a few things about this. What can we not ask on child poverty? What are we allowed to ask on child poverty?
Andy Burnham: I will do my best to answer whatever you want to ask.

Q34 Mr Mudie: Can you assure us of the year in which we are going to halve child poverty?
Andy Burnham: In the PSAs that underpin the spending review, we recommit to the overall goal for eradicating child poverty by 2020.

Q35 Mr Mudie: That is abolishing it.
Andy Burnham: We recommit to the overall goal. The PSA further recommits us to halve child poverty by 2010–11. There is no resiling from the scale of that challenge. As I was just explaining to Sally Keeble a moment ago, 600,000 children lifted out of poverty. As a result of the measures recently announced in the 2007 PBR, the ones I have referred to today, a further 100,000 children taken out of poverty. Obviously further progress depends on wider trends in the economy, the number of people in work and other wider trends. All of these things obviously are kept under review and the commitment could not be clearer.

Q36 Mr Mudie: I am used to Government ministers. When they use the word "challenge" that means it is something they are not going to manage. You have referred to this being a challenge. What is the number of children we need to take out of poverty by 2010–11 to meet the target, so we all know where the hell we are? Child tax credit and all that confuses the situation. We have a target. How we will get there we will discuss but what is the target by the year 2010–11? One of your officials can whisper it to you.
Andy Burnham: I am waiting for inspiration. There has been huge debate about—

Q37 Mr Mudie: No, there is not. It is in the papers.
Andy Burnham: I am just saying about the baseline, when it is set and whether—
Chairman: You have mentioned 600,000 and there are another 800,000.

Q38 Mr Mudie: He has more officials than we have.
Andy Burnham: It may be a waffly answer but obviously the test set by the PSA is a range of indicators, absolute poverty, relative poverty and also the new test that people were asking us to increase on relative low-income material deprivation.

Q39 Mr Mudie: No. In the Budget you refer specifically to low relative income and you have pinned yourself as the Treasury. That is the measure. There are numerous measures. You have even projected a target where there is another target but you have pinned yourself at low relative income. I am shocked that you have not given us the figure. Give us the figure.
Andy Burnham: 800,000 is the figure.

Q40 Mr Mudie: No. What do you mean, 800,000?
Andy Burnham: A further 800,000. 600,000 children, you would agree, to this point from when the baseline was set. To meet the target by 2010–11, a further 800,000 children would need to be lifted out of poverty. The measures recently announced in the 2007 PBR, I believe, would take a further 100,000 children out of poverty.

Q41 Mr Mudie: I have 1,700, 1.7, and I will give you 300,000 past measures. The 600,000 we have all accepted—Gordon has said it enough; we must accept it—and we have 200,000 in the 2007 budget and another 100,000 in this prebudget plus the CSR which means 900,000 I will give you. We have 800,000 to get. Can you assure this Committee that in 2010/11 you will have those 800,000 taken out of poverty on the measure you put forward and we accept: low relative income?
Andy Burnham: I can assure you that is the measure by which we will be judged. There is no resiling from that.

Q42 Mr Mudie: Of course it is the measure. We have just taken ten minutes to get out of you that that is the measure on which you will be judged. We are saying now as we sit here, there are 800,000 youngsters. We do not have any sign of the resources

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in the CSR that runs up to 2010–11 that will deliver those. Maybe this is what the Chancellor is coming to say, that the target has been changed or the years have been moved. If it is not being moved, can you assure this Committee that by 2010–11 those 800,000 will be taken out of poverty? I will warn you about the next question. The next question before you answer that is how. Can you point us to the resources in the CSR?

Andy Burnham: I will do my best to answer both. In any of the PSAs we have set, that is the Government's stated intention and we will strain every sinew to get to that target. Bear in mind these PSAs that we have issued really narrow down what are the top level priorities for the government. Child poverty is one of those. There is no resiling at all from the overall goal, nor from the interim goal in 2010–11. If you are asking me today to say that that is guaranteed, obviously there are trends in the wider economy and, with all the wisdom on this Committee, I do not think even the Committee could predict what will happen in terms of the wider economy. If you are asking me: is the commitment genuine and will there be a genuine effort made to get there, I can only say to you that that is absolutely the case. When I was looking at this PSA set, it is the PSA that I would say motivates all of us. We wanted it to be hard edged, to be a real challenge. I personally would think some may proclaim it a huge failure if we get 95% of the way or 85% of the way. Quite frankly, I personally would not see it that way because it will mean a major difference in my constituency around the living standards of children. If the challenge is are we going to do everything we can to put us in a position of getting there, then that is absolutely the conclusion you have to draw from this CSR. Everything else we are doing in terms of investment in schools, in early years education, is all relevant.

Q43 Mr Mudie: Minister, you are a nice fellow and we are friends but I have asked you professionally a specific question. Can you assure us we will meet our target? What I have is, "We will do our best, maybe 95 or 85" etc. Let me point out what you have in front of you. In 11 years you have taken out 900,000. 300,000 of those are still to be delivered but we will give you those, so in 11 years you have taken out 900,000. You are assuring this Committee that with two budgets left you will rescue another 800,000. I started off giving you the opportunity to say the target had been shifted because I have great sympathy with you. I cannot see how you can do it. Sitting at that table, how are you going to rescue 800,000 with two budgets when you have rescued 900,000 in 11 years? Do you still assure us you are going to do it?

Andy Burnham: In any of the 30 PSAs—dare I say it—it is kind of an unfair question because the Government can lay out its intention and the spending to try to meet that intention. It would be to invite me to give a misleading answer if I were to say in all 30 cases will the Government meet every dot and comma. That is why I cannot give a yes or no because nobody knows what will change on the way to it. If you are asking me are we committed to the target, are we committed to the overall goal of eradicating child poverty, then there is a very firm answer to that question.

Q44 Mr Mudie: Once the Chancellor came to us and I questioned him on millennium goals, which are 2015. I was assured the answers were there. Two years later in questioning he admitted one of the key ones would take 120 years to deliver. You are sadly placed because you are coming in in the last spending review, but we have been asking him consistently because we have seen, instead of the line going that way, a real problem to get to the target. I cannot believe you can assure us. If you want to refer this to the Chancellor on Thursday, fine, but I cannot see how any Treasury official could assure us on that record that in two years you will do it.

Andy Burnham: Of course I will tell him of our polite and friendly discussion and I am sure he will come well ready to answer where I have not been able to. You say two budgets to go. Let us not dismiss that. At every stage of this journey, the Government has opportunities to take further steps to prioritise the tackling of child poverty above other priorities and it can do that at further budgets.

Q45 Mr Mudie: We have the CSR covering that period. I could say to you, if I were really being brutal, take the book and show us in the CSR because that is not two budgets. That has stated what we are going to spend in all the areas up to 2010–11 and it is not there. It is with real anger I look at kids in my constituency and in your constituency. Where will they be in 15 years?

Andy Burnham: I do not feel anger for having made the progress that we have. The social progress that we have seen in this area is huge but there are more things that we can do. The work that DWP are doing around extending New Deal Plus for lone parents will have an impact in this area. The investment that the CSR makes available for skills and for adult learning will have an impact in this area. I think it is not possible to refer to one thing, be it the child care element of child tax credit, be it child tax credit itself, be it child benefit.

Q46 Mr Love: Can I go back to the pay issue that we discussed earlier on because I notice you have responsibility for public sector pay. I am rather mystified by the decision to suggest that there would be a 2% norm for all the years of the Comprehensive Spending Review. I say that in recognition of the imposition of the 1.9% this year that went down relatively badly and the decision about three years has gone down very badly. I wonder if you can just explain to me the rationale for 2% for the whole of the spending review. Is there not a need for flexibility in this?

Andy Burnham: There is but there is not a 2% stricture on all awards. The government's policy remains that public sector pay awards should be made consistent with the inflation target. As you will see in this year's discussions, there have been different situations reached in different professions.

It is not a standard picture that is uniform across the public sector. There were decisions made in respect of the Armed Forces that obviously were particular to the pressures being faced there. I was referring a few months ago to low paid staff in the NHS.

Q47 Mr Love: Let me pursue you a little bit and give you an idea of where my mind is moving. Some of the trade unions representing the staff have talked about recruitment retention but I am particularly interested in motivation. How do we motivate the workforce to do the things that you are interested in in this Comprehensive Spending Review? Let me focus particularly on the efficiency drive that you are each and every individual Government department to undertake and the administrative savings which are widely interpreted as reductions in staff. How are you going to achieve that with this stricture of a 2% norm over the three year period?
Andy Burnham: If there is discipline in pay it will help departments reach their value for money targets and also live within their overall spending allocation. It is true that there has been a focus on reducing the headcount within the public sector but this Committee I believe, along with others, has recommended that particular headcount targets should not be carried forward into this spending review period. As you probably know, that is something that is not going to happen. There will be more flexibility, to go back to your first question, around how these things are managed. I think that is something that the Committee should welcome. Generally, if you look at the PSA set, if you look at value for money plans, there is a desire here to give more freedom, more ability at local level to manage these pressures without constraining people in a particular direction around managing workforce pressures. I think that answers your question. That will help departments find a way through what is undoubtedly in some cases a challenging financial climate.

Q48 Mr Love: The 1.9% adaptation of the original Senior Salaries Review Board recommendations was widely perceived as undermining their role. We have another two years of 2% pay norms. Let me take a specific example. If they were to recommend something above the 2%, would you again adapt their recommendation and, if you do, do you not believe that that will undermine their whole role in the pay setting process?
Andy Burnham: The context for the decision that you are referring to was inflation going through the 3% barrier and that obviously triggered a letter from the governor. There was concern about levels of inflation within the economy and linked to pressures elsewhere it could have had an inflationary effect across the system. The argument is not one that is particularly easy to make to trade unions or to public sector pay professionals but the context for everything that we do as a Government, but particularly as the Treasury, is that we want to ensure that the stability there is in the economy, which every employee benefits from, public sector workers included, remains so that we do take seriously any upward pressure on inflation and accordingly steps are taken to ensure that there is a rigour and a control in the system overall. It is not a gratuitous approach to public sector pay; it is one born of discipline, of rigour, of wanting to ensure that the stable economy that we have enjoyed remains. That is at the heart and foundation of everything we do.

Q49 Mr Todd: What is the difference between a PSA and a DSO?
Andy Burnham: The 30 PSAs that we have published, shrinking down from a much greater PSA set in the first spending review, 1998, I would argue are a distilled expression of the Government's over-arching and main priorities. I am not sure George Mudie welcomed my reply before but I would take it as some reassurance that eradicating child poverty in that set of top priorities above all else is what the government is trying to achieve. A DSO would span the range of government business that is carried out by a particular department.

Q50 Mr Todd: DSOs are less important than PSAs?
Andy Burnham: I would not say it is possible to immediately say that that is the case.

Q51 Mr Todd: That is what you rather implied, I think, by your example.
Andy Burnham: A large number of the 110 PSAs that we had at Spending Review 2004 expired with this existing Spending Review. I think round about, if I remember rightly, 90 per cent expired. When I was a Health Minister I was always clear that there would come a time when you operationalise a target to which the Government had been working over a number of years. It is up to departments to work out how best to do that without allowing there to be any slippage back from the improvement that had been made. The PSAs, differently, set the big goals, the areas where as a Government we want to see the kind of social progress that we believe in, and I would say that is the difference.

Q52 Mr Todd: So in the Treasury's objectives or PSAs, where would you put meeting the fiscal rules?
Andy Burnham: Obviously they are at the heart, as I was explaining to Andy Love a moment ago, of everything we do—that stability within the economy—but we are now looking at a period where they have become pretty much entrenched in the way the Treasury works in terms of how established they are as a guide for the way in which the macroeconomic framework works.

Q53 Mr Todd: Are you going to answer my question, Andy, which is bearing in mind, as you have indicated, that was a PSA and it is now a DSO, it is a little difficult—
Andy Burnham: Maybe David wants to say something—

Q54 Mr Todd: It is quite difficult to see where any distinctions lie. Maybe David is going to help us here.

Mr Ramsden: I think the difference is that the PSAs which we have been discussing in the context of child poverty in particular are a cross-government target to which the Treasury also contributes. It is highlighted in Chapter 5 of the PBR/CSR. Meeting the fiscal rules is an absolutely core Treasury objective. It is table 1.1 of the PBR/CSR where we give you our update, as we do at each PBR and Budget. I think we have written to you stressing the fact that it is not a PSA does not mean that it is in any way reduced in importance or the emphasis we put on it, it is just that it is a Treasury-specific DSO; we will lead on it, we will be held responsible for it.

Q55 Mr Todd: So that implies that the PSAs are cross-departmental.
Andy Burnham: They all are and without exception there will be a lead department.

Q56 Mr Todd: So the distinction is that PSAs are cross-departmental and DSOs are purely departmental?
Andy Burnham: More or less. DSOs are business as usual, they are mainstream, core functions of the department in question and often will relate purely to the department. PSAs will take a bigger—

Q57 Mr Todd: The Government has made great play of the fact that the number of PSAs has been sharply reduced, but they have introduced a collection of DSOs, which add up to virtually the exactly the same number as the PSAs if you put the two figures together. Do you think that was quite the intent of that exercise, that if you add the PSAs and DSOs together they add up to pretty much the same number as the PSAs that we had before?
Andy Burnham: I do not necessarily accept that.

Q58 Mr Todd: I think mathematically it is right.
Andy Burnham: There are indicators underpinning each DSO—this really gets technical—

Q59 Mr Todd: I am going to ask you about those too.
Andy Burnham: --- whereby we will be ensuring that there is not a proliferation of targets. Let me be absolutely straight with you in saying that there is a need for vigilance here in that my wish to see a reduction of targets on the front-line is a genuine one. I do not want to see the reintroduction of a similar burden by the back door.

Q60 Mr Todd: I understand that.
Andy Burnham: Lastly, can I just say that there is a commitment to reduce the data burden on public bodies by 30%.

Q61 Mr Todd: We will come to that, if I get a chance. Can I just say the two added together add up to slightly more than the number of PSAs set in the last Spending Review.
Andy Burnham: There are 30 PSAs.

Q62 Mr Todd: And there are 97 DSOs.
Andy Burnham: Sorry, 103 DSOs according to my figures.

Q63 Mr Todd: We missed six in the stats here. And there were 110 PSAs in 2004.
Andy Burnham: 110 PSAs with 500 indicators underneath them. To be absolutely honest with you, there are about the same number of DSOs as there were—

Q64 Mr Todd: Do you think it is important that all the PSAs should be measurable and have some sort of baseline assessments attached to them and so on? Those are the criticisms that have been made in the past that some of them have been a bit hard to nail down. Do you think that is what we should have?
Andy Burnham: I do.

Q65 Mr Todd: So for example "Reduce the impact of conflict through enhanced UK and international efforts"—we are going to have that PSA nailed so that we can measure it in some way?
Andy Burnham: The indicators are an attempt to express what would amount to progress towards each PSA.

Q66 Mr Todd: I do not think we have got the indicators on that one.
Andy Burnham: I agree with you that there is a need for accountability in this system, but I also feel that we should move away, where we can, from the setting of targets at a national level. I think it is sensible delivery to allow people to set more goals at local level so that they can have a sense of ownership of that ambition.
Chairman: We will reconvene in ten minutes.
The Committee suspended from 5.22 pm to 5.34 pm for a division in the House.
Chairman: Mr Todd?

Q67 Mr Todd: We were interrupted just when we were talking about vagueness in the objectives or the PSAs that have been set. What did you make of the Ministry of Defence DSO to "build for the future"? It sounds more like rhetoric than any sort of objective. It may be military code for something. What do you think it actually meant and how do we measure it?
Andy Burnham: A good question. I would wait and see the indicators, is my first response.

Q68 Mr Todd: Presumably you will be auditing these indicators and deciding whether they are appropriate?
Andy Burnham: We are discussing all of the indicators with the relevant departments at the moment. I think a key part of the Spending Review has been about preparing the country for the future. The MoD settlement is a very important part of that.

Q69 Mr Todd: I think you have conceded the point, Andy. We have got outcome indicators for the 30 new PSAs, of which there are 156. There are 27 indicators published for the Treasury's DSOs. What is your guess as to the number of indicators we will have for the total suite of PSAs and DSOs? If you extrapolate the Treasury's figure then it is going to be quite a large figure because you have got 103 DSOs, I think you said.
Andy Burnham: There was a witness before the Committee not long ago who quoted a figure of 1,400, and I would like to take this opportunity today to say I do not believe it would come anywhere near that. We will publish, Mark, the full set of DSOs and their relevant indicators later in the year. As I said, if the line of questioning is saying they are just being slipped in by another name, I want to be upfront with you in saying—

Q70 Mr Todd: The number of indicators is not going to be materially less than that which we had before.
Andy Burnham: Let us be absolutely clear; they are. There were 500 indicators underpinning the 110 PSAs in Spending Review 2004 and 150 indicators underpinning the 30 PSAs now. Beneath that, in terms of departmental objectives, we are looking at about the same number of DSOs, so there are big differences in the system that is now being created as opposed to the one that was in place for the last Spending Review period. We will publish the indicators for the DSOs in due course but, as I say, it is my intention to further whittle down, if we can, the number of those indicators. I am on the record as saying that targets across the public sector played a very important part in the change and the improvement of public services that we needed and were right for their time, although we should move to a situation where there is less reliance upon them. Just to finish the point, if that is not the effect in reality of the system we create then it will be a big disappointment to me.

Q71 Mr Todd: Okay, but the Government has already said it is going to halve the number of indicators it had in 2004. As I said, the indications of what we know are that that will not happen. You do not have the full list, I accept that, but the items that we do have, if you extrapolate them reasonably—and I do not necessarily take Colin Talbot's 's view of where it should be—but even a more cautious approach than that would suggest you will not halve the number of indicators.
Andy Burnham: I do not know. I think if you look at the—

Q72 Mr Todd: When you say you do not know, Andy, are you saying we are not adhering to the target of halving the number of indicators?
Andy Burnham: I am just indicating there is a further piece of work yet to be published that will give you the full story and that remains work in progress for now. I was just about to challenge your assertion there in saying that there is good evidence to suggest from what we already know that we will make that, because if you look at local government, for instance, previously operating with an indicator set of 1,200, the Secretary of State for Communities and Local Government has worked incredibly hard. She and I have made a particular effort around Whitehall to bear down upon and whittle away unnecessary burdens on local authorities, and it has required some tough choices. It also requires a change in thinking which is that it does not mean if there is not an indicator or a target that something then does not happen at a local level. As a result of all of that work we are now looking at 198 indicators for local government. On any basis that is a major reduction.

Q73 Mr Todd: Another area of controversy has been how you measure performance and how you report it. One criticism is that it is not externalised, that users and customers who enjoy the benefits, or otherwise, of whatever the PSA might have been, do not get asked for their perspective on the outcomes there and so it is an internally driven measurement. The other is that the NAO does not audit the performance either but instead looks at the systems behind the performance, which is a rather more limited approach. What is your view of this?
Andy Burnham: In terms of the style of this system that we have put in place, you are absolutely right to emphasise the experience of the user, and you can look at a range of examples—health is one that springs to my mind where patient satisfaction itself becomes an important measurement by which we judge whether or not we are getting value for money in our public services. I think that is a very important shift, in my mind, away from things that measure inputs, be they a four-hour A&E wait to another kind of input, to one where we are looking at the quality overall of what public services provide.

Q74 Mr Todd: Lastly, is there any evidence of linkages between good performance in PSAs from 2004 and resource allocations now? Can you pick an example where someone said, "Right, they have done that really well, they have met their PSA targets and now we have put some extra resources in to make sure that is entrenched or improved on further"? Is there an example of that?
Andy Burnham: The one that I would point towards is local government and local area agreements. That is very much the logic of the system that has been put in place there.

Q75 Mr Dunne: Chief Secretary, before this hearing you had gained a reputation—rare but commendable amongst your current Cabinet colleagues—for candour in the way that you deal with questions.
Andy Burnham: I have probably wrecked it today though!

Q76 Mr Dunne: I did say before this session; I am leaving it to others to judge. The Permanent Secretary last week acknowledged that in putting together the Budget, the PBR and the Comprehensive Spending Review it was prepared under considerable pressure. I appreciate that you deal mostly with the expenditure side of the balance sheet, but in order to make sure that you have got the revenue required to meet the expenditure set out in the CSR when were the tax-raising measures finalised to allow you to afford your spending priorities?

Andy Burnham: The Chancellor is the person to give you chapter and verse because he is the person who makes the decisions about the tax content of the Pre-Budget Report, not me, but he has gone on the record as saying, as have I, that the measures included in the Pre-Budget Report were under consideration from the time that he began in the Department. I would refer you to an interview he gave, his first as Chancellor, in the *Financial Times* where he gave a very clear indication of many of the measures that he ultimately ended up taking in the PBR. If the suggestion is that the Treasury would import at the very last minute a tax measure without there having been a proper process of consideration of the detail, well, that is a suggestion that I would, quite frankly, refute entirely.

Q77 Mr Dunne: Would you also refute that in the context of changes to business taxation which representatives of the business community are discussing with the Chancellor this afternoon because they had not been consulted?

Andy Burnham: The direction was flagged very clearly by the former Chancellor, now Prime Minister, at the Budget, where he made a clear commitment at the time that has been carried forward that we would work towards further simplification of the tax system, and where there were layers of complexity that we would seek to remove that from the system. If your question is do we then invite people in to discuss at what rate the tax change should be set, then of course we do not do that.

Q78 Mr Dunne: I understand we do not discuss under any Government the rates in advance of changes, but rather the methodology, the system, the notion, in particular in the context of promoting enterprise and business growth in this economy. The previous Chancellor (the current Prime Minister) introduced measures in previous Budgets, particularly in the early Budgets, to promote long-term savings and investment. The latest Pre-Budget Report completely reverses that and some of the winners from this Budget are those who are short-term speculators in property and investment portfolios.

Andy Burnham: There are some big assertions made there that I am afraid I do not agree with. You say "completely reverses that". Let me gently point out that rates of capital gains tax in 1997 were considerably higher than they are today and higher than they will be after revisions are made. Secondly, at 18%, 18 pence in the pound, that stands good comparison with capital gains rates of taxation around the world. It is hard to make a statement about direct comparability because lots of other systems do use differential rates according to the assets being disposed of, but, having checked this out in detail, I am confident in saying that our rates stand good comparison. Again, just to set it in a broader point of context, it is coupled with a headline fall in the overall rate of corporation tax, so I just do not accept the notion that this combines to create a business unfriendly climate.

Q79 Mr Dunne: I would be interested to hear the outcome of the conversations which the Chancellor is having this afternoon. We will obviously get to those later in the week. Can I turn to efficiency gains for a moment. The Public Accounts Committee undertook a review of the claims for the Gershon savings that have been made which are repeated in the PBR and they found that some three-quarters of the efficiency gains which were claimed were, to some degree or another, bogus or not cashable. Would you like to comment on what level of efficiency gains has actually been achieved compared with the £21.5 billion claimed?

Andy Burnham: My comment would be to refer you, Philip, to the NAO's assessment of those savings. Their assessment is that the savings are indeed real. I am looking for the direct quote that they gave, but I believe it was along the lines of there is good reason to believe that three-quarters of the savings have been realised or are likely to be realised. Let me give the exact reference: "The NAO have already stated clearly that over three-quarters of the gains claimed represent real efficiencies and that challenges in measuring the rest does not mean that efficiencies are not being made here as well." I think I would question the PAC Report's assessment that 74% of the gains are unreliable. I do not believe that is a correct reading of the NAO's comments on this matter.

Q80 Mr Dunne: I think one of the reasons they made those comments is because the on-going costs of implementing change were not taken into account in calculating what the efficiency saving was, and the Government has acknowledged that, or appears to have done, by changing the basis of calculation for the current Comprehensive Spending Review. Surely if you acknowledge today that it was done wrongly before, there is some reasoning behind that, otherwise why change the basis of the calculation?

Andy Burnham: I do not acknowledge that it was done wrong. Through Sir Peter Gershon's original work we set a very challenging goal for the public sector and I think the progress that has been made in the last Spending Review is excellent. That is not to say that we cannot refine and improve the system this time round. I have already referred to, in my view, the very sensible recommendation this Committee made around not rolling forward the headcount reduction target. I think what you are seeing in this Spending Review period is a more sophisticated approach to these matters and more freedom for local bodies to decide exactly how to release these savings. Let me just put this to you: the detailed savings that departments are proposing can be extracted from the PBR/CSR document; it is quite simply the case if they do not extract those savings then they will not be able to deliver the spending plans and the goals that they have set themselves for this CSR period, so that should be a reassurance to everybody.

Q81 Mr Dunne: Can we come on to the future in a moment, I just want to dwell on the past for one more question. Just to give you an example, which is a topical one and has been quite politically sensitive, and that is when DWP introduced the Post Office Savings Card, it chose to ignore the cost of that new measure, which I believe is £164 million, when assessing the efficiency gains it was going to make from its introduction. Under the new Treasury model for calculating efficiency gains, you would have recognised that cost, but you did not then and yet you are still claiming it is a saving.
Andy Burnham: On the specific example could I ask Richard Hughes to comment.
Mr Hughes: You are right to say that we are learning the lessons of the past programme. The savings from the Gershon programme were measured on a gross basis. We are moving to measuring them on a net basis so that we understand what the implementation costs are and what the savings are separately. That is a better reflection of the budgetary flexibility of departments. In the specific case of the DWP, there were implementation costs associated with realising the savings that that department had to realise, but in practice the department achieved bigger savings on its Departmental Expenditure Limits over the last financial year such that it came in slightly under its Departmental Expenditure Limits for the year, so the idea that this department is not finding real savings which is enabling it to reduce its expenditure year-on-year cannot be the case.

Q82 Mr Dunne: I was not arguing with that actually; I was just arguing that your methodology was wrong, and you have acknowledged it is wrong, and therefore your efficiency gains are not as great as you claim them to be.
Mr Hughes: That was the basis on which Gershon calculated his figures and how we measured them over the four years. I think all we have acknowledged here is that we are learning the lessons from it and implementing them in the next Spending Review.

Q83 Mr Dunne: Thank you. One of the other conclusions of the Public Accounts Committee was that some of the implementation and efficiency savings could impact on service delivery and quality. When you look forward, if we can move it on to the CSR, the biggest departmental gain from efficiency savings is in the Department of Health, where some 25% of the total gains across government are to be found—£8.2 billion—over the three years. Could you give the Committee and beyond some reassurance that this extraordinarily high level of efficiency savings is not going to lead to service quality cuts, the sort of Gordon's cuts that we have seen up and down the country through hospital and ward closures in the last year or two?
Andy Burnham: I think that if the question is whether there is further efficiency to be extracted from the National Health Service, I have to answer that yes there is. As a Health Minister, I oversaw the introduction of a series of what are called "productivity matrixes" in the NHS. They cover areas as diverse as the numbers of generic as opposed to branded statins that are prescribed. They cover areas such as the number of hospital trusts that are still routinely bringing in patients for a pre-operative bed day. They cover a whole range of steps that could be taken to improve productivity. If you look at how since the introduction of those matrixes the NHS has responded, it has actually taken a considerable amount of money out of the system in response to in their introduction. I think there is still further to go. The figures that departments have produced for us are worked through in detail. They are, as I say, costs that they will have to extract to deliver their plans in full, and I have every confidence that these steps can be taken without damaging quality of services. Let me just make one last point, if you take in health a target like the 18-week maximum wait, I would argue that that is a very clever service improvement target and that the productivity and efficiency drive very well supplement the service improvement. The two things are not contradictory, ie you either have efficiency or you have service improvement. To get to the 18-week target, hospital trusts and PCTs have to take a very critical look at the patient journey and unnecessary steps on that journey so that they maximise the amount of time where patients are being progressed through their journey. The meeting of the 18-week target will see a major productivity benefit to the National Health Service, in my view, so it is not the case that efficiency or productivity lead to a deterioration in the quality of service. I believe in that particular specific instance you will see a service improvement coupled with a major productivity gain for the NHS.

Q84 Mr Dunne: Can you reassure us that there will not be hospital closures and ward closures as a result of these efficiency gains?
Andy Burnham: I know the Conservative Party has taken the view that all hospital reconfiguration is a bad thing, but I would say that is, quite frankly, to ignore the changes that are being made in the way that health care is delivered, and is to ignore the serious productivity and quality benefits that can be made from making difficult but often sensible changes to the way Health Service reconfigurations are done. As a Health Minister, I looked specifically at this issue and Sir Ian Carruthers, former acting Chief Executive of the NHS, reviewed all configurations underway in the Health Service. I think I am right in saying there was none (if there was one I stand to be corrected) where cost savings were not the reason for that reconfiguration. In every case it was a desire to improve the quality of care to the public for the resource available; it was a clinical case for change. If some are going to stand against any of those changes then I think that would be a very foolish thing to do.

Chairman: I want to try and move on, Minister, we need shorter answers.

Q85 Mr Dunne: I point you to the mental health ward closure in Ludlow Community Hospital in my constituency if you are looking for one that was driven by cost considerations. I have a couple of final questions. One of the areas where you have shown remarkable candour is in relation to the health budget going forward, where I think you acknowledge that the reduction in capital spend by the NHS last year is the reason that you have been able to portray the increase over a new baseline as 4.4%. What is the actual increase, if one had ignored that sleight of hand?

Andy Burnham: I dispute the premise of the question. The actual increase is on how much is the NHS spending this year; that is the important thing. The Treasury will look again at spending estimates for any department in year to ensure that when it comes to the estimates process it is putting reliable and taut spending assumptions to Parliament when we are going through that process. Having been in the Department of Health at that time, it was quite clear that the Department was not going to spend that level of capital; therefore a reassessment was made to Parliament of a more realistic budget. If the suggestion is it was purely done so that a bigger increase could be then presented at the Spending Review, that again is a conspiracy theory I am afraid that is factually wrong because that is not what happened. The Government did make a change in the Budget this year and it was reported publicly. I was on the record at the time as having commented on that and it was a sensible thing to do to ensure that the Budget presented to Parliament was a credible one, otherwise it would not have been a credible Budget and the NHS would not have been able to spend that capital.

Q86 Mr Dunne: This Committee, before I became a member of it, recommended that in each PBR and Budget Report there was an analysis showing the performance of departments against targets for efficiency savings. There does not appear to be one in this PBR despite the Treasury acknowledging that was something that would be worthwhile. Could you comment on when you are intending to do that and whether you agree with the Committee's conclusions?

Andy Burnham: I do, I think the Committee has made some very valuable reflections in the whole area of efficiency. There was a document published alongside the CSR which does look backwards at the last Spending Review and comments on efficiency progress to date. In due course we will be publishing all of the delivery agreements for the value-for-money savings that departments have identified so the Committee will be able to scrutinise the detail of those, and I believe I am correct in saying they will be reporting twice yearly on progress towards those targets, so there will be no lack of accountability on this front. Essentially we are mainstreaming the whole efficiency drive, which I think is something the Committee has called for. In this area, if not in other areas, we can say legitimately that the Treasury has responded to the sensible views that this Committee has put forward.

Q87 Mr Fallon: Chief Secretary, how many new prison places not previously announced are being funded over this spending period?

Andy Burnham: The overall commitment for new prison places is 9,500.

Q88 Mr Fallon: That was previously announced, Chief Secretary. Could you answer my question how many new places are being funded over this period?

Andy Burnham: If I could answer it would be helpful. 8,000 were previously announced and then a further 1,500 were announced. This Spending Review commits resources to make those prison places available. There is not a new announcement of any additional places, as far as I understand, in addition to those already announced.

Q89 Mr Fallon: So the answer is nought. The first sentence of paragraph DE7.14 implies that 8,500 of the original 9,500 will be delivered by 2012. Is it correct, as *The Guardian* says, that only 500 of those are actually brought forward into the 2012 timeframe?

Andy Burnham: It is true that the 8,500 are funded from within the Spending Review settlement and that funds have not yet been allocated for the further 1,000 places, but we are awaiting the report of Lord Carter on issues related to the prison estate and to sentencing reform before a firm timetable is given for bringing the further 1,000 places and when exactly they will be delivered, but the commitment is to 9,500 places.

Q90 Mr Fallon: I understand the extra 1,000; what I am trying to get at is of the extra 8,500 how many of those have actually now been brought forward into the 2012 spending period which would otherwise have fallen out of it? Is the answer to that, as *The Guardian* alleges, just 500.

Andy Burnham: 8,500 is the commitment by 2012. There is a question about a further 1,000 places but we are awaiting Lord Carter's report and then, in discussion with the Ministry of Justice, we will return to that issue.

Q91 Mr Fallon: Before we get to the 1,000, was it always the intention to deliver the 8,500 by 2012?

Andy Burnham: Obviously that predates my time in the Treasury to some degree. When the former Home Secretary made his announcement, I believe in the summer of 2006, that related to 8,000 places. Clearly there have been further announcements made since then. Obviously in this Spending Review there was a settlement with the Home Office some considerable time ago in the course of this Spending Review. What this CSR does is it formalises those commitments and gives a realistic timetable by when these new places can be delivered.

Q92 Mr Fallon: I turn now to education spending. On the basis of the settlement you have announced in the CSR, in what year will you meet your long-term aim of matching state school spending per pupil with average private sector spending?
Andy Burnham: There is not a timetable alongside the CSR to make that change. It is in my notes somewhere the resources that have been allocated to the Department for Children, Schools and Families. Per pupil funding in the maintained sector will rise to £6,600 in 2010–11, so on the back of the spending settlement we have given the Department that is how far it will go. However, it is true to say that that is not then at the level of the independent sector and there will need to be further steps taken to close that gap.

Q93 Mr Fallon: But you cannot tell this Committee how much nearer the Government is as a result of this CSR to getting towards that target?
Andy Burnham: Per pupil funding will increase by a fifth within this CSR period. I do have a figure somewhere, Michael, for spending in the independent sector but I cannot lay my hands on it.

Q94 Mr Fallon: It was £8,000 in 2005–06.
Andy Burnham: It closes the gap. Does it eradicate the gap? I believe no is the answer to that.

Q95 Mr Fallon: The IFS suggested earlier this year that on the present rate of growth in state spending you would hit the target in 2020–21. Does that accord with your own forecast?
Andy Burnham: Well, as I say, the rate of growth that we are seeing in this CSR is pretty dramatic actually and it is growing significantly over the period. Obviously it depends—

Q96 Mr Fallon: I think 3% is the figure you have given us, is it not?
Andy Burnham: I said per pupil funding would grow by a fifth between this year, 2007–08, and 2010–11. If you take the two figures, it will go from £5,550 in this year to £6,600 in 2010–11. I believe current forecasts would say that spending in the private or independent sector would be around £8,000 at that time, so there is a gap but it is clear that the Government is taking steps to close it.

Q97 Mr Fallon: Are the IFS way out then when they say you will not hit it until 2020? You must have some idea of when you think you will hit it? Is it 2015 or 2020?
Andy Burnham: We are closing a fifth of the gap in this Spending Review. If you are asking me to carry out future Spending Reviews today, then I am not able to do that. I think what I have explained, Michael, is that we will make a major stride forward towards that in the course of this Spending Review, and the next time round we would look at it again, and obviously the intention would be to get there as soon as we possibly can, given the affordability constraints at any particular time.

Q98 Mr Fallon: The 8,000 of course was baseline. That is what private school spending was per pupil in 2005–06 so that is where they are starting from. Can we turn finally to your PSA for education. You say in your PSA Delivery Agreement 10 at paragraph 1.2: "It is a considerable achievement that the gap between children from lower income and disadvantaged backgrounds and their peers has not widened." You are saying that you have made no progress at all and that is a considerable achievement. Could you explain that?
Andy Burnham: The gap has not widened. Is that "narrowing the gap in educational achievement"?

Q99 Mr Fallon: PSA Delivery Agreement 10 and 11, paragraph 1.2: "It is a considerable achievement that the gap between children from lower income and disadvantaged backgrounds and their peers has not widened." Why are you claiming an achievement for making no progress?
Andy Burnham: Without wanting to make this an unduly party political session, I would suggest that it widened significantly in the period preceding 1997, and with the support that this Government has put in to stop young people falling behind at school—so the early years support, the one-to-one support within the classroom—I think we can demonstrate that we have stopped that process that was underway where children from low income backgrounds were significantly under-achieving, particularly at secondary school. If you are asking whether that is the extent of our ambition, no, that is why we have a specific PSA further to narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers. That is the Government's policy. If you ask me would we have wanted to have seen more progress, we would want to see more progress in this area. That is why we are recommitting to it in this PSA.

Q100 Mr Fallon: What I am getting at is the language that you are using—and this has been referred to by other colleagues here—describing all these targets seems to be completely unreal and "Alice in Wonderland". You are saying, "We have made no progress but that is a considerable achievement."
Andy Burnham: No, as I say, we halted the widening of the gap that happened in the late 1980s/early 1990s. There was a widening gap in academic educational attainment between children from low income backgrounds and those from other backgrounds. It is impossible to say that it was any one thing—the investment or the PSA—and I would argue it was both together, but that widening has been stopped. That is a cause for celebration, in my view, but is it enough, then no. Whereas in the last ten years we have stopped and improved the deterioration that we were seeing, we now need to go much further and narrow the achievement gap.

Q101 Mr Fallon: I am just amazed that you can take credit or celebrate the fact that you have made no progress. You are asking us to celebrate with you the fact that you have made no progress.
Andy Burnham: Let me localise this. In my constituency, many schools, one in particular I can think of, were getting around about 15% five A to Cs in 1997. To make a direct comparison now, that school is getting 45% five A to Cs. There has been an improvement particularly in children from low income backgrounds. Is it enough? We want to go further.

Q102 John Thurso: Can we turn to the tingling excitement of the Barnett Formula!
Andy Burnham: Have we got a division coming up soon?

Q103 John Thurso: What impact, if any, do the baseline adjustments have on the settlement for the devolved administrations?
Andy Burnham: None actually.

Q104 John Thurso: I just want to know, I have not got a clue what the answer is, which is why I am asking.
Andy Burnham: Obviously the Barnett Formula is applied to direct spend in any given year and then the formula is stringently applied. As we were talking about before at the very beginning around adjustments made to baselines, the Barnett Formula is then applied to the new spending totals for this spending period.

Q105 John Thurso: So the actual adjustment to the baseline makes no impact to the cash that the devolved administrations will get?
Andy Burnham: No.

Q106 John Thurso: Can I ask you about the Scottish settlement. On page 12 there is table 1.3 and at the bottom of that it has the total Departmental Expenditure Limits, which show that the average annual real growth per cent for the totality of government is 2.1%. If you look at many of the services that are common in Scotland—health, education, all these sorts of things—they typically seem to have average growth rates of 3.1, 3.94, and so on and so forth, yet Scotland has gone up by 1.8%, which slightly seems to defy logic. How is that explained?
Andy Burnham: I am not sure it defies logic. I will bring Richard Hughes in in a moment but let me try and explain to begin with. Obviously overall growth in spending, as you rightly say, is 2.1%. Not all of the spending that you have referred to in the table is in areas that are devolved. So take for instance international development, where a very large increase accounts for a considerable proportion of the growth funds available, that is obviously not then passed on through Barnett.

Q107 John Thurso: Let me help you here with my question. I quite understand that. The growth rate is 11% but we are talking about a figure that moves from 5.4 to 7.9. If on the other hand you look at, say, health you are talking about things that are moving from 91.8 to 111.4, so when you are coming to your average at the end you would expect that kind of number to have hugely more weight. I just find it interesting that government overall is 2.1 and Wales comes out at 2.4, which is there or thereabouts, but Scotland comes out at 1.8. I am not sure why it seems to be below the curve.
Andy Burnham: Northern Ireland comes out at 1.7. There are different comparability factors attached to different departments so it is technical, but obviously the devolved administrations receive different funding under Barnett according to which department is getting the uplift.

Q108 John Thurso: So you would say that the charge that Scotland is being hard done by is absolutely wrong?
Andy Burnham: I would say it is absolute nonsense.

Q109 John Thurso: Splendid! I like that reassurance.
Mr Hughes: On the technical point about why the growth rates are different, it is an artefact of the way the Barnett Formula operates. The Barnett Formula is designed to provide the devolved administrations with the same absolute nominal increase per head as UK departments get in England, but because spending per head is higher in Scotland already and is higher in all the devolved administrations, the real increase you see, as published on their budget from 2007–08, is a lot lower than what you see in the corresponding figures.

Q110 John Thurso: That is a very good answer, so the point is that because our spending is higher already, the percentage increase, which is the same as in England, actually comes out at a lower figure?
Mr Hughes: Yes.

Q111 John Thurso: Can I come to the Department formerly known as the DTI, DBERR or whatever it is called, it appears to have a real terms cut of 2.6%. How can the department charged with leading business and enterprise have afforded a 2.6% cut?
Andy Burnham: Sorry, I missed the question, John.

Q112 John Thurso: I will start again.
Andy Burnham: Just the end will do.

Q113 John Thurso: I am not having much luck this week! The Department of Business, Enterprise and Regulatory Reform, whatever that stands for, if you go back to this table on 1.3 it stays constant, which means that the percentage average annual real growth is minus 2.6? Why is the department that is charged with pushing through all the support of business and all of the other things, one of the few departments to have a real terms cut in its budget?
Andy Burnham: There are some difficult choices being made about where to put the growth that is available to departments. DBERR is not alone by any means in facing a difficult settlement. They have an ambitious value-for-money programme that will release some £307 million over the course of the

Spending Review period. I think it is important to make the point that the levers of the DTI formerly, and now DBEER, are predominantly through regulation and through other means by which they influence growth, productivity and inward investment. It is not always associated with being a main spending department which would require headline increases.

Q114 John Thurso: In D11.9 the Nuclear Decommissioning Authority is one of the clear winners in that its spending over the period actually rises by £338 million by 2011, which is clearly a goodish settlement for them, although there are risks still with the MOx plant and Thorp, but in giving them their settlement does the Treasury accept their policy and plan for socio-economic regeneration which accompanied their bid for this CSR round?
Andy Burnham: You correctly identify the elements of the plan. They will have an additional £338 million, representing growth of 4.9%. That principally is to allow the NDA to reduce risk at some of their most hazardous facilities. If you are asking me something further around the regeneration—

Q115 John Thurso: My understanding is that they specifically requested that the Treasury agree their socio-economic regeneration policy as part of this settlement and therefore my question is: did they get that agreement from the Treasury?
Andy Burnham: That is probably a matter for the NDA.

Q116 John Thurso: They said they had asked the Treasury for that specifically.
Andy Burnham: I think in common with all bodies now they will be waiting to see their exact settlement from the Department and they will then obviously have to—
John Thurso: But I understand that they specifically asked the Treasury to agree their socio-economic regeneration policy, which involves them spending money on socio-economic regeneration projects as part of their CSR review, so that that was absolutely nailed. My understanding was that DBERR concurred and asked the same of the Treasury, and I was wondering therefore what the Treasury's answer was.

Q117 Chairman: Could you give us a note on that?
Andy Burnham: I will give you a note on that.[4]

Q118 Ms Keeble: I wanted to ask a question about the Home Office. The announcement for the Home Office included more for terrorism and more for neighbourhood policing. The amount for terrorism was spelt out but there was no detail on the neighbourhood policing bit, so can you say how much more you expect to see spent on neighbourhood policing and how that will be protected so that it does actually produce neighbourhood policing, and what this means in terms of numbers of police officers and also whether that means that the funding of PCSOs, who presently are partly reliant on the council for funding (and it is a Conservative council which is I think threatening to end the funding) will now be secured?
Andy Burnham: I believe the settlement gives the Home Office, and beyond, the Police Service the funds they need to take forward neighbourhood policing, which is obviously at varying degrees of implementation around the country.

Q119 Ms Keeble: What is the breakdown? Of the extra money there has been a clear amount earmarked for terrorism but I have not heard anything more about the details for neighbourhood policing, and it was really about that and how you are going to make sure it is actually spent on neighbourhood policing, because presumably it will just go into police authority budgets?
Andy Burnham: The right answer is to say that it is a matter for the Home Office to decide within its overall growth of 1.1% how to allocate those resources.

Q120 Ms Keeble: But the announcement in the House specifically said terrorism and neighbourhood policing, which is very good news, and there must therefore have been some expectation about how much would go on that.
Andy Burnham: These are the questions that the Home Office will now consider. What I was trying to explain is that the settlement overall gives them sufficient, in my view, to fund priorities in counter-terrorism but also in terms of completing neighbourhood policing. We think it is enough to ensure that the police precept does not rise by more than 5%, it is enough to ensure that police forces around the country are well provided for, but I am not going to do the job of the Home Secretary and say, "And we now expect this much to be spent on community support officers, this much on police forces," that is not my job.

Q121 Ms Keeble: Okay, but the announcement very clearly in the House talked about neighbourhood policing. You have said that it provides enough for neighbourhood policing generally, which has already been announced, and it also means that the police authorities should not have to put up their precepts too much. There is obviously an issue about if they do not put up their precepts then they do not have the money for the neighbourhood policing as well. You must have done some sort of analysis about what this would mean in terms of the amount that could be spent on neighbourhood policing, how that relates to the previous plans for neighbourhood policing, and therefore what it might mean in terms of officers on the beat, which is what people are interested in. It would be very helpful if we could perhaps rather than debate it now have a note as to what the calculations around that were and what the projections were at the time.

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Andy Burnham: We will happily provide that, Sally.[5] Again the context here is a 50% increase in the last decade for police forces and, as I say, the settlement we have given them sustains and builds, albeit more slowly, on that growth, but we will give you a note on precisely that.

Q122 Mr Todd: Flood defences; since the announcement, a revolver has been whipped out and placed to the Government's head in that the insurers may review the agreement they have on the packages they offer in flood defence areas because they regard the package announced as inadequate. What is the Government's position on that? Your colleague Kitty Ussher has said that she is going to review the statement of principles this year. What does that mean?
Andy Burnham: The Government's position is that in this year we are spending £600 million a year on flood defences. Over the course of the CSR it will rise to £800 million.

Q123 Mr Todd: With most of the increase in the last year, unfortunately.
Mr Hughes: That is not the case. The Secretary of State for Environment, Food and Rural Affairs announced that it would be a more or less steady increase over the three years.

Q124 Mr Todd: Maybe I have misread the information but I see £650 million in 2008–09, £700 million in 2009–10; and £800 million in 2010–11 so, as I said, most of the increase is towards the end of the period. I do not know but it seems like that to me.
Mr Hughes: It was £300 million in 1996–97 so it has been going up at quite a fair clip.
Andy Burnham: Could I answer the point about the ABI particularly. In all of the preparation leading up to the CSR and the submissions that the ABI made—and I could read them out but I will not delay the Committee in doing so—there was a repeated reference to the need for £750 million per annum for flood defences by the year 2011. The CSR delivers £800 million per annum in the final year of the CSR. Yes, there have been terrible floods in the country since those statements were made, but I do not know what the meteorologists would say about whether this was a one-in-200 or one-in-100 year flood. I do not believe it is right to say after the CSR that the commitment that we have given is not enough because we have more than met the ABI's request.

Q125 Mr Todd: So you are saying to the insurance industry "Do your worst", are you?
Andy Burnham: All I am pointing out—

Q126 Mr Todd: My constituents who are regularly affected by flood will be listening with anxiety to those sorts of things.
Andy Burnham: Well, they should not feel anxiety about a major increase in investment in flood defences. I would hope they would feel somewhat cheered by that level of investment.

Q127 Mr Todd: The IRR on flood defences is 27%. You get tremendous value for money for the investment.
Andy Burnham: Sure, and let us remember that Sir Michael Pitt is conducting a review of the flood defences this year, and at the end of the spending period that we are in, the estimate is that the Government has taken 100,000 homes out of a flood risk. If you look, as Richard Hughes was just saying a moment ago, at how much further we will increase the flood defence budget in this Spending Review, I think people have got reason to feel that the Government has responded in the right way to the changing environmental circumstances around us. As I say, it more than meets the repeated requests of the ABI running up to the Comprehensive Spending Review.
Mr Todd: Which I told them was inadequate, but never mind.

Q128 Mr Love: Can I turn to local government, last week the Institute for Fiscal Studies told us that the 2004 Spending Review settlement of a 2.4% real terms increase in funding had to be topped up during that Spending Review. Can you give us an idea where you think funding for local government will be eventually and some idea of why the funding had to be topped up in that way?
Andy Burnham: In the last Spending Review?

Q129 Mr Love: In the Spending Review currently coming to an end.
Andy Burnham: Again I do not want to evade the question, but obviously I was not in the Department at the time when the modelling was done for the last Spending Review. This time round we have taken a very close look at the pressures on local government and obviously that is a situation that we would not want to see repeated.

Q130 Mr Love: Perhaps you could give us a note on where the figures are for that, that would be helpful.
Mr Hughes: It is in the Public Expenditure Statistical Analysis from July 2007. We have published the local authority number of £158 billion.

Q131 Mr Love: Which page is that? I am sure our Clerks are scribbling it down as we speak.
Mr Hughes: It is page 84, table 7.1.
Mr Love: That is very kind of you. I think I will leave it—
Mr Todd: Read it later!

Q132 Mr Love: Absolutely. The real question that I wanted to ask you, and it does relate to this Spending Review that we are discussing today rather than the previous one, is there are many especially in local government, who say that the reason why their expenditure has to go up in this way is because there are additional responsibilities and legal demands made upon them by central government. What gives you the confidence coming before us today to think that that particular process will not continue and therefore there will not be a need to revise upwards again expenditure in local government?

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Andy Burnham: The settlement gives local government growth in all three years of the Spending Review. That means under this Government the local government settlement has grown in every single year, and that was not always the case. In terms of the actual quantum delivered in this Spending Review, it meets, in my view (having looked at the LGA CSR submission in some detail) the bottom line request in terms of meeting pressures and enabling there to be a business as usual test, and on that basis this Spending Review meets that test. I believe the request from the LGA was 1.4, 0.6, 0.7 growth to meet that business as usual test, and the spending settlement we have delivered does that. You then asked about burdens placed on local government. The Secretary of State for Communities and Local Government, like we did with targets, also did a very serious piece of work in advance of the Spending Review this time, not after the event—to remove ring-fences from local government funding where they existed, and some £5 billion worth of funds that would previously have had a ring-fence attached to it are now being given to local government without that stricture, which we think will be a further help. In addition to that, we have given local government what was the request from the LGA which was to fund the concessionary fares policy through a special grant regime rather than putting it through formula grant, and overall, as I was saying before when I was answering Mark Todd's question, the number of targets has fallen from 1,200 to 198 performance indicators, yes, I am recognising that it is a challenging settlement, but it is growth and there is further flexibility delivered in the ways I have just described.

Q133 Mr Love: I am sure you would want to put out the message again today that you expect local government to live well under 5% in terms of council tax increases, but that is not the question I want to ask.
Andy Burnham: I certainly do, substantially below 5%.

Q134 Mr Love: Just to finalise that, you are also asking local government to make efficiency savings of nearly £5 billion by the end of this Spending Review. Are you confident that you can deliver all three—the efficiency savings, the expediture within the limits you set, and a council tax increase over those three years that is well below 5%?
Andy Burnham: We made particular provision at the request of the Secretary of State, but we had already made provision within our plans, to make funding available to support local authorities in their value-for-money endeavours and there is £150 million specifically for that purpose in the overall spending settlement for DCLG. We think that will help local government make those efficiency savings. By way of comparison, if it helps, in the Spending Review 2004, that fund was around about £25 million, so that is evidence of our commitment in this area and we do take it incredibly seriously.

Q135 Mr Mudie: On health and relating to Andy's question, we were dealing with vulnerable youngsters, let us deal with vulnerable older people. Even under Thatcher old people could get a free home help and could be looked after and it is a mark of shame that two-thirds of local authorities are now no longer providing a free home help or any home help on demand. You will know from your health days that because of demographic pressures only the "serious" are being given home care. This has been a scandal that the Government and local authorities have taken comfort in blaming one another for but doing nothing about. The sad thing is the help to do anything about that is £190 million over the Spending Review period plus, of everything, a Green Paper. How can a Labour Minister be satisfied with that as a response to the scandal of the neglect of old people in our local communities?
Andy Burnham: As I said at the beginning—

Q136 Mr Mudie: £190 million, Andy.
Andy Burnham: I think to some degree social care has been a neglected area in recent times.

Q137 Mr Mudie: Ivan Lewis thought it was a "challenging" area, to come back to our previous conversation.
Andy Burnham: The direct funding that the Department of Health puts into social care is part of the story but it is not the whole story. Obviously the main route through which adult social care is funded is via local authorities. In all my discussions with the LGA and others they have all said—and I have accepted this entirely and I think we all know this from our own constituencies—that the pressures in social care funding are significant and they are a real pressure. The uplift that I have just described in local authority resource will equate to some £2.6 billion in 2010–11 and will help meet those pressures. The Department of Health specific grant in terms of social care is increasing and there is something else, which I am not sure is in this document but is welcome nevertheless, and that is a commitment by the Department of Health to fund the Partnership for Older People (POPS) and it is quite a significant amount of money that goes directly into services for older people.

Q138 Mr Mudie: Andy, you know it is not happening. The King's Fund Report by Wanless, the Joseph Rowntree Report, the CSCI Report, your own Social Care Commission, all said that these elderly people are being neglected and that there needs to be a policy change. Everybody looked at this Comprehensive Spending Review as the first sign that we would be shamed into doing something for our elderly. What you have put in amounts to £60 million a year extra for these elderly in a budget of £589 billion spending. How the hell can you say that even starts looking at the situation?
Andy Burnham: I agree with you, it is a very large issue and it is one of growing importance to us, but let me just refer you, George, to the ADSS who

responded to the CSR by saying: "Today's announcement is clear evidence that the Department of Health has truly recognised the importance of social care." They were I think commenting particularly on the Green Paper. I know you have said the Green Paper is not the whole of the answer, but actually the time has come to make some searching assessment of how we are going to fund social care into the future.

Q139 Mr Mudie: Andy, you had a very good report from Wanless, I think it is now two years old, and it is not just a superficial report, he puts some hard questions about people contributing. It is a really thorough report in terms of something we should be out in the country asking. We have had two years, we have done nothing, and now we are suggesting next year we will have a Green Paper—not a White Paper, a Green Paper—and by 2010–11 the end of this Spending Review, we will only spend £60 million. The funding that you are speaking about between Health and Social Services is dealing with the people that are the most severe that are already getting the resources. Anybody that is not categorised as severe does not. A 93-year-old war veteran and hero with medals in a wheelchair approached me on Remembrance Sunday. He has had his home care taken from him. It amounted to an hour a fortnight. He lives on his own and he has an 83-year old woman coming in from next door. He got his hour taken from him. He was assessed: you are not severe, you do not need it. That puts into the arena that is what we are doing, that is what we are ignoring. Here is a Spending Review from the Labour Government for the next three or four years and we have put no money in to address that. Are you not shocked?
Andy Burnham: Well, I share with you the importance that you attach to these areas and I believe very strongly from my time in the Department of Health that we need to see, not just talk about it, real integration of health and social care at a local level. I believe that passionately. I would like to see PCTs use some of the flexibilities, George, that they have been given around spending health resource in a different way, if that will benefit the individual and keep them happy, healthy and at home. I think that that is something that the new PSA framework we have got should encourage, and I would be quite happy to see that happen. There is evidence of increased funding for social care in this Spending Review, but I think given the complexity of these issues it would not be right for the Government just to come up and say, "Here is a whole new way of doing it." We are going to take this forward." It has to be done with a degree of consensus and a degree of acceptance that this is the right way to go, given the importance of these matters to the country. To pick up your point about the gentleman on Remembrance Sunday, I think there is a different view between the generations of how these things can and should be funded, to put it—

Q140 Mr Mudie: We cannot give an hour a fortnight to a 93-year-old war hero living on his own? What kind of society do we live in? Even under Thatcher he would have got it free three days a week. What the hell are we developing into?
Andy Burnham: I agree with you that we have to get a better basis by which social care is funded—the Green Paper is an attempt to do that—and look at all of the support that is available and then make it as fair as possible, but Ivan Lewis, the Care Minister, is doing some excellent work in this area.

Q141 Mr Brady: Having been deprived, members of this Committee, of the opportunity to ask questions of the Prime Minister about the European Union this afternoon, I just wanted to direct your attention to the table on total managed expenditure, table B11, which shows net expenditure transfers to EC institutions rising from £4.7 billion in 2006-07 to £6.6 billion in 2010-11, an increase of nearly £2 billion which is over 40%. Why is that increasing by over 40% when domestic expenditure is having to go up by just 2% a year?
Andy Burnham: Can I refer this one to my colleague Richard; it is quite a complicated answer.
Mr Hughes: It is wrong to look at that line and extrapolate too many conclusions. Our net expenditure to the EU is just that, it is a combination of the balance between receipts and expenditure that go out to the EU, and there are things that happen both on the receipts side and on the expenditure side. There are a number of things which we have reflected newly in this publication that were not reflected in the last Spending Review, in particular changes around the UK's abatement arrangements with the EU. It is wrong to look at that line and extrapolate it to saying there is somehow a 40% change in how much is going out to the EU institutions, because there is a comparison to be done about the overall balance of spending that goes out to the EU versus the amount of receipts that come back into us.

Q142 Mr Brady: But it is principally due to the reduction in the size of the UK abatement?
Mr Hughes: No, I did not say that at all.

Q143 Mr Brady: What percentage of it is due to that?
Mr Hughes: I am afraid I cannot speculate on how much is attributable to that, there are a large number of inflows and outflows and this is expressed in net terms rather than in gross terms and is the difference between very large numbers of individual in-year changes, and inter-temporal changes can be very misleading.

Q144 Mr Brady: Could we have another letter in the next few days pointing out what percentage of that increase to 2010–11 is due to the change in the abatement?
Mr Hughes: We can provide that information, yes.[6]

Q145 Mr Dunne: I have a final question just following up on George Mudie's very powerfully

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made point about how the CSR is addressing the shortage of funding for adult care. My question relates to that and also the allocation of LEA funding across the country. There are certain areas of the country—and I represent a very rural area—where we are an increasingly attractive venue for people to come and retire and therefore there are demographic pressures on our local authorities to fund the issues that George has highlighted at one end of the extreme, and at the other to fund school places, which, for example, by comparison with the numbers you were discussing when Michael Fallon was questioning you, Shropshire receives £3,551 per pupil, which is less than 75% of the average £4,800 funding per pupil 2005–06 and yet the local authority has to deal with higher transport costs and providing education over a wide rural area. What has the Treasury done to look at the allocation of funding across local authorities at both ends of the spectrum given that most of the calculations are based on 2001 Census data which is now woefully out of date?

Andy Burnham: The precise allocations are a matter for the departments concerned so they are a matter for the DCFS and, in the case of health, funding for DH and also DCLG, so it would be wrong for me to intrude upon their territory. That is what those departments are now doing. They are now looking at the overall allocation and making sure that they have a funding policy, an allocations policy that best targets need. I would hope I would stand corrected by saying that I think all of those mechanisms take account of rurality when funds are allocated. Speaking for my former department, it is certainly the case that the health funding allocation formula takes account of rurality when allocating funding to PCTs. Then in terms of population, as I was saying before, all departments are getting the most up-to-date figures, so that is the position in terms of how each is responding differently to make sure that the funding allocations are fair.

Q146 Chairman: Can I just ask a final question, if it was appropriate to consult the Treasury Committee regarding the Treasury's departmental strategic objectives, why was the Committee not consulted regarding those of Her Majesty's Revenue and Customs? Can you give me a note on that?

Andy Burnham: I think I will probably have to![7]

Q147 Chairman: Okay. Lastly, how are things going in the tax credits office?

Andy Burnham: I am sure my esteemed colleague Jane Kennedy will be before you soon.

Q148 Chairman: Let me give you an example. Today as a constituency MP I got eight letters through from HM Revenue and Customs about tax credits and they say: "Dear Mr McFall, we are very sorry for the delay in sending you a full reply to the complaint that you sent us on 7 August 2007 but I can confirm that we are currently working on your constituent's complaint and aim to send you a reply by 25 December 2007." So ready for Christmas Day! There is my Christmas present!

Andy Burnham: Maybe you will get it on Christmas Day.

Q149 Chairman: I think you should take it back.

Andy Burnham: Joking apart, I will refer that to Jane Kennedy.

Q150 Chairman: I think so.

Andy Burnham: Can I just say Chairman, she is taking a very detailed and focused look at the operation of the system.

Chairman: Michael tells me she is coming to the Sub-Committee. Chief Secretary, thank you for your attendance this evening and we look forward to another session some time; we do not know when.

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Written evidence

Letter from the Permanent Secretary, HM Treasury to the Chairman

I am writing to you regarding the Treasury's Public Service Agreements (PSA) and Departmental Strategic Objectives (DSOs) for the CSR07 period. I am doing so on the understanding both that these PSAs and DSOs are still in development.

Following discussions, both across central departments and with other actors in the PSA delivery chain, the structure of the PSA framework has been altered for the CSR07 period, details were set out in Chapter 6 of the Budget. A new set of PSAs will set out the highest priority outcomes for the Government, with less than a third of the number of PSAs than in the current spending review period. Recognising that delivery of the Government's highest priority outcomes requires public services to adopt collaborative approaches across organisational boundaries, both at Whitehall and the frontline, these outcome-focussed PSAs will not be constrained by departmental boundaries but will reflect a government wide set of priorities, articulating the most important areas for collective action.

To ensure coherent cross-departmental working as well as buy-in throughout the delivery chain, each cross-cutting PSA will be underpinned by a single, published Delivery Agreement setting out plans for delivery, the growth of each organisation in the delivery chain, and the indicators that will be used to measure progress towards the outcome—strengthening accountability at all levels. Whilst a number of departments will contribute to Delivery Agreements, one department has been nominated to lead production of each one.

In this new system, HM Treasury are leading on the development of the Delivery Agreement for one proposed PM:

> "Halve the number of children in poverty by 2010, on the way to eradicating child poverty by 2020".

The target to halve child poverty by 2010–11 is part of a wider target to eradicate child poverty by 2020.

The Child Poverty Review was published alongside Spending Review 2004 and articulated the Government's comprehensive strategy for reducing and eradicating child poverty. The Review set out a number of work strands: financial support; increasing employment tackling material deprivation and improving children's life chances.

The Delivery Agreement for this proposed PSA will detail the contribution that Government departments will make towards reducing child poverty and will focus upon those policies which will have a quantifiable impact on the 2010 targets and contribute to our goal of eradicating child poverty by 2020.

In addition to this PSA, we are also involved in development work on a number of other PSAs that are being considered. In particular, we are making significant contributions in the areas of international poverty reduction, employment, productivity, supporting a strong business environment, regional economic growth and climate change.

On international poverty reduction, the proposed PSA focuses on the elimination of poverty in poorer countries through achievement of the Millennium Development Goals (MDGs). HM Treasury has a key role in releasing resources for international development and in influencing a number of international institutions. We will use these levers as appropriate to support the delivery of the proposed international poverty reduction PSA. We will also continue to press for innovative financing development, such as the International Finance Facility for Immunisation and Advance Market Commitments, which can help accelerate progress towards the MDSs by releasing resources for basic services.

On employment, HM Treasury will provide the platform for achievement of progress by continuing to deliver stable macroeconomic policy and sound management of public finances. In addition to working closely with DWP on the development of welfare to work policies, HM Treasury will continue to contribute to the Governments long term goal of employment opportunity for all, through policies that make work pay, improved incentives and a guaranteed minimum income from work through reform of the tax and benefit system combined with the National Minimum Wage.

The proposed productivity PSA will seek to deliver progress on the Government's long-term objectives to raise the rate of UK productivity growth over the economic cycle, and narrow the productivity gap with our major industrial competitiors. HM Treasury is responsible for the overall productivity strategy, including design and implementation of the productivity framework. We are also responsible for ensuring macroeconomic stability, which enables increasing levels of productivity, and have an influencing role on the activities of other government departments to make sure that these are supportive of the productivity agenda.

For the proposed PSA on supporting a strong business environment, the Treasury will contribute to Government action to ensure that the UK framework for competition is at the level of the best, and by working with HM Revenue and Customs and the Better Regulation Executive to ensure the delivery of a supportive regulatory and business tax administration environment.

On regional economic growth, the Treasury will contribute by overseeing the implementation of the findings of the sub-national review and will also look at options for delivering increased regional flexibility in public sector pay settlements.

Finally, on climate change, the Treasury will contribute through continuing to promote international understanding of the economic impact and significance of climate change through engagement with international finance ministers in G7 and G20 meetings. Domestically, we will continue to use evidence based policy making to ensure that when designing our economic instruments the governments emissions reduction and environmental goals are consistent with maintaining economic growth and achieving our social objective—specifically through our responsibility for environment tax policy (including the Climate Change Levy, Fuel Duty, Vehicle Excise Duty and Air Passenger Duty).

These PSAs and the indicators that will be used to measure and report on progress are still being developed by departments across Whitehall, and we are working together to involve Local Authorities, frontline professionals and service users so that frontline expertise informs the definition, measurement and delivery of priorities. PSAs and their Delivery Agreements will be finalised at the CSR in the autumn.

These top-level cross-government priorities will be underpinned by a set of DSOs, which each department will develop and publish at the CSR. These DSOs will cover the Departments entire business and form the basis for internal performance and resource management over the CSR07 period.

The Treasury is itself in the process of developing a set of DSOs for the Treasury Group. Attached to this letter is a simple graphic illustrating at a high level our two overarching DSOs:

— maintaining sound public finances;

— ensuring high and sustainable levels of economic growth; and

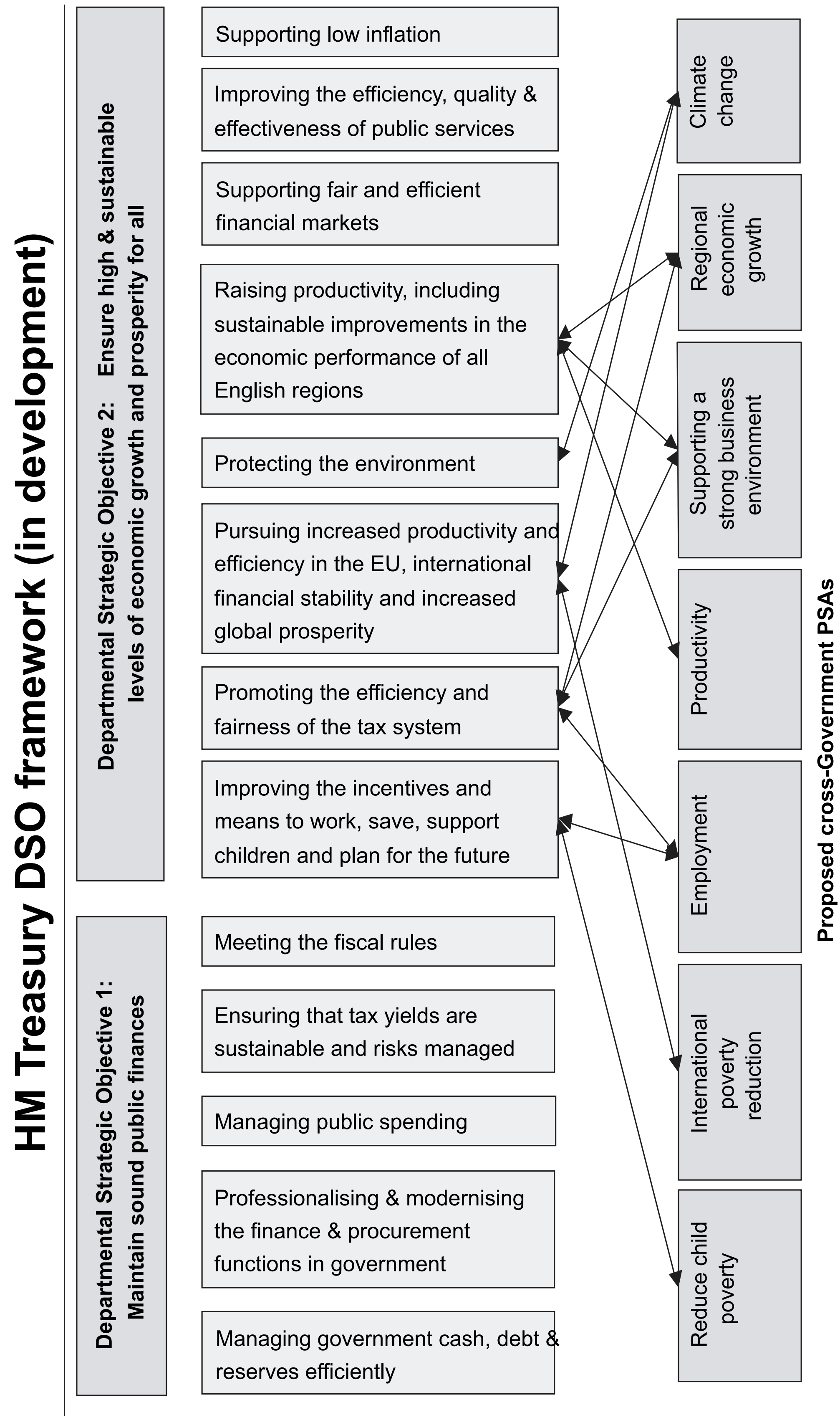
— prosperity for all.

Each of these DSOs is underpinned by a series of outcomes, some of which link to the proposed cross-Government set of priority PSA (as shown in the graphic). These outcomes will be defined by a set of indicators which we are currently developing and which, where relevant, will mirror those underpinning PSAs. I would be happy to share these indicators with you in due course.

As one of our key stakeholders, I would be grateful for your views on the model we are suggesting for our DSOs. To aid their continuing development, any view you could submit before the summer recess would be appreciated.

I should stress that these DSOs are still under development, and may change prior to their publication alongside the CSR. I am happy to keep you apprised of their development if you would find that useful.

28 June 2007


HM Treasury DSO framework (in development)
Departmental Strategic Objective 2: Ensure high & sustainable levels of economic growth and prosperity for all
Supporting low inflation
Improving the efficiency, quality & effectiveness of public services
Supporting fair and efficient financial markets
Raising productivity, including sustainable improvements in the economic performance of all English regions
Protecting the environment
Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity
Promoting the efficiency and fairness of the tax system
Improving the incentives and means to work, save, support children and plan for the future
Departmental Strategic Objective 1: Maintain sound public finances
Meeting the fiscal rules
Ensuring that tax yields are sustainable and risks managed
Managing public spending
Professionalising & modernising the finance & procurement functions in government
Managing government cash, debt & reserves efficiently
Climate change
Regional economic growth
Supporting a strong business environment
Productivity
Employment
International poverty reduction
Reduce child poverty
Proposed cross-Government PSAs

Letter from the Chairman to the Permanent Secretary, HM Treasury

Thank you for your letter of 28 June 2007 about the Treasury's involvement with Public Service Agreements (PSAs) under the 2007 Comprehensive Spending Review and the Treasury's proposed Departmental Strategic Objectives (DSOs), which I have now had an opportunity to discuss with other members of the Treasury Committee.

Your letter makes no specific reference to the recommendation in paragraph 102 of our recent Report on The 2007 Comprehensive Spending Review: prospects and processes that the Treasury should provide further information about the proposed data to be used for measuring progress against targets. No such information is included in your letter. We understand that this may not be available at present, but we would be grateful if you could confirm in reply to this letter that such information is expected to be provided to us in advance of the final announcements on the Comprehensive Spending Review, and that your letter of 28 June represents the start of a process of consultation, not the end of that process.

We note the plans to reduce the overall number of PSAs, and we are broadly sympathetic to this approach. We also note the proposals to include what were formerly some of the Treasury's PSA targets within "outcomes" relating to the DSOs. You state that these "outcomes will be defined by a set of indicators", which you will share with us in due course. Your letter also states that DSOs will "form the basis for internal performance and resource management". I would be grateful if you could confirm that each outcome will be the subject of measurable indicators, that we will see the proposed indicators in advance and that performance against each of these indicators will be reported on in your Annual Reports and Autumn Performance Reports.

You explain that the Treasury is expected to take the lead on the Child Poverty PSA target. However, the letter also discusses how, on the Productivity measure, "HM Treasury is responsible for the overall productivity strategy, including design and implementation of the productivity framework". We would be interested to know why it was considered appropriate for the Treasury to take the lead on the Child Poverty PSA, but not on the Productivity PSA.

In your letter, you refer to us as "one of your key stakeholders". In your response to this letter, it would be helpful if you could explain who else you are consulting about the Treasury's PSAs and DSOs at this stage.

Finally, you state that "the details shared in this letter are confidential". It is unusual for information to be provided to a select committee without prior consultation on its status. On this occasion, we are content to treat this exchange of correspondence as confidential at the present juncture, but we ask that, in your reply, you give your views on whether the correspondence could be made public by us once the final outcome of the Comprehensive Spending Review has been announced.

25 July 2007

Letter from the Permanent Secretary, HM Treasury to the Chairman

HM Treasury Departmental Strategic Objectives

Thank you for your letter of 25 July 2007 responding to my letter regarding the Treasury Group's Public Service Agreement (PSA) and Departmental Strategic Objectives (DSOs) for the 2007 Comprehensive Spending Review (2007CSR) period. Until such time as the 2007CSR is published, I am grateful to you for keeping this correspondence confidential.

In my last letter to you I set out the Treasury Group's plans for its DSOs. In your reply, you quite rightly noted the importance of setting clear and measurable indicators for these DSOs, which will enable progress to be monitored over the period. The Treasury Group has been developing indicators for each of our DSOs over recent months, and I am happy to be able to share with you our most recent thinking. I am attaching to this letter a document we intend to publish alongside the 2007 CSR which details our DSOs and their respective measures. I would be grateful for your views. These indicators will form the basis of our reporting to Parliament At this point it is envisaged that this reporting will take a similar bi-annual format to that for the 2004 Spending Review targets.

In your letter, you ask why the Treasury has led on the development of the Delivery Agreement for the Child Poverty PSA, and not for productivity. The primary reason the Treasury has led on Child Poverty is that we control the levers which are critical for meeting the 2010 target, as we set the levels of financial support for families. Employment will have an important impact on achieving our goal of halving child poverty, but financial support is the most important lever. However, 2010 is a milestone target—to achieve our ultimate goal of eradicating child poverty by 2020, government will need to act together to tackle material deprivation and to improve public services to improve children's life chances.

The Treasury also led on production of the 2004 Child Poverty Review which contains Government's comprehensive strategy for achieving our child poverty targets. As with the Child Poverty Review, the Child Poverty PSA Delivery Agreement has been coordinated by the Treasury, but with substantial input from a number of departments.

There were three key reasons why the DTI (now BERR) was deemed to be the right Department to lead on the development of the Productivity PSA Delivery Agreement. First, the DTI had shared responsibility for past productivity PSAs in earlier Spending Reviews (most recently in SRO4) and therefore was well-placed to understand what a delivery agreement for CSRO7 would need to encapsulate. Secondly, the Department's remit to work across Government the regions and business to raise levels of productivity in the UK gives it a good oversight of the key policy areas and stakeholders that feed into and support Government's productivity agenda. Finally, given DTI has lead responsibility for the development of Delivery Agreements related to Productivity Growth, there were notable advantages in also asking the Department to lead on work to draw up a Delivery Agreement for the Productivity PSA.

In your letter you ask about the consultation process for our PSAs and DSOs. An integral part of the process for developing the Delivery Agreements for PSAs has been consultation with stakeholders across the public and private sector, third sector interest groups and the general public. For example, the Treasury led Delivery Agreement for the Child Poverty PSA Poverty PSA has been produced in consultation with local government and external stakeholders, as well as with the Child Poverty PSA External Stakeholder Group, which includes representatives from charities, trade unions, local government and lobby groups. The Child Poverty Review sets out the Government's child poverty strategy. It was written in consultation with, among others, the research community, front-line service delivery professionals, and representatives from: the third sector; Primary Care Trusts; the criminal justice system; local authorities; and trade unions.

I recognise the Committee is likely to be engaged on other issues this week and next but if it were possible to send us any comments—however provisional by Friday 5 October, it should be possible for them to inform any CSR publications.

25 September 2007

HM Treasury Group Departmental Strategic Objectives—CSR2007: 2007·08 to 2010–11

1. Vision

HM Treasury is the United Kingdom's economics and finance ministry, and is responsible for formulating and implementing the UK Government's financial and economic policy. Reflecting this role, the Treasury Group has set itself two Departmental Strategic Objectives (DSOs) for the 2007 Comprehensive Spending Review (CSR2007) period:

(i) Maintaining sound public finances; and

(ii) Ensuring high and sustainable levels of economic growth, well being and prosperity for all.

While these are articulated as two separate DSOs, they are strongly linked and delivery of one DSO cannot be affected in isolation from the other. Each of these DSOs is underpinned by a series of outcomes. The Delivery and Measurement section below sets out the full list of these outcomes, and the indicators the Treasury will use to measure progress against the DSOs over the CSR2007 period.

The DSOs cannot be delivered without supporting systems, processes, resource management and corporate capability: the Treasury is therefore commited to enhancing the effectiveness and efficiency of its corporate services over the period.

In addition, the Treasury Group will be a delivery partner for seven of the Government's Public Service Agreements (PSAs) for the CSR2007 period. These are to:

— Halve the number of children in poverty by 2010, on the way to eradicating child poverty by 2020;

— Reduce poverty in poorer countries by meeting the Millennium Development Goals;

— Improve the economic performance of all English regions and reduce the gap in economic growth rates between the regions;

— Raise the productivity of the UK economy;

— Maximise employment opportunity for all;

— Deliver the conditions for business success in the UK; and

— Lead the global effort to avoid dangerous climate change.

Delivery against the Treasury's DSOs will enable it to fulfill its commitments to these PSAs.

2. Delivery and Measurement

Performance against the DSOs will be organised through the delivery of a number of outcomes. Table 1 summarises the DSO outcomes and indicators, a more narrative description follows below. As with the overarching DSOs, there is interdependency between a number of these outcomes.

Table 1

HMT DSO INDICATORS

Indicators for DSO 1: Maintaining Sound Public Finances

Outcome	*Indicators*
(a) Meeting the fiscal rules	Over the economic cycle, maintain: — Public sector net debt Wow 40% of GDP—the sustainable investment rule — The current budget in balance or surplus—the golden rule.
(b) Ensuring that the tax yields are sustainable and risks managed	Tax yield over the economic cycle, as set out in PBR and Budget.
(c) Managing public spending	Differences between: (i) Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and Public Sector Net Investment (PSNI) at Budget and; (ii) actual outturns as at the End of Year Fiscal Report.
(d) Professionalising and modernizing the finance and procurement functions in government	Enhanced performance at departmental level in timeliness and quality of in-year and external reporting—measured through individual departments performance against faster-closing deadlines, number of qualified accounts etc.
(d) Professionalising and modernizing the finance and procurement functions in government	Efficiency: — Savings from take up of collaborative opportunities and other procurement activity; and Effectiveness: — The extent to which the delivery performance of government's procurement capability and capacity improves through the SR07 period.
(e) Managing government cash, debt and reserves efficiently and effectively	— All operational activities carried out without major error — Appropriate limits and monitoring systems to control financial risks are in place (in line with best comparative practice)

Indicators for DSO 2: Ensure high and sustainable levels of economic growth, well being and prosperity for all

Outcome	*Indicators*
(a) Supporting low inflation	Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2% as measured by the 12-month increase in the Consumer Prices Index).
(b) Promoting the efficiency and fairness of the tax system	Impact of policy measures on taxpayers (including an overall reduction in admin burdens from tax policy changes).
(c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future	— Increase in the employment rate of the working age population — Number of children in relative low-income households (less than 60% of median income before housing costs)
(d) Improving the quality and value far money of public services	Progress in delivering on PSA commitments.
(e) Supporting fair, stable and efficient financial markets	— Financial capability, as measured through the FSA Financial capability survey; — Financial inclusion—access to bank accounts and other products and services; — Better regulation—reduction in the regulatory burden; and

	— Helping manage risk from organized crime and terrorism—data and monitoring of asset-freezing reported quarterly to Parliament.
(f) Raising productivity, including sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions	— Trend growth in output per worker (productivity) over the economic cycle; — International comparisons of output per worker and per hour worked — Regional Gross Valued Added (GVA) per head growth rates in each region and between the best and works performing regions.
(g) Protecting the environment in an economically efficient and sustainable way	— Increase in the size of the global carbon market; — Increased policy cost-effectiveness.
(k) pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity	— A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises; — Acclerated progress towards the Millennium Development goals (as set out in the Government's International Poverty Reduction PSA); and — A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.

DSO 1: Maintaining Sound Public Finances

To reflect the Treasury's traditional Finance Ministry function, DSO 1 commits the Group to maintaining sound public finances. As with a number of the DSO outcomes, this is a long-held commitment and one not limited to the current or future spending periods. The DSO is underpinned by five specific outcomes which, when taken together, will define success in delivering on this DSO:

(a) Meeting the fiscal rules;

(b) Ensuring that tax yields are sustainable and risks managed;

(c) Managing public spending;

(d) Professionalising and modernising (i) the finance and (ii) the procurement functions in government; and

(e) Managing government cash, debt and reserves efficiently and effectively.

(a) *Meeting the fiscal rules*

Sound public finances ensure that the government meets its key spending priorities while avoiding an unsustainable debt burden. They are integral to the government's fiscal policy framework. The government's fiscal policy objectives are:

— Over the medium term to ensure sound public finances and that spending and taxation impact fairly within and between generations;

— Over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

These objectives are implemented through two strict fiscal rules. That over the economic cycle, the Treasury will maintain.

— Public sector net debt below 40% of GDP—the sustainable investment rule; and

— The current budget in balance or surplus—the golden rule.

Adherence to these two rules is the measure of success against this DSO outcome.

(b) *Ensuring that tax yields are sustainable and risks managed*

In order to support the government's spending commitments it is vital that the total tax yield remains sustainable over the economic cycle. Moreover, the total tax yield must remain sustainable over the longer term to support future spending needs and emerging priorities. Sustainability is defined as tax yield being sufficient to meet the Golden Rule, over this and future cycles. Therefore, the Treasury will seek to ensure that:

— The strategic overview of tax policy is supportive of a wide and sustainable tax base;

— Individual tax policy measures provide sustainable receipts; and

— Risks to tax yields—both overall and for individual taxes—are identified and risk management strategies are adopted, where appropriate.

Success against this outcome will be measured through monitoring of the tax yield over the economic cycle, as set out in the Budget and Pre-Budget Report.

(c) *Managing public spending*

The Treasury aims to ensure the short, medium and long term sustainability of total public expenditure in line with the fiscal rules. The ultimate indicator for effective management of public spending is whether the government is meeting the fiscal rules. However, a more proximate target is that public spending levels are close to the amount planned, as this indicates both budgetary discipline and forecasting effectiveness and is the specific public spending contribution to the fiscal rules. As such, performance on managing public spending will be monitored through the differences between:

(i) Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and Public Sector New Investment (PSNI) at Budget; and

(ii) Actual outturns as at the End of Year Fiscal Report.

Spending may differ from plans at departmental level for a number of reasons, but the Treasury will provide a narrative alongside reporting which will set the context for these differences.

(d) *Professionalising and modernising the (i) finance and (ii) procurement functions in government*

This DSO outcome covers two linked but distinct agendas, both of which build on work undertaken in the previous spending review period to bring about a step change in the finance and procurement functions in government. The indicators for both these agendas represent the Treasury Group's ongoing commitment to embedding and enhancing professionalism.

For the finance professionalism agenda, the Treasury will promote the development of the finance community in government by:

— Strengthening the capability and capacity of finance professionals and improving the finance skills of 30,000 civil servants in line with the Professional Skills for Government Agenda;

— Supporting and enabling department Finance Directors and other senior finance professionals to improve financial and performance management through government; and

— Developing the internal audit profession and the standards for internal audit in government.

Key headline indicator for success in this area will be:

— Enhanced performance at departmental level in timeliness and quality of in-year and external reporting—measured through individual departments performance against faster closing deadlines and number of qualified accounts.

For the procurement agenda, as set out in Transforming Government Procurement the Office of Government Commerce will ensure an improved procurement capability across government and maximised value for money from procurement including in procurement of the civil estate. The key elements of the programme are:

— Reform of the Government Procurement Service;

— Raising standards through procurement capability reviews of departments;

— Application of collaborative procurement across government;

— Setting an appropriate policy and legal framework for procurement;

— Improving the value for money of major government projects through the Major Projects Review Group and Gateway; and

— Improving value for money through better management of the Government's estate.

Detail on each of these areas is set out in Transforming Government Procurement. The Treasury Group's headline indicators for measuring success against this aspect of DSO 1 are:

— For efficiency—savings from take up of collaborative opportunities and other procurement activity; and

— For effectiveness—the extent to which the delivery performance of government's procurement capability and capacity improves through the CSR2007 period.

(e) *Managing government cash, debt and reserves efficiently and effectively*

Cash, debt and reserves must be managed effectively and efficiently with remits met and minimal operational error or disruption in order to protect the Exchequer from financial and reputational risk over the short, medium and longer term. This outcome is delivered by and through a number of entities and agencies, such as the Debt Management Office, National Savings and Investments, and the Bank of England. These entities and agencies publish performance data against their own basket of indicators. The key headline measures of Treasury's performance in managing the government cash, debt and reserves are that:

— All operational activities are carried out without major error; and

— Appropriate limits and monitoring systems to control financial risks are in place.

DSO 2: Ensuring High and Sustainable Levels of Economic Growth, Well Being and Prosperity for All

Alongside the Treasury's traditional Finance Ministry role, the Treasury is also the Economics Ministry for the UK Government. The department will ensure high and sustainable levels of economic growth and prosperity for all by:

(a) Supporting low inflation;

(b) Promoting the efficiency and fairness of the tax system;

(c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;

(d) Improving the quality and value for money of public services;

(e) Supporting fair and efficient financial markets;

(f) Raising productivity, including sustainable improvements in the economic performance of all English Regions;

(g) Protecting the environment in an economically efficient and sustainable way; and

(h) Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

(a) Supporting low inflation

Price stability is an essential pre-condition for achieving the Government's central objective of high and stable levels of growth and employment. Maintaining low and stable inflation, therefore, is the best contribution monetary policy can make to this objective. The Treasury's role is to manage the monetary policy framework, which means defining the inflation target that the Monetary Policy Committee (MPC) must aim for at all times. The Treasury also oversees the appointments process for the four external MPC members, and must ensure that they bring a relevant mix of skills and experience to the Committee. Finally the Treasury must ensure that both fiscal policy and public sector pay settlements continue to support and complement monetary policy.

This is a long standing Treasury aim, defined over a more protracted period than that covered by CSR2007: the current monetary policy framework has been in place since the Bank of England Act was passed in 1998.

The primary indicator used to measure the success of both the monetary policy framework and the MPC itself, is annual inflation of the Consumer Price Index (CPI). As set out in the remit and confirmed by the Chancellor in each Budget, the Bank of England has an inflation target of 2% CPI inflation per annum, and if inflation should deviate from this target by more than one percentage point, the Governor must write an open letter of explanation to the Chancellor. The Treasury will continue to monitor, and report performance against, this target as the ultimate indicator of performance.

(b) *Promoting the efficiency and fairness of the tax system*

The Treasury will continue to promote the efficiency and fairness of the tax system by developing tax policy in a way that:

— Minimises HMRC's and taxpayers collection/payment costs ("operational efficiency");

— Minimises deadweight costs and effectively targets market failures where appropriate ("economic efficiency"); and

— Gives due regard to impact on different groups and individuals ("fairness").

This builds on the vision set out in the 2004 O'Donnell Report. The aim is not to achieve a particular design for the tax system, but to ensure that the Treasury's performance in developing tax policy is visibly assessed against indicators of efficiency and fairness, and to ensure a policy development process which embeds consideration of these principles.

The indicator for measuring success will be the direct impact of policy measures on taxpayers, including a reduction in the administrative burdens resulting from tax policy changes.

(c) *Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future*

The Treasury aims to drive the tax and welfare reform agenda to make further progress towards:

— The long-term goal of employment for all, helping more people to enter, remain and progress in paid employment;
— Increasing the welfare of children, including meeting the ambition to halve child poverty by 2010 on the way to eradicating child poverty by 2020;
— Promoting saving and asset ownership for all across the lifecycle from childhood, through working life and into retirement; and
— Maintaining the welfare of current and future pensioners with a pension system that protect the incomes of the poorest pensioners and which is understandable, with appropriate information and incentives to enable households to make informed choices about working and saving for retirement.

This is underpinned by the principle of progressive universalism—providing support for all and greater support for those who need it most.

Progress against this outcome will be measured through the following top-level indicators:

— Increase in the employment rote of the working age population; and
— Number of children in relative low-income households (as defined as less thon 60% of median income before housing costs).

This DSO outcome will also enable the Treasury to meet its commitments to the employment and child poverty PSAs as set for the CSR2007 period.

(d) *Improving the quality and value for money of public services*

This outcome seeks to achieve measurable increases in outcomes in oil the Government's priority areas over the CSR2007 period, reflecting a significant improvement in the quality of public services. In addition to these improvements at the front line, value for money will improve so that every pound of investment will deliver more. Departments are responsible for ensuring delivery of their Public Service Agreement (PSA), DSO and Value for Money (VfM) commitments. The Treasury's role is one of support and challenge in helping them to deliver. Performance will be measured by the government's progress in delivery of PSA commitments through the CSR period, while living within the spending limits it has set itself (with the latter being measured under our "Managing Public Spending" outcome).

(e) *Supporting fair, stable and efficient financial markets*

Financial markets play a unique and vital role in the wider economy and society in the UK and globally by:

— Intermediating between borrowers and savers
— Helping firms and households to manage risks; and
— Enabling wealth to be stored, accessed and transferred.

Financial services contribute significantly to UK GDP, employment and productivity both directly and as an initial enabler for other business, helping to underpin economic growth and prosperity for all and demonstrating that the UK can succeed in a global economy. But financial markets can also pose risks to economic stability and to welfare through failing to serve consumers well. Financial crime and financing of terrorism constitute further threats. The Treasury aims to maximise the contribution of financial markets to economic success, through markets that operate efficiently and fairly. The Treasury is specifically responsible for the policy and legislative framework for regulating financial services, and in particular for the Financial Services and Markets Act (FSMA) and amendments to it. Under the FSMA, day-to-day responsibility for setting and implementing rules is given to the Financial Services Authority (FSA).

Progress against outcome will be measured through the following indicators:

— Financial capability, as measured through the FSA Financial capability survey;
— Financial inclusion—access to bank accounts and other products and services;

— Better regulation—reduction in the regulatory burden; and
— helping manage risk from organised crime and terrorism—data and monitoring of asset freezing reported quarterly to Parliament.

(f) *Raising productivity, including sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions*

The Treasury's ambition is to see sustainable improvements in economic output at a national level and in every English region including a narrowing in the gap in growth rates between the best and worst performing regions. This will be driven by increased productivity—the key determinant of output growth in the long-term. The Treasury will support this vision through its own policies, and by encouraging and challenging other parts of the public sector to develop and deliver appropriate policies.

The top level success measure for this DSO outcome will be the progress made against the PSAs to which it contributes: regional economic performance; productivity; and strong UK business environment. However, we will assess the Treasury's specific contribution to delivery through three key indicators:
— Trend growth in output per worker over the economic cycle;
— International comparisons of output per worker and per hour worked; and
— Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions.

(g) *Protecting the environment in an economically efficient and sustainable way*

The Treasury has a key role in delivering the Government's commitment to sustainable development including environmental protection.[1] The Government's PSA set, combined with the totality of DSOs, encapsulate the key priorities of sustainable development. The Treasury's aim is that there is sustained and sustainable economic growth: neither environmental challenges nor policies to tackle them place a significant brake on economic growth, now and in the longer term. The Treasury will seek to achieve its economic objectives alongside the environment limits recognised in the Government's PSA on a healthy natural environment. The Treasury has a particular contribution to the Government's environmental priorities in ensuring that policies are efficient effective and economically sustainable. This will be achieved by designing the Treasury's policies and challenging others' to ensure they are economically sensible, value for money, and affordable within overall fiscal constraints, including through appropriate use of fiscal instruments.

Performance against this DSO outcome will be measured through two headline indicators which form part of the Climate Change PSA, reflecting both the relative importance of climate change and indicators on which the Treasury has relatively greater impact:
— Increase in the size of the global carbon market which is a vital component of achieving a global low carbon economy in an economically efficient and sustainable way; and
— Increased policy cost-effectiveness: as a finance and economics ministry, the Treasury has a role to play in ensuring climate change is tackled in as cost effective a way as possible, contributing to sustained and sustainable growth.

Delivery of this DSO will support the delivery of the Government's PSA on Climate Change.

(h) *Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity*

Our aim is for high and sustainable levels of economic growth and prosperity in the EU and world economy through increased productivity, efficiency and opportunity in the EU; policies that support greater openness and more competitive global markets; and an effective international system and EU that promotes financial stability and tackles the global challenges of climate change, protectionism and poverty reduction. In this way, and through effective cooperation and engagement with our international and EU partners, we aim to support the open and stable international economic environment on which UK growth and prosperity depends.

The Treasury has significant influence over the policy debate and over international structures which it will use to make progress on its objectives. Performance will be measured through a number of high-level indicators which describe how success will be characterised:
— A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises;
— Accelerated progress towards the Millennium Development Goals (as set out in the Government's International Poverty Reduction PSA); and

[1] The Treasury's sustainable development action plan sets out the links between Treasury's objectives and those of sustainable development. http://www.hmtreasury.gov.uk/media/9/1 /sustainable development16O8O7.pdf

— A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.

Due to the nature of the Treasury's primarily influencing role in this area, it is difficult to set quantitative outcomes. The Treasury intends to monitor performance through specific milestones underpinning the indicators above.

Letter from the Chairman to the Permanent Secretary, HM Treasury

Thank you for your letter of 25 September. I am sending this reply today in order to comply with your deadline of 5 October, but should make clear at the outset that I have not had an opportunity to discuss this reply with the Treasury Committee or its individual members.

I am content on this occasion that this correspondence should remain confidential until such time as the Comprehensive Spending Review (CSR) is published, although I should note that the Committee may want to publish the correspondence thereafter and may wish to explore the terms of such consultation, including what is published at what stage, in relation to future Spending Reviews.

The first issue I wish to raise relates to the differences between Public Service Agreement (PSA) targets and outcomes within Departmental Strategic Objectives (DSOs). The information you have provided reinforces the impression that a number of objectives that were formerly PSA targets are to become outcomes within DSOs. This gives rise to the question of whether this change makes any difference in practice to the priority that the Treasury attaches to compliance and the way in which performance will be reported on. Has the status of the fiscal rules, for example, changed? Will there be a counterpart to Delivery Agreements in relation to DSOs, so that the performance measurement framework can be clarified?

Second, I am grateful for your account of the reasons why the Treasury will lead on the development of the Delivery Agreement for the child poverty PSA. I note that one of the indicators in relation to the Treasury's second DSO coincides with one of the indicators for the current child poverty PSA. There is no reference to the other indicator—"the number of children in households with income less than 70% of contemporary median, combined with material deprivation". Can you confirm that such an indicator will continue to be used for the CSR child poverty PSA, and that the precise construction of the material deprivation indicator will be published in the CSR?

The third issue relates to the lack of specificity about some outcomes. Again, taking the example of the fiscal rules, the formulation of the fiscal rules in the draft DSO document you have sent us is less precise than that given in the 2007 Budget, and does not go any way towards meeting the recommendations that the Treasury Committee made in its Report on *The 2007 Budget* regarding clarification of the rules. Will there be a dear formulation of both fiscal rules for the period up to 2010–11 and indeed for the new economic cycle as a whole in the Comprehensive Spending Review?

My fourth concern is that a number of important outcomes or elements of outcomes appear to lack any measurable or meaningful indicators. I can illustrate this by taking two topical examples. The Treasury has an aim of "supporting . . . stable . . . financial markets", but has no matching indicator other than that relating to organised crime and terrorism. Would it not be appropriate to have an indicator relating specifically to the Treasury's contribution to financial stability through the Tripartite Agreement? Also, outcome 2(c) includes aims relating to savings and pensions, but no matching indicators. I consider this topical because the Treasury Committee will be making recommendations about the Government's targets for saving in its Report on *Financial inclusion follow-up: saving for all and shorter term saving products* to be published early next week.

The fifth point I would make is that a number of indicators are extremely vague and hard to measure. I can give two examples to illustrate this. First the indicator for measuring success against the outcome of promoting the efficiency and fairness of the tax system is set to be "the direct impact of policy measures on taxpayers, including a reduction in the administrative burdens resulting from tax policy changes". How is this impact to be measured and reported upon? Second, in relation to the final outcome in DSO 2 relating to international matters, there is a reference to "specific milestones underpinning the indicators", but no indication as to what those milestones are. What are the milestones, and do they include any milestones relating to the Lisbon goals, which previously formed part of PSA 8?

Finally, the document you have sent us does not address the important issue of the extent to which the Treasury itself can be held responsible for performance in relation to a number of outcomes. How does the responsibility of the Treasury relate to that of others in relation to "helping manage risk from organised crime and terrorism", for example? Will the extent of Treasury responsibility be addressed in the CSR itself or a subsequent document?

I look forward to examining the extent to which this consultation exercise affects the final published documentation.

5 October 2007

Letter from the Permanent Secretary, HM Treasury to the Chairman

Thank you for your letter of 5 October.

The Comprehensive Spending Review will see publication of all Departmental Strategic Objectives (DSOs), with supporting information including indicators to be published by departments later in the year. This should allow more time for the concerns of your Committee to be considered. It also provides an opportunity for you to come back with any further thoughts, since the timetable I gave you in my letter of 25 September was inevitably truncated.

The points you raise are wide ranging and cover a number of important issues that the Government will need to examine. We will give each of them careful consideration and I will provide a substantive reply as soon as possible. Given preparations for the Pre-Budget Report and Comprehensive Spending Review, it will not be possible for me to reply in detail to your letter until later this month. Publication of our correspondence is clearly a matter for you and the Committee but you may want to hold off publication until my substantive reply.

Thank you for your continued interest in and contribution to our DSOs.

8 October 2007

Letter from the Permanent Secretary, HM Treasury to the Chairman

Following my letter to you of 8 October, and the publication of the Pre-Budget Report and Comprehensive Spending Review, I am now in a position to reply substantively to the points raised in your letter of 5 October.

You ask about the differences between Public Service Agreements (PSAs) and Departmental Strategic Objectives (DSOs). The new performance framework set out at the CSR represents a tightening of the Government's highest priorities for the CSR period, with far fewer indicators and targets given PSA status. Departments will still need to manage the entire span of their business—which is what DSOs are for. The Treasury will ensure that our DSOs, and the PSAs to which we contribute are underpinned by robust measurement systems. However, as the reporting framework is developed, it will also be important to strike the right balance between measuring progress and avoiding excessive reporting burdens. There are no plans for DSO Delivery Agreements, though like other departments we are building our business planning process around our DSOs.

You ask specifically about the fiscal rules. Although there is no longer a PSA covering the fiscal rules this does not change their status or make them any less important. They are a fundamental part of Treasury activity and as a result are clearly reflected within the Treasury's DSO outcomes. The fiscal rules remain integral to the Government's fiscal framework. As we set out in our response to your report on *The 2007 Budget*, the Government will set out in the normal way the details of the fiscal position under the framework over the next cycle when it provides its view on the end of the current economic cycle. As you will have seen from the PBR/CSR document, while evidence from the broad range of cyclical indicators is monitored by the Treasury, latest National accounts data and the Treasury's trend output as assumptions imply output passed through trend towards the end of 2006, though it is still too soon to assess whether or not the economic cycle has ended. The fiscal rules have helped support economic stability, protected a historically unprecedented increase in public sector net investment and maintained net debt at a low and sustainable level. The Government will continue to publish its assessment of progress against the fiscal rules in each PBR and Budget.

You ask about the indicators for the Child Poverty PSA. We will use three indicators to measure progress: relative low-income, absolute low-income and a combined relative low-income an material deprivation measure. The income measure of poverty will use 60% of median income. For the combined measure, we will use a 70% median income line an will combine this with material deprivation to provide a wider view of living standards. The precise construction of the indicator has been set out in the measurement annex of the Child Poverty PSA Delivery Agreement, published alongside the Comprehensive Spending Review. The Treasury will use relative low-income as an indicator for our DSO as we have the most important levers for making progress on this measure. The combined relative low-income and material deprivation indicator will be affected by a range of levers that the Treasury does not directly control and thus is most appropriate to use the relative low-income measure for performance management.

On supporting fair, stable and efficient financial markets, I am grateful for you comments about the need to include a public indicator on stability. The range of issues this objective covers makes it particularly challenging to sum up in a small set of indicators. We have continued to develop the set since I wrote to you in September and we now intend to include a public indicator. Our objective around improving incentives and helping people to plan is about encouraging individuals to save appropriately, by providing the right access, opportunities, and incentives to save, and improving information and financial capability to help in individuals make the right saving decisions for them. It does not automatically follow that we should be setting indicators for levels of saving, or numbers of people saving, as saving may not be appropriate for all. Even if we are starting from the premise that either more individuals should be saving, or that those individuals currently saving should be saving more, there are challenges around defining a suitable indicator in this area.

You asked how the outcome of promoting the efficiency an fairness of the tax system would be measured. The main tool here is impact assessment of individual policy measures, which will present the relevant evidence on the positive and negative effects of such interventions. We are still considering what other measurements might be appropriate.

You also asked how we would measure our European and international work. While our overall aim includes outcomes such as high and sustainable levels of economic growth and prosperity in the EU and world economy the Treasury's role here is primarily one of influencing our EU and international partners and it is difficult to set quantitative outcomes for this. We will therefore seek to measure our success in influencing the policy debate and international structures, which we use to make progress on our objectives, by taking as our milestones the outcomes of major events including in EU and international finance ministers meetings, and public progress reports on agreed goals. These milestones would include the annual debate on Lisbon by the Spring European Council, summed up in Presidency Conclusions, the National Reform Programmes an the Commission's Annual Progress Report on Lisbon.

You raise the important issue of the extent to which the Treasury itself can be held to account for all of the outcomes covered by our DSOs. It is in the nature of our business that delivery some times requires us to work through or with other parts of government, In these cases is not always possible to isolate the Treasury's contribution in a meaningful way for reporting purposes, but we do not see this as a reason for shying away from our responsibilities or from public accountability for them.

Thank you for you continued interest in, and your helpful contributions to, the development of our DSOs.

15 October 2007

Memorandum by the Child Poverty Action Group

I am writing to let you know of our great disappointment that the Government has failed to meet the recommendation of your Committee to state alongside the CSR how it intends to meet the 2010–11 target to halve the number of children in poverty and where the resources will come from to meet the target.

As you will be aware, a delivery agreement document relating to the Public Service Agreement 9 was published alongside the CSR. However, only one short paragraph (3.20) covers financial support for parents. There is a broad consensus, supported by analysis by the Institute for Fiscal Studies, that financial support for parents is the most important area of policy and investment for meeting the 2010–11 target. This is because measures related to other key policy and investment initiatives for ending child poverty in areas such as housing, employment and education are slower to implement and the benefits will be realised too far into the future to ensure the interim target for 2010–11 is met.

CPAG therefore believes that the document fails to meet the recommendation of the Committee on both counts. It does not make clear how the target will be met. The single paragraph on financial support for parents fails to deliver any conclusions from the Treasury's modelling work on the impact on child poverty levels of additional investment through tax credits and child benefit. The document also fails to provide any analysis of the level of investment that must be allocated for financial support for parents during the spending review period and where the resources for such investment will come from.

It is also of very great concern that the only new investment announced in the PBR will lift just 100,000 more children above the poverty line. This continues a rate of progress that will mean we will not succeed in halving child poverty until many years after the target date.

I urge you and your colleagues on the Committee to continue to press the Government on its failure to make sufficient progress towards the 2010 target and its failure to state how it intends to meet the target and resource its strategy, in your inquiries on The 2007 Pre-Budget Report and The 2007 Comprehensive Spending Review.

Kate Green

11 October 2007

Memorandum by PCS

1. The Public and Commercial Services Union (PCS) is the largest civil service trade union, with a total membership of 325,000 working in over 200 civil service departments, non-departmental public bodies and related areas.

2. PCS is extremely concerned that more budget cuts disguised as efficiency savings will further damage frontline services such as getting people back into work, the justice system and tax. Budget cuts resulting from the efficiency targets in a number of government departments including Her Majesty's Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP), go against the advice of Gershon (whose report in 2004 initiated the efficiency programme) who suggested that going too far with efficiency savings would put the delivery of frontline services at risk.

3. PCS questions the ability of the government to make a further £30 billion saving when the present drive is already having a negative impact on the quality of services. And we are extremely concerned about further deterioration in services and the loss of more civil and public service jobs.

4. PCS general secretary Mark Serwotka said, on publication of PBR and CSR07:

> Services are already being cut to the bone. Now the Government has signaled, under the cover of yet more so called efficiency savings that they will go back on their own advice by cutting services to the marrow, without any real understanding of the damage it will have on the quality of services. The so called efficiency agenda has already resulted in the spiralling use of consultants, backlogs of post in HMRC, as well as delays in people getting help back into work and the closure of over 500 jobcentres and benefit offices. These additional cuts confirmed in the comprehensive spending review will lead to 25,000 jobs going in HMRC by 2011 and puts at serious risk the Government's ability to deliver on key priorities,

5. In commenting on the report we will identify some examples where we do not believe the claims made (ie that increased efficiency and improvements will result from efficiency savings).

6. Paragraph 3.29 gives as an example the positive impact of the efficiency programme on public services delivery in the setting up of the MOD single personnel management system, or human resources shared services, for all armed services, the PPPA.

In the experience of PCS, shared services initiatives such as this are primarily a cost-cutting exercise, and far from improving services, result in problems. In this case, hundreds of jobs were cut to set up this shared services centre, and instead of face-to-face advice and support, line managers and staff have to do the work themselves either online or through the call centre, only being allowed to call on expert advice for more complex queries. Our members' experience is that the service level has drastically reduced, there have been many technical problems, and this has put extra pressure on managers and staff who, because of cuts elsewhere, are already overstretched.

7. Box 3.2, examples from the CSR 07 value for money programme, following paragraph 3.31, includes the savings by HMRC through extending the use of lean processing techniques to make more efficient use of resources. In the experience of PCS members, arbitrary and draconian targets have led to increased backlogs, worsened staff morale, and have resulted in less efficiency.

8. Paragraph D12.4 says that in DEFRA savings will be made from restructuring the department to align its resources with its strategic priorities. One important priority is animal health and welfare. PCS is concerned that compulsory redundancies have been issued to 20 staff in the Wildlife Unit despite the fact that some of those affected are working around the clock, as are many in the department, to contain foot and mouth and blue tongue disease. We believe these redundancies were unnecessary and show that there is a failure in DEFRA to take a corporate approach across its entire network and redeploy these staff. It is inefficient to make redundant those with important skills and experience in priority areas.

9. Paragraph D15.4 says that in DWP the plan is to make savings by "simultaneously improving customer service and reducing staff and associated costs". PCS would like to challenge this non-evidence based assertion. We believe the two aims stated are incompatible.

Our concerns have been echoed by a report by the public accounts committee in 2006, which found that over 20 million calls to the DWP contact centres were going unanswered in 2004–05, while less than half of calls to JobCentre plus were returned within 24 hours in December 2005. A Commons work and pensions select committee in 2006 referred to the "catastrophic failure" of the contact centres. Services and programmes had suffered from doing too much too quickly in the efficiency programme. However, rather than the pace of job cuts slowing, it has increased, with currently the possibility of many compulsory redundancies in the Department.

We continue to argue that the most vulnerable service users are hardest hit by changes in the way services are delivered. Changes that claim to increase efficiency, such as forcing claimants to make claims at a distance by phone rather than in person, fail to take account of the difficulties of those with poor literacy skills, physical and mental disabilities and those with very low incomes. And PCS are not alone in raising these concerns.

10. In the section headed Pay and Workforce Planning, paragraph 3.34 and 3.35 refer to supporting public sector professionals in order to deliver the best possible public services, consistent with achieving the Government's inflation target of 2%.

PCS believes that a continuation of the current 2% cap on public sector pay awards, is both unjustified and unsustainable. It is unsustainable, as it is entirely predictable that the policy will fail to recruit, retain and motivate staff with the necessary skills, for the wide variety of tasks and jobs across the public sector, including the civil service. In turn this is likely to have a damaging impact on attempts to achieve the higher quality of services to the public, which the Government desires.

This contradiction between the Government's public sector pay regime, and the achievement of its wider objectives, was confirmed in a recent report on public sector pay, produced by Incomes Data Services (IDS). They said that:

> "Components of pay policy as set out in the Treasury pay remit guidance are sometimes contradictory. This applies, for example, to the simultaneous demands that salary levels should be sufficient to recruit retain and motivate staff, and comply with the 2% inflation target."

Earlier this year, PCS and other civil service unions, commissioned this report from IDS, focused on the experience and handling of public sector pay in recent years (and now); comparisons with the private sector, and how pay for civil servants compares within this overall perspective.

The IDS report drew attention to the lack of justification for the current pay policy, and it said:

> "There is little evidence to support the claim that pay rises in the public sector are inflationary. In fact, the causal relationship is usually the other way round and recent rises have been driven by housing costs, petrol and oil price rises."

The report also states that, "very little of the recent increases in inflation have resulted from rises in the wages of UK workers."

PCS General Secretary, Mark Serwotka, referred to this evidence recently and pointed out that, "Public sector workers are far from being the cause of inflation, but they are the victims of it."

15 October 2007

Memorandum by Professor Colin Talbot and Dr Jay Wiggan, The Herbert Simon Institute, Manchester Business School

This memorandum relates solely to the Performance Management Framework and the Efficiency programme as set out in the Comprehensive Spending Review 2007.

Performance Management Framework

The first CSR (1998) set out to introduce a whole new framework for managing the performance of government departments embedded in Public Service Agreements (PSAs).

The first round of PSAs in 1998 was large (HMT claims 600, although our count is higher) and mainly orientated towards process and output issues (although CSR 07 claims they were outcome oriented).

The PSAs were clearly meant to be primarily an instrument of control from HMT through which they would ensure modernisation and delivery within spending departments in exchange for the increasing resources being allocated to them.

PSAs evolved over the period 1998–2004 in several ways:

- They did become more outcome focussed over time.
- They are generally agreed to have improved in terms of their definition quality as targets and measures.
- The quality of the data systems supporting PSAs has improved but is still subject to serious problems and apparently not reducing (see NAO reports).
- They were gradually reduced in number (down to a claimed 110 in SR2004).
- They incorporated a number of "cross-cutting" PSAs which were jointly owned by more than one department (in SR2004 there were approximately 20% cross-cutting PSA targets).
- PSAs were underpinned at one stage (SR2000) by Service Delivery Agreements (SDAs) for each major department, but these were subsequently abandoned.

CSR2007 outlines a "new performance management framework" which consists of:

- A reduced PSA set which are all-government and set "the Government's priority outcomes for the CSR07 period."

- A Delivery Agreement associated with each PSA that is supposed to have been agreed with all the delivery partners, but with one Secretary of State/Ministry having the lead (and accountability) for each PSA.
- A "small basket" of indicators for measuring progress against PSAs.
- A new set of "Departmental Strategic Objectives" (DSOs) which cover the full range of each departments activities.

This new system raises many questions that are not answered in the CSR07 documentation.

In SR2004 there were (officially) 110 PSAs, of which about 20% were "cross-cutting" or jointly owned. In CSR07 there are 30 PSAs and 97 DSOs (127 in all—ie 17 more than in SR04)

It is very unclear in what way DSOs differ from previous "departmental" PSAs? Many of them seem, at a first reading, remarkably similar to things that were defined as PSAs in SR04. Moreover the proportions of "cross-cutting" versus "departmental" objectives are very similar (20/80 in SR04; 25/75 in CSR07).

Some in Departments have been making it clear that they regard the Departmental Strategic Objectives and the PSAs for which they are the "lead" as the key accountability mechanism and "what we might get hauled in front of the PAC to explain ourselves on." HMT on the other hand clearly sees PSAs as the driving mechanism of the new performance management system.

If we take HMT as an example it has:

- 2 DSOs which are underpinned by around 27 indicators.
- 1 PSA for which it is the "lead" (Child Poverty) which it has three indicators and around 30 items of measurement which are aggregated into these indicators.
- 6 PSAs for which it is a "partner" which have another 30-odd indicators and an unknown number of measures.

Our initial analysis of these suggest that whilst there is some overlap between indicators and measures for PSAs and DSOs there are also large areas of incongruity, meaning that the Treasury in practice probably has in excess of 50 indicators or measures of its performance to work to, just on the 2 DSOs and 1 PSA for which it is directly accountable.

If we extrapolate from this analysis we can say that across Whitehall a conservative estimate would be that several hundred measures and indicators will have to be used for assessing departments progress against their PSAs and DSOs.

One important issue needs also to be noted here: the National Audit Office has (since 2002) been asked by Government to audit the systems used to produce PSA data. With three-quarters of PSAs effectively transformed into "Departmental Strategic Objectives" a key question arises: should NAO be auditing the information systems underpinning PSAs, or DSOs, or both?

The origin of the whole PSA framework was the (supposed) quasi-contractual link between resources on one side and modernisation and delivery on the other. There has always been little indication of how this link—more asserted than evidenced—worked. There is now not even the assertion in the 'new performance management framework' in CSR07 that such a link exists.

We have not yet analysed in detail how the supposed new, more flexible, regime for local government and services will work in practice. Much is being made in the supposed reduction in indicators for which information will be required from local government. In the context of the changes in central government, which have been "spun" as a huge reduction in targets but in practice look to be remarkably similar in number to the measurements in SR04, we remain sceptical about how far the burden on local government and services will really reduce. One police force we spoke to recently said the amount of data they had to provide to central government had increased rather than decreased and despite the changes in CSR07 they expected that trend to continue.

The real test of the new policy is—will it work?

- The new system appears at first sight to be overly complex and potentially confusing. The conversion of departmental PSAs in Departmental Strategic Objectives seems unwieldy. Accountability in particular appears messy, especially for the PSA "partners".
- Although a new Cabinet sub-committee system has been set up to monitor progress on PSAs, this does not seem to apply to DSOs nor is there any comparable system within government for them. On the other hand, some within government clearly see DSOs as the key things against which they will be held accountable by Parliament.
- Public reporting arrangements against both PSAs and DSOs are unclear.
- Integration of PSAs into DSOs to produce a single set of objectives and measures against which departments can "steer" appears problematic.
- Some of the DSOs and PSAs seem remarkably un-"SMART", to use the Treasury's own jargon (HM Treasury, 2001). For example the MODs third DSO of simply to "Build for the Future" does not seem to meet the criteria of being specific, measurable, achievable, relevant and timed in any meaningful sense.

— External scrutiny of PSA/DSO data systems is not mentioned in CSR07 so it is unclear what, if anything, NAO is going to be asked to audit. If, for example, it was restricted to PSAs alone (the current policy) this would effectively take out three-quarters of the systems (or their equivalent) that are currently audited. NAO could use its Value for Money powers to audit DSOs, but this would clearly be unsatisfactory.

Efficiency and Value for Money

CSR07 confirms the government's intention to achieve £30bn in net cash terms annual savings by 2010–11.

This effectively more than doubles, in net cash terms, the efficiency target set by the Gershon Review for SR04.

CSR07 also published a very short report claiming that the Gershon targets have, in effect, been achieved. The report does not in any way address the serious criticisms of that data on which these claims are based made by the NAO and PAC. It says nothing about the lessons which can be drawn from the Gershon policy? It makes no analysis of the differential rates of success in the different work-streams of Gershon, or why some departments have exceeded their efficiency targets (notably the "not fit for purpose" Home Office)?

Indeed so short and flimsy is the report that we are reminded of the late Senator George Aiken who—as things went from bad to worse in Vietnam—advised President Johnson to "declare victory and leave."

This impression is compounded by the absence of the "Value for Money Delivery Plan" which is announced in CSR07 but not ıas promised—published alongside it. So at present we have a £30 billion target for savings—which is crucial to maintaining service levels in areas of public spending which are not keeping pace with growth in the economy, such as local government—entirely unsupported by evidence of how it is to be achieved. Given that CSR07 was three months (or one year and three months depending on your benchmark) later in appearing than originally planned this absence is remarkable.

Finally it is worth mentioning two further small details.

— HM Treasury insists on calling the new efficiency targets "value for money targets" in clear contradiction of their own agreed set of definitions (HM Treasury, 2001).

— HMT also insists that the new target is 3% but 3% of what is unclear. Three percent of Total Managed Expenditure (TME) in 2010–11, the time when Treasury claims £30 billion of net annual savings will be being made, is only around £20 billion (ie 3% of £678.3 billion).

16 October 2007

Reference

HM Treasury (2001) *Choosing the Right FABRIC—A Framework for Performance Information*, London, HM Treasury.

Memorandum by Professor David Heald, specialist adviser to the Committee

THE PRE-BUDGET REPORT 2007 AND COMPREHENSIVE SPENDING REVIEW: A CATALOGUE OF MISSED OPPORTUNITIES

Introduction

1. The Treasury has made great claims about the efficacy of the public expenditure framework established in 1998. Unsurprisingly it is difficult to establish whether the framework has made possible the maintenance of economic stability or whether the causation is the other way round. However, what can be confidently asserted is that the processes of CSR2007 have been unsatisfactory from the perspective of accountability to Parliament. Following the unexpected cancellation of SR2006, which would have reported in July 2006, the initial expectation was that CSR2007 would report in July 2007. A more satisfactory timing for the benefit of Parliamentary scrutiny would have been May 2007, allowing time for Select Committee hearings and reports before the summer recess. In the event, following the then Chief Secretary's evidence session on 30 January 2007 (Timms, 2007, Q10 on page Ev2), the CSR announcement seemed likely to be pushed back to October 2007. A written statement on 25 July announced the Chancellor of the Exchequer's intention to combine the PBR and CSR in a single statement in October (Darling 2007). It is widely believed that the actual date (9 October) was eventually chosen because of how that timing would fit into a late Autumn general election. This saga gives renewed weight to the Treasury Committee's recommendation that there should be a fixed timing or considerable advance notice of public expenditure announcements (Treasury Committee 2007a, page 64).

2. The merging of PBR2007 and CSR2007 into a combined statement had three implications. First, the cancellation of SR2006 meant that many departments received their CSR expenditure allocations much later than would otherwise have been the case. For example, 2008–09 would have been settled as the second year of SR2006 (announced July 2006) but became the first year of CSR2007 (announced October 2007). Second, it was predictable that the PBR2007 component of the 9 October statement would attract more attention than the CSR2007 component. Moreover, PBRs are not genuinely Pre-Budgets, in the draft as opposed to environmental sense of "green", but the first of an annual two-budget process. Third, Treasury (2007b para 2.45) stated that the "next Long-term public finance report will be published at a later date". This would normally be published alongside the PBR in late November/early December. However, the early PBR date and the ONS population projections being scheduled for 23 October mean that it could not be published at the same time. The Treasury should be asked for a commitment to publish the Long-term Public Finance Report before the end of 2007.

3. Notwithstanding these timetabling issues, the Treasury Committee (2007a) published on 25 June 2007 a constructive report on the CSR process. That report discussed the "early" settlements and extracted from the Treasury the figure of 30% as being settlements to date in advance of the main CSR announcement (para 11 on page 9). The Government's response (Treasury Committee 2007b) to that report was disappointing in substance, with the honourable exception of an informative response on international development expenditure statistics (response to recommendation 8).

4. The years since the Spending Review system was introduced in 1998 have seen a remarkable increase in public expenditure measured in real terms. Much faster has been the cynicism-inducing inflation of language in Pre-Budget, Budget and Spending Review documents. Just to illustrate this point, the on-line.pdf of the combined CSR/PBR (Treasury 2007b) has been searched for key words:

— "world class" (with or without hyphen) appears 32 times;

— "excellent" appears 14 times and "excellence" 12 times;

— "success" itself appears 38 times and, in total, 78 times when including instances where this forms part of a longer word;

— "failure" appears twice and five times as part of a longer word;

— "improve" appears 120 times and 221 times including when part of a longer word;

— "deteriorated" and "deterioriation" each appear twice; and

— "investment" appears 327 times, often being misused as a synonym for public expenditure, without regard to its proper economic meaning.

One does not need to believe that public services are falling apart, or that much of recent public expenditure growth has been wasted, to find this one-sided language grating. The spin merely fuels the media barrage projecting failure and gloom. Wry amusement at such spin is no longer a sensible reaction to a linguistic compulsion that contributes towards the distortion of public perceptions and debate.

The Fiscal Rules

5. This is not the place to rehearse general arguments about the desirability or otherwise of fiscal rules. However, the informed reader is likely to smile on each of the seven occasions when the PBR/CSR makes reference to "strict fiscal rules". There is a serious danger that the Government will discredit the fiscal rules because of the widespread belief that these are manipulable. A crucial question is this: can one think of circumstances other than extraordinary international calamity in which a continuing government would admit to missing its fiscal rules? After the way in which the fiscal rules have been presented, even a minor breach could do immense reputational damage whilst not being, *per se*, of economic significance. This context puts huge pressure on classification decisions, as well as on presentation, thereby endangering the transparency that is the first of the five principles of UK fiscal policy management (Treasury 1998).

6. The Treasury had been expected to clarify whether the economic cycle had ended in the first half of 2007. Table 1.1 on "Meeting the fiscal rules" (Treasury 2007b) covers the years 2006–07 to 2012–2013. The Box on page 15 implies that the "current" economic cycle is continuing. The key statement on the economic cycle is the following:

> Since Budget 2007, upward revisions to estimates of non-oil GVA growth in 2006, combined with estimates of 0.8% growth in each of the first two quarters of 2007, show the UK economy to have been growing at slightly above-trend rates for seven consecutive quarters through to mid-2007. **Evidence from the broad range of cyclical indicators monitored by the Treasury, the latest National Accounts data and the Treasury's trend output assumptions imply output passed through trend towards the end of 2006 and that a small positive output gap, of around a 1/4%, has opened up. However, it is too soon to assess whether or not the economic cycle has ended** (Treasury 2007b, para 2.19, emphasis added).

7. This can usefully be read alongside another statement:

- the fiscal rules are set over the economic cycle, allowing the automatic stabilisers to operate fully to help dampen economic cycles. This flexibility in fiscal policy, along with a context of low and stable borrowing and debt, has enabled fiscal policy to contribute to macroeconomic stability. The IMF noted the "shallowness of the UK growth slowdown during the last global downturn", which they attributed in part to fiscal responsiveness (Treasury 2007b, Box 2.1 on page 18).

8. An optimistic interpretation would be that the 1998 fiscal framework has been so successful that economic cycles are no longer sufficiently pronounced for their dating to be robust to data revisions. If that were to be the case, the implications for the golden rule need to be openly discussed. Moreover, the longer the duration of economic cycles the more unacceptable it becomes that current fiscal policy depends on surpluses/deficits of perhaps ten years ago. Paradoxically, the claimed success of the fiscal rules is one of the factors that currently undermines the credibility of the 1998 formulations.

9. The other threat to the fiscal rules is the widely held suspicion that the Government would manipulate data. This might be unfair but that is partly a general reflection of declining trust in government and partly a specific reaction to past fudges. There are obvious dangers in targets that cannot be missed without dire political repercussions.

10. It is worth drawing attention to the wording of two paragraphs that appear under the section heading of "Improving transparency and accountability":

> As announced in The Governance of Britain Green Paper, the Government intends to strengthen Parliament's ability to hold Ministers to account for public spending by ensuring that it reports to Parliament in a more consistent fashion, in line with the fiscal rules, on departmental budgets set in Spending Reviews, in annual Estimates and in resource accounts. The Government will be consulting Parliament and others with an interest on how best to take forward this reform, with the aim of introducing changes before the end of the CSR07 period.
>
> Budget 2007 announced that from 2008–09 the annual accounts of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS), **adapted as necessary for the public sector.** The Government is developing an IFRS-based Financial Reporting Manual for the public sector and considering how best to manage the transition. **Where necessary, IFRS standards may be adapted for the public sector to support the Government's wider aim of improving transparency from the fiscal rules through budgets, Estimates and accounts** (Treasury 2007b, paras 3.26 and 3.27, emphasis added).

The portent of this drafting, particularly the words emphasised, is unclear. The Treasury, in collaboration with the Financial Reporting Advisory Board,[2] has produced a draft IFRS-based version of the Financial Reporting Manual (I-FreM), though some important issues, including accounting for Private Finance Initiative assets, are not yet resolved. The first phrase in bold is a restatement of the well-understood existing position. However, the full sentence in bold, taken together with the section heading of "Improving transparency and accountability", might imply that some departures from IFRS would be driven by the budgeting system. The main purpose of adopting best private sector practice, UK GAAP from 2001–02 and IFRS from 2008–09, is to provide an anchor for UK government accounting and thus to enhance the credibility of accounts. Deviations from IFRS should only arise when there are accounting-relevant differences between government and the private sector, otherwise the credibility advantages will be lost. It would be alarming if para 3.27 were intended to signal a Treasury policy that budgeting considerations would drive adaptations to IFRS, especially if that were alleged to promote "transparency and accountability".

11. Table 1.1 projects that public sector net debt will peak at 38.9% of GDP in 2010–11. This is uncomfortably close to the sustainable investment rule's 40% limit, if that ceiling is interpreted to apply to every fiscal year rather than over the economic cycle. IFRS implementation may result in some PFI assets currently off balance sheet to the public sector client coming onto the public sector balance sheet, thus affecting the borrowing and debt numbers. A reasonable expectation was that the Treasury would clarify in this combined PBR/CSR how the fiscal rules would apply over the next economic cycle. This could have been done even without there being a final determination as to whether the "current" economic cycle has indeed ended. Without this clarity, fears will arise that accounting decisions on PFI and other "boundary" matters will be improperly influenced by how they affect performance according to the fiscal rules. The logical step was to announce now that the ceiling on the sustainable investment rule would be modified to accommodate changes in accounting treatment. Much reputational damage has been done in the past by defective PFI accounting under the existing FreM, based on UK GAAP. There are dangers, to be avoided, that PFI accounting under I-FreM will be distorted by public expenditure scoring and borrowing considerations.

[2] Declaration of interest: the author of this memorandum is a member of the Financial Reporting Advisory Board, nominated as an independent economist by the Head of the Government Economic Service.

The CSR Decisions on Public Expenditure

12. The CSR spending envelope was determined, as by convention, in the 2007 Budget Report (Treasury 2007a). Because the announcement was couched in growth rates rather than in totals, the Treasury Committee (2007a, Table 1 on page 12) estimated Total Managed Expenditure in 2008–09 (£615 billion), 2009–10 (£644 billion) and 2010–11 (£675 billion). The corresponding figures published on 9 October were, respectively, £617.4 billion, £646.6 billion and £678.3 billion (Treasury 2007b, Table B11 on page 173). Reference is made (Treasury 2007b, page 1) to "an addition of £2 billion to the plans set at Budget 2007 in order to take forward vital capital investment in public services", which Table B4 (page 164) indicates relates only to 2010–11.

13. Annex D of Treasury (2007b) reports the CSR2007 departmental allocations. This consists of a perfunctory summary (page 199) and 19 sections (labelled D1 to D19) reporting the settlements of departmental groupings. What it lacks are clear summary tables that should have appeared before the detailed sections. Those summary tables should have shown, for each departmental grouping and with column totals:

(a) 2007–08 Estimated Outturn.

(b) CSR2007 2007–08 baselines, which will be different from (a) because they were necessarily established at an earlier date.

(c) CSR2007 additions/reductions in the CSR years that were made in early settlements announced before 9 October 2007.

(d) CSR2007 additions/reductions in the CSR years that were announced on 9 October 2007 in the combined PBR/CSR.

(e) Final CSR2007 allocations.

Without such data it is difficult to track what has been happening, not least as early settlements up to March 2007 were about 30% of the final DEL increase. In the absence of such explicit chain-linking of data, the Treasury runs the risk of being accused of multiple announcements of the same expenditure additions.

14. Table 1.3 (Treasury 2007b, page 12) shows £344.6 billion as Total DEL, and also provides 2007–08 baseline and plans for 2008–09, 2009–10 and 2010–11 for departmental groupings. The final column shows average annual real growth rates off a 2007–08 baseline; for example, NHS England is given as 4.0%. Note 1 to Table 1.3 notes that "baselines exclude one-off and time limited expenditure". A tabulation prepared for the Treasury Committee by the House of Commons Scrutiny Unit, using the data in Annex D, resulted in a baseline total of £341 billion, less than the £344.6 billion in Table 1.3. Post publication, the Treasury has explained to the Committee that note 5 to Table 1.3 had been accidentally omitted at printing. That note would have stated: "Figure for total DEL in 2007–08 represents latest estimate of spending. Departmental baselines will not sum to total because of one-off and time limited items". In fact, 2007–08 baseline components in Table 1.3 add to £341.4 billion, less than Total DEL that is shown as £344.6 billion. In contrast, 2010–11 components add to £397.0 billion, the difference from £396.9 billion Total DEL likely to be a rounding error. One-off and time-limited items may be legitimately excluded by the Treasury in negotiations with departments, but their omission in the published data is seriously misleading. The average annual real growth rates of departments affected by one-off and time-limited items will be overstated and are on a different basis from the 2.1% growth rate of Total DEL.

15. There are two possible reactions to the data problems described above. First, the Treasury is engaging in sleight of hand, relying on the fact that by the time the problems are discovered, the newsworthiness will have gone. Second, in part due to chronic timetabling, the problems reflect not only the inherent difficulty of getting tables correct and aligned but also a lack of understanding on the part of the Treasury as to what data are valued by Parliament and other users. I am personally inclined to believe the second explanation, though the Treasury's reputation for spinning numbers will provoke suspicion of the first.

A Catalogue of Missed Opportunities

16. There has been a catalogue of missed opportunities, accentuated by the disintegration of the normal Spending Review cycle. For example:

(a) No decision on whether the "current" economic cycle has ended or proposed modification of the 1998 fiscal rules.

(b) Inadequate clarity of the CSR settlement, as evidenced by the presentation of baselines, calculations of annual average growth rates and the absence of summarised tables showing the "stages" that generated the CSR2007 allocations.

(c) Little public debate about the trade-off between expenditure functions (eg defence versus education versus health) in the context of lower real growth rates, something which the cancellation of SR2006 might have made possible.

(d) Too much verbiage in the combined PBR/CSR document, without adequate attention to user needs for well-designed and comprehensive tabular information.

(e) Lack of evidence that the Treasury will engage with Parliament and other users in order to make budgetary numbers more transparent and comprehensible.

This is disappointing given that there is much to commend certain aspects of UK public expenditure documentation, such as End-Year Fiscal Report and Public Expenditure: Statistical Analyses, about which the Treasury has regularly engaged in dialogue with users. It is probably not accidental that these beacons of good practice are retrospective in coverage and not forward-looking.

17. There are two issues that should seriously worry Parliament:

(a) The fiscal deficit being so high given the record of 60 consecutive quarters of economic growth. There should now be the cushion of a large safety margin on deficits and debt, in case of seriously adverse international or financial markets developments.

(b) The political salience of the fiscal rules having risen to the point when the credibility of a government would be at stake if these rules were broken. The worry is that there would be enormous pressure to distort or obfuscate the fiscal position were the rules likely to be broken, except in the circumstances of an internationally-generated calamity or when a new government wished to rubbish its fiscal inheritance.

October 2007

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Memorandum by Barnardo's

Introduction

1. Barnardo's works directly with more than 110,000 children, young people and their families in over 350 services across the UK. These services are located in some of the most disadvantaged neighbourhoods where child poverty and social exclusion are common features. We work with children affected by today's most urgent issues: poverty, homelessness, disability and abuse. Our projects work with children aged 0 to 18 (or 24 in the case of young care leavers).

2. Barnardo's welcomes this opportunity to submit evidence to the select committee's enquiry into the 2007 pre-budget report. As an organisation we welcomed the Government's 1999 pledge to end child poverty in a generation. We believe this to be a bold, exciting and potentially far-reaching social goal which will benefit many of the most disadvantaged children in the UK. However, despite initial progress we are concerned that progress has slowed and even reversed, with 100,000 more children living in poverty before housing costs in 2005–06 compared to 2004–05. We believe the pre-budget report 2007 offered the Government an important opportunity to bring forward additional proposals to put the government back on track in achieving its target.

Executive Summary

3. Barnardo's is extremely disappointed with the measures contained in the pre-budget report aimed at tackling child poverty, and believe these are woefully inadequate if we are to achieve the goal of halving child poverty by 2010. In particular we believe:

— proposed increases in tax credits are less than 10% of the level of investment we believe is required if the Government is to meet the 2010 target; and

— the proposal to increase the child maintenance disregard while welcome is not sufficient to have a significant impact on the 2010 target—a full disregard is needed to help the maximum number of children living in single parent families out of poverty.

Tax Credits

4. The pre-budget report committed the Government to investing an additional £50 per child per year in tax credits by 2010–11. This involves an extra investment of only £340 million a year—an increase which amounts to around just 0.03% of UK GDP.

5. The Prime Minister's commitment in his speech to the Labour Party conference made it clear that the Government is still committed to delivering on the commitment to halve child poverty by 2010. However, the minimal increases in tax credits proposed in the pre-budget report makes it virtually impossible that the Government will be able to do this in practice. Child tax credits are a key tool in reducing child poverty in that they can reach significant numbers of poor children. In fact, while there are other welcome measures in the budget aimed at tackling child poverty eg increasing the child maintenance disregard, and rolling out of the back to work credit for lone parents moving into work, both of these measures will only impact on poor children living in lone parent families. Children living in lone parent families are a significant group at risk of poverty however they are not the only poor children in the UK. Modelling for "It doesn't happen here"[3] for example revealed that without extra investment by 2010 there would be 70,000 more poor children in two-parent families where one parent works full-time and the other parent does not work (compared to 2004–05). Providing significant increases in child tax credits therefore provide an essential cornerstone in reaching all poor children in the UK and helping them to escape poverty.

6. Modelling by IFS published in Barnardo's recent report on child poverty "It doesn't happen here[4] estimated that the Government needed to spend a total of £3.8 billion more on tax credits by 2010 if the target of halving child poverty was to be met. This would involve increasing the child element of child tax credit by a further £11 a week at 2007 prices and giving families an extra £20 per week for the third and subsequent children through the family element of the child tax credit. The proposed investment of £340 million falls woefully short of this estimate—in fact it is less than 10% of the total needed, and would involve increasing only the child element by less than £1 a week.

7. The inadequacy of these proposals was recognised by the Chancellor in the pre-budget speech, when he stated that when taken along with the other proposals in the pre-budget report aimed at tackling child poverty the further investment will lift only a further 100,000 children out of poverty. This will do no more than put the Government in the same position as it was in 2004–05 before last years increase and without further investment would still mean missing the target of halving child poverty by 2010 by 800,000 children.

8. We therefore urge the Committee to condemn the Government for failing to use the opportunity of the pre-budget report to provide the significant investment in tax credits required to ensure the government meets its commitment to halve child poverty rates by 2010.

Child Maintenance Disregard

9. The pre-budget report committed the Government to increasing the amount of child maintenance which can be ignored as income for means tested benefit, from its current rate of £10 a week to £20 a week this year, and to £40 a week by 2010. This will cost the Government approximately £140 million.

10. Barnardo's strongly supports the increase of the child maintenance disregard and believes it has the potential to make a significant contribution to helping to ending child poverty in the UK. Modelling carried out for the Henshaw review suggests that, even at today's poor compliance levels, disregarding all maintenance would lift between 80,000 and 90,000 additional children out of poverty. [5]

11. However we believe that the measures proposed in the pre-budget report are completely inadequate to achieve the Government's aim. The proposal to increase the disregard to £40 will not be implemented until 2010—too late to make a contribution to the 2010 target —and again using the modelling provided for the Henshaw review will, even then, lift only 40,000 to 50,000 children out of poverty—half what could be achieved if maintenance payments were fully disregarded. We therefore call on the committee to condemn the Government's decision to increase the disregard for child maintenance by only £40 and not to implement the full change until 2010. A more radical decision to work towards completely disregarding child maintenance for the purposes of calculating benefit could make a significant contribution to reducing poverty amongst children living in one parent families.

15 October 2007

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[3] Sharma N with commentary by Hirsch D (2007) "It doesn't happen here: the reality of child poverty in the UK", Barnardo's.

[4] Sharma N with commentary by Hirsch D (2007) "It doesn't happen here: the reality of child poverty in the UK", Barnardo's.

[5] Recovering child support: routes to responsibility, July 2006. The DWP estimate that a £30 disregard would lift between 30,000 and 40,000 children out of poverty; a £40 disregard would lift between 40,000 and 50,000 children out of poverty; and a £50 disregard, between 50,000 and 60,000 out of poverty. (Commons *Hansard*, 24 January 2007, col 1860W).

Memorandum by HM Treasury

Baselines in CSR 2007

What are baselines and why do we use them?

As a routine part of the spending review process, to ensure both equitable treatment between departments and that ongoing provision is not made for programmes that do not carry forward into the next spending round, forward plans are determined by allocations to a department's baseline rather than in-year spending plans. Baselines therefore differ from in-year plans in that they exclude time limited and one-off items of expenditure.

What is the difference between 2007–08 in-year plans and baselines?

A total of £2.1 billion for time limited and one-off items was removed from UK Government departments' 2007–08 planned expenditure to arrive at the baselines for their CSR07 allocations—equivalent to 0.6% of total DEL. Reflecting these adjustments in the baselines used for the application of the Barnett formula accounts for a further £0.7 billion. The remaining items included in the estimate of total DEL but not within departmental baselines were a £0.4 billion addition to the unallocated special reserve for the costs of military operations in Iraq and Afghanistan as well as the UK's other international obligations, and some small (£0.3 billion) accounting changes. The derivation of departmental baselines from total DEL plans is shown in the table below.

£ billion

2007–08 Total DEL plans	344.6
less Reserves	−2.5
2007–08 Departmental plans	342.1
less time limited and one-off items	−2.1
of which:	
One-off non-cash provision in DH DEL	−0.6
Defence Modernisation Fund in MOD DEL	−0.4
London and Continental Railways in DfT DEL	−0.3
Community Infrastructure Fund and other time limited funding in DfT DEL	−0.2
Peacekeeping Reserve Claim in FCO DEL	−0.2
Pilot schemes in DCSF DEL	−0.2
Other time limited and one-off items	−0.3
less corresponding adjustments to baselines for the Barnett formula	−0.7
less unallocated special reserve addition	−0.4
less other accounting changes	−0.3
2007–08 Departmental baselines	338.7

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Supplementary memorandum by HM Treasury

Information supplied by HM Treasury, breaking down, by department, estimated spending for 2007–08 (including one-off and time-limited items).

£ billion

	Estimate 2007–08
Resource and net capital DEL Children, Schools and Families	50.8
Health	92.9
of which: NHS England	90.7
Transport	12.9
Innovation, Universities and Skills	17.9
CLG Communities	10.2
CLG Local Government	23.0
Home Office	9.2
Justice	9.3
Law Officers' Departments	0.7

	Estimate 2007–08
Defence	33.5
Foreign and Commonwealth Office	1.8
International Development	5.3
Business, Enterprise and Regulatory Reform	3.5
Environment, Food and Rural Affairs	3.7
Culture, Media and Sport	1.9
Work and Pensions	7.7
Scotland	26.4
Wales	13.8
Northern Ireland Executive	8.5
Northern Ireland Office	1.2
Chancellor's Departments	4.9
Cabinet Office	2.0
Independent Bodies	0.8
Modernisation Funding	–
Reserve	2.1
Unallocated Special Reserve	0.8
Total DEL[6]	344.6

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Further supplementary memorandum by HM Treasury

Information requested following evidence session on 22 October 2007.

The increase in health expenditure in real terms on a per capita basis over the CSR 07 period. (Q 15)[7]

On the basis of Table D6 of the 2007 Pre-Budget Report and Comprehensive Spending Review, the total UK public spending on health in the UK would be as set out in table 1 below.

Table 1

TOTAL UK PUBLIC SECTOR HEALTH SPENDING

		£ billion		
	Estimate		Projectons	
	2007–08	2008–09	2009–10	2010–11
Total UK public sector health spending[1]	104.8	111.1	118.6	126.7

[1] Department of Health comprises NHS England and adult social care.
[2] Full resource budgeting basis, net of depreciation.
[3] UK public sector health spending measured consistently with international definitions from the UN classificiatons of the functions of government (CDFOG). Actual outcomes are subject to spending decisions by devolved administrators.

However, actual outcomes for UK spending will be dependent on decisions taken by devolved administrations.

Presenting and comparing public spending in terms of per capita expenditure, by public services or functional aggregates, can be misleading. This is because the cost pressures on public services are complex, as they face both fixed and variable costs, and the relevant client population varies between public services.

Variant population growth projections are available on the Government Actuary's Department website.[8]
An analysis of the costings and impact of the increases in the child maintenance disregards in income-related benefits. (Q 24)[9]

[6] Figures may not sum due to rounding.
[7] Ev. 3–4
[8] http://www.gad.gov.uk/Demography—Data/Population/
[9] Ev. 5

The Government will double the maintenance disregard in main income-related benefits to £20 per week and will increase the disregard in Housing Benefit and Council Tax Benefit to the full disregard by the end of 2008–and will double the disregard again to £40 per week in April 2010. This will provide parents with strong incentives to make their own arrangements for child support and so fulfil their responsibilities to their children. It also strikes the right balance in the treatment of child maintenance payments, particularly in light of the fact that maintenance income has already been taxed and taken into account for benefits in the hands of the non-resident parent.

Increasing the child maintenance disregard to £20 per week by the end of 2008 and to £40 per week from Apr 2010, combined with raising the maintenance disregard in Housing Benefit and Council Tax Benefit disregard, will, from 2008, cost £40 milion/£80 million/£140 million.

The increases to the disregard, combined with the increases in Child Tax Credit announced in the 2007 Pre-Budget Report, will help lift around 100,000 children out of poverty.

An account of the reasons why the childcare element of Working Tax Credit was not raised in line with RPI. (Q 30)[10]

The threshold limits for the childcare element of the Working Tax Credit are already high, providing support for 80% of childcare costs up to £175 per week for one child or £300 per week for two or more children. There are 414,000 families benefiting from the childcare element, with average help with childcare costs of £61.26 a week. Over 80% of all claims report childcare costs below £150 per week.

The Government increased the upper threshold limit, in April 2005, from £135 and £200 per week to £175 and £300 respectively. In April 2006 the Government increased the proportion of childcare support covered from 70%–80%. The Government continues to keep the threshold limits under review.

The NDA's request for Treasury agreement to its socio-economic strategy and any relevant restrictions that the Treasury may have on NDA spending. (Q 117)[11]

The Nuclear Decommissioning Authority (NDA) has a statutory responsibility to consider the impact that its activities have on the social and economic life of communities living near its sites. The NDA's statutory powers include the power to make grants or loans for the purpose of socio-economic support and development.

The Department for Business, Enterprise and Regulatory Reform (BERR) CSR07 DEL settlement provides for 4.9% average annual real growth in funding for the NDA over the CSR0 period. This together with the NDA's forecast commercial income, efficiency savings, and associated budgetary flexibilities provides sufficient funding for the NDA to meet the level of investment that it proposes to make in appropriate socio-economic projects.

The NDA has developed and consulted on its socio-economic policy. The policy describes the NDA's socio-economic objectives, its priorities and the criteria that will be used to evaluate requests for socio-economic support and identify potentially suitable projects for investment. The NDA has put in place robust governance arrangements to support its internal approval process. and submitted it to BERR and to the Scottish Executive for approval. BERR have approved the policy and we understand the Scottish Executive are currently considering it. This policy was not part of the CSR process and does not require HMT approval.

Only projects that exceed either the NDA's or BERR's delegated remits or which are novel, contentious or repercussive will require HM Treasury approval. Neither the NDA nor BERR have yet approached HM Treasury for approval for any such projects related to NDA socio-economic strategy that commence in the CSR period.

A note on the calculations and projections of the police precept and spending on neighbourhood policing over the CSR period. (Q121)

Police Precept

Each of the 43 police forces in England and Wales has a Police Authority, which determines the level of the precept for that area. The Government cannot therefore say with certainty what level the precept will be over the Comprehensive Spending Review as it is set at different levels by individual police authorities.

The total precept for England and Wales in 2007–08 is £2.8 billion. As with other local authorities, the Government expects police authorities to keep precept rises substantially below 5% over the Comprehensive Spending Review period.

[10] Ev. 6
[11] Ev. 16–7

NEIGHBOURHOOD POLICING

The Home Office is currently making decisions on how it will allocate its Comprehensive Spending Review settlement, and individual forces will then make decisions on how much they will allocate to Neighbourhood Policing. Therefore it is not possible to give a precise figure for spend on Neighbourhood Policing over the Comprehensive Spending Review period. There is provision within the Home Office baseline budget for a "Neighbourhood Policing" grant intended for the recruitment of Community Support Officers, which together with an earlier CSO grant totals £315 million for this year. The grant covers approximately 75% of the overall cost of neighbourhood policing, forces will cover the remaining 25% and the costs of routine spending on neighbourhood policing teams and facilities. The Government expects this existing provision together with additional resources provided over the Comprehensive Spending Review period to be sufficient to complete the rollout of Neighbourhood Policing Teams in every neighbourhood across England and Wales by 2008.

A note on the percentage of the increase in Net expenditure transfers to EC institutions given in Table B11 that is attributable to changes in the abatement. (Q 144)[12]

The Net Expenditure Transfers to EC Institutions line reflects only those transactions with the EC which contribute to UK Total Managed Expenditure. It does not include, for example, UK departmental receipts from the EU which finance spending, or VAT-based contributions which score as negative receipts.

The level of Net expenditure transfers to EC Institutions set out in Table B11 of the Pre-Budget Report is affected by a range of factors, including:

- The size of the in-year EC Annual Budgets.
- The value of the UK's abatement, which depends on factors including the level of UK receipts from the EC budget.
- The £/€ exchange rate.
- The rate of UK economic growth relative to other Member States.

It is made up of two components: the UK's GNI-based contribution to the EC, and the UK's abatement.

The increase in Net expenditure transfers to EC Institutions is driven entirely by the increase in the UK's GNI-based contribution, partly offset by the value of the UK abatement which is forecast to increase over this period.

The increase in the UK's GNI-based contribution is driven by a number of factors, including increases in the EC Annual Budget, exchange rate effects, and a higher UK economic growth rate relative to other Member States.

If it was appropriate to consult the Treasury Committee about the Treasury's Departmental Strategic Objectives, why was the Treasury Committee not consulted about those of HM Revenue and Customs? (Q 146)[13]

HM Revenue and Customs (HMRC) is a Non-Ministerial Department, within the Chancellor's Departments but not part of the Treasury Group. With regard to Spending Reviews, HMRC's position in relation to HM Treasury is the same as that of other independent Departments, bidding for funding and negotiating objectives and targets for the levels of public service to be delivered within that funding. In the Comprehensive Spending Review, this included proposals for the Departmental Strategic Objectives (DSOs), which were discussed and agreed first between HMRC and the Financial Secretary (as Departmental Minister for HMRC), and then between the Financial Secretary and the Chief Secretary as part of the Comprehensive Spending Review settlement. As with all other Departments, these objectives have been published in the Comprehensive Spending Review White Paper (Cm 7227).

HM Treasury also agreed DSOs with its own Departmental Minister and the Chief Secretary. However, in this case, it was considered appropriate to involve the Treasury Select Committee for a degree of external input. The Treasury's Permanent Secretary wrote to the Committee Chairman in confidence in June this year, and again in September as part of that process.

HM Treasury has advised Departments to consult delivery chains and other key stakeholders when developing PSAs and DSOs. However, the decision for what constituted appropriate consultation has been left to Departments themselves. HMRC has made use of the extensive network of bodies with which it regularly consults, to canvass views and seek feedback from external customers, agents and other intermediaries, businesses, charities, employers, media, individual users, HMRC staff, and other Government Departments, to ensure that user engagement is embedded in the design, delivery and governance of services delivered by front-line staff, and captured in the DSOs. HMRC will continue to update the Committee as progress to develop its DSOs continues.

[12] Ev. 19
[13] Ev. 20

Information requested following evidence session on 25 October 2007.

A table giving details of the annual value of efficiency savings by the end of the CSR 07 period by department, including information on such savings on a percentage basis together with any information on why it is considered certain departments can achieve savings above 3%. (HC 54, Q 281)

Table showing annual value of vfm savings by the end of the CSR period by departments, including this as a percentage of 2007–08 vfm baseline

Departmental value for money targets	*Net Cash-releasing Vfm Savings by 2010–11*	*Net Cash-Releasing Vfm Savings by 2010–11 (% of 2007–08 vfm baseline)*
Attorney General's Department	£79 million	3.5%
Cabinet Office	£35 million	3.2%
DBERR	£307 million	3.1%
Department for Children, Schools and Families	£4.491 million	3.0%
Department for Culture, Media and Sport	£148 million	3.0%
Department for Environment, Food and Rural Affairs	£379 million	3.6%
Department for Innovation, Universities	£1,543 million	3.0%
Department for International Development	£492 million	3.0%
Department for Transport	£1,762 million	5.4%
Department for Works & Pensions	£1,225 million	5.1%
DCLG	£887 million	4.9%
Department of Health	£8.200 million	3.0%
Foreign and Commonwealth Office	£144 million	3.0%
HM Revenue & Customs	£673 million	4.9%
HM Treasury	£30 million	4.1%
Home Office	£1,414 million	3.0%
Local Government	£4,900 million	3.0%
Ministry of Defence	£2,700 million	3.0%
Ministry of Justice	£1,025 million	3.6%
Northern Ireland Office	£108 million	3.4%
Total	£30,542 million	3.2%

During the preparatory work for the CSR, some departments found scope to go further than the minimum and have committed to targets higher than 3% a year.

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