



House of Commons  
Treasury Committee

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**The 2007 Comprehensive  
Spending Review:  
Government Response to  
the Committee's First  
Report of Session 2007–08**

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**Sixth Special Report of Session 2007–08**

*Ordered by the House of Commons  
to be printed 17 March 2008*

## 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)  
Nick Ainger MP (*Labour, Carmarthen West & South Pembrokeshire*)  
Mr Graham Brady MP (*Conservative, Altrincham and Sale West*)  
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)  
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)  
Mr Philip Dunne MP (*Conservative, Ludlow*)  
Mr Michael Fallon MP (*Conservative, Sevenoaks*) (Chairman, Sub-Committee)  
Ms Sally Keeble MP (*Labour, Northampton North*)  
Mr Andrew Love MP (*Labour, Edmonton*)  
Mr George Mudie MP (*Labour, Leeds East*)  
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*).

### 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).

### 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) are on the Internet at [www.parliament.uk/treascom](http://www.parliament.uk/treascom).

### Committee staff

The current staff of the Committee are Colin Lee (Clerk), Sian Jones (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young and Jay Sheth (Committee Specialists), Phil Jones (Committee Assistant), Caroline McElwee (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

### Contacts

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## Sixth Special Report

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The Treasury Committee published its First Report of Session 2007–08, *The 2007 Comprehensive Spending Review*, on 3 December 2007, as House of Commons Paper No. 55. The Government response to this Report was received on 12 March 2008, and is appended below.

## Appendix 1: Government response

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### The 2007 Comprehensive Spending Review

#### *Efficiency and value for money*

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

The Government has already stated that in scoring VfM savings towards the £30bn target it will only consider savings that are net of all costs, and has issued guidance to departments to this effect. Departments are responsible for putting in place VfM savings measurement systems that identify and distribute upfront and ongoing costs.

The VfM target for each department is generated from their respective 2007/08 near-cash resource DEL plus capital DEL baselines, minus depreciation and minus any grants to local government, with minor other adjustments in some cases. Building on the example the Committee referred to, the 07/08 VfM baseline for MoJ is £9,227m rather than the £9,465m suggested. Their 3% VfM savings target is calculated by  $((9227 \times 1.03^3) - 9227)$ . This gives a figure of £856m. MoJ have committed to delivering net cash-releasing VfM savings of £1,025m by 2010/11, thereby exceeding the 3% target.

**2. The efficiency targets that have been set for the period from 2008–09 to 2010–11 are stretching and highly ambitious. In view of the unresolved issues concerning the effects of the current Gershon efficiency programme on service delivery, it is important that there is parliamentary and public confidence in claims about the effects of the efficiency programme for the period from 2008–09 to 2010–11 on service delivery. We recommend that the Government state explicitly that financial savings during that period will only be recorded as efficiency savings if there is sufficient evidence that service standards have at least been maintained. We further recommend that such evidence be the subject of regular external audit by the**

**National Audit Office. We expect that this Committee and other select committees will wish to examine departmental value for money Delivery Agreements to ensure that clear baseline standards are established against which contentions about the impact of efficiency savings on service standards can be tested. (Paragraph 25)**

The Government does not accept that there are unresolved issues concerning the effects of the current Efficiency Programme on service delivery. All efficiency initiatives in the SR04 Programme have associated balancing quality measures to monitor service output and no efficiency gain will be scored as ‘final’ until maintenance of service quality is evidenced. The February 2007 NAO report into the Efficiency Programme found no conclusive evidence that service quality was being harmed as a result of the Programme, and highlighted instances where service quality had actually improved.

The Government has articulated clearly its public service priorities in the form of the revised Public Service Agreements (PSA) and supporting Departmental Strategic Objectives. Departments will be held to account for delivery against these ambitions, and overall the government expects the increase in real terms spending and the rising ambition of the value for money programme to be matched by improvements in public service delivery over the CSR period. Much of the £30bn VfM saving target will come from real terms reductions in departmental administration budgets and by rolling forward efficiencies in the Gershon model, focusing on improvements in corporate services, transactions, productive time, procurement and policy, funding and regulation reform.

However, in light of the long-term challenges set out in the Comprehensive Spending Review, it is right that periodically departments consider the best use of their resources across the piece. To do this, departments have undertaken zero-based reviews of parts of their expenditure. In some circumstances the results of these reviews will mean rebalancing the pattern of government expenditure away from lower value programmes and towards higher value activity, with a commensurate positive impact on the government’s ability to meet its key public service delivery priorities.

Departmental Value for Money Delivery Agreements have now almost all been published. They set out in broad terms how departments expect to deliver their VfM savings. Departments are currently working up the detail of their measurement systems—including baselines—in preparation for the beginning of the CSR period. Departments must audit these systems in the first year of the programme and we are working with the NAO to ensure that their involvement in the programme builds in additional levels of assurance.

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

### ***The new performance management framework***

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

We welcome the TSC's endorsement of the principle in the new performance management framework of cross-cutting PSAs and departmentally-focused Departmental Strategic Objectives. The Government is committed to full and transparent public reporting of performance against both PSAs and DSOs, and notes the committee's views about the future public reporting on PSAs.

### ***Child poverty***

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

The Government is committed to tackling poverty for all families, including those who are at risk of greatest disadvantage. It will use three indicators, which are the result of

extensive consultation, published in Measuring Child Poverty,<sup>1</sup> to best target action over the 2007 Comprehensive Spending Review period:

- The number of children in absolute low-income households
- The number of children in relative low-income households
- The number of children in relative low-income households and in material deprivation

The Government's headline indicator of child poverty will remain the relative low-income target. However, poverty is wider than income alone and the combined material deprivation and relative low-income measure captures wider measures of living standards giving a broader picture of poverty. The material deprivation indicator is combined with a relative income measure to avoid counting those people with high incomes who may lack specific items because they choose to spend their money elsewhere.

We hope this material deprivation measure will help us capture some of the families facing the greatest disadvantage. As such it will be key to ensuring that the Government continues to make progress on tackling poverty among those suffering the most severe disadvantage. Since 1997 considerable progress has been made in reducing the risk of poverty for many of the groups who had the greatest risk of poverty in the past for example large families (4+ children) where the risk has fallen from 56% in 1997/98 to 40% in 2005/06.

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

The Government is committed to ensuring that policies aimed at tackling child poverty are coherent. It agrees with the Committee that close working across a number of departments will be key to ensuring that progress against the 2010 and 2020 targets.

The 2010 PSA target is a cross-government target led by HMT but it will be delivered with DWP and DCSF. The PSA Delivery Board will comprise of all lead and supporting departments, including DWP and DCSF.

The Child Poverty Unit is a joint DWP/DCSF unit which will play a lead co-ordinating role as the Government pursues its multi-faceted child poverty strategy and HMT will work closely with the Unit to provide a joined up approach to delivering on our short, medium and long-term child poverty goals.

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1 <http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp>

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

The Government reconfirmed its commitment to halving child poverty by 2010-11 on the way to eradicating child poverty by 2020 in the CSR. The Public Service Agreement set out the Government's strategic priorities including: reducing poverty through work; reducing poverty through raising incomes; tackling poor living conditions and focusing delivery on at risk groups. The PSA Delivery Agreement outlines the action that each relevant Government department will be taking to ensure that we meet the 2010 target.

Measures announced in Budget 2007 and the 2007 Pre-Budget Report and Comprehensive Spending Review are estimated to lift a further 300,000 children out of poverty. Decisions on the levels of financial support provided to families will continue to be set at future Budgets and Pre-Budget Reports in the normal way.

### ***The individual spending settlements***

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

The Government is committed to transparency in presenting spending plans and will take into account the Committee's views when determining the contents of Spending Review documentation in the future.

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

In Budget 2006, the Chancellor set out a clear long-term aim that "stage by stage, adjusting for inflation, we raise average investment per pupil to today's private school level." The aim relates to 2005-06 levels of private sector spending, adjusted for inflation.