



House of Commons  
Treasury Committee

---

**The 2007  
Comprehensive  
Spending Review:  
prospects and  
processes**

---

**Sixth Report of Session 2006–07**





House of Commons  
Treasury Committee

---

# The 2007 Comprehensive Spending Review: prospects and processes

---

**Sixth Report of Session 2006–07**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by The House of Commons  
to be printed 14 June 2007*

**HC 279**  
Published on 25 June 2007  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

### Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)  
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)  
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)  
Angela Eagle MP (*Labour, Wallasey*)  
Mr Michael Fallon MP (*Conservative, Sevenoaks*), (Chairman, Sub-Committee)  
Mr David Gauke MP (*Conservative, South West Hertfordshire*)  
Ms Sally Keeble MP (*Labour, Northampton North*)  
Mr Andrew Love MP (*Labour, Edmonton*)  
Mr George Mudie MP (*Labour, Leeds East*)  
Mr Brooks Newmark MP (*Conservative, Braintree*)  
Mr Siôn Simon MP, (*Labour, Birmingham, Erdington*)  
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)  
Mr Mark Todd MP (*Labour, South Derbyshire*)  
Peter Viggers MP (*Conservative, Gosport*)

The following member was also a member of the Committee during the inquiry.  
Kerry McCarthy MP (*Labour, Bristol East*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk). The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at [www.parliament.uk/parliamentary\\_committees/treasury\\_committee](http://www.parliament.uk/parliamentary_committees/treasury_committee). A list of Reports of the Committee in the present Parliament is at the back of this volume.

### Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young, Harry Marin and Anna Leach (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is [treascom@parliament.uk](mailto:treascom@parliament.uk). Media inquiries should be addressed to Laura Humble on 020 7219 2003.

# Contents

---

<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>5</b>
<b>2 The evolution of the 2007 Spending Review</b>	<b>6</b>
The new planning process	6
The decision to conduct the 2007 Comprehensive Spending Review	6
The timing of the outcome of the Review	7
The early settlements	8
<b>3 The context</b>	<b>10</b>
The fiscal rules and the planning assumptions	10
The overall spending envelope and the capital/current divide	11
Overall spending in historical context	12
The division between Annually Managed Expenditure and Departmental Expenditure Limits	15
Fiscal constraints	19
How real are “real terms”?	22
Migration and demography	23
<b>4 The allocation of spending between departments</b>	<b>26</b>
Education	26
The Home Office and Department for Constitutional Affairs settlements	27
The other early settlements	29
Prospects for other departments	30
Conclusions	37
<b>5 Embedding efficiency</b>	<b>40</b>
Learning the lessons of the Gershon programme	40
Setting efficiency targets	43
The framework for monitoring and reporting	46
The Civil Service workforce and administration budgets	48
<b>6 Public Service Agreements and beyond</b>	<b>53</b>
The experience so far	53
The new framework	54
Conclusions	56
<b>7 The national debate and the role of Parliament</b>	<b>57</b>
The national debate	57
The role of the House of Commons and its select committees	58
Reporting	60
Parliamentary authorisation	62
The future of the public expenditure planning and control system	62

<b>Conclusions and recommendations</b>	<b>64</b>
<b>Formal minutes</b>	<b>70</b>
<b>Witnesses</b>	<b>73</b>
<b>List of written evidence</b>	<b>73</b>

## Summary

---

### *The context*

We note that public spending is projected to rise in real terms during the period from 2008–09 to 2010–11 as a whole—the period covered by the Comprehensive Spending Review—at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together. We note the crucial role of forecasts of Annually Managed Expenditure for the period up to 2010–11 in determining the total amount of resources available for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. We examine the possible fiscal constraints and conclude that the Government’s freedom to increase public expenditure within Departmental Expenditure Limits beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade.

### *The allocation of spending between departments*

We recommend 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.

We note that, with the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below rates of growth provided for in the 2004 Spending Review settlements.

### *Embedding efficiency*

We note that the Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. We call for clarification on reporting requirements for that programme and for a clearer performance measurement framework, including a greater role for external audit of service quality than hitherto. We recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is established.

### *Public Service Agreements, the national debate and the role of Parliament*

We conclude that the Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as

March 2006. We make recommendations designed to enhance public involvement and to encourage a dialogue between the Government and select committees of the House of Commons about Public Service Agreements, Departmental Strategic Objectives and the Government's emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation.

# 1 Introduction

---

1. Decisions on the allocation of public money to particular departments and to priority areas for public spending are central to the political process. The 2007 Comprehensive Spending Review is of pivotal importance as the first overall allocation process for public spending since the last General Election—and quite possibly the last such review before the next General Election. This year's Review differs from previous Spending Reviews since 1998 in its scope, conduct and fiscal context. The period of operation of the new public spending regime introduced in 1998 has broadly coincided with a period of sustained, marked growth in public expenditure in real terms. The period up to 2010–11 will see much more constraint on public spending overall, with some departments facing substantial real terms reductions in spending. The new spending system has proved worthwhile up till now, but is about to face its greatest test.

2. Our main purposes in this Report are:

- to set the 2007 Comprehensive Spending Review in context, particularly in relation to past Spending Reviews and the fiscal prospects for the period up to 2010–11;
- to analyse what information is already available about the shape of the forthcoming spending settlement, including the role of efficiency objectives and the performance management framework; and
- to make proposals about the continuing debate up to the announcement of the final outcome of the Review, including the role of the House of Commons in that debate, and about the reporting requirements for the Comprehensive Spending Review and beyond.

3. We announced our intention to conduct an inquiry into the *Comprehensive Spending Review: emerging issues* in July 2006 and invited written evidence. We subsequently extended the period for the submission of evidence. All written evidence received is published with this Report. We took oral evidence from the Rt Hon Stephen Timms MP, Chief Secretary to the Treasury, together with HM Treasury officials, on 30 January 2007. We are most grateful to all those who gave evidence, and to Professor David Heald of Sheffield University and Professor Colin Talbot of Manchester Business School for their specialist advice.

## 2 The evolution of the 2007 Spending Review

---

### The new planning process

4. From the late 1960s until 1998, Government spending was subject to annual limits arising from an annual process, latterly known as the Public Expenditure Survey. In June 1998, the Government announced a new regime for planning and controlling public expenditure.<sup>1</sup> A new aggregate for spending plans was introduced, Total Managed Expenditure, with two components—Departmental Expenditure Limits and Annually Managed Expenditure. In relation to expenditure within Departmental Expenditure Limits, departments were to be set “firm and realistic multi-year limits”, intended “to provide greater certainty and flexibility for long-term planning and management”.<sup>2</sup> Other spending within Total Managed Expenditure, that could not reasonably be given firm multi-year limits—such as social security benefits, locally-financed expenditure and government debt interest payments—was to be known as Annually Managed Expenditure and to be subject to regular review outside the context of Spending Reviews.<sup>3</sup> In respect of Departmental Expenditure Limits, three year plans up to 2001–02 were set out in the 1998 Comprehensive Spending Review. Three year limits were subsequently reviewed and set in Spending Reviews in 2000, 2002 and 2004, under a system of a “three year planning cycle reviewed every two years”.<sup>4</sup>

### The decision to conduct the 2007 Comprehensive Spending Review

5. Had the pattern established since 1998 been continued, the next Spending Review following that in 2004 would have taken place in 2006. However, in July 2005, on the occasion of his first appearance before this Committee in the present Parliament, the Chancellor of the Exchequer, the Rt Hon Gordon Brown MP, announced that there would be a Comprehensive Spending Review in 2007 rather than a Spending Review in 2006. The 2007 Comprehensive Spending Review would establish expenditure totals within Departmental Expenditure Limits for 2008–09, 2009–10 and 2010–11; departmental allocations for 2007–08 would be held to the totals already announced as a result of the 2004 Spending Review.<sup>5</sup>

6. The characterisation of the 2007 review as “Comprehensive” harked back to the initial Spending Review of 1998. Like that Review, the process concluding in 2007 was intended

---

1 HM Treasury, *Stability and investment for the long term: Economic and Fiscal Strategy Report 1998*, Cm 3978, June 1998

2 HM Treasury, *Modern Public Services for Britain: Investing in Reform— Comprehensive Spending Review: New Public Spending Plans 1999–2002*, July 1998, Cm 4011 (hereafter *CSR 1998*), Annex B, p 116

3 *Ibid*, p 117

4 Treasury Committee, Oral and Written evidence, *Spending Review 2004*, HC (2003–04) 906–i and ii, Ev 51

5 HC Deb, 19 July 2005, cols 54–56WS; Treasury Committee, Oral and Written evidence, *G8 and other international issues*, HC (2005–06) 399–i, Q 1

to consider spending from a zero base.<sup>6</sup> The Government subsequently spelt out what this meant:

The aim of the zero-based reviews now underway is to renew each department's baseline expenditure to reflect changing priorities a decade on from the first CSR. Whereas past Spending Reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives in the CSR provides an important opportunity—with many past objectives achieved and supporting programmes and spending potentially available for reallocation—for a more fundamental review of the balance and pattern of expenditure within and across departments.<sup>7</sup>

The Government clarified its approach in a document focused on value for money issues published in July 2006 and in a further document designed to promote discussion on the long-term issues published in November 2006.<sup>8</sup>

### The timing of the outcome of the Review

7. When we took evidence from the Chief Secretary to the Treasury in January 2007, the precise timing of the announcement of the final outcome of the Review remained unclear. He implied that it would not be later than October:

Clearly what is needed is for departments to have the details in good time for the start of the financial year 2008–09, and we will make sure this is done ... It needs really to be done by October in order that departments have the details they need for putting in place their arrangements for the new financial year.<sup>9</sup>

However, he emphasised that July remained a possibility,<sup>10</sup> and subsequently stated that “we will set out in the summer what we think the appropriate level for health funding in the CSR years is going to be”.<sup>11</sup>

8. In the 2007 Budget, the Chancellor of the Exchequer announced that the final public expenditure allocations arising from the Comprehensive Spending Review would be published in the “autumn”.<sup>12</sup> Although Treasury officials declined to make a formal commitment to the specific month, they said that “in reality that will mean that we will have to do it by the end of October”.<sup>13</sup>

9. In previous Parliaments, our predecessors have expressed concern about the inadequate notice for the date of Spending Review announcements. For example, notice of the 2004

6 HC Deb, 19 July 2005, cols 54–56W5

7 HM Treasury, *Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review*, July 2006, Cm 6889 (hereafter *Releasing the resources*), para 3.14, p 24

8 HM Treasury, *Long-term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review*, November 2006 (hereafter *Long-term opportunities and challenges*)

9 Qq 9–10

10 Q 13

11 Q 55

12 HC Deb, 21 March 2007, col 817

13 Treasury Committee, Fifth Report of Session 2006–07, *The 2007 Budget*, HC 389–I and II, Qq 199–200

Spending Review on Monday 12 July was not given until Tuesday 29 June.<sup>14</sup> **The decision to announce the outcome of the 2007 Comprehensive Spending Review in the autumn—and almost certainly in October—offers potential benefits to the House of Commons. An announcement in mid-July is not conducive to timely and effective parliamentary scrutiny. However, the benefits of an autumn announcement will be reduced if inadequate notice is given of the date of the announcement. We recommend that a final date for the announcement of the outcome of the 2007 Comprehensive Spending Review be set and made public before the Summer Recess. We recommend that the outcome itself be announced when Parliament is sitting and not during a recess.**

10. Similar considerations apply to any debate in the House of Commons on the outcome of the Review. Spending Reviews have generally been followed by debates in the House of Commons on public expenditure.<sup>15</sup> In 2004, the debate was held in the same week as the announcement of the outcome itself.<sup>16</sup> **We recommend that the Government hold a debate in Government time in the House of Commons on the outcome of the Comprehensive Spending Review. We further recommend that such a debate be held at least one month after the announcement itself, to allow time for initial scrutiny by this Committee and others to inform the subsequent debate.**

### The early settlements

11. The process for the current Comprehensive Spending Review has differed significantly from that for previous Spending Reviews in the extent to which individual departmental settlements have preceded the final spending announcement. There are precedents for such early announcements: the health and personal social services settlements in the 2002 Spending Review were announced in the 2002 Budget;<sup>17</sup> similarly, the education settlement in the 2004 Spending Review was set out in the 2004 Budget.<sup>18</sup> However, the current Spending Review round has seen an unprecedented range of early settlements, with some announced well in advance. The Home Office, the Department for Work and Pensions, HM Revenue & Customs, HM Treasury and the Cabinet Office agreed their budgets up to 2010–11 in time for announcements in the 2006 Budget.<sup>19</sup> Further settlements for the Department for Constitutional Affairs, the Privy Council Office, National Savings & Investments, the Central Office of Information, the Food Standards Agency and the Government Actuary's Department were set out in the 2006 Pre-Budget Report.<sup>20</sup> The 2007 Budget saw further announcements relating to education spending, including spending limits for the Department for Education and Skills up to 2010–11, as well as early

---

14 Treasury Committee, Ninth Report of Session 1999–2000, *Spending Review 2000*, HC 485, para 5; Treasury Committee, Oral and Written evidence, *Spending Review 2002*, HC (2001–02) 1092-i and ii, Qq 38, 41–44; HC (2003–04) 906-i and ii, Q 171

15 See, for example, HC Deb, 20 July 2000, cols 570–641 and HC Deb, 23 July 2002, cols 890–953.

16 HC Deb, 14 July 2004, cols 1452–1514. The statement had been made on 12 July 2004.

17 *Budget 2002*, paras 6.36–6.39, pp 119–122

18 *Budget 2004*, para 6.46 and Table 6.1, p 145

19 HC Deb, 22 March 2006, col 300; *Budget 2006*, Box 6.3, p 136

20 *Pre-Budget Report 2006*, Box 6.3, p 143

settlements for the Attorney General's Departments and the Office of Fair Trading.<sup>21</sup> Treasury officials told us in March 2007 that, taken together, the effect of the early settlements was to commit about 30% of total spending within Departmental Expenditure Limits.<sup>22</sup>

12. The Chief Secretary to the Treasury set out the rationale for the early settlements in evidence to us in January 2007, using the example of the Home Office:

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. Of course, that is a very valuable degree of confidence and certainty, allowing a kind of long-term planning which ought to be much more common in public services than it has been in the past, but the old year-by-year budget setting made that impossible. We have moved with three-year budget settlements decisively in the right direction. In this case the Home Office had a five year period of certainty. If you have got that level of certainty about funding then of course there is more you can do in terms of reform ... The Home Secretary is certain about the funding he has available throughout the CSR period.<sup>23</sup>

The Chief Secretary did not appear to rule out the possibility of further early settlements. Indeed, as we have already noted, he made a specific reference to a health settlement in the summer.<sup>24</sup> This might reflect the particular challenges associated with the health spending settlement, or it might reflect a working assumption in January that the final outcome would be announced in the summer.

13. We consider both the financial terms of the early settlements and the possible implications for spending settlements of machinery of government changes at a later stage in this Report.<sup>25</sup> We also comment later in this Report on the variations in the quality of information available about the early settlements at the time of their announcement.<sup>26</sup>

---

21 *Budget 2007*, Table 6.3 and para 6.25, pp 157, 147

22 HC (2006–07) 389–II, Q 201

23 Qq 89–90

24 See paragraph 7.

25 See paragraphs 44–52.

26 See paragraph 105.

## 3 The context

---

### The fiscal rules and the planning assumptions

14. The new regime for planning and controlling public expenditure was put in place in 1998 together with a new fiscal framework designed to ensure long-term sustainability in the public finances. The new *Code for Fiscal Stability* required the Government to state the rules through which fiscal policy would be operated. In the words of the Treasury,

rules, by their very nature, are intended to impose restrictions on behaviour. Fiscal rules must ensure that the public finances are managed prudently and maintained within sensible boundaries so that Government meets its spending commitments without jeopardising economic stability or running up an unfair bill for future generations.<sup>27</sup>

There are currently two fiscal rules stated as part of the fiscal policy framework:

- *the golden rule*: over the economic cycle, the Government will borrow only to invest, and not to fund current spending; and
- *the sustainable investment rule*: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.<sup>28</sup>

In the economic cycle which the Treasury currently considers began in 1997–98 and estimates will end in 2007, the sustainable investment rule is formulated as requiring that the Government maintain net debt below 40% of GDP in each and every year of the cycle. The Government has not yet responded definitively to our recommendation that it clarify whether the same formulation will be used in the economic cycle forecast to begin in 2007.<sup>29</sup>

15. There is an element of retrospection in the golden rule as currently formulated. Calculations about compliance with the rule depend upon a judgement about the start-date and end-date of an economic cycle. The Treasury reserves the right to alter its judgement about the start-date in the light of new economic data, as happened in July 2005 when the Treasury's judgement on the start-date of the then current economic cycle was changed from a start in 1999–2000 to one in 1997–98.<sup>30</sup> However, the fiscal rules are intended to be principally forward-looking in their operation. They thus depend to a substantial degree on forward projections of revenue receipts and of public expenditure—both current expenditure (in relation to the golden rule) and capital expenditure (in relation to the sustainable investment rule).

16. For the purposes of forecasting fiscal prospects in order to judge likely compliance with the fiscal rules, the Government makes a series of planning assumptions beyond the period

---

27 HM Treasury, *Reforming Britain's Economic and Financial Policy: Towards Greater Economic Stability*, 2002, p 157

28 *Pre-Budget Report 2005*, para 2.7, p 15

29 HC (2006–07) 389–I, para 33

30 Treasury Committee, Second Report of Session 2005–06, *The 2005 Pre-Budget Report*, HC 739, para 43

for which firm allocations have been made under the new planning and control regime. Thus, an assumption about levels of current spending in 2008–09 was included in the 2003 Pre-Budget Report, an assumption about current spending in 2009–2010 was included in the 2004 Pre-Budget Report and an assumption about current spending in 2010–11 was first provided in the 2005 Pre-Budget Report. In each case, it was assumed that current public expenditure would grow by 1.9% a year in real terms.<sup>31</sup> During our inquiry into the 2005 Pre-Budget Report, we asked the Chancellor of the Exchequer whether those projections represented the overall spending envelope for the Comprehensive Spending Review. He replied:

These have been our working assumptions for a number of years, but these are not necessarily the final figures.<sup>32</sup>

At the time of the 2006 Budget, the assumption about the level of current spending in 2008–09 was changed from earlier assumptions, with the new assumption being that current spending in that year would grow by 2.0% in real terms.<sup>33</sup>

### The overall spending envelope and the capital/current divide

17. In the Budget, the Chancellor of the Exchequer announced the overall spending envelope for the period covered by the 2007 Comprehensive Spending Review. This followed the practice in 2002 and 2004, when overall Spending Review totals had been announced in the preceding Budget.<sup>34</sup> He announced that the overall public spending envelope from 2008–09 to 2010–11 would be “consistent with the figures set out in the 2005 and 2006 Budgets and the most recent Pre-Budget Report”.<sup>35</sup> It was thus announced that public sector current expenditure would rise by 2.0% in real terms in 2008–09 and by 1.9% in real terms in both 2009–10 and 2010–11, with the overall growth rate of current public spending being at an average of 1.9% a year in real terms over the period as a whole.<sup>36</sup>

18. Totals for capital spending for the period covered by the Comprehensive Spending Review (and for 2011–12) had previously been announced in the 2006 Pre-Budget Report.<sup>37</sup> The figures for current expenditure, unlike those for capital expenditure, were set out in terms of percentage increases rather than on the basis of actual figures. Columns 3 to 5 of Table 1 set out approximations for total current spending and for Total Managed Expenditure in 2008–09, 2009–10 and 2010–11 based on the latest information on public spending in 2007–08, the latest GDP deflator figures and the information available on capital spending.

---

31 *Pre-Budget Report 2004*, para B.26, p 197; *Pre-Budget Report 2005*, para B.28, p 213

32 HC (2005–06) 739, Q 389

33 *Budget 2006*, para C.27, p 255

34 *Budget 2002*, para 6.33, pp 118–119; *Budget 2004*, para 6.27, p 138

35 HC Deb, 21 March 2007, col 818

36 *Budget 2007*, paras C.26 and 6.47, pp 275, 152

37 HC Deb, 6 December 2006, col 313

**Table 1: Capital public expenditure, and approximations of current public expenditure and of Total Managed Expenditure, 2007–08 to 2010–11, £ million**

	2007–08	2008–09	2009–10	2010–11	Average annual growth in real terms over CSR period (%)
Capital expenditure within TME	48,000 <sup>(1)</sup>	51,000 <sup>(1)</sup>	54,000 <sup>(1)</sup>	57,000 <sup>(1)</sup>	3.1
Approximation of current expenditure within TME	539,000 <sup>(2)</sup>	564,000 <sup>(3)</sup>	590,000 <sup>(4)</sup>	618,000 <sup>(5)</sup>	1.9
Approximation of Total Managed Expenditure	587,000 <sup>(6)</sup>	615,000 <sup>(7)</sup>	644,000 <sup>(7)</sup>	675,000 <sup>(7)</sup>	2.0

Notes: (1) Figures in this row derived from HC Deb, 6 December 2006, col 313 and rounded to nearest £1 billion; (2) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11, rounded to nearest £1 billion; (3) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 2.0% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (4) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 1.9% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (5) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 1.9% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (6) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11, rounded to nearest £1 billion; (7) figures derived from addition of figures in preceding rows of the same column

The figures in Table 1 for Total Managed Expenditure, although an approximation, tally with the Government's statement that total public spending will rise by an average of 2.0% a year in real terms in the period from 2008–09 to 2010–11.<sup>38</sup>

## Overall spending in historical context

19. For the purposes of public finance projections, the Government has assumed that the economy will grow at 2½% in each of the years covered by the Comprehensive Spending Review—2008–09, 2009–10 and 2010–11.<sup>39</sup> This means that public expenditure is projected to grow more slowly than the economy as a whole in each of those years, so that public spending would fall as a share of national income. This is in contrast with the outcome of the 1998, 2000, 2002 and 2004 Spending Reviews, each of which planned increases in public spending as a share of national income.<sup>40</sup> This change of direction was, to some extent, anticipated in evidence to us by Mr Jon Cunliffe, Second Permanent Secretary, Macroeconomic Policy and International Finance, HM Treasury, in December 2005 when he said “clearly public spending cannot grow indefinitely faster than the rate of growth of the economy”.<sup>41</sup>

38 Budget 2007, para 6.47, p 152

39 Ibid, Table C3, p 275

40 Institute for Fiscal Studies, *The IFS Green Budget*, January 2007, p 124

41 HC (2005–06) 739, Q 206

20. In 1996–97, the last fiscal year before the present Government was first elected, total public spending stood at 40.8% of national income.<sup>42</sup> This proportion fell to 37.1% of national income in 1999–2000 due to strong economic growth and reductions in public spending in real terms.<sup>43</sup> Significant increases in public spending thereafter saw public spending rise steadily as a proportion of national income, and that share is projected to reach 42.5% in 2007–08.<sup>44</sup> Based on the Treasury’s own assumptions, the Institute for Fiscal Studies has estimated that public spending will fall to 41.9% of national income in 2010–11.<sup>45</sup> The projected level of spending in 2010–11 as a proportion of national income would be higher than that when the present Government came to power (40.8% in 1996–97), but lower than the average seen during either the period 1990–97 (42.9% of national income) or the period 1979–90 (44.9% of national income).<sup>46</sup>

21. There are limitations to the value of assessing levels of public spending by reference to those levels as a proportion of national income, not least because figures are affected by changing levels of economic growth as well as trends in levels of public spending. The different phases of growth of public spending levels since 1997 are more readily apparent by examining public expenditure growth rates in real terms over the last decade. During the period from April 1997 to March 2008 as a whole, the average annual growth of Total Managed Expenditure is expected to be 3.2%, compared with a projected average growth rate of 2.0% a year in real terms in the period from 2008–09 to 2010–11. The figure for the period 1997–2008 as a whole, however, disguises several different phases of growth. Chart 1 shows the annual growth rate of Total Managed Expenditure in real terms in each year since 1997–98, using latest estimated outturn figures for 2006–07 and latest plans for 2007–08.

---

42 *IFS Green Budget*, p 126

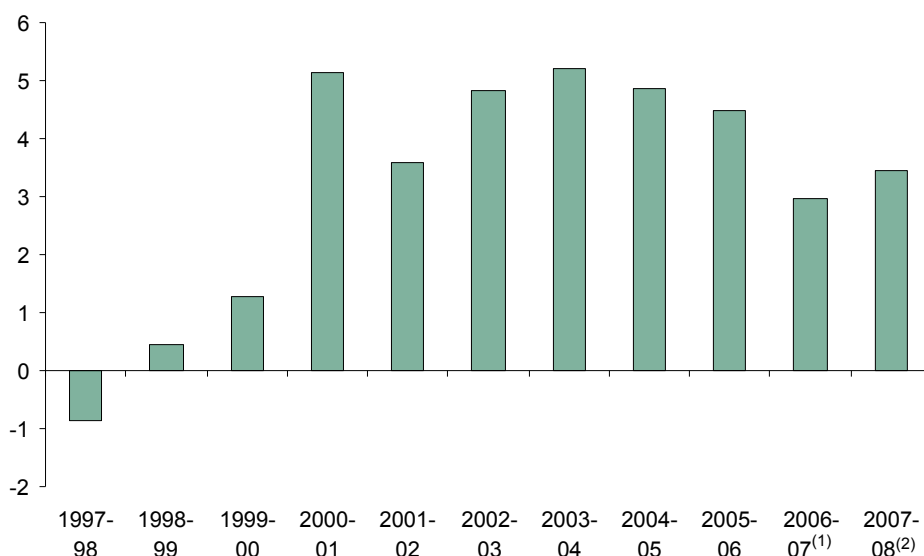
43 *Ibid*, p 126

44 *Ibid*, pp 126–127

45 *Ibid*, p 127

46 *Ibid*, p 127

Chart 1: Annual real terms growth (%) in Total Managed Expenditure, 1997–98 to 2007–08



Sources: TME cash data for 1996–97 to 2000–01 from PESA 2002–03, Table 1.15; TME real terms data from 2001–02 onwards from PESA 2007, Table 1.2; cash data adjusted to 2005–06 prices using latest GDP deflators (March 2007)

Notes: (1) estimated outturn; (2) latest plans

Total Managed Expenditure fell slightly in real terms in the period between April 1997 and March 1999 (by –0.2%), but rose or is planned to rise at an annual average rate of 4.0% between April 1999 and March 2008.<sup>47</sup> The Chief Secretary to the Treasury readily acknowledged the significance of the change between the rate of growth in public spending in recent years and the rate of growth planned for the period from 2008–09 to 2010–11:

The CSR is going to be building on the longest sustained increase in public spending we have seen since World War Two ... In the three years of the current Spending Review period, average annual real growth of Total Managed Expenditure is 3.5%. In the previous period it was 4.8% ... Our spending projections in the Pre-Budget Report show average real growth of less than 2% in the CSR years. So, that is quite a significant change, a change of trajectory, that will present us with some challenges.<sup>48</sup>

He subsequently referred to the Comprehensive Spending Review taking place in a “more constrained environment”.<sup>49</sup> **Public spending is projected to rise in real terms during the period covered by the current Comprehensive Spending Review as a whole at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together.**

47 IFS Green Budget, Table 7.2, p 129

48 Q 2

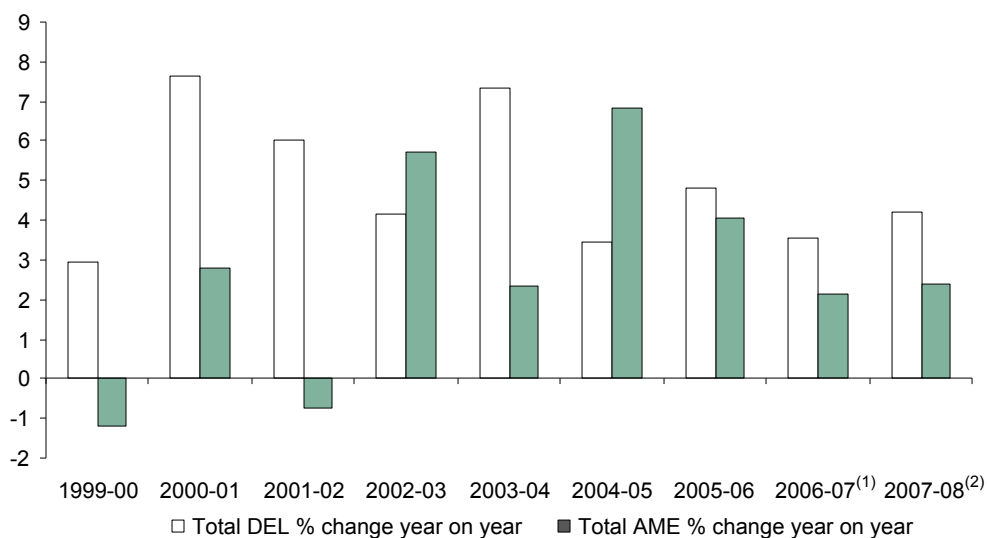
49 *Ibid*

## The division between Annually Managed Expenditure and Departmental Expenditure Limits

22. Overall levels of public spending within Total Managed Expenditure for the period from 2008–09 to 2010–11 have already been set. However, as we noted earlier, Total Managed Expenditure is divided between Departmental Expenditure Limits to be set for a three-year period in the Comprehensive Spending Review and Annually Managed Expenditure.<sup>50</sup> Annually Managed Expenditure 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 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. Forecasts of Annually Managed Expenditure are regularly revised outside the context of Spending Reviews. The division of Total Managed Expenditure for the period from 2008–09 to 2010–11 between Departmental Expenditure Limits and Annually Managed Expenditure will be set out when the final outcome of the Comprehensive Spending Review is announced.<sup>51</sup>

23. Chart 2 shows separately the rates of growth in real terms of Departmental Expenditure Limits and of Annually Managed Expenditure in each year from 1998–99 to 2007–08, based on outturns up to 2005–06, the latest estimated outturn for 2006–07 and the latest plans for 2007–08.

**Chart 2: Annual real terms growth (%) in Total Annually Managed Expenditure and Total Departmental Expenditure Limits, 1999–2000 to 2007–08**



Source: Data from 1999–2000 to 2000–01 from PESA 2004, Table 1.3 and adjusted to 2005–06 prices; data from 2001–02 onwards from PESA 2007, Table 1.2 (2005–06 prices)

Notes: (1) estimated outturn (2) latest plans

During the period since the new planning and control regime was introduced in 1998, Annually Managed Expenditure has generally grown more slowly than Total Managed

<sup>50</sup> See paragraph 4.

<sup>51</sup> Budget 2007, para 6.47, p 152

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.<sup>52</sup> This has had two beneficial effects on spending on programmes, both capital and current, within Departmental Expenditure Limits. First, it has meant that the Government could plan to increase spending within Departmental Expenditure Limits more rapidly than public spending as a whole: the late David Walton, in evidence to our predecessors in 2002, estimated on the basis of the 2004 Spending Review settlement that discretionary spending would rise by 5% a year in real terms over the lifetime of the last Parliament.<sup>53</sup> Second, shortfalls in spending within Annually Managed Expenditure compared with forecasts have enabled additional resources to be assigned to programme expenditure in addition to those initially allocated in Spending Reviews.<sup>54</sup>

24. When the concept of Annually Managed Expenditure was introduced, the Government stated that Annually Managed Expenditure would be “based on cautious estimates”.<sup>55</sup> In 2004, the Chancellor of the Exchequer stressed that forecasts of Annually Managed Expenditure did not take account of external estimates of falling unemployment, so that any such falls would produce gains from reductions in Annually Managed Expenditure not accounted for in the forecast.<sup>56</sup> During the period covered by the 2004 Spending Review, Annually Managed Expenditure was forecast at the time of that Spending Review to grow at 2.1% a year on average in real terms, compared with growth in Departmental Expenditure Limits of 4.2% a year in real terms over the same period.<sup>57</sup> Table 2 compares initial forecasts for Annually Managed Expenditure set out in the earliest relevant Spending Review with the outturns up to 2005–06, the latest estimate of outturn for 2006–07 and the latest forecast for 2007–08.<sup>58</sup>

---

52 Q 6

53 HC (2001–02) 1092-ii and ii, Qq 1, 38

54 *Ibid*, Q 50

55 *CSR 1998*, Annex B, p 117

56 HC (2003–04) 906-i and ii, Q 183

57 *SR 2004*, para 1.11, p 5

58 In each case, the initial Spending Review figure is the first forecast given, so that, for example, the figure for 2005–06 is taken from *SR 2002*, not *SR 2004*. The calculations take no account of definitional and classification changes relating to outturn data.

**Table 2: Comparison of initial estimates of Annually Managed Expenditure in Spending Reviews with outturns, 1998–99 to 2007–08**

Year	(1) Initial Spending Review forecast of Annually Managed Expenditure £ million	(2) Outturn for Annually Managed Expenditure <sup>(1)</sup> £ million	Difference between (1) and (2) £ million	Difference between (1) and (2) %
1998–99	164,800	153,300	–11,500	–7.0
1999–2000	172,400	151,900	–20,500	–11.9
2000–01	179,900	161,000	–18,900	–10.5
2001–02	189,500	164,700	–24,800	–13.1
2002–03	186,200	179,500	–6,700	–3.6
2003–04	193,900	189,200	–4,700	–2.4
2004–05	201,700	207,700	6,000	3.0
2005–06	210,400	220,400	10,000	4.8
2006–07	227,800	230,700 <sup>(2)</sup>	2,900	1.3
2007–08	239,500	242,600 <sup>(3)</sup>	3,100	1.3

Sources: CSR 1998, Table 2, p 16; SR 2000, Table 1.1, p 4; SR 2002, Table 1.1, p 6; SR 2004, Table 1.1, p 5; PESA 2004, Table 1.1, p 8 (for 1998–99 outturn); PESA 2005, Table 1.1, p 8 (for 1999–2000 outturn); PESA 2006, Table 1.1, p 11 (for 2000–01 outturn); PESA 2007, Table 1.1, p 11 (for all figures in column 3 from 2001–02 onwards)

Notes (1) All figures in column 3 rounded to nearest £100 million; (2) estimated outturn; (3) latest plans

25. Spending within Annually Managed Expenditure is, in the Treasury’s own words, “volatile and demand-led”.<sup>59</sup> It is precisely for those reasons that the Government does not seek to subject such spending to firm multi-year planning at a departmental level. Estimates of Annually Managed Expenditure are subject to periodic review, and those shown in column 2 of Table 2 are the very earliest estimates for the financial years concerned. Nevertheless, from analysis of Chart 2 and Table 2, it is possible to draw the following conclusions:

- although the Government has stated that forecasts of Annually Managed Expenditure are “based on cautious estimates”,<sup>60</sup> and the caution of the Government’s initial estimates is evident from outturns up to 2003–04, the initial estimates for 2004–05 and 2005–06 have been exceeded and the initial estimates for 2006–07 and 2007–08, may be exceeded;

59 SR 2004, para 1.10, p 5

60 CSR 1998, Annex B, p 117

- the average rate of growth of Annually Managed Expenditure in the period from 2005–06 to 2007–08 seems likely to exceed the Treasury’s initial forecasts for those years, although the proportionate difference seems likely to be smaller in 2006–07 and 2007–08 than in 2005–06; and
- the overall rate of growth for Total Managed Expenditure as a whole proposed in the spending envelope for the period from 2008–09 to 2010–11 is lower than the actual rate of growth of Annually Managed Expenditure so far during the years covered by the last two Spending Reviews.

26. The forecasts and assumptions made about the path of growth of Annually Managed Expenditure in the years from 2008–09 to 2010–11 need to take account both of the pattern of such spending in recent years and the factors which may affect levels of spending within Annually Managed Expenditure in coming years. Based on our work in the present Parliament to date, we can identify the following factors which have the potential to exert upward pressure on Annually Managed Expenditure during the spending period covered by the Comprehensive Spending Review:

- public sector net debt is projected to be higher than during the period covered by the 2004 Spending Review and rising in each year up to 2010–11,<sup>61</sup> thus potentially increasing debt interest payments (subject to interest rates and financing arrangements);
- tax credits expenditure is forecast 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 childless;<sup>62</sup>
- the Government is committed to halving the rate of child poverty by 2010–11, and the achievement of that commitment is likely to depend in part on increased expenditure on tax credits and child benefit;<sup>63</sup> and
- net contributions to EU institutions (although a small proportion of total Annually Managed Expenditure) are projected to rise in real terms as a result of the financial agreement up to 2013 reached at the December 2005 European Council.<sup>64</sup>

27. Such areas of Annually Managed Expenditure with a potential for increase may be offset by other areas with a potential for reductions. Also, forecasts for Annually Managed Expenditure traditionally include a substantial margin or contingency. In the case of the 2004 Spending Review, this margin was £2 billion in the first two years of the planning period and £3 billion in the third year.<sup>65</sup> Such a margin might cover some of the less

---

61 *Budget 2007*, Table C4, p 278

62 HC (2006–07) 389–I, paras 43–45

63 *Ibid*, paras 46–48

64 HC (2005–06) 994–I, para 61

65 *SR 2004*, Table A.1, p 182

predictable increases in expenditure. The Chief Secretary to the Treasury was optimistic about the overall prospects for Annually Managed Expenditure:

Looking forward, I am hopeful about the prospects. At the moment we are seeing the unemployment claimant count falling (it has fallen, I think, three months in a row now) and we are starting to see inroads into the very long-standing issue of incapacity benefits, thanks to the Pathways Programme—we have started to see reductions there—and so, looking at the CSR period and the prospects for AME spending, I think we are going to be in good shape.<sup>66</sup>

**28. The forecasts for Annually Managed Expenditure up to 2010–11 set out when the final outcome of the 2007 Comprehensive Spending Review is announced will be crucial in determining the total amount of resources available within Departmental Expenditure Limits for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. In recent years, outturns for Annually Managed Expenditure have exceeded initial forecasts, and the initial forecasts for 2006–07 and 2007–08 made at the time of the 2004 Spending Review may prove over-optimistic. We recommend that the Government ensure an appropriate margin of caution in its equivalent forecasts in the 2007 Comprehensive Spending Review for the period up to 2010–11.**

### Fiscal constraints

29. Decisions on the planning and control of spending take place within the context of overall fiscal policy and considerations about the fiscal rules. As we noted earlier, the fiscal rules—the golden rule and the sustainable investment rule—are designed to act as a constraint upon spending or, in the case of the golden rule, on increases in spending without appropriate increases in revenue receipts.<sup>67</sup>

30. During the economic cycle which the Government now believes began in 1997 and which the Government expects to end in 2007, the initial Departmental Expenditure Limits set out in the various Spending Reviews, although characterised as firm, multi-year limits, have been subject to upward revision. Table 3 compares initial plans for Departmental Expenditure Limits set out in the earliest relevant Spending Review with the outturns up to 2005–06, the latest estimate of outturn for 2006–07 and the latest plans for 2007–08.<sup>68</sup> Table 3 demonstrates the extent of such upward revisions, and shows that they have been more limited in scope in recent years.

---

66 Q 6

67 See paragraph 14.

68 In each case, the initial Spending Review figure is the first total given, so that, for example, the figure for 2005–06 is taken from *SR 2002*, not *SR 2004*. The calculations take no account of definitional and classification changes relating to outturn data.

**Table 3: Comparison of initial plans for Departmental Expenditure Limits in Spending Reviews with outturns, 1998–99 to 2007–08**

<b>Year</b>	<b>(1) Initial Spending Review Departmental Expenditure Limits £ million</b>	<b>(2) Outturn for Departmental Expenditure Limits<sup>(1)</sup> £ million</b>	<b>Difference between (1) and (2) £ million</b>	<b>Difference between (1) and (2) %</b>
1998–99	168,800	179,400	10,600	6.3
1999–2000	179,200	189,000	9,800	5.5
2000–01	190,100	205,300	15,200	8.0
2001–02	200,200	224,600	24,400	12.2
2002–03	229,300	241,300	12,000	5.2
2003–04	245,700	266,700	21,000	8.5
2004–05	279,800	283,500	3,700	1.3
2005–06	301,000	303,000	2,000	0.7
2006–07	321,400	321,500 <sup>(2)</sup>	100	0.0
2007–08	340,500	344,100 <sup>(3)</sup>	4,000	1.1

Sources: CSR 1998, Table 2, p 16; SR 2000, Table 1.1, p 4; SR 2002, Table 1.1, p 6; SR 2004, Table 1.1, p 5; PESA 2004, Table 1.1, p 8 (for 1998–99 outturn); PESA 2005, Table 1.1, p 8 (for 1999–2000 outturn); PESA 2006, Table 1.1, p 11 (for 2000–01 outturn); PESA 2007, Table 1.1, p 11 (for all figures in column 3 from 2001–02 onwards)

Notes (1) All figures rounded to nearest £100 million; (2) estimated outturn; (3) latest plans

31. The differences between initial Departmental Expenditure Limits and outturns are due to a range of factors. A number of changes have arisen from conscious decisions by the Government to utilise the flexibility inherent in the spending regime. First, Spending Reviews held every two years have provided an opportunity to revise totals for the third year of a spending period, initial limits for which were set in the preceding Spending Review. For example, the limit for 2003–04 was set at £439.6 billion in the 2000 Spending Review, but revised upwards to £454.6 billion in the 2002 Spending Review.<sup>69</sup> Similarly, the limit for 2005–06 was set at £511.4 billion in the 2002 Spending Review, but revised upwards to £520.8 billion in the 2004 Spending Review.<sup>70</sup> Second, as was apparent from Table 2, the years up to 2001–02 saw outturns for Annually Managed Expenditure markedly below initial forecasts, giving freedom for resources to be re-allocated to spending within Departmental Expenditure Limits without exerting upward pressure on Total Managed Expenditure. In the past, the Chancellor of the Exchequer has acknowledged the scope for flexibility in initial spending totals within Departmental Expenditure Limits. In evidence to our predecessors on the 2002 Spending Review, he

69 SR 2000, Table 1.1, p 4; SR 2002, Table A.2, p 165

70 SR 2002, Table A.2, p 165; SR 2004, Table 1.1, p 5

readily conceded that initial totals within Departmental Expenditure Limits had been and could be increased, subject to compliance with the fiscal rules:

We have got to beat our fiscal rules. We have got to meet the rules I set down, which means that there has got to be a current balance and also debt has got to be at a sustainable level. The spending plans I have set down are affordable and they are affordable on the basis of the revenues which we have raised ... The spending plans could only be increased if it was affordable to do so ... We would have to base that [a decision to increase expenditure beyond initial limits] on the meeting of our fiscal rules.<sup>71</sup>

32. Public sector net investment is constrained by the sustainable investment rule, which in the economic cycle which the Treasury now considers began in 1997–98 is formulated as requiring that net debt be maintained below 40% of GDP in each and every year of the economic cycle.<sup>72</sup> Limits on capital spending have been set for the period covered by the Comprehensive Spending Review, with such expenditure rising to £57 billion by 2010–11.<sup>73</sup> On the basis of these limits, the Treasury's latest forecast is that public sector net debt will increase to 38.5% of GDP in 2008–09, rise further to 38.8% of GDP in 2009–10 and remain at that level in 2010–11.<sup>74</sup> The margin available before the sustainable investment rule limit would be breached is thus smaller than during previous Spending Review periods,<sup>75</sup> although two points need to be borne in mind. First, there has been a consistent pattern for outturns for public sector net investment to be below initial plans.<sup>76</sup> Second, as we have already noted, the Government has not clarified whether, during the new economic cycle, the limit on net public sector investment of 40% under the sustainable investment rule will apply to each year of that economic cycle or will be applied as an average over the cycle.<sup>77</sup>

33. As far as current expenditure is concerned, the relevant fiscal rule is the golden rule. The golden rule need not operate directly as a constraint upon public expenditure, because that rule is concerned with the overall state of the current budget balance over an economic cycle. Thus, short-term increases in the current budget deficit, whether caused by increases in spending or reductions in revenue or a combination of both, can be off-set by current budget surpluses at other phases in what is judged by the Government to be the same economic cycle. Also, increases in spending can be off-set by increases in revenue. These can take the form of explicit increases in rates of taxation, sometimes intended to pay for increased spending, such as increases in national insurance contributions in 2002 to fund increases in National Health Service funding,<sup>78</sup> or of the effects of fiscal drag, or of instances when tax receipts exceed initial forecasts.

---

71 HC (2001–02) 1092–i and ii, Qq 339–343

72 See paragraph 14.

73 See paragraph 18 and Table 1 of this Report.

74 *Budget 2007*, Table C1, p 270

75 For example, the Budget preceding the 2002 Spending Review forecast that public sector net debt would be 31.0% of GDP in the last year of the projection period, 2006–07 (*Budget 2002*, Table C2, p 207) and the Budget preceding the 2004 Spending Review forecast that public sector net debt would be 36.4% of GDP in the last year of the projection period, 2008–09 (*Budget 2004*, Table C1, p 244).

76 HC (2006–07) 389–I, paras 26–27

77 See paragraph 14.

78 *Budget 2002*, paras 6.41–6.45, p 124

34. Despite the absence of a direct and necessary relationship between levels of current public expenditure and prospects for compliance with the golden rule, there are reasons why this fiscal rule might operate as a significant constraint on such expenditure during the Comprehensive Spending Review period. First, according to the Government's current forecasts and fiscal practice, the new economic cycle is expected to begin with a current budget deficit, which will need to be matched by current budget surpluses later in the same economic cycle if the golden rule is to be complied with.<sup>79</sup> Second, for much of the economic cycle which the Treasury now estimates began in 1997–98, the Government's forecasts of tax receipts proved to be underestimates, so that actual receipts significantly exceeded forecasts. More recently, forecasts of revenue receipts have had to be revised downwards rather than upwards, and there are signs that revenue receipts are not responding as positively to increased rates of economic growth as on some occasions in the past.<sup>80</sup> Finally, the overall tax burden, measured as a proportion of GDP, is high by historic standards. In 2008–09, the tax-GDP ratio is projected to be 38.0%, rising slightly to 38.1% in both 2009–10 and 2010–11.<sup>81</sup> These are the highest levels reached since the mid-1980s.<sup>82</sup> The high levels of the tax-GDP ratio by recent standards might mean that the public appetite for further tax increases to off-set any additional increases in current public expenditure would be limited.

**35. In the periods covered by earlier Spending Reviews, initial limits on spending within Departmental Expenditure Limits have been subject to subsequent upward revision. In some cases, this has been as a result of the use of the flexibility offered within the fiscal framework. In the period to be covered by this Comprehensive Spending Review, the Government's freedom to increase such public expenditure beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade.**

### How real are “real terms”?

36. The general practice of the Government in announcing early spending settlements and the overall spending envelope as part of the Comprehensive Spending Review has been to express increases or reductions in 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 has 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.<sup>83</sup> For the years covered by the Comprehensive Spending Review, the Treasury is currently using a GDP deflator of 2.70% in each year.<sup>84</sup> Thus, if the Departmental Expenditure Limit of a particular department is said to be frozen in real terms over the period covered by the

---

79 *Budget 2007*, Table C1, p 270; HC (2006–07) 389–I, para 29

80 HC (2006–07) 389–I, paras 17–22

81 *Budget 2007*, Table C10, p 286

82 HC (2005–06) 944–I, Figure 1 and para 53

83 [http://www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/gdp\\_deflators/data\\_gdp\\_index.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_index.cfm)

84 *PESA 2007*, Table F2, p 210

Comprehensive Spending Review, it can be assumed that that Limit will rise by 2.7% a year in nominal terms in 2008–09, 2009–10 and 2010–11.

37. 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.<sup>85</sup> For example, although the Ministry of Defence no longer publishes an index of defence specific prices, there are independent analyses which suggest that defence equipment prices rise at about 10% a year in real terms.<sup>86</sup> There are other instances where the GDP deflator may be inadequate as a measure for understanding pressures on spending in particular departments, for example where a high proportion of spending takes place abroad.

38. A substantial component of public spending is used for the public sector wage bill. The Government has stated that

Over the 2007 CSR period controlling pay spending will be essential in delivering value for money from public spending and keeping inflationary pressures in check. The Government has made clear that pay settlements must be consistent with the achievement of the CPI inflation target of 2% and demonstrated this commitment by announcing on 1 March 2007 that the overall headline awards for Pay Review Body groups in 2007–08 are to be less than the 2% inflation target, averaging 1.9%, the lowest level of awards in over 10 years. In preparation for the 2007 CSR, key departments will prepare pay and workforce plans setting out how they will achieve the Government's objectives in pay policy and service delivery throughout the period.<sup>87</sup>

The Chief Secretary to the Treasury emphasised the importance of containing overall public sector pay budgets, implying that higher pay settlements would lead to public sector job reductions. He emphasised the importance of

affordability of public services in the CSR period ... I think it is important that we do not, through excessively high pay increases, reduce the number of people who can be employed in the public service.<sup>88</sup>

## Migration and demography

39. There are likely to be additional pressures on public spending in the period covered by the Comprehensive Spending Review as a result of population increase. According to the Government,

---

85 Ev 117

86 Defence Committee, Memorandum from Keith Hartley submitted for inquiry into UK defence: commitments and resources, available at <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/ucsnd4/ucm02.htm>

87 *Budget 2007*, para 6.29, p 148

88 Q 38

Official population projections produced by the Government Actuary's Department (GAD) suggest a moderate acceleration in population growth over the decade from 2007, with the population expected to reach 64 million by 2017 in the principal projections ... Natural change is projected to account for 50 per cent of UK population growth between 2007 and 2017 because the number of births is expected to exceed the number of deaths ... Positive net migration is projected to account for the other half of UK population growth 2007–2017 under GAD's principal projection.<sup>89</sup>

The extent to which population growth, arising in particular from positive net migration, is likely to have an effect within the planning period is apparent from the Government's decision, in December 2006, to revise upwards its neutral estimate of trend output growth for the post-2006 period by a ¼ percentage point to reflect an upward revision to its estimate of working age population growth.<sup>90</sup>

40. During our inquiry into the 2006 Pre-Budget Report, Dr Martin Weale of the National Institute of Economic and Social Research noted that there was no evidence that the Government had taken account of population growth in its public expenditure plans, as opposed to its estimates of trend growth. Mr Robert Chote of the Institute for Fiscal Studies also drew attention to the fact that population growth would lead to a downward pressure on public spending per head, with implications for the quality of public services.<sup>91</sup> In evidence for the current inquiry, the Local Government Association stressed the pressure on demand for local authority services from high levels of inward migration, levels which some local authorities considered significantly exceeded estimates by the Office for National Statistics.<sup>92</sup>

41. In response to such concerns, Treasury officials confirmed in December 2006 that “we have not put into the revenue projections or the expenditure projections the ways in which immigration might particularly increase one aggregate or another aggregate”, but pointed to a study which suggested that “immigrants contribute more fiscally than they consume”.<sup>93</sup> The Chief Secretary to the Treasury pointed out that the effect of demographic change on public expenditure varied from sector to sector: thus, for example, pressures on health might increase because of a growth in the number of over 85 year olds, but the number of children would fall.<sup>94</sup> With specific regard to positive net migration, he said:

We are looking at all the pressures and departments are looking at all the pressures they are expected to need to address ... In terms of the big long-term challenges we have talked particularly about demography and I think that is going to be quite a big influence on the shape of public services looking over the period. Certainly there will

---

89 *Long-term opportunities and challenges*, paras 3.8–3.10, p 28

90 HC (2006–07) 115, para 20

91 *Ibid*, para 26

92 Ev 112

93 HC (2006–07) 115, Q 162; Institute for Public Policy Research, *Paying their way: the fiscal contribution of immigrants in the UK*, April 2005

94 Q 157; *Long-term opportunities and challenges*, Chart 3.2 and para 3.19, p 32

be some more impact from migration, but I would not expect that to be on the same sort of scale.<sup>95</sup>

**42. In view of the long gestation period of the Comprehensive Spending Review and the extent to which the Government has sought to promote debate on and analysis of long-term challenges, the Government could have provided more information on the likely impact of net migration on demand for public services over the period covered by the Comprehensive Spending Review. We note the Government's implied view that the overall fiscal effect of net inward migration will be positive over this period, with benefits in terms of revenue receipts outweighing the costs of additional public expenditure. However, public spending and tax receipts are different in kind. Increases in receipts are a matter for Treasury forecasting. Public expenditure is subject to firm limits, and must be planned for by Government departments, local authorities, health bodies and others. We recommend 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.**

43. The pressures on particular local services arising from net inward migration are one example of changes in population levels across the United Kingdom. The Government also expects changes in coming years in the distribution of population between England, Scotland, Wales and Northern Ireland, with the population of England expected to rise faster than that in other parts of the United Kingdom.<sup>96</sup> Over time, this will exert downward pressure on the relative size of the block grants to devolved authorities. The Chief Secretary to the Treasury indicated that such allocations would continue to be made in accordance with the Barnett formula.<sup>97</sup> More recently, the Chancellor of the Exchequer has confirmed that spending available to the Northern Ireland Executive will increase at least in line with inflation up to 2010–11.<sup>98</sup>

---

95 Qq 158–159

96 *Long-term opportunities and challenges*, Chart 3.2 and para 3.12, p 29

97 Qq 80–82

98 HC Deb, 8 May 2007, col 2WS

## 4 The allocation of spending between departments

---

### Education

44. It is usual for the central focus of a Spending Review at the time of its announcement to be on allocations to particular departments. As we noted earlier, the Government has already pre-empted that announcement to some extent through early spending settlements.<sup>99</sup> In terms of quantity, the most important of these is the settlement for education which was announced in the 2007 Budget. Under this settlement, education spending will rise in real terms by 2.5% a year on average between 2007–08 and 2010–11.<sup>100</sup> Based on the Government's cautious assumptions about rates of economic growth for the purposes of public finance projections, total United Kingdom education spending over the period from 2008–09 to 2010–11 is forecast to grow fractionally below or around the growth rate of the economy.<sup>101</sup> Taking the period from 1997 to 2010–11 as a whole, spending on education is projected to have risen from 4.5% of GDP to 5.6% of GDP.<sup>102</sup>

45. Table 4 shows the United Kingdom education spending totals as a proportion of Total Managed Expenditure between 1996–97 and 2010–11.

---

99 See paragraphs 11–12.

100 *Budget 2007*, Table 6.3 and para 6.73, p 157

101 HC (2006–07) 389–I, para 81

102 *Ibid*

**Table 4: UK education spending as a proportion of Total Managed Expenditure, 1996–97 to 2010–11**

Year	Proportion (%)	Year	Proportion (%)
1996–97	11.5	2004–05	12.7
1997–98	11.6	2005–06	12.8
1998–99	11.6	2006–07	12.9
1999–2000	11.9	2007–08	13.2
2000–01	12.2	2008–09 <sup>(1)</sup>	13.2
2001–02	12.7	2009–10 <sup>(1)</sup>	13.2
2002–03	12.5	2010–11 <sup>(1)</sup>	13.4
2003–04	12.8		

Sources: figures for UK education spending 1998–99 to 2006–07 taken from PESA 2007, Table 4.2, p 50; figure for UK education spending 2007–08 taken from PESA 2007, Table 1.12, p 21; figures for UK education spending 2008–09 to 2010–11 taken from Budget 2007, Table 6.4, p 158; figures for Total Managed Expenditure up to 2007–08 taken from PESA 2007, Table 4.2, p 50; figures for Total Managed Expenditure from 2008–09 to 2010–11 taken from Table 1 of this Report

Note: (1) based on approximation of Total Managed Expenditure contained in Table 1 of this Report

The forward projections for UK education spending rely on assumptions about some elements outside the Government's control—the levels of expenditure by local authorities and devolved administrations. Nevertheless, the figures in Table 4 suggest that the education spending settlement announced in the 2007 Budget will serve to consolidate the higher priority accorded to education since 1999–2000.

## The Home Office and Department for Constitutional Affairs settlements

46. In the 2006 Budget, the 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. Further information about the settlement was provided in July 2006. Savings were projected from benchmarking within the National Offender Management Service, from end-to-end case management of asylum claims, from the Criminal Justice System IT programme and from the Home Office efficiency programme.<sup>103</sup> In oral evidence in January 2007, the Chief Secretary to the Treasury implied that the Department-wide settlement gave the Home Secretary considerable freedom on the allocation of resources:

It is a matter for the Home Office how it allocates the priorities that it sets and the budget it takes forward ... 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.<sup>104</sup>

<sup>103</sup> *Releasing the resources*, paras 5.34–5.50, pp 52–55

<sup>104</sup> Qq 97, 112

The Chief Secretary subsequently indicated that the Treasury would continue to discuss Home Office budgetary decisions, particularly those relating to large capital projects such as new prisons.<sup>105</sup>

47. The spending settlement for the Department for Constitutional Affairs was announced in the 2006 Pre-Budget Report, with its budget falling by an annual average of 3.5% in real terms over the period from 2008–09 to 2010–11.<sup>106</sup> About half of that Department’s budget is spent on legal aid and that early settlement was dependent upon timely implementation of costed proposals for reform of legal aid procurement announced by Lord Carter in July 2006.<sup>107</sup> The Constitutional Affairs Committee has recently concluded that, while there is an urgent necessity to limit legal aid expenditure, the Government has introduced plans arising from the Carter Review “too quickly, in too rigid a way and with insufficient evidence”.<sup>108</sup>

48. 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. The Cabinet Office’s 17-page document describing the machinery of government changes made no reference to the implications of the changes for departmental budgets.<sup>109</sup> The Ministry of Justice came into being on 9 May 2007. When asked about resources for the new department on that day, the new Minister of State, the Rt. Hon. David Hanson MP, said:

With regard to the financing of Department ... we are in the middle of a Comprehensive Spending Review settlement. I can assure him that the resources from the Home Office and the DCA are there on the table for this year as planned. Obviously, that will be subject to negotiation. However, he can take the reassurance that the Government are committed to reducing crime, and one of the main methods of doing so will be the role of my Rt Hon and noble Friend the Secretary of State and my other colleagues in the Ministry of Justice. I very much hope that the CSR settlement will reflect that.<sup>110</sup>

**49. The value of early spending settlements on a departmental basis for the Home Office and the Departmental for Constitutional Affairs may be diminished as a result of the subsequent decision to transfer some Home Office functions to a new Ministry of Justice. The original spending settlement for the Home Office with zero real terms growth may well have been posited in part on the potential for savings within the National Offender Management Service and the Criminal Justice System IT programme, matters which are no longer the responsibility of the Home Office. A recent Ministerial statement could be interpreted as implying that the financial**

105 Qq 113–122

106 *Pre-Budget Report 2006*, Box 6.3, p 143

107 Qq 83–84; *Releasing the resources*, para 3.17, p 25

108 Constitutional Affairs Committee, Third Report of Session 2006–07, *Implications of the Carter Review of Legal Aid*, HC 223–I, p 4

109 Cabinet Office, *Machinery of Government: Security and Counter-Terrorism, and the Criminal Justice System*, March 2007

110 HC Deb, 9 May 2007, col 181

settlements for the Home Office and the Department for Constitutional Affairs might now be re-opened. We recommend 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.

### The other early settlements

50. The following Departments and bodies have agreed settlements for the period from 2008–09 to 2010–11 which see their budgets fall by an annual average of 5% in real terms over the period:

- the Department for Work and Pensions;
- HM Revenue & Customs;
- HM Treasury;
- the Cabinet Office;
- the Privy Council Office;
- National Savings & Investments;
- the Food Standards Agency;
- the Government Actuary's Department; and
- the Office of Fair Trading.<sup>111</sup>

In addition, the Attorney General's Departments have agreed budgets that fall by 3.5% a year in real terms over the period covered by the Comprehensive Spending Review.<sup>112</sup>

51. The extent of these reductions illustrates the nature of the Government's ambitions for spending allocations for departments that are not seen as the highest priorities for increased expenditure. The capacity to deliver these reductions is likely to be closely linked to the efficiency programme for the period from 2008–09 to 2010–11 which we consider later in this Report.<sup>113</sup>

52. In contrast to the general tenor of these early settlements, at the time of the 2007 Budget but outside the formal framework of the Comprehensive Spending Review, the Government announced a funding settlement for the new Statistics Board up to 2011–12. The Board's total budgetary limits will be £159 million in 2007–08, £216 million in 2008–09, £206 million in 2009–10, £303 million in 2010–11 and £321 million in 2011–12.<sup>114</sup>

---

111 *Budget 2006*, Box 6.3, p 136; *Pre-Budget Report 2006*, Box 6.3, p 143; *Budget 2007*, para 6.25, p 147

112 *Budget 2007*, para 6.25, p 147

113 See paragraphs 60–87.

114 Letter from the Financial Secretary to the Treasury to the Chairman of the Treasury Committee, 21 March 2007

During the period covered by the Comprehensive Spending Review (up to 2010–11), funding for the new Statistics Board will increase by an average of 20.7% a year in real terms, but this increase does not necessarily reflect a longer term trend because of the substantial resource requirement associated with the 2011 Census.

### Prospects for other departments

53. Of the other departments that have not reached a settlement, the prospects are probably clearest for the Department for International Development. The Government is committed to continuing to increase total United Kingdom official development assistance at the rate of growth achieved in 2007–08—13.9% in real terms—in order that total official development assistance would reach 0.7% of Gross National Income by 2013.<sup>115</sup> However, the total for United Kingdom official development assistance includes some expenditure outside the Department for International Development’s Departmental Expenditure Limit, most notably debt relief. Accordingly, the Department for International Development’s own budget within Departmental Expenditure Limits is not guaranteed to rise at the same rate as the overall rate of growth for United Kingdom official development assistance as a whole to which the Government is committed.<sup>116</sup> **We recommend that the Government make clear the relationship between the budget of the Department for International Development and total official development assistance and that it provide a clear statement of its calculation of official development assistance and quarterly statements tracking its growth.**

54. In order to provide further information about the prospects for remaining departments, Table 5 sets out an approximation of the elements of Total Managed Expenditure that are already “committed”, either as a result of early settlements or arising from the longer term commitment to increase official development assistance as a proportion of Gross National Income to 0.7% by 2013. All departmental figures in this Table relate only to expenditure within Departmental Expenditure Limits, and take no account of likely components of expenditure by those departments within Annually Managed Expenditure.

---

115 *SR 2004*, para 15.1, p 135. The rate of growth in 2007–08 is our own calculation based on *SR 2004*, Table 15.2, p 139 and the latest GDP deflator.

116 Departmental for International Development, *Development on the Record: DFID Annual Report 2007*, May 2007, HC (2006–07) 514, Table A.1, p 232



- the Home Office and the Ministry of Justice together will be required to operate within a combined total equivalent to the limits initially set for the Home Office as previously constituted and the Department for Constitutional Affairs;<sup>117</sup> and
- the budget of the Department for International Development will increase in real terms by 10.0% a year in each year covered by the Comprehensive Spending Review, a figure slightly below the overall expected rate of increase in United Kingdom official development assistance.<sup>118</sup>

Other assumptions are set out in notes to Table 5.

55. Tables 6 to 9 set out four possible scenarios for the increase in the budgets of the “uncommitted” Departments, which can be summarised as follows:

- Scenario A (Table 6): Annually Managed Expenditure increases at 2.1% a year in real terms during the Comprehensive Spending Review period (matching the rate of growth in 2006–07) and the Department of Health budget increases broadly in line with that of the Department of Education and Skills;
- Scenario B (Table 7): the Department of Health budget increases by 4.4% a year in real terms over that period, while Annually Managed Expenditure increases in line with the rate of growth in Scenario A;
- Scenario C (Table 8): Annually Managed Expenditure increases by 1.6% per year in real terms across the period, while the budget of the Department of Health increases at an annual average of 3.4% in real terms across the period; and
- Scenario D (Table 9): Annually Managed Expenditure increases at 2.6% a year in real terms across the period, while the Department of Health budget increases at the same rate as in Scenario C.

---

117 See paragraphs 46–49.

118 See paragraph 53.









56. The Department of Health budget is treated separately in these scenarios because it is by far the largest single budget subject to multi-year Departmental Expenditure Limits and because it has seen very significant rates of increase in recent years. High rates of growth in health spending since 2002 arose in part from the analysis in the Wanless Review, and the rate of growth of 4.4% a year in real terms included in Scenario B has been chosen because it is a level of growth in spending envisaged in certain circumstances in the Wanless Review.<sup>119</sup> When asked whether health spending increases during the period covered by the Comprehensive Spending Review were likely to match the levels of between 4.2% and 5.1% real terms annual growth posited by Wanless, the Chief Secretary replied:

No, I do not think that necessarily will be the case. What we have done as a result of the additional funding of the last few years, is get ourselves into a position where, broadly, by next year, spending on health will be roughly in line with the European average, which was the intention when the programme started. We will set out in the Summer what the appropriate level for health funding in the CSR years is going to be ... I think the period ahead will be one of consolidation where the rate of growth of spending will be less ... The last couple of spending review periods across public services has been a period of catching up on past under-investment. We have done that now and the next period is going to be rather different in character.<sup>120</sup>

57. These Scenarios, and Scenarios C and D in particular, demonstrate the significant impact the forecast rate of growth of Annually Managed Expenditure—comprised of components such as social security and tax credits expenditure, locally-financed expenditure and government debt interest payments—will have on the prospects for settlements for “uncommitted” Departments. If the growth of Annually Managed Expenditure in real terms were planned to be held at an average rate of growth of 1.6% a year over the period covered by the Comprehensive Spending Review, it might be possible to combine a Department of Health settlement with a 3.4% annual average increase in real terms with an overall budget for other “uncommitted” Departments taken together rising in real terms by 2.3% a year across that period. However, if Annually Managed Expenditure were to be planned to rise at 2.6% a year in real terms in that period and the Department of Health settlement were the same, Scenario D suggests that the remaining budget available for other “uncommitted” Departments would rise by an average of only 0.8% a year in real terms up to 2010–11. As we have noted above, the rate of growth of Annually Managed Expenditure has not fallen below 2.1% a year in real terms since 2001–02, and, in recent years, outturns for Annually Managed Expenditure have been in excess of initial forecasts,<sup>121</sup> notwithstanding the Government’s commitment to base forecasts of Annually Managed Expenditure on “cautious estimates”.<sup>122</sup>

## Conclusions

58. Table 10 sets out the growth rates in spending settlements within Departmental Expenditure Limits by department in the 2004 Spending Review and, where known, in the

---

119 *IFS Green Budget*, p 144

120 Qq 55, 56

121 See paragraphs 23–25.

122 *CSR 1998*, Annex B, 117



*£4,954 million (total in PESA 2007, Table 1.12, p 21 for Chancellor's Departments, minus £159 million attributed to statistics): (2) settlement announced is for the Attorney General's Departments*

This Table highlights two points. **With the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below the rates of growth provided for in the 2004 Spending Review settlements.**

59. **The level of the resources available to be allocated to most of the departments that have not reached early settlements depends on three key variables: first, the rate of increase in health spending; second, the prospective rate of increase of Annually Managed Expenditure; and, third, the number of additional larger departments that agree settlements with real terms reductions in spending.**

## 5 Embedding efficiency

---

### Learning the lessons of the Gershon programme

60. A key strategic aim for the Government in shaping the 2007 Comprehensive Review is to concentrate not only on how much is spent, but how it is spent, in order to make finite resources go further. In pursuing this aim, the Government is seeking to build upon the record of the efficiency programme established as part of the previous Spending Review settlement.<sup>123</sup>

61. Alongside the 2004 Spending Review, the Government published a report by Sir Peter Gershon which reviewed the scope for further efficiencies in public spending.<sup>124</sup> Drawing on the Government's decision announced in the 2004 Budget to set "a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5% a year over the three years of the 2004 Spending Review period which would deliver gains equivalent to £20 billion a year by 2007–08", Sir Peter Gershon identified annual savings on a departmental basis amounting to around £21.5 billion a year by 2007–08.<sup>125</sup> The Government accepted Sir Peter's recommendations, and departments agreed targets for the 2004 Spending Review period based on the savings identified by Sir Peter Gershon.<sup>126</sup>

62. The efficiency savings targets set in monetary terms as part of the 2004 Spending Review are summarised in Table 11. At the time that the Gershon efficiency programme was launched, considerable scepticism was voiced about whether the stretching targets to save over £21 billion could be achieved within the period of the 2004 Spending Review.<sup>127</sup> The final column of Table 11 shows the percentage of the annual savings target for each department in 2007–08 that had already been reported in the annual value of savings reported by December 2006. This shows that most departments have already reported as delivered monetary savings of at least around two-thirds of the total value of the annual savings intended to be achieved by the end of 2007–08. Some departments have already reported the delivery of savings that exceed their targets; others have a long way to go.

---

123 *Releasing the resources*, paras 1.20–1.21, p 12

124 Sir Peter Gershon CBE, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004

125 *Ibid*, para 3.3 and Table 4.1 pp 21, 30

126 *SR 2004*, paras 2.5–2.9 and Table 2.1, pp 15–16

127 HC (2003–04) 906–i and ii, Q 43



63. In evidence to us in March 2007, Mr John Oughton, out-going Chief Executive of the Office of Government Commerce, stressed that the programme as a whole was on track:

the programme ... is delivering broadly as we expected, namely that procurement would be the earliest area of gains, the easiest to measure, straight to cash off the bottom line as contracts were negotiated, and that some of the more substantial tasks that had to be undertaken, developing an approach to productive time, dealing with corporate services, the other Gershon workstreams, would take longer to plan. I would not say they are harder, they just take longer to plan and longer to invest in in order to deliver, but the benefits will still be contained within the three years of the programme.<sup>128</sup>

In January, the Chief Secretary noted the verdict of the National Audit Office that the Gershon efficiency programme had been “more serious and more systematic than previous attempts to achieve efficiency in government. We have seen real, serious, top level engagement in the programme across departments and in the centre of government.”<sup>129</sup>

64. When we examined the Gershon programme during our Report on the 2006 Budget, we drew attention to the potential to carry forward the benefits of the programme into the Comprehensive Spending Review period.<sup>130</sup> In response, the Government confirmed that,

For the Comprehensive Spending Review, the Government will look to put in place an efficiency and value for money framework that builds on the success of the current programme while seeking to learn lessons and to make improvements where appropriate.<sup>131</sup>

In learning lessons from the Gershon programme and considering the proposed efficiency programme for the period of the Comprehensive Spending Review, it is important to bear in mind the limitations in the Gershon programme identified in our various Reports considering the programme and in the two Reports on the programme produced by the National Audit Office. The main limitations can be summarised as follows:

- the transparency of the programme has been insufficient, particularly in the early stages of the programme, with inconsistencies and weaknesses in reporting by departments and with the decision of the Treasury prior to the 2007 Budget not to present an overall picture of departmental progress;<sup>132</sup>
- there has been insufficient clarity about the extent to which savings are reported net of any investment costs associated with securing the efficiency savings and about the extent to which savings are cash-releasing;<sup>133</sup>

---

128 HC (2006–07) 389–II, Q 224

129 Q 38

130 HC (2005–06) 994–I, paras 77–79

131 Treasury Committee, Fourth Special Report of Session 2005–06, *The 2006 Budget: Government Response to the Committee's Fourth Report of Session 2005–06*, HC 1472, p 8

132 HC (2005–06) 994–I, para 76; HC (2006–07) 115, paras 46–47

133 HC (2005–06) 994–I, paras 72–76

- there have been a number of outstanding issues relating to measurement and verification, including a lack of clarity about the extent to which savings have been fully verified and audited;<sup>134</sup> and
- in particular, there has been a lack of measurable and externally verifiable evidence to support the contention that all efficiency savings reported as delivered have been secured without a diminution in service quality.<sup>135</sup>

65. In each of these areas, there have been improvements in the course of the period of the Gershon efficiency programme. The Treasury and the Office of Government Commerce have provided more information about the progress of the programme as a whole, including information on progress by department and by theme.<sup>136</sup> More information is available about the extent to which savings reported are viewed as final and the Government has stated that it will undertake further work “to tackle the remaining measurement challenges during the final year of the programme, including by encouraging greater use of internal auditors and through further engagement with the NAO and the Audit Commission”.<sup>137</sup> The Government has introduced a new reporting system which requires senior management in departments to sign off on the accuracy of reporting efficiencies and provide assurance that service quality has been maintained.<sup>138</sup> We have examined the extent to which these and other lessons from the Gershon efficiency programme were being carried forward in the design of efficiency measures within the Comprehensive Spending Review framework.

## Setting efficiency targets

66. The monetary targets established for each department as part of the 2004 Spending Review arose from a dialogue between Sir Peter Gershon and individual departments. In many cases the savings were “offered” by the departments concerned, and in all cases they were agreed between Sir Peter and the departments concerned.<sup>139</sup> There were significant variations in the levels of the targets agreed with departments. Some departments, such as the Home Office, exceeded the broad departmental targets where the potential to go further existed.<sup>140</sup> Professor Colin Talbot drew attention to the extent of the variation in departmental targets as a proportion of departmental budgets in evidence to our predecessors.<sup>141</sup> The third column of figures in Table 11 shows efficiency targets as a proportion of total annual budgets for departments in 2007–08 as set in the 2004 Spending Review. Those targets vary from 1.2% in the case of the Cabinet Office to 17.3% in the case of the Department for the Environment, Food and Rural Affairs.

---

134 National Audit Office, *Progress in improving Government efficiency*, February 2006, HC (2005–06) 801–I, p 5; HC (2006–07) 115, para 47

135 HC (2005–06) 994–I, paras 73–74; HC (2006–07) 115, paras 50–51

136 HC (2006–07) 389–I, paras 72–73

137 *Budget 2007*, para 6.19, p 146

138 National Audit Office, *The Efficiency Programme: A Second Review of Progress*, February 2007, HC (2006–07) 156–I, Executive Summary, paras 8 and 11, p 6

139 Treasury Sub-Committee, Uncorrected transcript of oral evidence on 16 May 2007, Qq 224, 262; *Releasing resources to the front-line*, para 4.1, p 29

140 *Releasing resources to the front line*, para 3.4, p 22

141 HC (2003–04) 906–i and ii, Ev 52–53

67. In the 2006 Pre-Budget Report, the 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”.<sup>142</sup> Professor Talbot pointed out this apparent across-the-board approach to efficiency savings was in sharp contrast with the approach of the Gershon programme and that the reasons for the different approach were unexplained.<sup>143</sup> The Chief Secretary argued that this across-the-board approach was justified:

I think what we have seen through the Gershon Efficiency Programme and analysis that we have been doing over the last few weeks is that there is a potential, through really building in a culture of efficiency, to achieve that level of value for money savings in each department over the CSR period and for that to be a minimum. There may well be departments—I hope there will be—who are able to go further in the CSR period and, in so doing, release resources that they can then apply to their priorities, but I am confident that each department will be able to achieve at least the 3% level, and I think that will be very important as part of achieving a successful CSR round.<sup>144</sup>

He argued that having clear overall targets would have the same value as the specific targets of the Gershon period in “galvanising departments and assisting them to produce big value for money savings”.<sup>145</sup>

68. In its first study of the Gershon efficiency programme the National Audit Office noted that the overall target of £21.5 billion excluded most investment costs necessary to achieve the savings, in part because some such up-front capital investment was begun before the programme began. The study argued that, without additional investment costs being matched against gains, the £21.5 billion target overestimated the efficiency gains that would actually be achieved by 2007–08.<sup>146</sup> In its second study, the National Audit Office noted:

departments have not been persuaded to go further than the letter of the Gershon Review in relation to reporting efficiency gains net of additional ongoing costs. Although OGC measurement guidance recognises that accounting for additional ongoing costs arising from reforms is best practice, only four out of the 10 departments contributing most to the £21.5 billion target try to subtract such costs from their reported savings.<sup>147</sup>

The Gershon programme was not designed so as to provide that all efficiency savings delivered led to a direct benefit to the bottom line. Sir Peter Gershon’s initial estimate was that over 60% of the savings targeted would be cash-releasing,<sup>148</sup> although savings which

---

142 HC Deb, 6 December 2006, col 314

143 HC (2006–07) 115, Ev 79

144 Q 20

145 Q 29

146 HC (2005–06) 802–I, para 1.15 and Figure 10, pp 19, 20

147 National Audit Office, *The Efficiency Programme: A Second Review of Progress*, HC (2006–07) 156–I, February 2007, para 4.3, p 26

148 *Releasing resources to the front line*, para 3.5, p 23

were not cash-releasing would contribute towards meeting the overall target of £21.5 billion annual savings by 2007–08.

69. In the 2006 Pre-Budget Report, the Government announced that the focus of the value for money programme within the Comprehensive Spending Review period would be on delivering net cashable savings.<sup>149</sup> In the 2007 Budget, the Government went further, making it explicit that “all of the savings delivered under the 2007 Comprehensive Spending Review value for money programme will be net of implementation costs and cash-releasing”.<sup>150</sup> The Chief Secretary made the Treasury’s approach clear:

We will build into the CSR plans, when they are published, assumptions about each department having achieved at least the 3% level of savings, and that will be taken account of in announcing how much each department has to spend in each year of the CSR period; but, of course, if departments are able to go further and make additional savings (and it may well be during course of the CSR they will identify ways to do that), then, yes, they will be able to use those savings in ways that they decide.<sup>151</sup>

70. Professor Talbot characterised the new targets as involving “a massive step change in the amount of money which is supposed to be saved in efficiency savings”. While over 60% of the Gershon efficiency savings were intended to be cash-releasing, all the efficiency savings from 2008–09 are required to be cash-releasing.<sup>152</sup> The Chancellor of the Exchequer, in oral evidence to us on the 2007 Budget, appeared to accept that the new targets could be seen as more stretching than the variable efficiency targets set out in the Gershon review, many of which were not set net of implementation costs.<sup>153</sup>

**71. The Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. The targets set for the period covered by the 2004 Spending Review were varied to reflect an assessment by Sir Peter Gershon of each department’s capacity to secure efficiency savings. The Government is 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.**

**72. We note the Government’s decision to require all savings during the period from 2008–09 to 2010–11 to be net of implementation costs and cash-releasing. We expect the Government to put in place measures to ensure that this is reflected in the framework for verification and reporting. In particular, we recommend 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.**

---

149 *Pre-Budget Report 2006*, para 6.26, p 142

150 *Budget 2007*, para 6.24, p 147

151 Q 21

152 HC (2006–07) 389–II, Q 93

153 *Ibid*, Qq 368–369

## The framework for monitoring and reporting

73. Lead responsibility for implementing the Gershon Efficiency Review was given to John Oughton, the then Chief Executive of the Office of Government Commerce, working closely with the Treasury and reporting directly to the Chancellor of the Exchequer and the Prime Minister. An efficiency team was established within the Office of Government Commerce. That team was responsible for assuring the quality of departments' implementation plans and their capacity to implement them, and was also charged with supporting and challenging departments more generally.<sup>154</sup>

74. The Office of Government Commerce has been instrumental in securing gradual improvements to the measurement and reporting framework for the efficiency programme, and the National Audit Office has praised and supported its work.<sup>155</sup> The Office of Government Commerce has brought about a greater involvement for senior management in departments in signing off efficiency gains and has encouraged a greater use of audit, both internal and external.<sup>156</sup> The Chief Secretary told us:

This process has been very closely monitored by the Office of Government Commerce in collaboration with the National Audit Office. They have set very demanding measures of quality of service and they are tracking those to make sure that there is not a fall-off in service as a result of the implementation of the efficiency measures.<sup>157</sup>

75. In January 2007, the Government announced that responsibility for monitoring the efficiency programme would be moved from the Office of Government Commerce to the Treasury:

Establishing the 2004 Spending Review efficiency programme on a sound footing and ensuring its delivery has been one of the OGC's major achievements over the past two years. But going forward there needs to be a closer link between efficiency and financial controls. The OGC's success means that the Government can now mainstream efficiency as part of routine departmental financial management. As a result, responsibility for efficiency will transfer from the OGC to the Treasury later this year.<sup>158</sup>

Mr Oughton gave a similar account of the reasoning when he appeared before us in his last week in post:

The challenge now is to assess whether efficiency is now in the mainstream of how departments conduct their business planning and undertake their tasks. To be frank two and a half years ago when the programme started this was new territory for most departments and it was clear when they developed their plans that they were struggling to identify how to address the task. I am much more confident now that

---

154 *Releasing resources to the front line*, paras 4.8–4.10, p 32

155 HC (2006–07) 156–I, Executive Summary, para 11, p 6

156 See paragraph 65.

157 Q 30

158 HM Treasury, *Transforming government procurement*, January 2007, para 2.17, p 20

this is part of the routine, it is part of the mainstream of what departments do, and that gives us the confidence that we can mainstream the approach to efficiency for the next spending review into the normal financial control mechanisms of the Treasury ... The Government's direction of the Efficiency Programme will be extremely strong. It will be handled by the Public Spending Directorate in the Treasury so I think the mechanisms and levers will be as strong in the future as they are now.<sup>159</sup>

76. The Chief Secretary indicated that the Government accepted that there would remain a challenge in measuring efficiency, particularly in judging whether service quality had been maintained from the perspective of the customer:

I think that is going to be quite an important challenge across public services through the CSR years, to establish precisely that. That is why we will, in the new performance management framework before the CSR period, be making greater use of subjective measures, of user feedback, of user surveys and so on, so that we can track precisely what is happening in the perceptions of users for the services we are offering ... From our point of view, what is essential is that we have actual information about customer feedback so that we can make the kind of judgements we need to make. There is no value from the departments' point of view, or from ministers' point of view in having inaccurate information.<sup>160</sup>

77. The efficiency programme established in 2004 represented a significant change in the Government's approach to efficiency issues. In the words of Professor Talbot, "so-called efficiency savings have traditionally been treated by Treasury simply as reductions in departmental budgets and have not been measured at all".<sup>161</sup> **The Gershon efficiency programme involved a government agency outside the Treasury mainstream in supporting and monitoring the programme and involved efficiency savings which did not need to show on the bottom line. There are signs of a reversion to a more traditional Treasury approach in the future, with efficiency matters being part of "routine departmental financial management" overseen by the Treasury's Public Spending Directorate, and with all efficiency savings intended to be cash-releasing.**

78. **Even though the Government has established the principle that all efficiency savings from 2008–09 onwards should be cash-releasing, we are not convinced that monitoring and support from within the Treasury will be sufficient. We recommend that the Government ensure that a clearer performance measurement framework is established for the efficiency programme from 2008–09 onwards, including a greater role for external audit of service quality than hitherto. We further recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is 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. We consider it essential that these**

---

159 HC (2006–07) 389–II, Qq 229, 231

160 Qq 86–87

161 HC (2003–04) 906–i and ii, Ev 50

arrangements include regular summaries of departmental achievements against targets in each Budget and Pre-Budget Report.

### The Civil Service workforce and administration budgets

79. In addition to the overall targets for efficiency savings measured in monetary terms and set as part of the 2004 Spending Review, departments were also set targets at that time for reductions in the Civil Service workforce—and for military posts in administrative and support functions in the case of the Ministry of Defence—arising out of the efficiency programme. The overall target was for a gross reduction of 84,150 posts by April 2008, with a net target of 70,600 posts and the remaining reduction accounted for by reallocation of staff to “front-line” tasks.<sup>162</sup> The Chancellor of the Exchequer told our predecessors at the time these reductions were announced:

We have accepted the numbers [of reductions in posts recommended by Sir Peter Gershon] until 2008—but he also said that to go further than that would put the delivery of public services at risk ... Once these changes are made, I think people will know that that is the limit of what we are proposing for this period of time. I hope that, having made all these changes, other political parties will think twice about giving the impression or continuing to suggest that the public service workers who are doing the jobs should be made redundant, given Sir Peter’s recommendation, following a great deal of work, that this is the limit that could be achieved until 2008.<sup>163</sup>

80. At the time of that Spending Review, the Government estimated that headcount reductions would account for between 10% and 15% of the overall financial targets for the efficiency programme.<sup>164</sup> The 2007 Budget stated that a gross reduction of 60,591 posts had been reported to December 2006, with 9,703 of that figure attributable to reallocations to “front-line” roles and 50,888 resulting from reductions.<sup>165</sup> At the time of our evidence on that Budget, Mr Oughton characterised the progress as “good”, while acknowledging that “there are some remaining challenges”, particularly those associated with those departments which had a significant amount of their headcount reduction target up to April 2008 still to achieve.<sup>166</sup>

81. Five main concerns about the workforce reduction element of the efficiency programme have been highlighted during our consideration of the programme in the course of this Parliament:

- that the targets related to reductions attributable to the Gershon efficiency programme, and could be off-set by increases in Civil Service numbers arising from other developments, such as what are classified as new policy burdens;<sup>167</sup>

---

162 HC (2005–06) 994–I, para 78

163 HC (2003–04) 906–i and ii, Q 245

164 *Ibid*, Q 84

165 *Budget 2007*, Table 6.2, p 146

166 HC (2006–07) 389–II, Q 232

167 HC (2005–06) 739, para 75

- that there remained some unresolved measurement and verification issues, including the use of early baselines—so that reductions secured before the programme began could be scored against the final total;<sup>168</sup>
- that there was no agreed definition of “front-line” posts, leading to uncertainty about net reductions attributed to re-allocation of civil servants to such posts;<sup>169</sup>
- that an undue focus on headcount reductions could simply lead to a shift of resources from direct employment to the use of consultants;<sup>170</sup> and
- that workforce reductions could have a direct and detrimental effect on service quality and delivery.<sup>171</sup>

Partly reflecting 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”.<sup>172</sup>

82. In evidence to us in December 2006 on that year’s Pre-Budget Report, the Chancellor of the Exchequer appeared to imply that further targets for Civil Service workforce reductions up to 2010–11 would be set:

As far as the jobs are concerned, we have published our figures for Civil Service job reductions and there are 85,000 job reductions going to take place; 45,000 jobs have gone and another 40,000 jobs are still to go. Obviously, for the years after 2008 we will publish figures later ... There will be more jobs to go. I can assure you that in the next spending round, once we [have] met the Gershon targets, we will have to reduce Civil Service numbers further.<sup>173</sup>

83. The Chancellor of the Exchequer’s assurance that Civil Service numbers would continue to fall up to 2010–11 was probably linked to his announcement made in the 2006 Pre-Budget Report that, “for the years to 2011, I have reached agreement with Secretaries of State ... to cut their administration budgets by 5% a year” in real terms.<sup>174</sup>

84. In the 2004 Spending Review the Government also made a commitment to bear down on administration budgets. In the 2004 Budget, the Chancellor of the Exchequer announced that the Spending Review would cap the administration costs of all departments at or below the 2005–06 nominal level, representing a real terms reduction of

---

168 National Audit Office, *The Efficiency Programme: A Second Review of Progress*, February 2007, HC (2006–07) 156–I, Executive Summary, para 9, p 6

169 *Ibid*

170 HC (2005–06) 994–I, para 79

171 Ev 72

172 HC (2005–06) 994–I, para 79

173 HC (2006–07) 115, Qq 383, 385

174 HC Deb, 6 December 2006, col 312; *Pre-Budget Report 2006*, para 6.29, p 143

at least 5%.<sup>175</sup> The Security and Intelligence Agencies and the Foreign and Commonwealth Office were subsequently exempted from reductions at this level because of additional spending on “vital security needs”.<sup>176</sup> The baseline for these reductions was the first year for which spending was available for allocation as part of the 2004 Spending Review; the Government did not follow its more general practice of using the last year preceding the period available for allocation under a Spending Review as the baseline for the purposes of determining increases or reductions in percentage terms. Also, at the time of the 2004 Spending Review, a number of changes were made to the classification of services, so that some expenditure that had been within administration budgets was moved outside into programme budgets, including the costs of immigration control and domestic security.<sup>177</sup>

85. The Chief Secretary indicated that further changes between administration budgets and programme budgets were unlikely:

I do not think there is very much scope for that. There is recognition of what counts as administration budgets and what does not. ... It is not true that departments can willy-nilly change classifications.<sup>178</sup>

The Chief Secretary also indicated that he believed that the target of a 5% reduction a year in real terms in administration budgets in the years 2008–09, 2009–10 and 2010–11 was achievable:

We think it is important to do everything that we can to bear down on administration spending and to be more efficient, and I think we will be able to get to a position where administration spending actually counts for the lowest proportion of spending than it has done for a very long time as a result of these changes and spend less on administration and so release more for priority areas, programmes and others.<sup>179</sup>

He also implied that no exceptions would be made to the targets for reductions in administration budgets, not even for the Department for International Development which is likely to see a sharply rising overall budget over the period.<sup>180</sup>

86. To place the ambition implied in annual real terms reductions in administration budgets of 5% in 2008–09, 2009–10 and 2010–11 in context, Table 12 sets out the current expectations of the annual average rate of growth of administration budgets over the preceding three years covered by the 2004 Spending Review.

---

<sup>175</sup> *Budget 2004*, para 6.14, p 133; *SR 2004*, para 2.18, p 21

<sup>176</sup> *SR 2004*, para 2.18, p 21

<sup>177</sup> *Ibid*, para 2.17, p 20; HC (2003–04) 906–i and ii, Q 103

<sup>178</sup> Q 22

<sup>179</sup> *Ibid*

<sup>180</sup> Q 48



87. We remain to be convinced about the value of further, explicit targets for reductions in Civil Service numbers for the period covered by the Comprehensive Spending Review. 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 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. If further targets for reductions in Civil Service numbers are adopted, we recommend that such targets be set with a clear and consistent baseline and that progress against targets be measured using statistics on Civil Service numbers compiled by the Office for National Statistics from 1 April 2008 onwards. We further recommend that any such targets be based solely on actual numbers serving in each department, so that re-allocations to “front-line” posts and increases related to what are classified as policy measures, both of which are open to subjective interpretation, are not treated as relevant to the performance against targets.

## 6 Public Service Agreements and beyond

---

### The experience so far

88. As part of the new planning regime introduced in 1998, the Government has sought to link increased resources to improved outcomes. It has sought “to match new resources with reform”.<sup>181</sup> One way it has sought to achieve these objectives has been through Public Service Agreements. The original aim of Public Service Agreements was 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.<sup>182</sup> The Chief Secretary told us that he thought that

the performance management framework we have had, the arrangement about the PSAs, has been a very, very important contributor to the dramatic improvements we have seen in the outcomes from public services over the last few years: big reductions in waiting lists in health; big improvements in achievement in schools and so on. I would not want anybody to underestimate the value of the framework we have had in place, the contribution that the PSA system has been. Of course, it was a very radical departure in 1997 and a very successful one, but we have wanted to learn from our experience in the period.<sup>183</sup>

89. 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,<sup>184</sup>
- 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;<sup>185</sup>
- that the long time-lags before data became available, coupled with the different sets of Public Service Agreement targets established under successive

---

181 *Budget 2002*, para 6.40, p 122

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

183 Q 146

184 HC (2003–04) 906–i and ii, Ev 49; Ev 25

185 National Audit Office, *Third Validation Compendium Report: Volume I*, December 2006, HC (2006–07) 127–I, Executive Summary, para 2.3 and Summary, para 10; Statistics Commission, *Report No. 29: PSA Targets: The Devil in the Detail*, p viii

Spending Reviews, created confusion and difficulties for those seeking to assess performance against targets;<sup>186</sup> 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.<sup>187</sup>

The Chief Secretary said that the Government had sought to learn the lessons of previous experience with Public Service Agreements in developing the framework for the 2007 Comprehensive Spending Review.<sup>188</sup>

## The new framework

90. The 2006 Pre-Budget Report gave an initial indication of how the Government expected the framework to change. First, there was an indication of a reduction in the number of Public Service Agreements:

A new set of PSAs in the 2007 CSR will express a more focused list of key cross-government priority outcomes. This smaller set of corporate PSAs will reflect genuine choices about priorities for the 2007 CSR period, serving to unite efforts across departmental and organisational boundaries in meeting them.<sup>189</sup>

The Chief Secretary similarly referred to “a refreshed and smaller suite of ‘corporate’ PSAs which articulate the Government’s highest priority outcomes for the period” which were “focused more tightly on the Government’s highest priority outcomes”.<sup>190</sup> He indicated that the Government would be “significantly reducing” the number of Public Service Agreements.<sup>191</sup> This commitment to reduce the number of Public Service Agreements follows the Government’s decision at the time of the 2004 Spending Review to reduce the number of Public Service Agreement targets to 110 from 250 at the time of the 2002 Spending Review.<sup>192</sup> The current total is potentially misleading, both because there is an element of double-counting in targets relating to matters of cross-departmental interest and because some targets are in reality composites containing more than one target.<sup>193</sup>

91. The Government also announced in the 2006 Pre-Budget Report that accountability for performance against Public Service Agreements would be strengthened:

Departments will be required to produce a single, coherent, cross-departmental Delivery Agreement for each PSA, informed by consultation with the delivery chain. Delivery Agreements will clearly set out the level of ambition, strategy for delivery,

---

186 HC (2001–02) 1092–i and ii, Q 31; HC (2003–04) 906–i and ii, Q 159; *The Devil in the Detail*, p ix

187 National Audit Office, *Joint Targets*, October 2005, HC (2005–06) 453, pp 1–3; Ev 27–28

188 Q 146

189 *Pre-Budget Report 2006*, para 6.55, p 150

190 Ev 121

191 Q 130

192 HM Treasury, *2004 Spending Review: Public Service Agreements 2005–2008*, July 2004, Cm 6238, para 1.1, p 1

193 *The Devil in the Detail*, p 2; HC (2003–04) 906–i and ii, Ev 50

and the role of each organisation involved ... For the first time these Delivery Agreements will be published, both to enhance Government's accountability to the public and to ensure key actors throughout the delivery chain are focused on achieving the priorities.<sup>194</sup>

The Chief Secretary told us that these Delivery Agreements would set out how each corporate Public Service Agreement was to be delivered, which was the lead department, who was responsible for delivery and how the Agreement would be delivered.<sup>195</sup> He indicated that the Delivery Agreements would not be published at the same time as the outcome of the Comprehensive Spending Review, although the Delivery Agreements would be "published in advance of April 2008".<sup>196</sup>

92. Alongside the smaller and tauter set of Public Service Agreements, "the broader business of Government will be covered by Departmental Strategic Objectives ... These will be defined in the CSR and, building on the emerging findings from capability reviews, the CSR will ensure that they are effectively linked to the focused set of PSAs."<sup>197</sup>

93. In the 2006 Pre-Budget Report, the Government indicated a commitment to consultation on the content of the new framework:

In the 2007 CSR systematic engagement and collaboration with public service professionals early in the process will inform the way PSA outcomes are defined, measured and delivered. This will ensure that the Government sets robust indicators, which do not distort operational priorities or create perverse incentives, and that effective plans for delivery are in place from the outset.<sup>198</sup>

The Chief Secretary envisaged consultation taking place with "front-line professionals, service users and broader stakeholders".<sup>199</sup> He also welcomed the suggestions made by the Statistics Commission and the National Audit Office about data quality and validation, agreeing that "the effective use of data for monitoring improved outcome does need to be a cornerstone of the revised framework we will be putting in place".<sup>200</sup>

94. It remains unclear what function the new Public Service Agreement targets are intended to perform. There are two areas of uncertainty. First, Public Service Agreements have been seen as a form of quasi-contract, specifying the performance expected from departments (or cross-departmental programmes) in exchange for the public spending invested in them. Given that a number of departments have agreed Comprehensive Spending Review spending plans without apparently agreeing Public Service Agreement targets at the same time, it is unclear what part Public Service Agreement targets play in spending settlements. Secondly, the advent of Delivery Plans and Departmental Strategic Objectives raises issues about how these three sets of plans and targets fit together.

---

194 *Pre-Budget Report 2006*, para 6.57, p 150

195 Q 140

196 Qq 130–131

197 Ev 121

198 *Pre-Budget Report 2006*, para 6.56, p 150

199 Ev 121

200 Q 148

## Conclusions

95. We welcome signs that the Government is seeking to learn lessons from the operation of the framework of Public Service Agreements in the years since 1998. In particular, we welcome the commitment to fewer, but better Public Service Agreements. The proposed reduction must 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 are also concerned that some of the data measurement issues relating to targets seem unresolved, and we recommend that, in finalising Public Service Agreements, the Government has regard to the importance of ensuring that targets are measurable, that there is clarity about the methods of measurement and that data used for measurement is of adequate quality. We further recommend that the Government set out, in a single document, a public statement of how the Public Service Agreements, the Delivery Agreements and the Departmental Strategic Objectives fit together and form a coherent framework for enhancing the performance of Government departments and of public services.

## 7 The national debate and the role of Parliament

---

### The national debate

96. In the 2006 Budget, the Government announced that it planned to initiate a national debate on the future priorities for public spending and public services, to inform the Comprehensive Spending Review.<sup>201</sup> Treasury officials indicated to us then that this national debate would be in two stages, with an initial debate on the long-term challenges followed by a wider debate on the implications of those challenges for future spending priorities. The Chancellor of the Exchequer told us at that time that the Government “will be taking measures over the next few months to stimulate” the national debate, and provided instances of the way such a debate might be presented, for example in terms of the weekly cost to an average family of the provision of particular services.<sup>202</sup>

97. The Government published two documents in 2006 relating to the Comprehensive Spending Review, one focused principally on departmental efforts to secure improved value for money,<sup>203</sup> and one concentrating on very long-term issues with little direct reference to spending decisions within a three-year timeframe.<sup>204</sup> Professor David Heald argued that the two documents “contain much interesting contextual material but do not address how to prioritise public expenditure or how to manage it when the inevitable slowdown of real growth bites from 2008–09”.<sup>205</sup> He suggested that “there is no sign of a national debate” and pointed out that some departments had agreed settlements in advance of such a debate, so that

Even if there were a national debate, there is no mechanism for that to feed into decision-making on future spending priorities, especially when early settlers include the Home Office whose recent service-delivery and financial performance have attracted much criticism and public concern.<sup>206</sup>

98. The Chief Secretary told us on 30 January that the Treasury was that day launching an interactive website on the Comprehensive Spending Review to solicit the views of the public.<sup>207</sup> He conceded that

at the moment the level of knowledge of the likely changes [in terms of overall levels of public spending] is fairly limited. I think that is going to change over the period ahead and the website today will help.<sup>208</sup>

---

201 *Budget 2006*, Box 6.1, p 131

202 HC (2005–06) 994–I, para 67

203 *Releasing the resources*

204 *Long-term opportunities and challenges*

205 Ev 119

206 Ev 118

207 Q 3

208 Q 4

He also referred to the range of input the Government had received as part of its discussion on long-term challenges and opportunities and to the panel to work alongside the Prime Minister's working groups leading to the "people's summit" in March 2007.<sup>209</sup>

99. The website to which the Chief Secretary referred invites individuals to have their say about the Comprehensive Spending Review. The website sets out six questions on which the Government wishes to hear views:

- "What are the key opportunities and challenges facing the country in the decade ahead, and how should we respond to them?"
- How can we ensure public services equip individuals to meet these challenges?
- What role do citizens and businesses have to play, and how can the state support and encourage changes in behaviour which deliver better outcomes for individuals and society as a whole?
- What is the role of local communities in responding to the challenges ahead, and what can be done to support them?
- How would you like to be engaged in the delivery of public services in your local area?
- What is the best way to secure the international cooperation necessary to make progress on key global challenges, such as climate change and international terrorism?"<sup>210</sup>

There is an opportunity for an individual to submit comments, but it is not immediately clear from the website how interactivity extends beyond the opportunity to make discrete submissions. The questions on the website are broad in nature, and their relevance to decisions to be taken in the Comprehensive Spending Review is not always immediately clear. The content of the website remained essentially unchanged between January and May 2007.

**100. The Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as March 2006. If a genuine debate is to take place, the Government must take the risk of putting in the public domain clear indications of some of the decisions it is considering taking, including those areas to which the Government proposes to accord a lower priority in the forthcoming Spending Review. It must also seek to engage the public in the debate about spending priorities.**

## The role of the House of Commons and its select committees

101. In our Report on the 2005 Pre-Budget Report which followed the Government's announcement that there would be a Comprehensive Spending Review in 2007 rather than a Spending Review in 2006, we welcomed the Government's commitment to a two-stage

---

209 Qq 15, 19

210 <http://csr07.treasury.gov.uk/survey/>

process, with a report on spending challenges published in 2006. We recommended that that report be framed so as to maximise opportunities for discussion within the House of Commons and consideration by its select committees on the spending options and challenges before final decisions were announced in 2007.<sup>211</sup> Following the launching of the national debate in the 2006 Budget, we drew attention to the fact that the announcement made no reference to Parliament. We were assured at that time by Treasury officials that “we and Ministers always take Parliament into account”.<sup>212</sup>

102. At the time of the 2004 Spending Review, the then Treasury Committee received a firm undertaking from Mr Nick Macpherson, then Managing Director, Public Services at the Treasury and now Permanent Secretary, to consult the Treasury Committee about the specification and measurement of Public Service Agreement targets.<sup>213</sup> During the present inquiry, the Chief Secretary indicated that select committees would be “central” to the consultation process in relation to Delivery Agreements and would have “a very important role”.<sup>214</sup> The Chief Secretary made no reference to the involvement of select committees with regard to either Public Service Agreements themselves or the new Departmental Strategic Objectives.<sup>215</sup> We are concerned that the Treasury has yet to take any action to honour its commitment made in 2004 to consult this Committee about its proposed Public Service Agreement targets. **We recommend that the Treasury, no later than mid-July 2007, send this Committee a draft of each proposed new Public Service Agreement for which it has direct responsibility for delivery, explaining its thinking in relation to each Public Service Agreement providing further information about the proposed data to be used for measuring progress against targets in each Agreement and seeking this Committee’s views.**

103. With regard to the role of select committees more generally, we are concerned at the emphasis that the Chief Secretary appeared to put upon consultation with select committees about Delivery Agreements. While these documents will be of undoubted importance, they seem likely to flow from decisions about Public Service Agreements that will already have been taken. **We recommend that each Government department consult the relevant select committee or select committees of the House of Commons about both proposed new Public Service Agreements for which that department will have lead responsibility and about Departmental Strategic Objectives. We further recommend that the process of consultation be started by each department sending drafts of those documents with accompanying commentaries no later than mid-July 2007.**

104. Select committees ought to be informed not only about the evolving performance framework for the Comprehensive Spending Review but also about the financial considerations that underpin them. We would not expect departments to be in a position to disclose in advance the likely scale of final settlements. However, the Comprehensive Spending Review is intended to be a zero-based exercise which, in the Treasury’s words, “provides an important opportunity—with many past objectives achieved and supporting

---

211 HC (2005–06) 739, para 70

212 HC (2005–06) 994–I, para 68

213 HC (2003–04) 906–i and ii, Q 252

214 Ev 121; Qq 16, 130

215 On which see paragraph 92.

programmes and spending potentially available for reallocation—for a more fundamental review of the balance and pattern of expenditure within and across departments”.<sup>216</sup> **We recommend that each Government department inform the relevant select committee or select committees of the House of Commons no later than mid-July about the Government’s emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation.**

## Reporting

105. As we noted above, a distinguishing feature of the current year’s Spending Review has been the range and number of settlements that have been announced in advance of the final outcome.<sup>217</sup> There has been a marked variation in the quality of the information provided about these settlements. At one end, the Department for Education and Skills settlement includes full figures on Departmental Expenditure Limits up to 2010–11.<sup>218</sup> At the other end, the Home Office settlement was announced in a single sentence in the 2006 Budget statement with no additional information in the Red Book.<sup>219</sup> **We recommend that, before mid-July 2007, the Treasury provide to this Committee and make publicly available a full list of the early settlements agreed as part of the 2007 Comprehensive Spending Review, including in each case the baseline figure for 2007–08 that will be used for determining subsequent increases or reductions expressed in percentage terms and, where appropriate, an indication of the consequences for those early settlements of any subsequent machinery of Government changes.**

106. In his 2007 Budget statement, the Chancellor of the Exchequer talked about the additional expenditure available for allocation in the Comprehensive Spending Review as a result of the combined effect of the reductions in administration budgets, of the early spending settlements for certain departments incorporating a real terms reduction in expenditure and of the new targets for 3% efficiency savings:

I have agreed with Departments savings in administrative costs worth £1 billion a year by 2011, which will also release money for front-line services. The same front-line services will benefit from below-inflation spending review settlements for the Department for Work and Pensions, Her Majesty’s Revenue and Customs, the Cabinet Office, the Treasury, the Department for Constitutional Affairs and the Attorney-General’s Department. That will release for front-line services £2 billion, and with efficiency savings of 3% a year, we release, in total, £26 billion a year by 2010 for front-line services.<sup>220</sup>

He went on to say:

---

<sup>216</sup> *Releasing the resources*, para 3.14, p 24

<sup>217</sup> See paragraph 11.

<sup>218</sup> *Budget 2007*, Table 6.3, p 157

<sup>219</sup> HC (2005–06) 994–I, para 66

<sup>220</sup> HC Deb, 21 March 2007, cols 817–818

Just over a decade ago, when unemployment and debt were high and as much as three quarters of all new public spending went to pay for debt and social security costs, it left only one quarter of new spending for health, education, transport, defence and policing. But because of our success in cutting debt by a quarter and claimant count unemployment by a half, those front-line services will, in the coming spending round, receive not 25% of all new spending as in the past, but 75% of all new spending. In this new spending round, our aim has also been—in line with the Gershon report and with continuing reform—to ensure that resources for improving the front-line services, our service priorities, will continue to grow at the 4 to 4.5% yearly rate of this spending round.<sup>221</sup>

107. Professor Talbot observed that “it is unclear how front-line services are defined in relation to both redistribution of money and redistribution of personnel, and it would be interesting to see what those definitions are”.<sup>222</sup> In the context of staff reallocations to front-line roles, the National Audit Office observed in February 2007 that “there is also no overall agreed definition of what constitutes a ‘front-line’ role”.<sup>223</sup> Treasury officials suggested to us in March that the term “front-line services” was used to refer to all departmental expenditure, as opposed to expenditure on social security and debt interest.<sup>224</sup> In the Gershon review in 2004, the term “front-line” was used to distinguish expenditure directly involved in the provision of services to the public from expenditure on administration within departmental budgets.<sup>225</sup> In his oral evidence to us on the 2007 Budget, the Chancellor of the Exchequer made a similar point to that he had made in his Budget statement, namely that, in 1994–95, 75% of all new expenditure has been committed to debt interest and unemployment, whereas “75% or so of most new public expenditure is actually going to health, education, transport, infrastructure and investment in our future”.<sup>226</sup>

**108. The Government, in its accounts of public spending, appears to use the term “front-line” in three different contexts—to refer to expenditure within Departmental Expenditure Limits as opposed to that within Annually Managed Expenditure or to certain components of Annually Managed Expenditure, to distinguish spending on services to the public from expenditure within administration budgets, and to distinguish spending on high priorities relating to investment broadly understood from lower priority expenditure. Each of these concepts are legitimate distinctions to make, but the varying use of the term “front-line” blurs rather than illuminates these distinctions. We recommend that the Government, in reporting the outcome of the Comprehensive Spending Review, adopt a single and consistent use of the term “front-line”.**

---

221 HC Deb, 21 March 2007, col 818

222 HC (2006–07) 389–II, Q 103

223 HC (2006–07) 156–I, Executive Summary, para 10, p 6

224 HC (2006–07) 389–II, Q 208

225 *Releasing resources to the front line*, paras 2.2–2.3, p 10

226 HC (2006–07) 389–II, Q 295

## Parliamentary authorisation

109. On at least three occasions each year the House of Commons is required to authorise public spending on the basis of Estimates and Supplementary Estimates. The figures presented on such occasions are not easy to reconcile with the more politically important totals established in Spending Reviews, and subsequently revised. Although most spending within Total Managed Expenditure is subject to formal authorisation arising from proceedings in the House of Commons, a significant proportion is not. Equally, some spending requiring parliamentary authorisation does not form part of Total Managed Expenditure. Overall, Total Managed Expenditure is significantly larger than total spending for which authorisation is sought from the House of Commons through Estimates.<sup>227</sup>

110. The disjunction between the amounts that the House of Commons is formally expected to authorise and the totals to be set out in the Comprehensive Spending Review that will form the centrepiece of the political process of resource allocation in the current Parliament does little to enhance understanding of the role of the House of Commons in financial scrutiny and authorisation. We accept that the differences between the two processes are of long-standing and are accounted for by several considerations of long-standing. We do not expect a remedy within the timescale of the Comprehensive Spending Review now underway. However, the Government and the House of Commons should aspire to such a remedy in the longer term. **We recommend that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval. We further recommend that the Government commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure.**

## The future of the public expenditure planning and control system

111. The 2007 Comprehensive Spending Review represents a departure from the previous two-yearly pattern of Spending Reviews under the new system for planning and control of public expenditure which was put in place in 1998 with effect from 1999–2000. The Chief Secretary indicated that no decision had been reached as to whether the two yearly pattern would resume with another Spending Review in 2009, or whether the 2007 Review marked a change to a three-yearly system.<sup>228</sup> A decision on that matter has a significant effect on perceptions of the 2007 settlement, not least because that decision affects whether the “firm” figures for 2010–11 will be viewed as final. **We recommend that, in announcing**

---

227 *Erskine May*, 23<sup>rd</sup> edition, p 859

**the outcome of the 2007 Comprehensive Spending Review, the Government clarify whether the subsequent Spending Review will take place in 2009 or 2010.**

## Conclusions and recommendations

---

### The evolution of the 2007 Spending Review

1. The decision to announce the outcome of the 2007 Comprehensive Spending Review in the autumn—and almost certainly in October—offers potential benefits to the House of Commons. An announcement in mid-July is not conducive to timely and effective parliamentary scrutiny. However, the benefits of an autumn announcement will be reduced if inadequate notice is given of the date of the announcement. We recommend that a final date for the announcement of the outcome of the 2007 Comprehensive Spending Review be set and made public before the Summer Recess. We recommend that the outcome itself be announced when Parliament is sitting and not during a recess. (Paragraph 9)
2. We recommend that the Government hold a debate in Government time in the House of Commons on the outcome of the Comprehensive Spending Review. We further recommend that such a debate be held at least one month after the announcement itself, to allow time for initial scrutiny by this Committee and others to inform the subsequent debate. (Paragraph 10)

### The context

3. Public spending is projected to rise in real terms during the period covered by the current Comprehensive Spending Review as a whole at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together. (Paragraph 21)
4. The forecasts for Annually Managed Expenditure up to 2010–11 set out when the final outcome of the 2007 Comprehensive Spending Review is announced will be crucial in determining the total amount of resources available within Departmental Expenditure Limits for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. In recent years, outturns for Annually Managed Expenditure have exceeded initial forecasts, and the initial forecasts for 2006–07 and 2007–08 made at the time of the 2004 Spending Review may prove over-optimistic. We recommend that the Government ensure an appropriate margin of caution in its equivalent forecasts in the 2007 Comprehensive Spending Review for the period up to 2010–11. (Paragraph 28)
5. In the periods covered by earlier Spending Reviews, initial limits on spending within Departmental Expenditure Limits have been subject to subsequent upward revision. In some cases, this has been as a result of the use of the flexibility offered within the fiscal framework. In the period to be covered by this Comprehensive Spending Review, the Government's freedom to increase such public expenditure beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade. (Paragraph 35)
6. In view of the long gestation period of the Comprehensive Spending Review and the extent to which the Government has sought to promote debate on and analysis of

long-term challenges, the Government could have provided more information on the likely impact of net migration on demand for public services over the period covered by the Comprehensive Spending Review. We note the Government's implied view that the overall fiscal effect of net inward migration will be positive over this period, with benefits in terms of revenue receipts outweighing the costs of additional public expenditure. However, public spending and tax receipts are different in kind. Increases in receipts are a matter for Treasury forecasting. Public expenditure is subject to firm limits, and must be planned for by Government departments, local authorities, health bodies and others. We recommend 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. (Paragraph 42)

### The allocation of spending between departments

7. The value of early spending settlements on a departmental basis for the Home Office and the Department for Constitutional Affairs may be diminished as a result of the subsequent decision to transfer some Home Office functions to a new Ministry of Justice. The original spending settlement for the Home Office with zero real terms growth may well have been posited in part on the potential for savings within the National Offender Management Service and the Criminal Justice System IT programme, matters which are no longer the responsibility of the Home Office. A recent Ministerial statement could be interpreted as implying that the financial settlements for the Home Office and the Department for Constitutional Affairs might now be re-opened. We recommend 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. (Paragraph 49)
8. We recommend that the Government make clear the relationship between the budget of the Department for International Development and total official development assistance and that it provide a clear statement of its calculation of official development assistance and quarterly statements tracking its growth. (Paragraph 53)
9. With the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below the rates of growth provided for in the 2004 Spending Review settlements. (Paragraph 58)
10. The level of the resources available to be allocated to most of the departments that have not reached early settlements depends on three key variables: first, the rate of

increase in health spending; second, the prospective rate of increase of Annually Managed Expenditure; and, third, the number of additional larger departments that agree settlements with real terms reductions in spending. (Paragraph 59)

### Embedding efficiency

11. The Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. The targets set for the period covered by the 2004 Spending Review were varied to reflect an assessment by Sir Peter Gershon of each department's capacity to secure efficiency savings. The Government is 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. (Paragraph 71)
12. We note the Government's decision to require all savings during the period from 2008–09 to 2010–11 to be net of implementation costs and cash-releasing. We expect the Government to put in place measures to ensure that this is reflected in the framework for verification and reporting. In particular, we recommend 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. (Paragraph 72)
13. The Gershon efficiency programme involved a government agency outside the Treasury mainstream in supporting and monitoring the programme and involved efficiency savings which did not need to show on the bottom line. There are signs of a reversion to a more traditional Treasury approach in the future, with efficiency matters being part of "routine departmental financial management" overseen by the Treasury's Public Spending Directorate, and with all efficiency savings intended to be cash-releasing. (Paragraph 77)
14. Even though the Government has established the principle that all efficiency savings from 2008–09 onwards should be cash-releasing, we are not convinced that monitoring and support from within the Treasury will be sufficient. We recommend that the Government ensure that a clearer performance measurement framework is established for the efficiency programme from 2008–09 onwards, including a greater role for external audit of service quality than hitherto. We further recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is 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. We consider it essential that these arrangements include regular summaries of departmental achievements against targets in each Budget and Pre-Budget Report. (Paragraph 78)
15. We remain to be convinced about the value of further, explicit targets for reductions in Civil Service numbers for the period covered by the Comprehensive Spending Review. 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 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. If further targets for reductions in Civil Service numbers are adopted, we recommend that such targets be set with a clear and consistent baseline and that progress against targets be measured using statistics on Civil Service numbers compiled by the Office for National Statistics from 1 April 2008 onwards. We further recommend that any such targets be based solely on actual numbers serving in each department, so that re-allocations to “front-line” posts and increases related to what are classified as policy measures, both of which are open to subjective interpretation, are not treated as relevant to the performance against targets. (Paragraph 87)

### Public Service Agreements and beyond

16. We welcome signs that the Government is seeking to learn lessons from the operation of the framework of Public Service Agreements in the years since 1998. In particular, we welcome the commitment to fewer, but better Public Service Agreements. The proposed reduction must 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 are also concerned that some of the data measurement issues relating to targets seem unresolved, and we recommend that, in finalising Public Service Agreements, the Government has regard to the importance of ensuring that targets are measurable, that there is clarity about the methods of measurement and that data used for measurement is of adequate quality. We further recommend that the Government set out, in a single document, a public statement of how the Public Service Agreements, the Delivery Agreements and the Departmental Strategic Objectives fit together and form a coherent framework for enhancing the performance of Government departments and of public services. (Paragraph 95)

### The national debate and the role of Parliament

17. The Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as March 2006. If a genuine debate is to take place, the Government must take the risk of putting in the public domain clear indications of some of the decisions it is considering taking, including those areas to which the Government proposes to accord a lower priority in the forthcoming Spending Review. It must also seek to engage the public in the debate about spending priorities. (Paragraph 100)
18. We recommend that the Treasury, no later than mid-July 2007, send this Committee a draft of each proposed new Public Service Agreement for which it has direct responsibility for delivery, explaining its thinking in relation to each Public Service Agreement providing further information about the proposed data to be used for measuring progress against targets in each Agreement and seeking this Committee’s views. (Paragraph 102)

19. We recommend that each Government department consult the relevant select committee or select committees of the House of Commons about both proposed new Public Service Agreements for which that department will have lead responsibility and about Departmental Strategic Objectives. We further recommend that the process of consultation be started by each department sending drafts of those documents with accompanying commentaries no later than mid-July 2007. (Paragraph 103)
20. We recommend that each Government department inform the relevant select committee or select committees of the House of Commons no later than mid-July about the Government's emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation. (Paragraph 104)
21. We recommend that, before mid-July 2007, the Treasury provide to this Committee and make publicly available a full list of the early settlements agreed as part of the 2007 Comprehensive Spending Review, including in each case the baseline figure for 2007–08 that will be used for determining subsequent increases or reductions expressed in percentage terms and, where appropriate, an indication of the consequences for those early settlements of any subsequent machinery of Government changes. (Paragraph 105)
22. The Government, in its accounts of public spending, appears to use the term “front-line” in three different contexts—to refer to expenditure within Departmental Expenditure Limits as opposed to that within Annually Managed Expenditure or to certain components of Annually Managed Expenditure, to distinguish spending on services to the public from expenditure within administration budgets, and to distinguish spending on high priorities relating to investment broadly understood from lower priority expenditure. Each of these concepts are legitimate distinctions to make, but the varying use of the term “front-line” blurs rather than illuminates these distinctions. We recommend that the Government, in reporting the outcome of the Comprehensive Spending Review, adopt a single and consistent use of the term “front-line”. (Paragraph 108)
23. We recommend that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval. We further recommend that the Government commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure. (Paragraph 110)

24. We recommend that, in announcing the outcome of the 2007 Comprehensive Spending Review, the Government clarify whether the subsequent Spending Review will take place in 2009 or 2010. (Paragraph 111)

## Formal minutes

---

**Thursday 14 June 2007**

Members present:

John McFall, in the Chair

Mr Colin Breed	Mr Brooks Newmark
Angela Eagle	Mr Siôn Simon
Mr Michael Fallon	John Thurso
Ms Sally Keeble	Mr Mark Todd
Mr Andrew Love	Peter Viggers
Mr George Mudie	

### ***The 2007 Comprehensive Spending Review: prospects and processes***

The Committee considered this matter.

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

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

Paragraph 1 read, amended and agreed to.

Paragraphs 2 and 3 read and agreed to.

Paragraph 4 read, amended and agreed to.

Paragraph 5 read and agreed to.

Paragraph 6 read, amended and agreed to.

Paragraphs 7 and 8 read and agreed to.

Paragraphs 9 and 10 read, amended and agreed to.

Paragraphs 11 to 16 read and agreed to.

Paragraph 17 read, amended and agreed to.

Paragraph 18 read and agreed to.

Paragraph 19 read, amended and agreed to.

Paragraph 20 read and agreed to.

Paragraphs 21 and 22 read, amended and agreed to.

Paragraph 23 read and agreed to.

Paragraphs 24 and 25 read, amended and agreed to.

Paragraphs 26 to 31 read and agreed to.

Paragraphs 32 to 35 read, amended and agreed to.

Paragraph 36 read and agreed to.

Paragraphs 37 and 38 read, amended and agreed to.

Paragraphs 39 to 41 read and agreed to.

Paragraph 42 read, amended and agreed to.

Paragraphs 43 and 44 read and agreed to

Paragraph 45 read, amended and agreed to.

Paragraph 46 read and agreed to.

Paragraph 47 read, amended and agreed to.

Paragraphs 48 to 50 read and agreed to.

Paragraph 51 read, amended and agreed to.

Paragraph 52 read and agreed to.

Paragraphs 53 and 54 read, amended and agreed to

Paragraph 55 read and agreed to.

Paragraphs 56 and 57 read, amended and agreed to.

Paragraphs 58 to 65 read and agreed to.

Paragraph 66 read, amended and agreed to.

Paragraphs 67 and 68 read and agreed to.

Paragraph 69 read, amended and agreed to.

Paragraph 70 read and agreed to.

Paragraph 71 read, amended and agreed to.

Paragraphs 72 to 76 read and agreed to.

Paragraphs 77 to 81 read, amended and agreed to.

Paragraphs 82 and 83 read and agreed to.

Paragraphs 84 to 85 read, amended and agreed to.

Paragraph 86 read and agreed to.

Paragraph 87 read, amended and agreed to.

Paragraphs 88 to 99 read and agreed to

Paragraph 100 read, amended and agreed to.

Paragraph 101 read and agreed to.

Paragraph 102 read, amended and agreed to.

Paragraphs 103 and 104 read and agreed to.

Paragraph 105 read, amended and agreed to.

Paragraph 106 read and agreed to.

Paragraph 107 read, amended and agreed to

Paragraphs 108 and 109 read and agreed to.

Paragraph 110 read, amended and agreed to

Summary read and agreed to.

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

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134 (Select committee (reports)).

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

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

\*\*\*\*\*

[Adjourned till Tuesday 19 June at 9.30 am.]

## Witnesses

---

**Tuesday 30 January 2007**

*Page*

**Rt Hon Stephen Timms MP**, Chief Secretary to the Treasury, **Ms Sarah Mullen**, Joint Director Public Spending, **Mr Paul Johnson**, Director Public Services, and **Mr Richard Hughes**, Spending Review Team Leader, HM Treasury

Ev 1

## List of written evidence

---

1	London First	Ev 19
2	RSPB	Ev 21
3	I CAN	Ev 23
4	Health Foundation	Ev 24
5	London Borough of Barking and Dagenham	Ev 25
6	The Institution of Engineering and Technology	Ev 28
7	A4e Ltd	Ev 30
8	SIGOMA	Ev 32
9	Age Concern England	Ev 39
10	SPARKS Environment and Planning, London Councils	Ev 44
11	Milton Keynes Council	Ev 46
12	SBAC	Ev 50
13	Kent County Council	Ev 53
14	GLA Economics	Ev 57
15	EEF	Ev 68
16	Public and Commercial Services Union (PCS)	Ev 71
17	Royal College of Nursing (RCN)	Ev 73
18	Norwich Union	Ev 77
19	Child Poverty Action Group	Ev 78
20	England's Regional Development Agencies (RDAs)	Ev 93
21	Association of British Healthcare Industries	Ev 96
22	NSPCC	Ev 99
23	NSPCC/ University of York/ Frank Buttle Trust	Ev 104
24	Local Government Association	Ev 110
25	Professor David Heald, University of Sheffield	Ev 117
26	Letter from HM Treasury to the Treasury Committee	Ev 120

## List of Reports from the Treasury Committee during the current Parliament

<b>Session 2006–07</b>		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
<b>Session 2005–06</b>		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