

AUTUMN PERFORMANCE REPORT

Progress Report on
HM Treasury Public Service
Agreement Targets

December 2007



HM TREASURY

Cm 7256





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HM Treasury Autumn Performance Report 2007

Progress Report on HM Treasury Public Service
Agreement Targets

Presented to Parliament by the Chancellor of the
Exchequer and the Chief Secretary to the Treasury
by Command of Her Majesty

December 2007

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This is the sixth HM Treasury Autumn Performance Report to be produced, fulfilling the Government's commitment to provide a bi-annual progress report against the Government objectives established in the 1998 Comprehensive Spending Review (CSR), the 2002 Spending Review (SR2002) and the 2004 Spending Review (SR2004).

This report can be read as a stand alone document. However, many readers may find it useful to refer to the HM Treasury Annual Report and Accounts 2006-07: HC518 which sets out more detailed background information and commentary.

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ISBN: 978-0-10-172562-0

Foreword

By the Chief Secretary, the Rt Hon Andy Burnham MP

The Government's objective is to build a strong economy and a fair society with opportunity and security for all. We continue to deliver macroeconomic stability with sustained economic growth. The past year has seen the completion of the second Comprehensive Spending Review which will continue the progress made over the last decade, delivering modern and efficient public services that are responsive to the needs of users, and equipping the UK to meet the global challenges of the next decade.

- **Maintaining Economic Stability and Promoting Economic Growth** – over the last 10 years macroeconomic stability has put the UK in a strong position to respond to global challenges and take advantage of the opportunities that will arise in the coming decade. The strict fiscal rules continue to be met, inflation remains close to its target, and the 61st consecutive quarter of economic growth marks a continuation of the longest period of unbroken expansion on record.
- **Promoting Fairness and Opportunity For All** – the Government continues to promote fairness and opportunity for all to ensure that everyone can make the most of their potential. As a result of financial support measures announced in the Pre Budget Report, around 100,000 children will be lifted out of poverty. The changes to inheritance tax will mean all married couples and civil partners will benefit from an immediate doubling of the inheritance tax allowance to £600,000, rising to £700,000 by 2010-11.
- **Delivering High Quality Public Services**
Over the last ten years the Government has laid the foundations for improved public services. The challenge now is to continue this progress by creating world-class public services that respond to people's rising aspirations and equip the UK for global change.

The 2007 Comprehensive Spending Review launches a new strategy for transforming public services over the decade ahead, focusing on further investment in Britain's future, and enabling further investment in the Government's priorities of education, health, transport, the Olympics, security and housing

In the summer the Government responded to the issues arising during the Northern Rock crisis in order to ensure stability and confidence in the banking industry.

Without the dedicated staff in the Treasury Group, it would not have been possible to deliver the achievements set out in this report. On behalf of the new Treasury Ministerial team, I would like to thank our officials for their commitment and hard work.



Andy Burnham

CONTEXT



CONTEXT

Context

I.1 This is the sixth Autumn Performance Report published by Her Majesty's Treasury. It provides information for the period 1 April to 30 September 2007 on the progress the Treasury is making towards its 2004 Spending Review (SR2004) Public Service Agreement (PSA) targets. Contributions to performance against Treasury objectives are made from across the Treasury Group¹. The report also includes a section reporting against the Treasury Group Efficiency Target which was set in SR2004 (See Annex B).

I.2 SR2004 set PSA targets for the period 2005-08. These targets in most cases left unchanged, or reinforced and refined, targets set for the period 2003-06 under the 2002 Spending Review (SR2002). Where possible the reporting for these targets has been combined but, where there were more substantial differences in the wording of the targets or the performance indicators, text on the SR2002 targets has been kept separate (see Annex A). As the SR2002 period came to an end on 31st March 2006, where appropriate the Treasury has given final assessments of performance against its SR2002 PSA targets.

Performance Information

I.3 In SR2004, the Treasury's aim and five out of the eight Treasury objectives had at least one PSA target and a performance indicator (PI) to measure progress. Objectives cover the full range of departmental activity over the medium term. PSA targets measure progress towards the objectives through tracking specific priorities in the three year time frame covered by the spending plans. Some of our targets are short term where a significant change can be seen over a relatively short period of time. Some are longer term, where change is less obvious in the short term and progress needs to be assessed over a longer time period.

I.4 Each PSA target is underpinned by a Technical Note, which sets out how the target is measured, how success is defined, and the sources of the relevant information such as geographic or demographic coverage. Further information on the technical note is available on the Treasury's website².

I.5 For further information on the Treasury's work to deliver its PSA targets please refer to the HM Treasury Annual Report and Accounts 2006-07 (HC518) available on the Treasury's website.

Progress

I.6 A summary of the current position on the Treasury's PSA targets is set out in the Annexes to this report.

- Annex A – reports on performance against SR2004 PSA targets (2005-2008) and any outstanding SR2002 PSA targets.
- Annex B – is a commentary on performance against the SR2004 Efficiency Target.

¹ Treasury Group includes HM Treasury, the Office of Government Commerce (OGC) and the UK Debt Management Office

² www.hm-treasury.gov.uk

I.7 Standard terminology in line with Treasury central guidance to departments has been adopted when reporting against all targets. For final assessments, the terms used are:

TERM	DEFINITION
Met	Target achieved by the target date.
Met - ongoing	For older targets where no end date was set, but the target level has been met and a decision has been taken to make a final assessment.
Partly met	Where a target has two or more distinct elements, and some – but not all – have been achieved by the target date.
Not met	Where a target was not met or met late.
Not known	This will only be used where it is not possible to assess progress against the target during its lifetime or subsequently. In these cases an explanation will be given as to why, and reference made to any subsequent targets covering the same area.

I.8 For interim assessments of those targets yet to reach their completion date, the terms used are:

TERM	DEFINITION
Met early	The target has been met ahead of schedule.
Met - ongoing*	The target is still live, but is measured on a continuous basis.
Ahead	Progress is exceeding plans and expectations.
On course	Progress is in line with plans and expectations.
Slippage	Progress is slower than expected.
Not yet assessed	A new target for which data are not yet available.

CONTEXT

HM TREASURY'S AIM AND OBJECTIVES - SPENDING REVIEW 2004 (SR2004)

The overall aim of the Treasury for the SR2004 period (2005-08) is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.

Maintaining Stability at Home and Overseas

Maintain a stable macroeconomic framework with low inflation and sound public finances in accordance with the Code for Fiscal Stability (Objective I)

Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, especially protecting the most vulnerable (Objective V)

Raising Trend Growth

Increase the productivity of economy and expand economic and employment opportunities for all (Objective I)

Promote efficient, stable and fair financial markets, for their users and the economy (Objective III)

Promoting Fairness and Opportunity for All

Increase the productivity of economy and expand employment opportunities for all (Objective II)

Promote a fair, efficient tax and integrated tax and benefit system with incentives to work, save and invest (Objective IV)

Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (Objective VIII)

Delivering High Quality Public Services

Improve the quality and cost-effectiveness of the public services (Objective VI)

Achieve world-class standards of financial management in government (Objective VII)

PROGRESS AGAINST PSA TARGETS

The following table gives a summary assessment of progress on each of the Treasury's outstanding PSA targets from SR2002 (in italics) and SR2004. More detail can be found in annex A of this report. The Treasury is on course to meet fully seven of its ten SR2004 PSA targets. Three targets are showing slippage or slippage in parts.

Objective	PSA target		June 2007	October 2007
Aim	PSA 1 AR2004	Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projection.	On course	On course
	<i>PSA 1 SR2002</i>	<i>Demonstrate progress by 2004 on the Government's long-term objective of raising trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.</i>	<i>On course</i>	<i>On course</i>
I	PSA 2	Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent as measured by the 12 month increase in the Consumer Prices Index (CPI)). <i>SR2002 target same as SR2004</i>	Met-ongoing*	Met-ongoing*
	PSA 3	Over the economic cycle, maintain: <ul style="list-style-type: none"> public sector net debt below 40 per cent of Gross Domestic Product (GDP); and the current budget in balance or surplus. <i>SR2002 target same as SR2004</i>	On course	On course
II	PSA 4	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint target with Business, Enterprise and Regulatory Reform (BERR)).	On course	On course
	<i>Equivalent SR2002 PSA target</i>	<i>Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with (BERR)).</i>	<i>On course</i>	<i>On course</i>
	PSA 5	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate. (Joint target with the Department for Work and Pensions (DWP)).	On course	On course
	<i>Equivalent SR2002 PSA target</i>	<i>Demonstrate progress by spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (Joint target with the DWP).</i>	<i>On course</i>	<i>On course</i>
	PSA 6	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint target with the Department of Business, Enterprise and Regulatory Reform (BERR)).	On course	On course
	<i>Equivalent SR2002 PSA target</i>	<i>Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with BERR).</i>	<i>On course</i>	<i>On course</i>
III		There are no PSA targets relating to Objective III		

CONTEXT

IV	PSA 7	Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint with the Department for Work and Pensions (DWP)).	Not yet assessed	Slippage
V	PSA 8	OVERALL RATING SLIPPAGE IN PARTS		
	PSA 8 (i)	Promote increased global prosperity and social justice by: (i): working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards. <i>SR2002 target same as SR2004</i>	On course	On course
	PSA 8 (ii)a HIPCS	Promote increased global prosperity and social justice by: (ii)a: ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008; and that	On course	On course
	PSA 8(ii)b MDGs	(ii)b: international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs). (Joint with Department for International Development (DFID)).	Slippage in parts	Slippage in parts
	PSA 8 (iii)	Promote increased global prosperity and social justice by: (iii): working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008.	Slippage	Slippage
	<i>Equivalent SR2002 PSA target</i>	<i>Promote increased global prosperity and social justice by demonstrating progress towards the Lisbon Goals by 2006, by working with our EU partners to achieve structural economic reform in Europe.</i>	<i>Slippage</i>	<i>Partly met</i>
VI	PSA 9	OVERALL RATING SLIPPAGE IN PARTS		
	PSA 9 (i)	Improve public services by working with departments to help them meet their: (i): Public Service Agreement (PSA) targets (joint target with the Cabinet Office); and	On course	Slippage
	PSA 9 (ii)	(ii): efficiency targets amounting to £20 billion a year by 2007-08, consistently with the fiscal rules.	On course	Ahead
	<i>Equivalent SR2002 PSA target</i>	<i>Improve public services by working with departments to help them meet their Public Services Agreement (PSA) targets, consistently with the fiscal rules. (Joint target with the Cabinet Office). There was no efficiency target in SR 2002.</i>	<i>On course</i>	<i>Slippage</i>
	PSA 10	Deliver a further £3 billion saving by 2007-08 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.	On course	Met Early
VII		There are no PSA targets relating to Objective VII		
VIII		There are no PSA targets relating to Objective VIII		

ANNEX A



Aim:

Raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.

SR 2004 PSA TARGET 1	Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle ³ by at least meeting the Budget 2004 projection.
SR 2002 PSA TARGET 1	Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.
Performance Indicator	Trend rate of output (excluding oil and gas extraction) growth over the economic cycle. (Same for both PSA targets). Source: Trend growth estimates made by HM Treasury based on Office for National Statistics data.
Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)	<p>The measure of the Treasury's performance in meeting this target is the estimate of the trend rate of non-oil output growth over the economic cycle in relation to the trend projection set out in Budget 2004.⁴ The Budget 2004 projection was for 2¾ per cent trend growth between the on-trend point in the third quarter of 2001 and the end of 2006, slowing to 2½ per cent thereafter due to demographic effects.⁵</p> <p>The Treasury estimates trend growth over the economic cycle as the average rate of growth between adjudged start and end-cycle on-trend points or over half cycles. The 2007 Pre-Budget Report suggests that the economy may have passed through trend towards the end of 2006, although it is too soon to assess whether or not the economic cycle has ended. Growth in actual non-oil output (Gross Value Added (GVA)) between 1997H1 - the start of the cycle - and 2006Q4 is estimated to have averaged 3 per cent a year; and between 2001Q3 - the mid-cycle on-trend point - and 2006Q4 it is estimated to have averaged 2.8 per cent a year. This compares with 2.5 per cent over the previous cycle, from 1986Q2 to 1997H1. Keeping in mind the stage of the reporting period, this is consistent with being on course to meet the target.</p>
Outturn SR 2002 Target	On course
Commentary (SR 2002 Target)	<p>The measure of the Treasury's performance in meeting this target is the estimate of the trend rate of non-oil output growth over the economic cycle that started in 1997. The Treasury estimates trend growth over the economic cycle as the average rate of growth between adjudged start and end-cycle on-trend points or over half cycles.</p> <p>The 2007 Pre-Budget Report suggests that the economy may have passed through trend towards the end of 2006, although it is too soon to assess whether or not the economic cycle has ended. Growth in actual non-oil output (Gross Value Added (GVA)) between 1997H1 - the start of the cycle - and 2006Q4 is estimated to have averaged 3 per cent a year; and between 2001Q3 - the mid-cycle on-trend point - and 2006Q4 it is estimated to have averaged 2.8 per cent a year. This compares with 2.5 per cent over the previous cycle, from 1986Q2 to 1997H1. This means that the target is expected to be met comfortably.</p>
Quality of data systems	All the underlying data used in the trend growth calculations are sourced from the Office for National Statistics.

³ The latest assessment of the economic cycle can be found in the 2007 PBR - on the Treasury's website www.hm-treasury.gov.uk

⁴ http://www.hm-treasury.gov.uk/budget/budget_04/bud_bud04_index.cfm

⁵ In the light of new evidence, HM Treasury has revised the projection for trend growth from 2006Q4 onwards to 2¾ per cent. More information can be found in "Trend Growth: new evidence and prospects", HMTreasury, December 2006, available on the Treasury website.

Objective 1: Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.

SR 2004 PSA TARGET 2	Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent as measured by the 12 month increase in the Consumer Prices Index (CPI)).
SR 2002 PSA TARGET 2	Same as SR 2004 target. As the SR 2004 and SR 2002 targets are the same, outturn and commentary for targets is combined.
Performance Indicator	<p>12 month increase in the CPI.</p> <p>The CPI is a measure of the change in the level of prices charged for consumer goods and services. It is constructed on a harmonised basis for all EU Member States. The common European standard is known as the Harmonised Index of Consumer Prices (HICP) and the CPI is the UK's measure.</p>
Outturn SR 2004 Target	Met-ongoing*
Commentary (SR 2004 Target)	<p>From April 2007 to October 2007 CPI has been in the range 2.8 to 1.8 per cent and has averaged 2.2 per cent.</p> <p>The remit of the Monetary Policy Committee (MPC) sets a symmetric inflation target, in which an undershooting is taken as seriously as an overshooting. Since the CPI inflation target was introduced in December 2003, inflation has averaged 2.0 per cent.</p> <p>In April 2007, the Governor of the Bank of England wrote the first open letter since the inception of the MPC. The open letter system requires the Governor to explain to the Chancellor the reasons for any deviation in inflation of more than one percentage point above or below target, plus the action the MPC proposes to take, the expected duration of the deviation and how the proposed action meets the remit of the MPC. The Chancellor's letter of response, highlighted how the MPC's approach has been a cornerstone of economic policy since 1997, and emphasised that the Governor's letter was an integral part of the macroeconomic framework. The letter underlined that the Government will continue to support the MPC in the forward-looking decisions its takes in the future.</p> <p>CPI inflation has fallen back from 3.1 per cent in March, to stand at 2.1 per cent in October.</p>
Quality of Data systems	The CPI data are sourced from the Office for National Statistics.

Objective I:

Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability

SR 2004 PSA TARGET 3	Over the economic cycle, maintain: <ul style="list-style-type: none"> public sector net debt below 40 per cent of Gross Domestic Product (GDP); and the current budget in balance or surplus.
SR 2002 PSA TARGET 3	Same as SR 2004 target. As the SR 2004 and SR 2002 targets are the same, outturn and commentary for targets is combined.
Performance Indicator	Public sector net debt as a percentage of GDP at the end of each year of the economic cycle. The average surplus on current budget as a percentage of GDP over the economic cycle.
Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)	Public sector net debt is projected to remain low and stable over the forecast period, stabilising below 39 per cent of GDP and so meeting the sustainable investment rule . ⁶ The average surplus on the current budget since the start of the 1997-98 economic cycle is positive in every year of the projection period. The economy appears to have passed through trend in the final quarter of 2006. On this basis, and based on cautious assumptions, the Government would have met the golden rule ⁷ over this economic cycle with a margin of £18 billion. Pre-Budget Report projections show that the current budget moves into surplus in 2009-10, with the surplus rising to 1.1 per cent of GDP by 2012-13. At this early stage, and based on cautious assumptions, the Government is therefore on course to meet the golden rule in the next economic cycle .
Quality of Data systems:	Underlying data are sourced from the Office for National Statistics (ONS).

⁶ Explanation of the sustainable investment rule can be found in Chapter 2 of the 2007 Pre-Budget Report and Comprehensive Spending Review

⁷ Explanation of the golden rule can be found in Chapter 2 of the 2007 Pre-Budget Report and Comprehensive Spending Review

Objective II: **Increase the productivity of the economy** and expand economic and employment opportunities for all

SR 2004 PSA TARGET 4	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle ⁸ , improving competitiveness and narrowing the gap with our major industrial competitors ⁹ . (Joint target with Business, Enterprise and Regulatory Reform (BERR)).
SR 2002 PSA TARGET 5	Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with (BERR)).
Performance Indicator	<p>Performance is measured using:</p> <ul style="list-style-type: none"> • International Comparisons of Productivity (ICP) data: output per worker and output per hour. The data are produced by the Office for National Statistics (ONS) based on Organisation for Economic Co-operation and Development (OECD) data; and • trend productivity growth in the UK over the economic cycle, which is taken from the HM Treasury estimates published in the Budget and Pre-Budget Report.

Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)	<p>Improving productivity is a long-term objective. Given the sensitivity of the headline productivity figures to distortions created by cyclical factors, UK performance is assessed between on-trend points as defined in the Trend Growth estimate (see quality of data systems).</p> <p>The most recent UK productivity figures show:</p> <ul style="list-style-type: none"> • progress towards raising the trend rate of productivity growth - trend productivity (output per hour) is estimated to have been growing at 2.70 per cent over the first half of the current economic cycle (1997H1-2001Q3) compared to 1.9 per cent in the previous cycle (1986Q2-1997H1). Since 2001Q3 output per hour growth has averaged 2.4 per cent per year; • the UK has been making progress in narrowing the international productivity gap. Since 1997 the UK has: <ul style="list-style-type: none"> • closed the output per worker gap with Germany (from 7 percentage points behind to 4 percentage points ahead); • halved the gap with France (from 21 to 9 percentage points); and • narrowed the gap with the US (from 27 to 23 percentage points). <p>Reforms announced in the 2007 Pre-Budget Report and Comprehensive Spending Review will further contribute to increasing productivity growth across the UK. More details are available on the Treasury website.</p>

⁸ The latest assessment of the economic cycle can be found in the 2007 Pre-Budget Report available on the Treasury's website: www.hm-treasury.gov.uk

⁹ The list of industrial competitors can be found in the 2005-08 PSA Technical Note available on the Treasury's website.

Outturn SR 2002 Target	On course
Commentary (SR 2002 Target)	<p>This target cannot be finally assessed until it is confirmed that the current economic cycle has ended. However, it should be noted, that figures to date have shown that there has been a definite improvement in productivity in the UK and a reduction in the productivity gap with other countries. This is consistent with being on-course to meet this target.</p>
Quality of data systems	<p>The Treasury monitors progress on the productivity gap with data published by the ONS on the ICP which are themselves based on OECD data. Small changes in the ICP series are interpreted cautiously to allow for some margin of error in the constituent parts.</p> <p>Trend estimates of productivity are drawn from HM Treasury estimates (see Table A2 of Pre-Budget Report 2007) that constitute part of the trend growth estimate. The methodology upon which these estimates are based is set out in the HM Treasury publication <i>Trend growth: recent developments and prospects</i>, April 2002¹⁰. The National Audit Office audits this methodology.</p>

¹⁰ Available on the Treasury's website.

Objective II: Increase the productivity of the economy and **expand economic and employment opportunities for all**

SR 2004 PSA TARGET 5	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, ¹¹ demonstrate progress on increasing the employment rate. (Joint target with the Department for Work and Pensions (DWP)).
SR 2002 PSA TARGET 7	Demonstrate progress by spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (Joint target with the DWP).
Performance Indicator	<p>The target will be measured using the seasonally adjusted employment rate (the proportion of the population of working age (16-59 for females and 16-64 for males) who are in employment) in Great Britain (GB), based on the International Labour Organisation (ILO) definition.</p> <p>For unemployment, seasonally adjusted ILO unemployment rates for the population of GB, aged 16 and over, with a judgement as to the economic cycle, as assessed by the Treasury in the Budget and Pre-Budget Report.</p>
Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)	<p>The baseline for the SR2004 target is 2005 Q2 (Apr-June 2005)¹², at which time the GB employment rate was 74.8 per cent. Latest quarterly data 2007 Q3 June-August 2007 gives a GB employment rate of 74.4 per cent.</p> <p>This target is measured over the economic cycle and, as discussed in PBR and CSR 2007, it is too soon to assess whether or not the cycle has ended. So a final assessment of the target cannot be reached as yet.</p> <p>There has been a rise in the employment rate from 72.8 per cent at the start of the economic cycle in 1997H1.</p>
Outturn SR 2002 Target	On course
Commentary (SR 2002 Target)	<p>The baseline for the SR2002 target is spring (March-May) 2003, at which time the employment rate was 74.9 per cent and GB unemployment was 5.0 per cent. The data for spring 2006 gives a GB employment rate of 74.6 per cent and the GB unemployment rate was 5.4 per cent. This target is measured over the economic cycle and as discussed in PBR and CSR 2007, it is too soon to assess whether or not the cycle has ended. So a final assessment of the target cannot be reached as yet.</p> <p>There has been a rise in the employment rate from 72.8 per cent at the start of the economic cycle in 1997H1.</p>
Quality of data systems	UK labour market figures for employment and unemployment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics. The definitions used in the LFS are based on internationally agreed standards set by the ILO.

¹¹ The latest assessment of the economic cycle can be found in the 2007 Pre-Budget Report and Comprehensive Spending Review - on the Treasury website www.hm-treasury.gov.uk

¹² The Office for National Statistics is now publishing Labour Force Survey data on a calendar quarter basis, instead of the seasonal quarter previously used. The baseline of this target has therefore been changed and reflected in the PSA Technical Note

Objective II: Increase the productivity of the economy and expand economic and employment opportunities for all.

SR 2004 PSA TARGET 6	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint target with the Department of Business, Enterprise and Regulatory Reform (BERR)).
SR 2002 PSA TARGET 6	Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with BERR).
Performance Indicator	<p>The trend rate of growth for Gross Value Added per head for all regions, measured over the period 2003-08, compared with the average growth between 1990 and 2002.</p> <p>A reduction over the period 2003-12, compared with the baseline (1990-2002) in the absolute gap between the average trend growth rate in the three regions that currently have above-average GVA per head (London, South East and East) and the average trend rate for the other six regions.</p>
Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)	<p>Evidence so far on narrowing regional gaps is encouraging. Between 2002 and 2005, the bottom six regions (North West, North East, Yorkshire and the Humber, West Midlands, East Midlands and the South West) grew at the same average annual rate (2.1 per cent) as the top three (London, South East and the East of England), in contrast to the PSA baseline period (1990-2002), when the growth gap between the top three and the bottom six was 0.6 percentage points. This demonstrates some convergence between the regions at the beginning of the current economic cycle. This was partly due to an improved performance in the bottom six regions and partly because of the recent slowdown in the top three regions.</p> <p>During 2002-05, most of the regions performed better than in the baseline period, with the West Midlands matching its baseline performance and the South East and East performing less well. There is evidence that the top three regions are ahead of others in their economic cycle. Additionally, GVA growth rates in London display more year on year volatility than in the other regions.</p> <p>The Government recognises that only a limited assessment of progress is possible using year on year data. A full assessment of trends in regional economic activity and disparities cannot be fully determined until the current economic cycle is complete.</p>
Outturn SR 2002 Target	On course
Commentary (SR 2002 Target)	This target cannot be finally assessed until it is confirmed that the current economic cycle has ended. However, it should be noted that the latest GVA per head data in each region show that all English regions grew in 2004 and 2005 and that the poorer performing regions narrowed the gap in growth rates with London, the South East and East in 2005. This is consistent with being on-course to meet the target.
Quality of data systems	<p>Performance against this target is measured through estimates of the trend rate of growth in GVA per capita in each region for the period 2003-08. The gap in growth rates is measured by comparing the average growth rate of regions that had above average GVA per capita with the average growth rate of regions that had below average GVA per capita in 1990-2002 with growth rates for 2003-12.</p> <p>The regional GVA series is produced by the Office for National Statistics and meets all National Statistics quality criteria.</p>

Objective III: Promote efficient, stable and fair financial markets, for their users and the economy

SR 2004 and SR2002 PSA TARGET	There is no PSA target for Objective III assessment is based on overall progress.
Performance Indicator	N/A
Commentary:	<p>Financial services contribute significantly to UK GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and demonstrating that the UK can succeed in a global economy. But financial markets can also pose risks to economic stability and to welfare through failing to serve consumers well. Managing these risks is a vital part of the work of the Treasury, with the Financial Services Authority (FSA) and Bank of England. Financial crime and financing of terrorism constitute further threats. The Treasury aims to maximise the contribution of financial markets to economic success, through markets that operate efficiently and fairly. The Treasury is responsible for the policy and legislative framework for regulating financial services, and in particular for the Financial Services and Markets Act (FSMA) and amendments to it, which gives day-to-day responsibility for setting and implementing rules is to the FSA.</p> <p>Action to meet this objective includes:</p> <ul style="list-style-type: none"> • the effective response of the Tripartite Authorities (HMT, Financial Services Authority and Bank of England), through the Tripartite Standing Committee, to the market turmoil in the summer, taking action to minimise the risk of contagion spreading through the UK financial system following the emergence of problems at Northern Rock. And launching a discussion paper on the UK's regime for depositor protection and arrangements for handling the administration of banks facing difficulties, alongside a commitment to legislate if necessary in the forthcoming Parliamentary session. • Further steps to promote financial inclusion and capability through the announcement of the continuation of the Financial Inclusion Fund at £130 million for the next CSR period and the Thoresen review publishing its interim report on 22nd October which set out its preliminary view on creating a national service to deliver generic financial advice for all the UK population; • new steps to tackle financial crime and terrorist finance including the publication of new Money Laundering Regulations and the establishment of the new Treasury counter-terrorist Asset Freezing Unit in the autumn of 2007; • consultation on cooperatives and credit union legislation to enable the sector to grow and develop. Based on this input, options for legislative reform will be put forward in the next stage of consultation; • the open market option review which announced on 9 October a package of measures to facilitate consumers choosing the best retirement income option for them by shopping around.
Quality of data systems	N/A

Objective IV: Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest

SR 2004 PSA TARGET 7

Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint with the Department for Work and Pensions (DWP)).

Performance Indicator

PSA target 7 has two measures: the number of children in households with income less than 60 per cent of contemporary median compared with 1998-99; and the number of children in households with income less than 70 per cent of contemporary median, combined with material deprivation. Low income is defined before housing costs and is reported annually in *Households Below Average Income* (HBAI)¹³. The baseline for the less than 60 per cent of median income target is 3.4 million children.

Outturn SR 2004 Target

Slippage

Commentary (SR 2004 Target)

Since 1998-99, the number of children in households with relative low-income has fallen by 600,000, and the number of children in absolute low-income households – the number of children in households with incomes below the 60 per cent of 1998-99 median income held constant in real terms – has fallen by 1.8 million.

The Pre Budget Report announced increasing the child element of the Child Tax Credit by £25 above standard earnings indexation in April 2008 and again in April 2010, and doubling the child maintenance disregard in main income-related benefits by the end of 2008 and again April 2010. These announcements build on the measures announced at Budget, which amounted to an investment of £1bn in the Child Tax Credit. Taken together, the PBR and Budget will help lift a further **300,000 children out poverty**.

Between 2004-05 and 2005-06, the number of children in households with relative low-income rose by 100,000, which while not statistically significant, represents slippage against the target. **In light of this, the Government has redoubled efforts to meet the 2010 target.**

Data on material deprivation first became available in March 2006 for 2004-05 and the construction of the combined relative low-income and material deprivation indicator was set out in the new PSA Delivery Agreement. On the material deprivation measures of child poverty, progress has been made. Between 2004-05 and 2005-06, the number of children in the UK defined as poor using the combined indicator of relative low-income and material deprivation fell by 100,000 from 2.2 million to 2.1 million.

Quality of data systems

Performance against this target is assessed using the annual HBAI report published as National Statistics by DWP.

¹³ <http://www.dwp.gov.uk/asd/hbai.asp>

Objective V:

Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, especially protecting the most vulnerable

SR 2004 PSA TARGET 8(i)	Promote increased global prosperity and social justice by:
SR 2002 PSA TARGET 4(i)	(i) working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards. Same as SR 2004 target 8(i)
Performance Indicator	Under the codes and standards initiative, the International Monetary Fund (IMF) and World Bank monitor observance by countries against twelve individual codes and standards, which act as benchmarks for good practice in financial practices and structures, through production of Reports on the Observance of Standards and Codes (ROSCs). The initiative aims to strengthen the international financial architecture and reduce the likelihood of financial crises.
Outturn SR 2004 Target	On course
Commentary (SR 2004 Target)¹⁴	At the end of September 2007, 142 countries (over three quarters of the IMF membership) had participated in the codes and standards initiative. This is up from 137 in December 2006 and 130 in February 2006. 968 individual assessments, reassessments and updates have been produced. This compares with 914 in December 2006 and 825 in February 2006. Over three quarters of the assessments, reassessments and updates have been published.
Quality of data systems	The IMF provides information on the number of ROSCs completed. Further information is available on their website ¹⁵ .

¹⁴ As the SR2004 and SR2002 targets are the same, outturn and commentary for the targets is combined

¹⁵ www.imf.org

Objective V:

Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, especially protecting the most vulnerable

SR 2004 PSA TARGET 8(ii)

Promote increased global prosperity and social justice by:

(ii) a: ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC)¹⁶ committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008; and that

(ii) b: international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs). (Joint with Department for International Development (DFID)).

Performance Indicator

a: HIPC: Number of countries reaching Completion Point as recorded in Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation, available on the World Bank website

b: Millennium Development Goals: The Treasury and DFID have a set of discrete indicators against which progress is monitored – these are detailed in the Technical Note for this PSA target available on the Treasury website¹⁷.

Outturn SR2004 Target

8ii (a) - HIPCS - **On course**

8ii (b) - MDGs - **Slippage in parts**

HIPC Commentary

With the additions of Afghanistan in July 2007 and Central African Republic in September 2007, 32 countries have reached Decision Point and are currently receiving interim debt relief under the HIPC initiative. Of these countries, 28 had reached HIPC Decision point by end 2005, of which 22 have now completed the HIPC process and are in receipt of irrevocable debt relief. Four of the remaining six countries receiving debt relief at the end of 2005 are expected to complete the initiative by end 2008. This estimate is in line with that of the International Monetary Fund (IMF) and World Bank. The 22 countries that have already exited the HIPC initiative have also had 100 per cent of their debts to the IMF, World Bank and African Development Bank cancelled under the Multilateral Debt Relief Initiative (MDRI).

¹⁶ A list of HIPCs is available on the World Bank website: www.worldbank.org/debt

¹⁷ Available on the Treasury website: www.hm-treasury.gov.uk

MDGs Commentary

We are continuing to measure improvements in the international system through a number of indicators, enabling international partners to work more effectively with poor countries towards the achievement of the MDGs.

The Poverty Reduction Strategy (PRS) approach has been widely adopted in countries accessing International Development Association (IDA) resources, though the World Bank's PRS Review notes that practice has not always kept up with intention. Very few countries meet the criteria for fully operational national development strategies.

Total net Official Development Assistance (ODA) in 2006 was \$103.9 billion. While this represents a fall of 5 per cent from the previous year (due to the impact on ODA levels in 2005 of historic highs of debt relief) it is still a significant increase over 2004 figures, and well above the 2002 baseline of \$58.3 billion.

Seven years into its reform programme, EC aid is becoming more effective in terms of speedier delivery and improved portfolio performance overall. In 2005, the European Council, Commission and Parliament agreed the European Consensus on Development (ECD). This is an important statement of commitment by Member States and the Commission to implement best practice for development cooperation. The new package of development instruments has been agreed, including the Development Co-operation Instrument, which takes into account the ECD and has poverty reduction as its main aim. The EU has committed to deliver more effective aid, above and beyond the measures in the Paris Declaration agreed by the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) members in March 2005.¹⁸

Good progress is being made within the International Finance Institutions on the implementation of reform initiatives to improve institutional effectiveness.

Quality of data systems

Decision Point and Completion Point for countries in the HIPC Initiative are determined by the Boards of the IMF and the World Bank and are made public on the websites of these institutions.

The data used in assessing progress towards the MDGs are taken from the World Bank and United Nations' agencies who, in turn, use countries' own data systems. Systems for gathering data are very weak in many developing countries.

¹⁸ Details of the Paris Declaration can be found on the OECD's website: www.oecd.org

Objective V:

Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, especially protecting the most vulnerable

SR 2004 PSA TARGET 8(iii)	Promote increased global prosperity and social justice by: (iii) working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008.
SR 2002 PSA TARGET 4(iii)	Promote increased global prosperity and social justice by demonstrating progress towards the Lisbon Goals by 2006, by working with our EU partners to achieve structural economic reform in Europe.
Performance Indicator	Progress is measured using Eurostat ¹⁹ data for the total EU employment rate (against an EU target of 67 per cent by 2005 and 70 per cent by 2010) and the percentage difference between US and EU labour productivity per hour and per worker.

Outturn SR 2004 Target	Slippage
Commentary (SR 2004 Target):	<p>Seven years into the EU's ten-year programme of structural reform, there is slippage against this target. The risk remains high that Europe will fail to realise the strategic ambitions of the Lisbon strategy, particularly its aim of achieving 70 per cent employment rates across the EU by 2010. At 64.4 per cent in 2006, EU 27 employment remains well below this target and has missed the interim target of 67 per cent employment rates by 2005. Since 1999, one year before the Lisbon process began, EU 27 employment has risen by 2.6 per cent. While part of this appears to be driven by structural improvements, much of it seems to be cyclical.</p> <p>Living standards in the EU still lag behind those in the US and other key advanced economies. In relative terms, Europe is no closer to US income levels than it was thirty years ago. Living standards in the EU15 are around 30 per cent lower than in the US, and 35 per cent lower for the EU25. The productivity gap between the EU and the US has been increasing. Using the latest available data (2005) the productivity gap on a per worker basis (EU15) increased from 22.8 per cent in 2002 to 26.8 per cent in 2005 and on a per hour basis (EU15) from 11.3 per cent in 2002 to 16.7 per cent in 2005. However, productivity growth has picked up in 2006, likely causing a slight narrowing in the gap, although this has been primarily cyclical.</p> <p>Based on this analysis, three years away from the original 2010 deadline, it is clear that the Lisbon Goals will not be realised in full. The EU and its Member States still need to implement significant economic reforms to improve the flexibility of products, capital and labour markets and to encourage greater investment in skills and innovation.</p>

¹⁹ Available on the Eurostat website – http://epp.eurostat.ec.eu.int/portal/page?_pageid=1133,47800773,1133_47802558&_dad=portal&_schema=PORTAL

<p>Commentary (SR 2004 Target) (continued):</p>	<p>While domestic structural reforms remain the primary responsibility of individual Member States, HMT has engaged proactively with our EU partners to encourage progress towards the goals of the Lisbon Strategy. For example, the Treasury's submission in September 2004 to the Kok Review of Lisbon succeeded in influencing the shape of the relaunched Strategy in 2005, resulting in a clearer focus on the objectives of jobs and growth, a stronger basis for multilateral surveillance of Member States actions on economic reform and further promoting important structural reforms such as flexible labour markets. The UK has also led efforts across Member States to mainstream the Better Regulation and globalisation agenda into EU policymaking. For example, during the UK Presidency of the EU in 2005, the Council of Ministers adopted conclusions for the first time on globalisation and on the first set of Lisbon National Reform Programmes, as well as on reducing the administrative burden of EU regulation. In September, Member States submitted updates to their National Reform Programmes (NRP) reporting on the progress of structural reform at national level since the 2006 progress report.</p> <p>Demonstrating the importance the UK attaches to the Lisbon Goals, the Government has played a vital role in liberalising the service and financial services sectors; and, with an employment level of 71.5 per cent in 2006, the UK is one of only four Member States who have already met the 2010 Lisbon employment target.</p> <p>The Treasury will continue to work with the European Commission and other EU partners to accelerate economic reform in Europe.</p>
<p>SR 2002 Target</p>	<p>Final Assessment – Partly Met</p>
<p>Commentary (SR 2002 Target)</p>	<p>See SR2004 commentary</p>
<p>Quality of data systems</p>	<p>Measurement of progress uses the set of structural indicators developed, produced and maintained by Eurostat, and mandated by the Council of the European Union. The data for the productivity and employment measures are sourced from the Eurostat structural indicators database. EU25 data are not currently available for both productivity measures. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication.</p>

Objective VI: Improve the quality and the cost-effectiveness of public services

SR 2004 PSA TARGET 9	<p>Improve public services by working with departments to help them meet their:</p> <p>(i) Public Service Agreement (PSA) targets (joint target with the Cabinet Office); and</p> <p>(ii) efficiency targets amounting to £20 billion a year by 2007-08, consistently with the fiscal rules.</p>
SR 2002 PSA TARGET 9	<p>Improve public services by working with departments to help them meet their Public Services Agreement (PSA) targets, consistently with the fiscal rules. (Joint target with the Cabinet Office).</p> <p>There was no efficiency target in SR 2002.</p>
Performance Indicator	<p>Departmental progress towards PSA targets and efficiency delivery is reported biannually in (spring) Departmental Reports and Autumn Performance Reports. This performance information can be accessed through a single website.²⁰</p> <p>Overall progress on the Efficiency Programme is reported through the Budget and Pre-Budget Report process.</p>
PSA element Outturn (SR2004 Target)	Slippage
PSA element Commentary (SR2004 target)	<p>The PSA framework has evolved over successive Spending Reviews to focus increasingly on the key public service outcomes that the public expect to be delivered rather than on a range of centrally imposed measures. SR2004 PSAs continued this trend and even more progress in this direction will be made with the new PSAs announced in this year's Comprehensive Spending Review (CSR). The Treasury supports departments in their work to achieve their SR2004 PSA commitments but responsibility for delivery remains with departmental Secretaries of State (as set out in the "who is responsible" section of each SR2004 PSA).</p> <p>Very significant progress has been made towards reaching this target on working with departments in helping them achieve their SR2004 PSAs. Three quarters of PSAs were given overall summary assessments by departments in their 2007 Departmental Reports. Of those, around 78 per cent were reported as being on course. However, in order for the Treasury to meet this target on helping departments achieve their PSAs, a full 100 per cent of SR2004 PSA targets will need to be met or partly met. It is an exceptionally ambitious target and, not surprisingly, there is some slippage in meeting it. Progress can vary up to the point that a final assessment for all targets is made.</p>
Efficiency element Outturn (SR2004 Target)	Ahead
Efficiency element Commentary (SR2004 target)	<p>The 2007 Pre-Budget Report and Comprehensive Spending Review announced that departments and local authorities had reported annual efficiency gains totalling over £20 billion by the end of June 2007, gross workforce reductions of over 79,000 (66,000 net of reallocations to the front-line) and the relocation of 13,300 posts out of London and the South East, meaning that the Government is ahead of the SR2004 target of achieving more than £20 billion worth of annual efficiency gains by 2007-08 together with its plans for a gross reduction of 84,000 civil service posts by 2007-08 and the relocation of 20,000 public sector posts by 2010.</p>

²⁰ http://www.hm-treasury.gov.uk/documents/public_spending_reporting/public_service_performance/public_service_performance_index.cfm

Outturn SR 2002 Target	Slippage
Commentary (SR 2002 Target)	<p>The Treasury has made very significant progress towards its related SR2002 target to work with departments to help them meet the PSA targets set in that spending review. By the time of the last round of reporting (2007 Departmental Reports) overall summary assessments were made for over four fifths of SR2002 PSA targets. Of those, about 64 per cent were reported to be met or on course, with a further 20 per cent reported as partly met. However, this target on helping departments achieve their PSAs is extremely ambitious and, not surprisingly, there is some slippage in meeting it. Progress can vary up to the point that a final report for all targets is made.</p> <p>Even though the SR2002 period ended in March 2006, time lags in data collection due to some targets having later deadlines means that final reporting on all SR2002 targets is not yet possible. However, final assessments will be reported on as soon as the data is available. As a result, a final assessment of the Treasury's performance in helping departments meet their SR2002 targets will also be made once this information is published.</p>
Quality of data systems	<p>The data systems underpinning PSA targets are validated by the National Audit Office.</p> <p>Efficiency Technical Notes set out the measures and methodologies the departments use to assess efficiency gains. These can be found on the Treasury website²¹.</p>

²¹ www.hm-treasury.gov.uk

Objective VI: Improve the quality and the cost-effectiveness of public services

SR 2004 PSA TARGET 10	Deliver a further £3 billion saving by 2007-08 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.
Performance Indicator	Annual returns on value for money gains reported by central civil government bodies and centrally collected data on procurement in civil central government. The reporting is based on methodologies agreed with the National Audit Office.
Outturn SR 2004 Target	Met early
Commentary (SR 2004 Target)	<p>Second year results against Government's target for delivering £3 billion of procurement value for money gains across central civil government in the 2004 spending review period show that this target has already been exceeded.</p> <p>This has been achieved via better procurement by Government Departments through direct negotiation with suppliers, improved contract/asset management, collaborative procurement and reduced process costs, as well as benefits from the OGC Gateway™ review process and the OGC Achieving Excellence initiative.</p>
Quality of data systems	Value for money gains are measured by individual departments and through other methodologies. OGC has published detailed methodological guidance to departments, entitled <i>Value for Money Measurement</i> ²² . OGC aggregates the data produced by the methodologies to produce the total.

²² Available on the OGC website: www.ogc.gov.uk

Objective VII: Achieve world-class standards of financial management in government

SR 2004 and SR2002 PSA TARGET	There is no PSA target for Objective VII assessment is based on overall progress.
Performance Indicator	N/A
Commentary	<p>Key achievements include:</p> <ul style="list-style-type: none"> • <i>Managing Public Money</i> (the authoritative guide to ethics in public spending) replaces <i>Government Accounting</i> with effect from October 2007); • financial management (FM) drivers reinforced by Comprehensive Spending Review, with new performance management framework and ambitious value-for-money programmes; • first joint meeting of Permanent Secretaries and Finance Directors to discuss performance management challenges; • second conference of top FM advisers to government to reinforce priorities; • programme initiated to better align budgeting, Estimates and accounting frameworks (as announced in Green Paper <i>The Governance of Britain</i>, July 2007); • all departments except MOD and CPS now have a professionally qualified Finance Director; • 47 of 51 departmental resource accounts for 2006-07 were laid in Parliament before recess (42 in 2005-06), indicating further improvement in departmental systems and finance skills; • 2008-09 Government Financial Reporting Manual (FrM), using International Financial Reporting Standards (IFRS), is in final consultation and good progress on agreeing a practical approach to Whole of Government Accounts IFRS data from local government; • comparison of Government Internal Audit Standards against International Audit Standards completed and work started to refresh government guidance; • 'Government Hundred Group' of top finance professionals launched to provide mutual support and exchange of best practice; • Government Finance Profession website upgraded, with pilot of secure blogging facility started in July 2007.
Quality of data systems	N/A

Objective VIII: Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies

SR 2004 and SR2002 PSA TARGET	There is no PSA target for Objective VIII assessment is based on overall progress.
Performance Indicator	N/A
Commentary	<p>While this objective has no related PSA target, there has been a significant programme of activity, building on existing measures – both tax and non tax – such as climate change levy and climate change agreements, the Energy Efficiency Commitment and Warm Front, reduced VAT rates, air passenger duty, fuel duties including differentials for cleaner fuels, the aggregates levy and landfill tax. Indeed, the Treasury continues to explore how a wide range of measures – regulation; trading schemes; voluntary action; spending programmes; taxation – can help to make progress on our environmental objectives. This approach has been effective and UK greenhouse gas emissions are now about 19 per cent below 1990 levels, making the UK one of the few countries on track to meet its Kyoto commitment.</p> <p>In particular, the climate change levy has delivered a significant proportion of UK emissions reductions since its introduction in 2001. An independent evaluation by Cambridge Econometrics estimated that the climate change levy delivered cumulative savings of 60MtCO₂ to 2005 and by 2010 it is estimated that the levy will have reduced demand in the commercial and public sector by around 15 per cent a year compared with the levy package not being in place. The package of measures announced at Budget 2007 combined with those set out in the previous Chancellor's speech to the Green Alliance in March will result in a 22 MtCO₂ reduction by 2010. Other measures also play a role in protecting the environment: the volume of waste disposed to landfill sites registered for landfill tax has fallen by 26 per cent between 1997-98 and 2006-07.</p> <p>The Pre-Budget Report 2007 (PBR) provided an update on the key developments over the reporting period, whilst also announcing new measures, including: changes to reform the taxation of aviation; an intention to increase the use of auctioning to distribute allowances in the EU Emissions Trading Scheme (EU ETS) Phase III; further support for the development and take up of microgeneration technologies; publication of an interim report of the King Review; extension of the current duty for biobutanol on a pilot basis; confirmation that climate change agreements will be extended until 2017; UK leadership – through calls for faster action at EU level, and further action at domestic level – to improve energy efficiency in the product market.</p> <p>The 2007 Comprehensive Spending Review (CSR) increased funds for Department for Environment Food and Rural Affairs (Defra) by 1.4 per cent in real terms. This increase will enable Defra to deliver:</p> <ul style="list-style-type: none"> • a step-change in investment for sustainable waste management options, with funding through the Private Finance Initiative rising from £280 million in 2007-08 to £700 million in 2010-11, totaling £2 billion over the CSR period; • a £200 million increase for flood and coastal erosion risk management across government, from £600 million in 2007-08 to £800 million in 2010-11. <p>The CSR also establishes a £1.2 billion Environmental Transformation Fund (ETF) including £370 million over the CSR period towards the joint Defra-Business, Enterprise and Regulatory Reform domestic element of the ETF, for demonstration and deployment of low-carbon and energy efficient technologies, and £800 million towards the Defra-Department for International Development international element.</p>

Commentary (continued)	<p>Alongside the PBR/CSR the Government published <i>Moving to a low-carbon economy: implementing the Stern Review</i>²³, setting out how the Government is taking forward the Stern Review and incorporating its findings within government policies.</p> <p>There has also been further work on progressing inclusion of aviation in the EU ETS as soon as possible.</p> <p>The effectiveness of existing policies also continues to be monitored and evaluated.</p>
Quality of data systems	N/A

²³ Available from http://www.hm-treasury.gov.uk/pbr_csr/documents/pbr_csr07_stern.cfm

ANNEX B



INTRODUCTION

B.1 As part of the 2004 Spending Review, the Treasury Group agreed a target to achieve annual efficiency savings of £18.7 million by 2007-08²⁴. The plans for achieving efficiencies, the basis of measurement and the controls in place to maintain service quality are described in detail in the Efficiency Technical Note²⁵. This section describes the progress to date and key future developments.

B.2. In response to its Comprehensive Spending Review (CSR) settlement, Treasury Group will be publishing its Value for Money Delivery Agreement by the end of the 2007. The Delivery Agreement sets out how Treasury Group will deliver Value for Money over the CSR period.

PERFORMANCE AGAINST TARGETS

B.3 Overall, Treasury Group has already achieved, and in some cases is on course to exceed, its efficiency targets. OGC, OGCbuying.solutions, DMO and Group Shared Services have delivered their savings and are continuing to look at ways to further increase efficiency; Core Treasury is on course to at least meet its efficiency target.

Table 1: Treasury Group - Efficiency targets: summary progress to date²⁶

£ million	2007-08 Target	Progress 31 March 2007	Progress 30 September 2007	Of which Cashable²⁷	Status of savings²⁸
Core Treasury	10.9	8.5	10.4	10.4	Final
OGC	3.5	3.5	3.5	3.0	Final
OGCbuying.solutions ²⁹	1.8	1.8	2.0	1.0	Final
DMO	1.0	1.0	1.0	1.0	Final
Group Shared Services	1.5	1.8	2.0	1.9	Final
Total	18.7	16.6	18.9	17.3	

²⁴Originally £17.7m, raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08

²⁵A revised Efficiency Technical Note was published in December 2006, and is available from http://www.hm-treasury.gov.uk/media/C/1/hmt_efficiencytechnicalnote_141206.pdf

²⁶This table shows 31 March 2007 figures for consistency with the Annual Reports and Accounts, as well as the figures for progress at 30 September 2007

²⁷Cashable savings are those that reduce the costs associated with a defined activity or output, thereby releasing money to be utilised by other priorities in the department.

²⁸Efficiency savings can be classified as Preliminary, Interim or Final.

²⁹OGCbuying.solutions is an Executive Agency of the OGC, with Trading Fund status. As part of the Treasury Group it has its own efficiency target and is included in the table above.

CORE TREASURY

B.4 The core Treasury efficiency plans focus on three workstreams against which performance is measured, as detailed below. The core Treasury had achieved £8.5 million by 31 March, and £10.4 million by 30 September 2007.

B.5 **Workstream: Policy, Funding and Regulation (PFR) – Directorate Budgets & Procurement**

Plans: £5.3 million efficiencies by 2007-08

Progress 31 March 2007: £4.8 million

Progress to 30 September 2007: £6.0million

Through the SR2004 period, the Treasury's organisational structure has been realigned to fit better with policy objectives, reduce areas of overlap and increase synergies between teams, securing substantial efficiencies in staffing. The most significant of these changes was the transfer of tax policy responsibility from the revenue departments to the Treasury in 2004-05, following the O'Donnell Review.

Over the last year, the structure of the core Treasury has been further adapted and simplified to focus on delivering core objectives, in particular, to reinforce the efforts to raise productivity across the private and public sectors and to improve the management of the public finances.

To reduce non-pay costs, the Treasury has also put in place a programme of reforms to its procurement strategy, with the overall objective of providing better value for money through improved efficiency in procurement delivery (covering procurement services, purchases, processes and systems).

B.6 **Workstream: Policy, Funding and Regulation (PFR) – Strategic Reserve**

Plans: £4.0 million efficiencies by 2007-08

Progress to 31 March 2007: £2.3 million

Progress to 30 September 2007: £2.0 million

The efficiency gains for the Strategic Reserve represent the cost in each financial year of new policy priorities that have been funded from within the Treasury Group's SR2004 funding allocation, enabled by efficiency savings. The total of Strategic Reserve allocations for new policy priorities has fallen slightly from last year, because more of the funds have been used to cover Group Shared Services transformation costs, and it will fall short of the original £4 million planned, but core Treasury's overall contribution is on course to be met.

In 2006-07 the Strategic Reserve was used to fund a number of programmes including the cross Whitehall financial management improvement programme, and the 2005 manifesto commitment to work with banks and building societies to enable the introduction of a UK unclaimed assets scheme. This year's allocation includes further funding for the two programmes mentioned above, as well as also includes the cost of the UK's presidency of the Financial Action Task Force on Money Laundering and Terrorist Financing.

B.7 **Workstream: Programme**

Plans: £1.6 million efficiencies by 2007-08

Progress to 31 March 2007: £1.4 million

Progress to 30 September 2007: £2.4million

The main element within the Treasury's programme workstream is the purchase of UK coinage from the Royal Mint. The Treasury has supported the Mint's Business Improvement Programme, which was implemented in 2006 and is already producing savings in the Mint's production and overhead costs. The Treasury has also worked with the Mint to identify improvements in the arrangements for the production and distribution of UK circulating coinage. The Treasury has agreed a new Service Level Agreement with the Royal Mint, which contains improvements that have led to a real terms reduction in the manufacturing price of coinage.

Office of Government Commerce

B.8 OGC has already met its £3.5 million savings contribution. Total savings to 30 September 2007 were £3.5 million. The three main supporting workstreams of the OGC's Efficiency Programme are Corporate Services, Procurement and Productive Time. To date, OGC has achieved procurement savings of £1.0 million through the use of smarter procurement methods, including the use of shared contracts. In corporate services, OGC has achieved savings of £1.0 million through streamlining central functions. OGC has also achieved savings of £1.5 million on productive time through better use of consultants, and other initiatives.

B.9 From 2007-08, OGC will become a smaller, higher calibre organisation, and will deliver the actions under its efficiency programme while implementing the changes set out in the Government's report "Transforming Government Procurement".

OGC buying.solutions

B.10 All actions have now been completed, and as at end September 2007, OGCBuying.solutions has exceeded its £1.8 million of efficiency savings through:

- £1.1 million of productive time savings through an improvement in the ratio of internal costs to public sector value for money improvements;
- £0.6 million of procurement savings through the reduction in the cost of delivery of some of its support services; and
- £0.3 million of relocation savings.

UK Debt Management Office

B.11 DMO delivered its £1.0 million contribution to the overall saving target by April 2007. HM Treasury Group's Annual Report and Accounts³⁰ (published in June 2007) outlines how DMO achieved their contribution.

Group Shared Services

B.12 The previously separate corporate services of the group bodies now participating in Group Shared Services had achieved £1.8 million efficiencies as at 31 March and £2.0 million as at 30 September. These savings have been achieved 18 months early and will be built on over the CSR2007 period.

B.13 During September and October 2007, OGC's London based staff relocated from Trevelyan House to 1 Horse Guards Road (IHGR). The relocation will enable the lease on the Trevelyan House offices to be reassigned, saving the Group around £3 million a year in running costs, as well as facilitating a closer working relationship between OGC and HM Treasury.

Co-location also provides the basis for further efficiencies, which include savings in network and IS support, facilities management costs and the exploration of other potentially shared functions.

HEADCOUNT AND RELOCATION TARGETS

B.14 To support the delivery of its efficiency plans, the Treasury Group has a target to reduce its headcount by 150 full-time equivalent staff by 31 March 2008: Core Treasury will meet all of this reduction. By 30 September, the size of Core Treasury has fallen by 205 staff, with a reduction of 268 staff for the Treasury Group overall.

B.15 In response to the Lyons review, the Treasury Group committed to relocating 26.5 posts out of London by 2007-08, and this commitment has been exceeded:

- OGCbuying.solutions has relocated all of its planned 22 posts (15 to Liverpool and 7 to Norwich);
- OGC has transferred 5 posts from London to Norwich;
- Group Shared Services have so far relocated 10 posts from London to Norwich.

³⁰Available from http://www.hm-treasury.gov.uk/media/A/2/annual_report07.pdf



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