

Comprehensive Spending Review 2007: Value for Money delivery agreement

Section 1: Vision

Background

The Government is committed to delivering a transport system which enables sustained economic prosperity and addresses the needs of the travelling public. Focussed around this commitment, the Department for Transport's strategic objectives for the 2007 Comprehensive Spending Review (CSR) period, which covers financial years 2008-09, 2009-10 and 2010-11, have been set as follows:

- To sustain economic growth and improved productivity through reliable and efficient transport networks;
- To improve the environmental performance of transport;
- To strengthen the safety and security of transport; and
- To enhance access to jobs, services and social networks, including for the most disadvantaged.

In meeting these objectives, the Department's challenge is to develop a transport system that delivers high-quality public services in the context of a transport network that is facing increasing demand. Key priorities in the current spending period are, for example, to improve capacity on the rail network, and to improve the reliability of journeys on the strategic road network.

Department for Transport CSR07 VfM Programme – Overview

The Department for Transport CSR07 Value for Money (VfM) Programme will see the Department further expanding its drive towards consistently achieving best value in public spending across its business areas. The Programme will help to ensure that the Department is well placed to meet the challenges presented by its strategic objectives by making best use of often scarce resources, focusing these where they are most needed.

HM Treasury originally set the Department the challenge of delivering net, cashable savings of 3% on the departmental budget across each of the three years in the CSR07 Spending Review Period; requiring total Programme VfM gains of £953m. The Department has, in fact, put together a VfM Plan which sets out to achieve VfM gains which would nearly double this original target, including building upon and developing successful areas from the Department's Spending Review 2004 (SR04) Efficiency Programme.

Across the course of the VfM Programme, the Department aims to achieve £1.76bn in VfM gains. These gains are defined as cashable savings and are entirely consistent with HM Treasury's requirement that all VfM gains in the CSR07 period must be cash releasing. It is important to note, however, that all gains have been built into the Department's CSR07 settlement. It is therefore necessary for the Department to deliver its target VfM gains in order to live within its CSR07 settlement.

Summary of the Department for Transport's CSR07 VfM Initiatives

VfM gains relating to railways form the largest component of the Department's VfM programme. Transport for London, Administration costs, Highways Agency, Safety Service Delivery and Logistics and Procurement will make up the balance of the target £1.76bn VfM gains.

Railways

The Department for Transport is responsible for specifying and letting contracts to train operating companies to run franchised passenger services in England and inter-city services to and from Scotland and Wales. The passenger railway has now been operating as a private industry in the UK for over ten years.

The funding arrangements governing the payment of premia to the Department and subsidy to train operating companies are collectively known as Support for Passenger Rail Services.

Under this VfM initiative, VfM gains will be delivered through the rail franchising process and through the systems used to manage train operator performance. As part of the bid analysis process, the Department will continue to focus on assessing potential operators' ability to deliver growth, ensuring maximum value for money. Alongside a robust approach to the negotiation of franchise agreements, the Department will also continue to take appropriate action with operators where obligations set out in franchise agreements are not met. This combined approach will help to ensure that operators are encouraged to deliver passenger services of increasingly high standard whilst reducing the amount of government subsidy paid. Set against a background of forecast growth in rail passenger demand, the Department will be able to ensure the delivery of rail services which represent good value for money for the taxpayer.

The Department for Transport will deliver VfM gains of **£700m** relating to rail passenger franchising by the end of 2010-11.

Network Rail owns and operates Britain's rail infrastructure. As a company limited by guarantee, it is a private company operating as a commercial business. Regulated by the Office of Rail Regulation (ORR), Network Rail is a not-for-dividend company funded in part through Network Grant paid by the Department for Transport.

The periodic review being undertaken by the Office of Rail Regulation (ORR) will set the overall financial determination for Network Rail for 2009-2014. This will incorporate ORR's assessment of additional efficiencies that Network Rail should deliver during that control period. It is estimated that Network Grant payments will reduce by **£538m** by the end of 2010-11, as set out in the White Paper 'Delivering a Sustainable Railway' published on 24th July 2007.

Transport for London

Transport for London (TfL) is the integrated body responsible for transport systems throughout the capital. TfL receives funding from a range of different sources, including the Department, which provides approximately 40% of TfL's income. On this basis, 40% of efficiency gains made by TfL are considered attributable to the Department.

TfL's efficiency programme was originally established in 2002 to drive out savings following the integration of TfL's 15 predecessor bodies. Building on the successes of their existing efficiency programme, TfL will be pursuing a range of operational and back-office efficiencies; including the development of a new information management strategy, and

continued focus on controllable spend in procurement. TfL's business plan is built upon a level of financial expenditure that could not be sustained without the contribution from efficiencies. In addition to the purely financial impact, the efficiency programme is also expected to deliver a range of further benefits. These include the leveraging of greater outputs from TfL's existing budget by allowing for the release of resources that can be redirected to other initiatives and, by demonstrating the efficiencies which can arise from new systems such as the Oyster Smartcard ticketing system, generating support for innovative solutions.

TfL's Business Plan, which includes details of its efficiency initiatives, can be viewed via the TfL website at:

[http://www.tfl.gov.uk/assets/downloads/corporate/Business_Plan_November-2006\(1\).pdf](http://www.tfl.gov.uk/assets/downloads/corporate/Business_Plan_November-2006(1).pdf)

This VfM initiative has a target to deliver **£233m** of VfM gains by the end of financial year 2010-11. This represents 40% of the total VfM gains that TfL expect to make by the end of 2010-11, and, on the basis of the Department's grant funding to TfL, is the proportion of TfL's gains considered attributable to the Department.

Highways Agency

The Highways Agency is the executive agency responsible for operating, maintaining and improving the strategic road network in England. The Agency is tasked with four prime objectives; reducing congestion, improving reliability, improving road safety and respecting the environment. The Agency achieves the majority of its outcomes through extensive use of the supply chain.

The Highways Agency's relationship with a large supply chain gives rise to a variety of efficiency challenges, and the Agency will be employing a range of measures to meet these. For example, whilst adopting a competitive approach to contracting with key service suppliers, the Agency will also continue to promote efficient ways of working more widely, including facilitating the sharing of best practice between service providers.

The Highways Agency will also be focusing on managing the impact of costs and construction industry inflation in relation to Major Projects, and has recently implemented a new action plan designed to address these areas. The project is currently in its infancy and, although success is dependent on a number of factors, it is hoped that it will contribute to the achievement of both procurement efficiencies and operational efficiencies from the supply chain.

The Highways Agency VfM initiative aims to deliver gains totalling **£144m** by the end of the CSR07 period.

Procurement

This initiative will focus on delivering VfM gains in the Department's procurement of common commodity-based and recurring areas of expenditure. By implementing a new procurement plan, the Department will work to ensure that maximum benefit is extracted from existing collaborative framework deals and through the speedy take up of new deals where these offer VfM improvements. A key element of the plan will involve the review of skills and expertise. This will be supported, if appropriate, by a professional development programme underpinned by training provision to build expertise in the use of aggregation and demand management methods to deliver cost reductions.

Under the Procurement initiative, the Department intends to deliver **£84m** in VfM gains by the end of the CSR07 period.

Administration Costs

The Department has agreed with HM Treasury that it will reduce its administration budget by 5% year-on-year in real terms through the CSR07 period.

The Department's business units are considering how they will allocate their reduced administration allowances, taking into account both pay and non-pay budgets.

To support these reductions, the Department will implement more effective management of its administration budget. Primary responsibility for the allocation of administration budgets will be devolved to the heads of business units, allowing individual senior management within those units to take decisions on how best to allocate available resources. Where pressures emerge, senior managers will be expected to make savings elsewhere in their business unit in order to absorb them.

The Department plans to make VfM gains of **£43m** from this initiative, in the three years to 2010-11.

Safety, Service Delivery and Logistics Group (SSDL)

Recent departmental reorganisation has led to the creation of the SSDL group, comprising two central directorates and five executive agencies providing services directly to the public. The two Central Directorates are the Transformation, Licensing, Logistics and Sponsorship Directorate and Road and Vehicle Safety and Standards Directorate, whilst the five executive agencies, and their main functions, are as follows:

- *Driver and Vehicle Licensing Agency (DVLA)*: maintaining accurate registers of drivers and vehicles – thereby supporting a wide range of Government and non-Government organisations, and collection and enforcement of Vehicle Excise Duty;
- *Vehicle and Operator Services Agency (VOSA)*: supporting the Traffic Commissioners on commercial-operator licensing, in-service vehicle testing and enforcement of commercial-operator vehicle standards and drivers hours;
- *Driving Standards Agency (DSA)*: setting standards for drivers and trainers, educating and testing drivers and supervising trainers;
- *Vehicle Certification Agency (VCA)*: ensuring that vehicles, systems and components have been designed and constructed to meet international standards of safety and environmental protection; and
- *Government Car and Despatch Agency (GCDA)*: meeting government requirements and customers' needs for the provision of secure cars, drivers and mail services.

Building on the good progress made under the Department's SR04 Efficiency Programme, SSDL will be making a significant contribution to the Government's Service Transformation agenda by concentrating on the shift of vehicle licensing transactions to secure e-channels. The move to harness technological developments will lead to a range of benefits beyond purely financial savings, allowing, for example, for the introduction of a range of secure, customer-orientated on-line services offering straightforward transactions 24 hours a day and a more targeted approach to evasion enforcement.

The Department aims to deliver total VfM gains of **£20m** under the SSDL initiative by the end of the CSR07 period.

Full details of the proposals for each of the VfM initiatives are provided in Section 3 below.

CSR07 VfM Programme Governance

The SR04 Efficiency programme established a firm governance framework, with the composite workstreams each having an individual Senior Responsible Owner (SRO) who would participate in an over-arching Efficiency Programme Board, chaired by the SRO of the overall programme. Governance of the CSR07 VfM programme will build on this existing arrangement, by drawing on the good practice developed in the current programme and drawing in new members to represent areas which were not part of the SR04 programme.

The overall SRO role for the CSR07 VfM programme will be performed by either the Director General Corporate Resources Group or the new Finance Director (when appointed). The existing Efficiency Programme Board, with a reconfigured membership to include areas not within the scope of the SR04 Efficiency Programme, will exercise overall governance and oversight of reporting requirements for the CSR07 VfM programme. This will include ensuring that delivery of VfM gains is proceeding according to plan and assessing and managing the risks associated with the Programme. The Department will continue to keep its governance framework under review as the delivery phase approaches to ensure that governance continues to be robust and that synergies with reporting arrangements in other parts of the business are fully exploited.

Risk Management

The Department's CSR07 VfM Programme will continue to build upon the sound risk management processes that have been established as part of the SR04 Efficiency Programme. In common with the SR04 programme, the intention is for VfM initiative areas to develop their own risk registers and report regularly on key risks and actions to mitigate them. Significant risks will be elevated for consideration by the Efficiency Programme Board. The Department will continue the work undertaken in the SR04 Efficiency Programme to develop its understanding and assessment of the financial impact of risks and to ensure that management of risk is consistent with, and complimentary to, the Department's overall approach to managing risk. Monitoring of the Department's CSR07 VfM targets will be carried out alongside monitoring of progress against the Department's Public Service Agreements and Departmental Strategic Objectives. This will facilitate a more holistic approach to risk management across the Department's business areas.

Each individual VfM initiative area will have a number of risks that are unique to them. However, there are a number of key risks already identified which are cross-cutting across more than one initiative area and some which apply at the over-arching programme level. Some of the most significant of these include:

- A lack of direct levers of control to ensure the delivery of VfM targets. The Department already has experience of managing this type of risk in the SR04 Efficiency Programme, where the lack of levers over local authorities has been a key risk for most of the programme. Although local authority VfM gains (with the exception of TfL) are not included in the Department's CSR07 VfM target, there are a number of similar areas in the new programme where the Department does not exercise direct control over delivery. However, the Department's strategy for mitigating risk will be similar, such as by continuing to pursue communication and engagement strategies to ensure that attention is kept on VfM delivery and that good practice is shared amongst stakeholders.

- VfM gains are made at the expense of service quality or administration budget reductions leading to a lack of resources to facilitate service delivery. The alignment of VfM and PSA/DSO reporting will ensure that clear linkages are made between the achievement of VfM gains and the Department's success in continuing to meet delivery targets. Many of the initiative areas in the CSR07 VfM programme cover similar areas as the SR04 Efficiency Programme, where monitoring of service quality is already well embedded. The reductions to the administration budget, though challenging, will be managed through the Department's business planning process, which seeks to prioritise key objectives and allocate scarce resources accordingly. This has been done in previous business planning rounds to ensure that sufficient resources are allocated to key departmental priorities, both new and existing.

Section 2: Measurement

In the course of the 2007 Comprehensive Spending Review, the Department identified a portfolio of initiative areas to deliver the agreed VfM gains. The total spend for these areas in the baseline year (2007-08) is expected to total £10.26bn.

Before describing the approach to measuring VfM gains, it is worth setting out the two overarching principles applied in order to ensure that gains are genuine and can be scored:

- All gains are calculated net of investment and ongoing costs. Where initial investment and/or continuing expenditure is required to deliver the reform which drives the VfM gain, this expenditure is deducted from the total VfM gain in the year in which it falls;
- Unlike the SR04 Efficiency Programme, the CSR07 VfM programme requires all gains to be cashable. This will ensure that the Department and its Agencies are able to redeploy resources to live within the constraints of the CSR07 settlement.

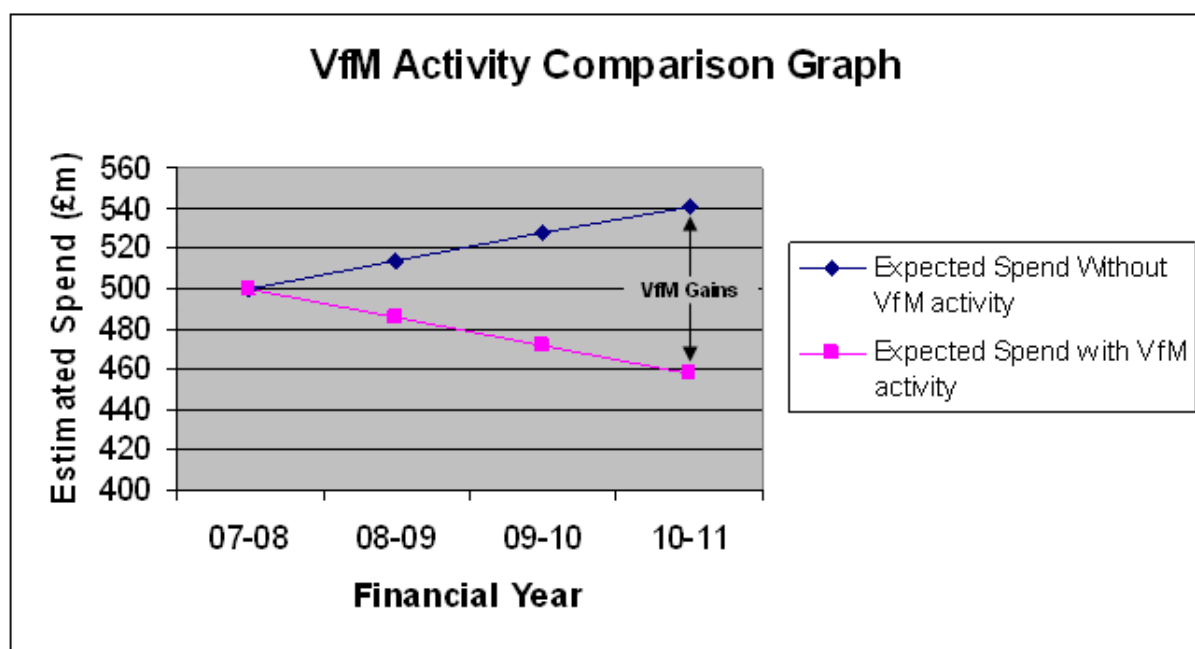
In accordance with the approach HM Treasury set out across government, target VfM gains were calculated by constructing a counterfactual cost pressure, showing the projected cost over the CSR07 period from the baseline year (2007/08) if no VfM action were to be taken. In the majority of cases, the counterfactual was based upon year-on-year growth of 2.7% – the anticipated rate of GDP inflation. There have been some exceptions to this, however, such as for the Highways Agency initiatives, where the construction-related indices have been used instead of the GDP inflation rate. This is to reflect the trend for comparatively higher rates of inflation in this sector. In cases such as this, the Department negotiated with and agreed with HM Treasury the appropriate inflation index to be used.

An evidence based approach has been taken to the construction of the counterfactual, drawing on historical trends and known plans for the Spending Review years. Counterfactuals were also subject to robust challenge from HM Treasury during the construction of the VfM portfolio of measures, to ensure that they were based on sound assumptions.

The counterfactual therefore represents the Department's anticipated financial requirements across the three CSR07 years if no VfM intervention was made. Against this, a target actual spend required to deliver the VfM target was constructed for each initiative. Again, this was based on a rigorous assessment of what each of the Department's VfM initiatives could realistically deliver, with the emphasis being on setting targets which were challenging, but deliverable. The difference between the counterfactual cost pressure and the planned cost enabled by the VfM initiative represents the VfM gain to be delivered. For example, the table and graph below illustrate this calculation for achieving target VfM gains in the Department's procurement VfM initiative:

Procurement *

| | 2007-08 (baseline year) | | 2008-09 | | 2009-10 | | 2010-11 |
|---|----------------------------|--|---------|--|---------|--|---------|
| Expected spend if no VfM activity is undertaken | £500m | + GDP inflation at 2.7% + £13m | = £513m | + GDP inflation at 2.7% + £14m | = £527m | + GDP inflation at 2.7% + £14m | = £541m |
| Expected spend with VfM activity taking place | | | £486m | | £472m | | £457m |
| VfM gains | | | £27m | | £55m | | £84m |



* for a full explanation of how Procurement VfM gains will be achieved, see the Procurement pages in Section 3, below.

Section 3, below, contains further details of how each individual initiative contributes to the achievement of the Department's overall VfM target and expands on the appropriate measurement metrics in place to deliver them.

Section 3: Initiative Details

1. Railways

Vision

To deliver best possible value for money in the Department's support of Britain's railway. Through the passenger rail franchising process, to continue to rigorously commit train operating companies to strict performance regimes and negotiate support profiles that reduce government subsidy.

Delivery Strategy

During franchise competitions, Department for Transport has and will continue to undertake detailed analysis and forecasting of bids to ensure that maximum value for money for the Department for Transport is achieved. This includes a robust assessment of the inherent risk associated with the bid revenue line, such that the winner of the franchise is not judged purely on the amount of their bid but on their ability to deliver the growth on which their bid is predicated. There is wide consultation on service specifications before a franchise 'Invitation to Tender' is issued. This consultation covers industry and wider stakeholders, as well as representatives from local authorities and other local bodies.

The following VfM activity does and will continue to take place after a franchise has been let and is in operation:

- The Department for Transport constantly monitors the activity of the franchise and progress towards meeting its obligations, including performance targets. Delivery failure may result in the Department taking enforcement action which, in extremis, could lead to a franchise being terminated.
- Train Operating Companies will determine how they implement particular initiatives to improve revenue/reduce costs, within the performance and other operating criteria (for example service level changes) set out in their franchise agreements.

Measurement

In line with current arrangements, forecast and actual subsidy/premia payments made and expected to be made to Train Operating Companies will be captured as a routine part of long term financial forecasting.

Governance

Train Operating Companies will determine how best to deliver on their contractual obligations. The Department for Transport will not seek to exert control in this area. As described above, the Department for Transport exerts its skills and expertise in securing the best deal for the taxpayer at the franchise letting stage. Once a franchise has been let, the Department's role will shift to monitoring rather than influencing VfM gains.

Network Rail is responsible for meeting any targets set on them by the ORR.

This initiative will be overseen by the Director of Rail Strategy and Stakeholder Relations and the Director of Rail Service Delivery.

2. Transport for London

Vision

For Transport for London (TfL) to build upon the successes of their existing efficiency programme through pursuing a range VfM activity, centring on back-office functions. This is expected to produce not only financial gains, but also a variety of further benefits including:

- the leveraging of greater outputs from TfL's existing budget by allowing for the release of resources that can be redirected to other initiatives, and
- generating support for innovative solutions by demonstrating that VfM gains can arise from new systems such as the Oyster Smartcard ticketing system.

Under this initiative, the Department aims to deliver £233m of VfM gains across the CSR07 period.

Delivery Strategy

The TfL Efficiency Programme (TfL EP) comprises over 600 separate initiatives. Some of the larger of these initiatives include:

- the adoption of a systematic approach to procurement,
- a number of major contract renewals,
- targeted expansion of a shared services system which will provide HR services across the TfL family,
- An on-going review of operating costs.

TfL will work with a wide range of key suppliers both at the time of procurement and throughout the delivery of contracts to ensure that best value for money is derived from the delivery chain.

An example of how this approach works in practice can be seen from TfL's regulation of bus network contracts. These are tightly managed to ensure value for money is delivered across their total length; as has been recognised in the work on Delivery Chain Analysis for bus services in England, conducted in December 2005 by the National Audit Office and Audit Commission.

Governance

As enshrined in the 1999 Greater London Authority Act, the Department for Transport has an arms-length relationship with TfL, and TfL will therefore take forward the day-to-day monitoring and oversight of the TfL EP. However, as approximately 40% of TfL's income is provided through Government grant, the Department does engage constructively at all levels of TfL, particularly during Comprehensive Spending Reviews, ensuring that Government money is being spent effectively.

TfL's management of the TfL EP will centre on periodic reviews of performance and quarterly forecasts of savings. This process will include the identification of new savings (outside of the annual business planning process) and the review of savings sustained from previous years. Oversight mechanisms include:

- Analysis and challenge through the 4-weekly Business Management Review process as appropriate;
- Formal submission by businesses of quarterly efficiency returns to TfL's Group Business Planning and Performance team stating year to date achievements and year-end forecast against budget.

TfL has a strategic risk management policy that has been approved by its Board. Risk management is the responsibility of all TfL managers and risk mitigation strategies are in place. Details of key risks are maintained and updated by all business units with the top 10-15 TfL strategic risks captured through direct input from all chief officers.

Measurement

2010-11 will be the first year of TfL's next settlement period. As TfL will be conducting the business planning for this year during 2008, the Department does not have firm forecast savings figures from TfL for this year yet. TfL's savings for 2010-11 have therefore been estimated on the basis that they represent 40% of the sustainable efficiency gains that TfL expects to achieve by the end of 2007-08. Actual efficiency gains for the 2010-11 period may therefore exceed the level of VfM gains as estimated above.

Without undertaking VfM activity, it is expected that the level of grant provided by the Department for Transport to TfL would have to rise at a level above 2.7% GDP inflation as a result of the continuing renewal and enhancement of London's transport network.

3. Highways Agency

Vision

To achieve the best possible value for money through the Agency's use of the supply chain by acting through better partnerships, to ensure that the service community work together and share best practice. Key areas to be focused on for VfM gains will be:

- procurement and installation of technology;
- maintenance and local improvement of the network;
- small schemes work relating to research and development and technical consultancy commissions;
- cost management of Major Projects.

The Highways Agency expects to deliver £144m in VfM gains by the end of the CSR07 period.

Delivery Strategy

The practice of achieving VfM gains through the Highways Agency's extensive use of the supply chain has been established and developed through the course of the SR04 Efficiency Programme. During the CSR07 period, the Agency will build on the experience and lessons it has learned through the current programme to deliver further gains. When contracting with suppliers, the Agency will continue to use a competitive process to ensure that those suppliers who offer the best value for money are selected to carry out work for them.

The Highways Agency will seek to deliver net savings of 2%/4%/6% in **technology procurement** across the CSR07 period, with 5% per annum savings deliverable in **technology installation**. This is set against a background of increasing volumes of equipment being installed.

In order to achieve VfM gains, the Agency will be required to achieve better value for money from **maintenance** contracts. The Agency also plans to manage down **Major Projects costs** and minimise the impact of construction industry inflation through better procurement efficiencies as well as leveraging real operational efficiencies from the supply chain.

Achievement of VfM gains will depend very much on the extent to which Early Contract Involvement (ECI) contracts can be operated more effectively, optimism bias and risk managed more effectively, projects managed better and commercial skills embedded through the organisation. These are all areas the Nichols review has focused on, as well as the accuracy of initial benchmark estimates and how they should best be presented to act as baselines against which VfM can be measured.

For Major Projects, the delivery chain will be incentivised through setting challenging target costs and the use of lean construction techniques which will eliminate errors and reworking. This will be supported with a detailed unit cost database and use of benchmarking techniques.

Small schemes work relating to research and development and technical consultancy will yield VfM gains of 2.5% year-on-year.

For other areas, the VfM plans in place across the Agency will be shared with supply chain partners, and targets will be placed on area delivery teams so that all parties are actively engaged in delivery and recording. Existing supply community forums will be used to share best practice. The Agency will also provide incentives for supply chain partners to take innovative approaches to delivery.

Governance

The Highways Agency Board has responsibility for ensuring that VfM gains are delivered. The Agency's Group Finance Director will act as SRO of this VfM initiative, and will receive regular progress reports from the operational finance directors who, in turn, will monitor and manage their respective VfM contributions through their finance teams.

The potential for improved value will be pursued through collaboration with other public bodies, especially local Highway Authorities. It is anticipated that the contractual mechanisms in place can be exploited to benefit all parties.

Measurement

A large proportion of the Agency's expenditure centres on road construction and maintenance. In these areas, which depend heavily on the construction industry supply chain, experience has shown that rates of inflation tend to be significantly higher than that Retail Price Index (RPI). For the purposes of calculating VfM gains as part of the CSR07 VfM Programme, the Department has agreed with HM Treasury that construction industry inflation indices should be used (as has also been the case during the SR04 Efficiency Programme). Therefore, in calculating the counterfactual cost pressures that it will face during the CSR07 period, the Highways Agency has assumed that the higher, construction industry inflation indices will apply.

In order to contain costs and ensure value for money, the Agency has budgeted for overall **maintenance** cash requirements to only grow equivalent to the 2.7% GDP indices, rather than the higher construction industry rate. In order to manage the difference between a planned budget which rises by 2.7% per annum in the years to 2010-11 and cost pressures that are expected to rise by the higher construction industry rate of inflation (i.e. to live within its budget), the Agency will be required to achieve better value for money from maintenance contracts. Mitigating the impact of construction industry inflation, which is affected by many external factors, is a key VfM challenge for the Agency.

4. Procurement

Vision

To implement a new procurement plan to ensure that maximum benefit is yielded from existing framework deals and that changes are made to the Department's procurement processes for common commodity and recurring expenditure to deliver better value. Key elements of the plan will involve closer working with the Office of Government Commerce's (OGC) Commodity Steering Group, use of aggregation and demand management methods to deliver cost reductions, a skills and capability review and development of a professional development programme underpinned by appropriate training.

Through the initiative, the Department plans to achieve £84m in VfM gains by the end of the CSR07 period.

Delivery Strategy

To deliver the target gains for this initiative, the Department will undertake a detailed analysis of spend to identify opportunities for greater collaboration and the implementation of appropriate category management systems that could result in VfM gains. If the analysis of spend supports it, the Department intends, by April 2009, to begin the process of applying category management techniques and extending aggregation of demand.

The role of the Department's Procurement Directorate in setting procurement policy and providing central guidance for the wider Department will facilitate an improved approach to collaborative procurement across the Department. The Department will adopt a common skills and capability level for professional procurement staff. Increasing professionalism in this way is also expected to lever specific returns.

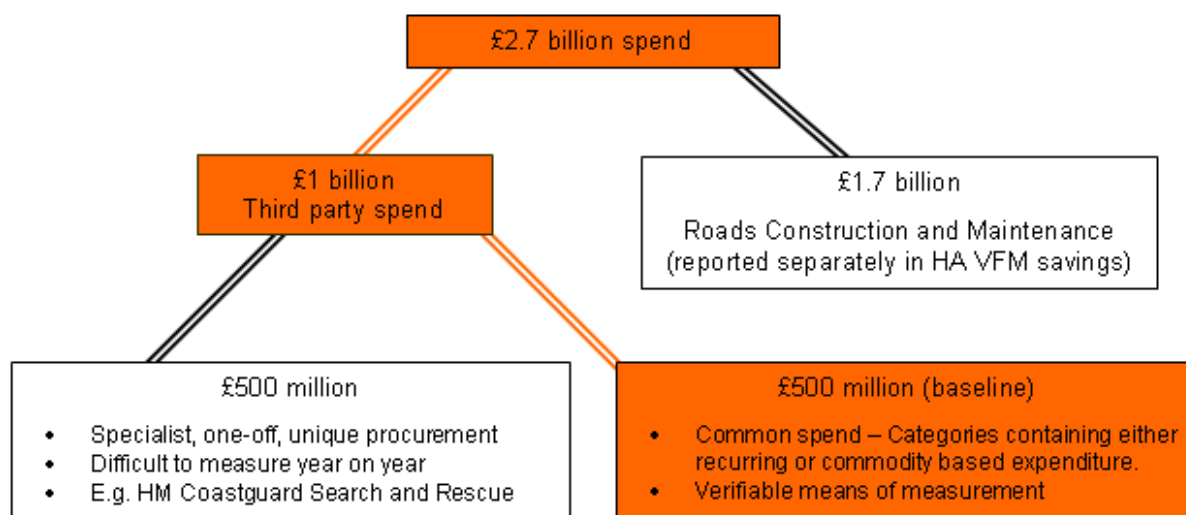
Progress under the Procurement initiative will be closely allied to the Office of Government Commerce's Transforming Government Procurement programme (TGP). The Department will participate in a number of specific projects within this programme, including work on the improvement of skills and capability and the implementation of a strategic approach to collaboration.

Governance

The delivery of Procurement VfM gains will be overseen by the existing Procurement Policy and Contracts Team within the Department's Procurement Directorate. This team will be responsible for the capture, compilation and reporting of VfM gains through programme-wide reporting mechanisms.

Measurement

The Department's largest area of procurement spend is connected with investment in major transport delivery programmes. Procurement VfM gains in these areas will be measured and reported through other VfM initiatives described in this document. Of the remaining procurement spend, £500m is categorised as either commodity based or recurring expenditure, with a further £500 million categorised as unique, one-off procurement spend. As one-off spend is not capable of meaningful year-on-year comparison, it is the commodity-based and recurring expenditure from which procurement VfM gains will be generated. The diagram below demonstrates how procurement on major transport delivery schemes has been removed to ensure that there is no double counting with other VfM measures and how the commodity-based, recurring spend, which is the subject of the VfM initiative, has been identified. This results in a baseline figure for the latter of £500m.



5. Administration costs

Vision

To achieve best value for money through effective management of the Department's administration budget, delivering year-on-year VFM gains of 5% in real terms, totalling £43m by the end of 2010-11.

Delivery Strategy

The Department aims to achieve these VFM gains by pursuing a range of strategies:

- As part of the business planning process for 2008-09, business units are planning on the basis of a 5% real terms reduction in their total administration budgets from 2008-09 onwards. Business units have been asked to consider how they will allocate their reduced administration allowances, taking into account both pay and non-pay budgets.
- To support these reductions, the Department will implement more effective management of its administration budget. Primary responsibility for the allocation of administration budgets will be devolved to the heads of business units, allowing individual senior management within those units to take decisions on how best to allocate available resources within their own business units. Where pressures emerge, senior managers will be expected to make savings elsewhere in their business unit in order to absorb them.
- In addition, the Central Department is continuing to roll out the use of Flexible Deployment and using it during the planning round to contribute to the process of matching resources to priorities. This strategy is helping to ensure that the Department maximises the use of its available human resources.
- In the event that requests for additional resource over and above each business unit's allocation are received, these will be considered by the Department's Executive Committee, which will be advised by the Department's Business Planning branch and Budget Management branch. This will ensure that the delivery of target VFM gains under this initiative is appropriately managed.

Governance

Overall responsibility for the delivery of VfM gains under the Administration initiative will reside with the Department's Transport Finance Director, upon appointment. The Department's Executive Committee will ensure that the agreed Administration budget (after VfM gains have been subtracted) is allocated appropriately, acting on advice from Business Planning and Budget Management branches.

Measurement

Without any VfM activity taking place, the Department would expect administration costs to rise by HM Treasury's measure of Gross Domestic Product inflation at 2.7% across each of the three years of the CSR07 period.

As with all other Government Departments, the Department will reduce its spend on administration by 5% in real terms for each of the three years covered by the Comprehensive Spending Review.

6. Safety, Service Delivery and Logistics Group

Vision

To build on the progress made under the Department's SR04 Efficiency Programme to make a significant contribution to the Government's Service Transformation agenda, by concentrating on the shift of vehicle licensing transactions to secure e-channels and pursuing a range of productivity initiatives. The move to harness technological developments will lead to a range of benefits beyond purely financial savings, allowing, for example, for the introduction of a range of secure, customer-orientated on-line services offering straightforward transactions 24 hours a day and a more effective approach to achieving compliance.

Through this initiative, the Department plans to deliver £20m in VfM gains by the end of the CSR07 period.

Outside of the scope of the CSR07 VfM Programme, the agencies of the Safety, Service Delivery and Logistics Group (SSDL) also plan to make £29m of annual efficiencies by the end 2010-11 from their statutory services that are funded by fees.

Delivery Strategy

In order to deliver the planned VfM gains, the SSDL agencies concerned will be completing the following programme of actions:

Driver and Vehicle Licensing Agency

- *Consumer Shift to Secure E-channels* – encouraging and facilitating customer self-service through provision of secure on-line services. A decision on whether to apply it to Electronic Vehicle Licensing (EVL) is expected shortly;
- *Organisational Change* – staff re-skilling, new working practices and contractual arrangements;
- *Electronic Systems* – introduction of new secure electronic systems allowing for more effective data-capture and archiving of recorded material;
- *Vehicle Integration Northern Ireland* – a secure new system will be delivered that will harness technology to improve service;

- *More Effective Enforcement* – use of electronic information to improve efficiency of tax-evasion enforcement while carrying out improvements in administration activities is planned for 2008; and
- *Estates Framework* – the business needs of the Agency will be rationalised in 2008. Estate management is outsourced under an agreement that covers the refurbishment, maintenance, acquisition and disposal of properties.

Driving Standards Agency (DSA)

- *Increased Productivity* – delivery of key transactions by secure electronic means; for example, increased electronic take up of people booking their driving test online in 2008 and amendments to driver testing online in 2009 will provide for more streamlined administration;
- *Estates* – during 2008-10, new Multi-Purpose Test Centres will open allowing for the closure of some Driving Test Centres, generating efficiency gains in DSA's estate holdings.

Vehicle and Operator Services Agency (VOSA)

- *Strategic Review* – VOSA has conducted a strategic review of outsourcing feasibility including lorry/bus testing and a range of administration and support services;
- *Cost effective enforcement strategies* – a new system to issue fixed penalty notices for offences is being implemented (as introduced by the Road Safety Act 2006), reducing bureaucracy and making the system more efficient; and
- *Rebalancing of assets* – during 2008-11, work continues on modernising and improving the efficiency of the VOSA estate.

Governance

There is already a sound governance framework in place which will oversee the management and delivery of the SSDL Group's VfM targets in the CSR07 years:

- At SSDL Group level, the Finance Forum will continue to co-ordinate and monitor against Efficiency Delivery Plans prepared by each Agency.
- Each Agency or initiative will have a Senior Responsible Officer appointed to be supported by one or more project managers.
- The SSDL Management Board is responsible for governance of business plans and the performance management of business units comprising the SSDL Group.
- The Group's Agencies will be required to report to the Board, explaining progress against individual Efficiency Delivery Plans.
- Budgets and plans of agencies incorporate the levers of efficiency required to deliver their targets.
- The Group's Performance Framework includes the strategic outcome that aims to embed the delivery of efficiency across the group.

Measurement

For the purposes of calculating VfM gains made under the SSDL initiative, the Group's baseline spend was calculated on the basis of the budget allocation for the former DVO

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Group, as estimated at the time the Department's Comprehensive Spending Review submission was being constructed in December 2006.

The counterfactual constructed for the SSDL Group indicated that if no VfM activity were to be undertaken, SSDL's net costs would be expected to increase across the three years of the CSR07 period. For those activities funded by grant, this increase would total some £23m. The VfM gains will be delivered by avoiding higher costs across a range of activity, including the lower transaction costs of electronic, as opposed to paper-based systems. As a result of the VfM action described in the delivery section above, it is envisaged that VfM gains of £20m will be made by the end of the CSR07 period.