



House of Commons  
Treasury Committee

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**The 2007  
Comprehensive  
Spending Review:  
prospects and  
processes: Government  
Response to the  
Committee's Sixth  
Report of Session  
2006–07**

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**Seventh Special Report of Session  
2006–07**

*Ordered by The House of Commons  
to be printed 9 October 2007*

**HC 1027**  
Published on 15 October 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.

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### Publications

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### 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, Anna Leach and Jay Sheth (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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# Seventh Special Report

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The Treasury Committee published its Sixth Report of Session 2006–07, *The 2007 Comprehensive Spending Review: prospects and processes*, on 25 June 2007, as House of Commons Paper No. 279. The Government response to this Report was received on 27 September 2007, and is appended below.

## Government response

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### 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)**

As announced by the Chancellor Exchequer on the 25 July 2007, the conclusions of the 2007 Comprehensive Spending Review (CSR07) will be announced in October alongside the Pre-Budget Report. The specific date will be announced in due course.

**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 Government agrees that a debate on the CSR should be held in the House of Commons. The precise timing of the debate will depend upon the availability of Parliamentary time and what other business is before the House.

### The context

**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)**

The Government recognises that projections for the public finances are subject to uncertainty and that every forecast is subject to risks, both on the upside and the downside. For this reason, the Treasury's public finance forecasts are based on independently audited cautious assumptions. Forecasts for Annually Managed Expenditure up to 2010-11 published at the CSR will be based on these cautious assumptions and will also include, as is normal, an additional margin for caution. The Treasury's forecasting record for net borrowing since the introduction of the new macroeconomic framework in 1997 has been cautious and compares well internationally, both with EU member states and with international organisations such as the IMF, OECD and European Commission.

## Inward migration

**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 Government recognises the important role that migration plays in future demographic trends in the UK and draws attention to the contribution of migration to future population growth and composition in the *Long - term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review* document. Analysis of those and other trends forms an important input into department's CSR preparations and final CSR allocations. At a national level the population statistics are robust, and the CSR will take these into account.

As the Committee's report highlights, the pattern of migration will have implications for how departments deploy their settlements and manage the delivery of public services in the CSR years. Whilst migrants are in general a very small part of the overall population, their distribution may cause local pressures. These pressures are taken into account when spending departments allocate their funds. For example, grants to local authorities are based to a large degree on the local population statistics, which include a migration component. The formula that Communities and Local Government use for apportioning this sum between individual local authorities can be found at <http://www.local.odpm.gov.uk/finance/0607/grant.htm>. The official local population statistics have previously not always quickly adjusted to the local migrant population. This is a recognised issue and departments are working with the Office of National Statistics on improving these.

In addition, the Government has set up the Migration Impacts Forum (MIF), a stakeholder body co-chaired by ministers from the Home Office and from Communities and Local Government. The MIF had its first meeting on 21 June and aims to gather evidence on the local impacts of migration and how best to manage these impacts. Further details of its work can be found at:

<http://www.communities.gov.uk/communities/racecohesionfaith/asylumandimmigration/migration-forum/>

**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)**

The Government will publish details of the final spending settlements for the Home Office and Ministry of Justice in the Comprehensive Spending Review White Paper. The early spending settlements announced at the 2006 Budget and the 2006 Pre-Budget Report have not been re-opened. These provide the basis for the resources the new departments will have available over the spending review period. Work is still ongoing to finalise the details of the resources to transfer from the Home Office to the Ministry of Justice and to take account of other Machinery of Government changes affecting the departments (including the transfer of the Respect Task Force to the new Department for Children, Schools and Families and the transfer of the Privy Council Office responsibilities to the MoJ and the Cabinet Office) which will inform the CSR White Paper. The value of the early spending review settlements remains strong. The departments have had certainty about the resources available to them over the CSR and have been able to plan accordingly. The final settlements will take account of the potential for savings across the departments, including savings from the Criminal Justice IT (CJIT) programme which will accrue to all three criminal justice departments. The CJIT programme remains a joint programme between the Home Office, the Ministry of Justice and the Attorney General's Departments.

### **The allocation of spending between departments**

**8. We recommend that the Government make clear the relationship between the budget for 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)**

The UK is a member of the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), which is a forum for consultation among 22 donor countries and the European Commission. The DAC sets definitions and classifications for reporting on aid financing internationally, and produces a statistical report on aid flows annually. As a DAC member, the UK is committed to transparent reporting of development assistance in a way that permits international comparisons. The United Kingdom Official Development Assistance (UK ODA) number is compiled according to an internationally-agreed definition set by the DAC and is thus comparable with other donors.

As the Committee's report notes, while the vast majority of UK ODA comes from the Department for International Development (DFID), UK ODA and DFID's budget are not commensurate. Firstly, DFID's budget is almost all ODA-eligible, but a very small element (just over one per cent) is non-ODA. Secondly, UK ODA also comprises debt relief, net ODA from CDC group, and ODA spending by other Government departments. The commercial sensitivities around publicly pre-empting CDC's investment decisions and the risk that pre-announcing debt relief assumptions could jeopardise our negotiating position on these international agreements renders it imprudent to release these assumptions.

DFID does make clear the relationship between DFID ODA and other UK ODA in its statistical releases and DFID publications. A good example of this is *Statistics on International Development*, which is published annually and includes sections on understanding aid statistics. The Government has forecast both ODA levels and DFID Departmental Expenditure Limits for each Spending Review period, and these are reported on annually.

Provisional ODA figures are produced in April each year by the DAC to give an early indication of ODA levels and final more detailed figures are published in November once all data is validated. Although it is possible to report ODA on a quarterly basis, a quarterly series will not give an indication of growth over the period due to the way payments to multilateral organisations and debt relief are scored. These are generally one off payments in the reporting year and can result in very different ODA levels each quarter depending on when promissory notes and debt relief are agreed. There would also be an added burden from collecting data more frequently. It is important to note too that while ODA is reported on a calendar year basis, DFID's budget is reported on a financial year basis.

## Embedding efficiency

**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)**

**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)

22. The Government, in its accounts of public spending, appears to use the term “frontline” 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)

The CSR value for money (VfM) programme will build on the success and experience of the current efficiency programme in ensuring delivery of VfM gains. In this context Budget 2007 confirmed that all savings delivered under the CSR07 VfM programme will be net of implementation costs and cash-releasing, thereby maximizing resources available to departments to fund their priorities. HM Treasury has worked closely with departments to identify and agree VfM gains solely on this basis over the course of the CSR process. As requested, the Government will set out its CSR07 VfM definitions, monitoring and reporting system alongside the conclusion of the CSR.

HM Treasury agrees with the Committee that departments must provide regular summaries of their VfM delivery achievements, and will ensure that over the CSR departments continue to be responsible for regularly reporting progress, including through departmental reports and Autumn Performance Reports. The Government will continue to monitor service quality in the CSR period through, for example, the revised performance management framework (comprising Departmental Strategic Objectives and Public Service Agreements), which will monitor overall service delivery across the public sector.

The SR04 Efficiency Programme has already delivered substantial reductions in civil service posts in administrative and support roles. Steps have also been taken to ensure departments are using external consultancy services effectively through improved procurement and management information. The Treasury has also taken steps to ensure consultancy spend comes from the same central administration budget as civil servants so that consultancy expenditure is subject to the same budgetary discipline as other administration costs, avoiding perverse incentives to substitute the activity of consultants for that of civil servants. As highlighted in the report, the Government has already announced that departments will face real terms reductions in their administration budgets of 5 per cent a year that will result in significant further workforce reductions. We will consider the Committee's recommendations on an additional target for headcount reduction over the CSR period.

The Government uses the term 'front-line' when describing its priorities across the balance of public expenditure. These include maximizing programme budgets through controls on administrative spending. The Government will seek to ensure, in the presentation of the outcomes of the Comprehensive Spending Review, that the specific context and meaning is clear when using the term 'front-line' to describe priority spending.

## 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 Government welcomes the Committee's support in its work to develop the Performance Management Framework. It assures the Committee that the proposed

reduction in Public Service Agreements (PSAs) will be genuine, with cross-governmental PSAs articulating the highest priority outcomes for the spending period. Although PSA Delivery Agreements will bring together activities from different departments and delivery partners, they will be focused on the key actions to achieve the desired outcome in the spending period. To help reduce unnecessary bureaucracy within delivery systems, as the Chief Secretary to the Treasury announced on the 18 July, the number of indicators underpinning PSAs will reduce by more than half compared to the 2004 Spending Review, with targets or standards only attached at national level where this is the most effective way to drive delivery. The Government recognises the Committee's data measurement concerns and through working with various government and external experts, aims to further improve the approach to designing, selecting and using PSA data in the CSR. At the conclusion of the CSR, the Government will set out clearly how the new Performance Management Framework will work over the CSR period.

## 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)**

The CSR has set a new benchmark for spending reviews in terms of wide-ranging and extensive public engagement, with over 2,000 third sector organisations, service users, businesses, unions, think-tanks, academics and members of the public consulted as part of the preparations. The Treasury has also provided information, and sought views, on the CSR via a dedicated website (<http://csr07.treasury.gov.uk>). This process has been invaluable in informing the analysis and considerations to date – not just on resource allocations, which are just one part of the spending review equation, but on the wider package of PSAs, reforms to policy and delivery.

The Government has always been clear about its priorities for the CSR, which are to respond to the 5 key long-term challenges facing the UK. Following extensive consultation the Government published a 148 page document setting out analysis of these challenges and their policy implications in November 2006, followed by an interactive website and other opportunities for the public to give their views. Similarly, the Government has clarified at an early stage, in the July document *Releasing the resources to meet the challenges ahead*, the 2006 Pre-Budget Report and the 2007 Budget, the key parameters of the CSR value for money programme designed to release resources for long-term priorities.

The Government appreciates the Committee's recommendations for going further in this process of public engagement, and will consider how it can build on the progress to date both in the current and future spending reviews.

**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)**

HM Treasury wrote to the Treasury Select Committee on 28 June 2007 outlining early proposals for PSAs and Departmental Strategic Objectives (DSOs), and is grateful for the Committee's initial views sent in July. The Permanent Secretary to the Treasury will be writing to the Committee shortly to seek its views on the further development of the Treasury's DSOs and would welcome the Committee's further views.

**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)**

Consultation with delivery partners and stakeholders has been one of the key themes in the development of PSAs and DSOs, and we have advised departments to update their Select Committees on progress to develop PSAs and DSOs.

**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)**

As highlighted in the report, the CSR provides an important opportunity for departments to undertake a series of value for money reviews of their baseline expenditure. Updates of these reviews were provided in the July 06 document *Releasing the resources to meet the challenges ahead*, and in subsequent Pre-Budget and Budget reports. Final conclusions and implications of these reviews will be set out alongside the final Departmental allocations in October. Department's bi-annual reports provide a regular update on their emerging priorities and performance in the current CSR period.

**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)**

Full details of the budgetary settlements for all departments will be published in the Comprehensive Spending Review.

**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)**

The Government agrees that better alignment of the spending control system would bring significant benefits. This issue forms part of the constitutional reforms announced to the House by the Prime Minister on Tuesday, 3 July, and was subsequently set out in a letter from the Chief Secretary to the Treasury to the chairmen of the Treasury, Liaison and Public Accounts Committees. The Treasury plans to take this forward with the aim of bringing planning, Parliamentary approval and reporting of public spending on to a more consistent basis, while improving the clarity, consistency and comprehensibility of the expenditure documents placed before the House of Commons. Consultation with Parliament, and all interested parties, will take place throughout this work.

**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)**

The Government is committed to giving adequate notice of the date of the next Spending Review, and will announce it to Parliament as soon as confirmed.