

skills, reviewing financial support for 16 to 19 year olds continuing in education or vocational training, and investing further in the nation's infrastructure, as set out in earlier chapters of this Budget. The Spending Review will also help achieve more balanced growth across UK regions through these measures and also through support for urban renewal and regeneration, the rural economy, sustainable development and by developing further the framework to ensure that regional and local institutions have the flexibilities they need to achieve their ambitions.

BUILDING A FAIR SOCIETY

The Government is committed to tackling social exclusion and deprivation and promoting opportunity and security for all.

The 2004 Spending Review will build on previous reviews with proposals to:

- increase the contribution of public services towards improving the life chances of children in low-income households and to improve services for children and their families living in deprived areas. The Child Poverty Review in particular will include recommendations to improve both the immediate material circumstances of children in low-income households and their long term life chances;
- improve performance of public services accessed by those living in deprived areas and by disadvantaged population groups;
- respond to the recommendations of the Wanless Review to secure good health for the whole population, and tackle in particular the occurrence of avoidable ill health related to socio-economic deprivation;
- increase the supply of affordable housing, reduce homelessness and regenerate deprived city centres; and
- develop floor targets as part of PSAs to ensure standards of public services are raised across the board, especially in the most deprived areas, to meet minimum national standards.

The Review will also consider the resources available to reduce crime, strengthen the UK's defences and meet the UK's responsibilities in international development.

The Spending Review will also drive forward the next phase of the Government's reform agenda for the public sector. Key elements of this next stage of reform are contained in the reviews announced in Budget 2003, which aim to ensure that best use is made of the additional funding allocated in the 2002 Spending Review and to prepare the ground for the 2004 Spending Review.

Central to the aim of this next stage of public service reform is the Government's intention to deliver public services that are more responsive to local and personal needs. More efficient use of resources will help ensure public spending can be better targeted on regional and local priorities, and more personalised to the requirements of individual users.

In addition to the action being taken to enhance efficiency:

- the Lyons Review of public sector relocation identified 20,000 posts for relocation from London and the South East;
- the Devolving Decision-Making Review is establishing a clear rationale for a more devolved approach to decision-making, alongside a framework of national targets, as the means of delivering more responsive regional and local public services;
- the review of the voluntary and community sector is exploring how best the Government can engage this sector to improve the responsiveness of public services to local and personal needs; and
- the Spending Review, in addition to the outcome of these reviews, will also set out further steps that will be taken to make the delivery of public services more personalised to individual needs.

EXTRACT FROM BUDGET REPORT 2004

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GUIDANCE 07

2004

DELIVERING HIGH QUALITY PUBLIC SERVICES

INTRODUCTION

The Government's goal is to deliver world class public services through sustained investment and reforms which achieve the standards of services that the public expect and ensure that taxpayers receive value for money. World class public services are key to building a stronger, more flexible economy and a fairer society. A healthy and educated workforce, modern and reliable transport network, and adequate supply of housing promote productivity and flexibility and help to ensure opportunity and security for all.

Achieving this goal requires sustained investment in public services, used in the most efficient way to deliver the levels of services the public expects. The Government's fiscal framework and prudent management of the economy and the public finances have enabled it to deliver a step change in investment in key public service priorities in the three Spending Reviews since 1998. The 2004 Spending Review, which will conclude this summer, will lock in the step change in funding for key public services delivered in previous Spending Reviews while continuing the drive to increase the efficiency of public services and release resources for front line, non-administration services. Resources will be targeted on the front line, where they best deliver added value and better standards for the users of public services.

DELIVERING BETTER AND MORE EFFICIENT PUBLIC SERVICES

The Government has made increasing investment in public services and improving delivery a top priority. There has been a significant increase in resources made available for public services in successive Spending Reviews, helping to address the underinvestment of previous decades. Alongside this additional investment, the Government has embarked on an ambitious reform agenda to deliver efficient, responsive public services with high standards achieved across the country.

The key principles that have driven the reform agenda so far, as set out in Budget 2003, are:

- clear long-term outcome-focused goals set by the Government;
- devolution of responsibility to public service providers themselves,



with maximum local flexibility and discretion to innovate and incentives to ensure that the needs of local communities are met;

- independent and effective arrangements for audit and inspection to improve accountability; and
- transparency about what is being achieved, with better information about performance both locally and nationally.

This agenda has been put into practice across the public services, and alongside increased investment, is continuing to deliver real progress in standards and outcomes. Public Service Agreements (PSAs) have been a key mechanism for driving improvement in the public services through providing focus and ambition. Since 1998, the PSA framework has been progressively improved, with the number of targets halved as they have been achieved, and refined with a stronger focus on the outcomes that matter most to the public. They are also providing a framework of long-term goals, within which departments and delivery agents are free to determine how best to deliver, and have been instrumental in the drive for better performance information, with regular web-based reporting of progress providing unprecedented transparency about the results that investment in public services is delivering.

Transparent and measurable national targets for delivery, which continue to be an essential framework for reforms, have resulted in measurable improvements in key priority areas, for example:

- there are 187,000 fewer patients waiting for treatment now than in 1997-98;
- almost 53 per cent of 16 year olds achieved five or more A* to C grade GCSEs in 2003 compared to 45 per cent in 1997; and
- overall crime fell by 28 per cent between 1997 and 2002.

Despite the successes of the reform programme so far, a lot remains to be done. Raising the productivity of the public sector is a key part of

the Government's objective to ensure that resources and capacity are utilised with maximum effectiveness to deliver public services that are responsive and personalised to local and individual needs. As set out in the HM Treasury paper Public Services: meeting the productivity challenge, published alongside Budget 2003, productivity of the public sector raises productivity of the economy as a whole.

It also helps ensure that the public receives the highest possible standards from the additional resources the Government has made available for public services. Reliable measures of public sector output are crucial in gaining an accurate sense of how productivity is changing and in informing policy decisions. The National Statistician has therefore asked Sir Tony Atkinson to undertake a review of the future development of measures of government output, productivity and associated price indices so as to advance methodologies.

ACHIEVING GREATER EFFICIENCY

The 2004 Spending Review will consolidate and build on progress so far, by setting out the priorities and next steps in the Government's continuous drive for improvement. Achieving greater efficiency in the public sector will enable the Government to deliver high and continuously improving standards within the public services by releasing extra resources for front line services. This means moving resources, as a result of more efficient procurement and streamlined back office functions, away from administration and closer to public service customers. The greater the scale of efficiencies that can be achieved within the public sector, the lower the increase in total expenditure that is required to achieve further improvements in the performance of key public services. Efficiency gains therefore also enable the Government to fulfil its responsibility to deliver value for money to taxpayers.

Efficiency in the public sector involves making best use of the significant investment in information and communications technology (ICT), workforce reform and the sharing of best practice agreed for the 2002 Spending Review period. Other investments and reforms designed to modernise and enhance the delivery of public services will build on this. The pursuit of efficiency also includes reducing bureaucracy, which both cuts headquarters' administration costs and frees up the time of front line professionals to respond better to the needs of their customers.

THE PUBLIC SPENDING FRAMEWORK

Since 1997, the Government's commitment to improving standards in the public services has been matched by a focus on the efficiency of



spending. Underpinned by the new fiscal framework and prudent management of the economy and the public finances, the Government has undertaken extensive reforms of the system for managing public expenditure.

The elements of this new public spending framework that are already delivering greater efficiency are:

- firm three year plans for public spending, reviewed every two years, and full end-year flexibility (EYF), allowing departments to carry over unspent resources into future years and reducing wasteful end of year spending over time;
- PSAs, which provide an outcome focused contract for delivery and put the spotlight on efficiency and effectiveness in departmental programmes;
- the introduction of resource budgeting in line with best commercial practice and Departmental Investment Strategies, which have put a new emphasis on asset management and estate rationalisation in departments; and
- the introduction of administration cost limits for government departments, which translate the previous running cost controls to a resource budgeting basis and to better promote economical and efficient administration within central government.

EFFICIENCY IN THE 2002 SPENDING REVIEW

Specific measures have also been introduced over past Spending Reviews to increase the efficiency and effectiveness of particular aspects of public spending. The establishment of the Office of Government Commerce (OGC) in 2000, for example, has helped departments improve the efficiency of their procurement activities – saving over £1.6 billion in its first three years. In addition, significant investment in ICT by both central and local government in the 2002 Spending Review is streamlining the delivery of services to the public, cutting transaction costs and reducing paperwork. The Department for Work and Pensions (DWP), for example, now pays over 60 per cent of benefits directly into its customers' bank accounts, and is on track to deliver savings of £400 million a year by 2006.

THE EFFICIENCY REVIEW

Building on these achievements, Budget 2003 announced a cross-cutting review of efficiency in the public sector to identify the scope for further efficiencies in public spending that would release resources for frontline priorities. As the head of this review, Sir Peter Gershon has drawn on his own extensive experience and consulted widely to identify opportunities for sustainable efficiencies in the use of resources within both central government and the wider public sector.

Drawing on the evidence gathered by this review, the Government believes that there is scope for real efficiency gains in a number of areas:

- procurement savings can be achieved by greater use of shared purchasing strategies, use of electronic purchasing and improved supplier management. As indicated in the 2003 Pre-Budget Report, the Efficiency Review and the OGC are exploring options for radically reforming the approach to public sector procurement;
- the corporate back office, including IT, finance and human resource management services, can be streamlined by adopting existing best practice, for example by simplifying back office processes and procedures, plus standardising and sharing support functions; and
- transactional services, such as the payment of benefits and tax, can be made more cost-effective through maximising the benefits of investment in more efficient communication channels such as web interfaces and call centres.

There are also potential benefits from more long term reforms to the way government works and public money is spent, for example how policy is set, funding provided and quality regulated for front line public service delivery organisations. Further efficiencies can also be achieved that will enable front line professionals to spend more time delivering services to the public.

THE GOVERNMENT'S FORWARD EFFICIENCY PROGRAMME

Recognising the varied cost and complexity of different efficiency measures, the Government envisages a comprehensive, continuous programme of efficiency improvements that will release resources for the front line from administration, and also enable the front line to make better use of the resources it has. These efficiencies will be delivered during the course of the 2004 Spending Review period and beyond.

Ambitious efficiency proposals have already been brought forward by a number of departments, particularly in relation to headquarters costs and back office rationalisation.

Building on these initial proposals in relation to central government administration costs, Budget 2004 announces:

- the administration costs of all departments will be capped at or below the 2005-06 nominal level for the remainder of the 2004 Spending Review period;
- in particular, core Departmental Expenditure Limits (DEL) for 2006-07 and 2007-08 for DWP, Inland Revenue, HM Customs and Excise and HM Treasury, almost entirely comprised of administration costs, will be held constant in nominal terms at 2005-06 levels, representing a real terms cut;
- within the overall DEL settlement for education announced in this Budget, the administration costs of the DfES will fall in nominal terms over the next Spending Review; and
- the devolved administrations will also set tough administration cost limits for the 2004 Spending Review period.

As a consequence of these measures, total central government administration costs will be capped at 2005-06 nominal levels in 2006-07 and 2007-08 – a real terms reduction – with the expectation that further savings should enable a cut in the nominal level. This will reduce administration costs to a planned 3.7 per cent of total spending, the lowest level since the running costs regime (the predecessor of the current administration costs regime) was introduced in 1986-87. These cash savings will be available for redistribution to priority public services in the 2004 Spending Review.

In addition to administration cost savings, the Government believes there is also scope for further efficiencies in the way the wider public sector uses the resources it has available. This could be, for example, through back office rationalisation, improvements in procurement processes and streamlining of transaction services, as well as through freeing up more time for front line professionals to deliver services direct to the public. Sir Peter Gershon has identified the risk that an excessive target for efficiencies could affect delivery of the Government's objectives for the public services, as set out in PSA targets. The Government is determined to deliver the maximum level of efficiencies that are compatible with continuing its ambitious programme of improvements in public service outcomes. On this basis, the Government is setting a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5 per cent a year over the three years of the 2004 Spending Review period, which would deliver gains equivalent to £20 billion a year by 2007-08.

IMPLEMENTATION AND MONITORING

Delivering this ambitious efficiency programme will require departments and other public sector bodies to re-examine their existing spending programmes closely and prepare detailed efficiency proposals for consideration in the 2004 Spending Review. In order to drive through the Government's overall efficiency programme, Budget 2004 announces that John Oughton will become the new Chief Executive of the OGC and take on wider responsibility for the implementation of the Government's efficiency programme.

He will:

- work closely with HM Treasury to monitor the progress of departments against their agreed efficiency programme, and identify further improvements in public sector efficiency that can



be achieved through more radical reforms and process re-engineering within government; and

- build on the OGC's previous successes to deliver a further £3 billion of saving in central government civil procurement spend over the 2004 Spending Review period.

In securing these efficiency gains, there will be a strong emphasis on using normal staff turnover, and, for example, making the most of the opportunity for staff to be redeployed to posts out of London and the South East in the wake of the Lyons Review. As part of this, the Government is examining options for strengthening the current arrangements for civil service staff to be redeployed across administrative boundaries.

As a result, the Government believes that in most cases the initial costs of departments' efficiency proposals will be met from within departments' existing expenditure limits. However, in some cases additional flexibilities may be required. Where departments can present a strong business case, HM Treasury will consider excluding some element of transitional costs from the departmental administration cost limits. Departments will also be able to bid in 2004-05 and 2005-06 for an element of match funding towards restructuring costs from a £300 million Efficiency Challenge Fund. Bids will be reviewed and then assessed against strict criteria.

Overall, the Government's ambitious efficiency programme will ensure that the 2004 Spending Review sustains continued improvements in front line public services, and delivers greater value for money for taxpayers, by releasing additional resources for investment in front line priorities and making better use of those already available.

PREPARING FOR THE 2004 SPENDING REVIEW

In the 2004 Spending Review additional funds allocated above existing baselines will be targeted at front line public service priorities based on a rigorous assessment of where new resources will have the greatest impact on outcomes at the front line.

In particular, this year's Spending Review will take further steps to:

- strengthen the economy;
- build a fair society, with opportunity and security for all; and
- deliver better and more efficient public services.

STRENGTHENING THE ECONOMY

Budget 2004 announces early decisions on key economic areas that will be central to the 2004 Spending Review – science, skills, employment and education. The Spending Review will take further steps to tackle the historical barriers to stronger economic performance and higher productivity in the UK by investing in the science base, taking forward the Government's agenda to boost adult