



## Value for Money Delivery Agreement



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# Value for Money Delivery Agreement

## Introduction

The Government has set an ambitious value for money (vfm) programme to help release the necessary resources to equip the UK to meet the long-term challenges ahead. In preparation for this a series of fundamental reviews were conducted across a wide range of programmes as part of the Comprehensive Spending Review 2007 (CSR07). All departments will achieve at least 3 per cent net cash-releasing vfm gains per annum over 2008-09 to 2010-11. Communities and Local Government will achieve at least £887 million vfm gains by March 2011 from within its Departmental Expenditure Limit (DEL) and through Fire and Rescue Authorities.

The Department continuously strives to make improvements to its services and deliver increased value for money. This is reflected in the success it has had in achieving the target set for it in the Spending Review 2004 (SR04) – to achieve at least £620 million of efficiency gains by March 2008. The firm foundations that were laid during the SR04 period to support the delivery of efficiency will be built upon to enable the Department to achieve its vfm ambition over the next period.

The key components of vfm gains in CSR07 include:

- *Cash-releasing gains* – only those savings that reduce the level of inputs required to achieve the same or better outputs, allowing resources to be redeployed to meet other pressures, contribute towards the ambition;
- *Net gains* – vfm gains are included net of investment and ongoing costs required for their implementation; and
- *Sustainable gains* – vfm gains should be sustainable and be the result of a considered change embedded in departmental business processes.

This vfm Delivery Agreement sets out how the Department will achieve its target, whilst achieving its Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs). The document is the successor to the Department's Efficiency Technical Note, which set out at the start of SR04 how the department would achieve its SR04 efficiency target.<sup>1</sup>

<sup>1</sup> The SR04 Efficiency Technical Note can be found at <http://www.communities.gov.uk/documents/corporate/pdf/odpm-etn-0508>

## Vision

Communities and Local Government's aim is to create sustainable communities – places where people want to live and which promote opportunity and a better quality of life. Significant progress has been made by the Department in these areas. However, the years ahead will see further increase in pressures on services and infrastructure such as housing as a result of population and household growth, driven by rising life expectancy, smaller household size and migration.

The Department's CSR07 settlement, which takes the department's total budget from £10.3 billion in 2007-08 to £12.1 billion in 2010-11, will enable the Department to meet this challenge by increasing investment to support housing growth, new social housing and low cost home ownership, as well as continuing investment in decent homes and neighbourhood and local renewal programmes. To maximise the available resource, the Department will also undertake a programme of reforms to generate vfm gains that can be redeployed as necessary to meet new priorities. The Department's vfm programme consists of the following initiatives:

- *New Affordable Housing Supply* – vfm gains of at least £734 million through the supply of new affordable housing by 2010-2011 by the Housing Corporation refining its investment programme and continuing to drive best practice in supply chain management from delivery partners, and by utilising capacity from historic social housing investment to allow for more borrowing to finance additional affordable housing; and
- *Fire and Rescue Service* – vfm gains of £110 million by rolling forward the modernisation agenda in the Fire and Rescue Service including actions such as effective risk management and improved collaborative procurement methods; and
- *Administration* – a reduction in administration expenditure of minus 5 per cent in real terms per annum over the period, which is equivalent to vfm gains of £43 million by achieving a smaller, more strategic central department by 2010-11.

**Table 1: Summary of vfm initiatives:**

Vfm Initiative	Vfm Gains by March 2011 (£m)
New Affordable Housing Supply	734
Fire and Rescue Services	110
Administration	43
<b>TOTAL</b>	<b>887</b>

A description of the key actions that the Department will undertake to deliver vfm gains in each initiative is set out in Section 2.

## Governance

The Department embedded robust systems for measuring and reporting efficiency gains and an accountable governance structure to oversee and drive forward the programme as part of its SR04 Efficiency Programme. The CSR07 vfm Programme will build on these systems that are already in place.

The Director General of Corporate Services as Senior Responsible Officer (SRO) for the overall Vfm Programme, will be accountable for the delivery of the vfm gains as set out in this Delivery Agreement. Each of the three initiatives within the programme also has in place an SRO who is directly responsible for the delivery of vfm in their respective initiative. Management Boards within the governance structure (such as Fire and Resilience Division Management Board) will provide additional scrutiny.

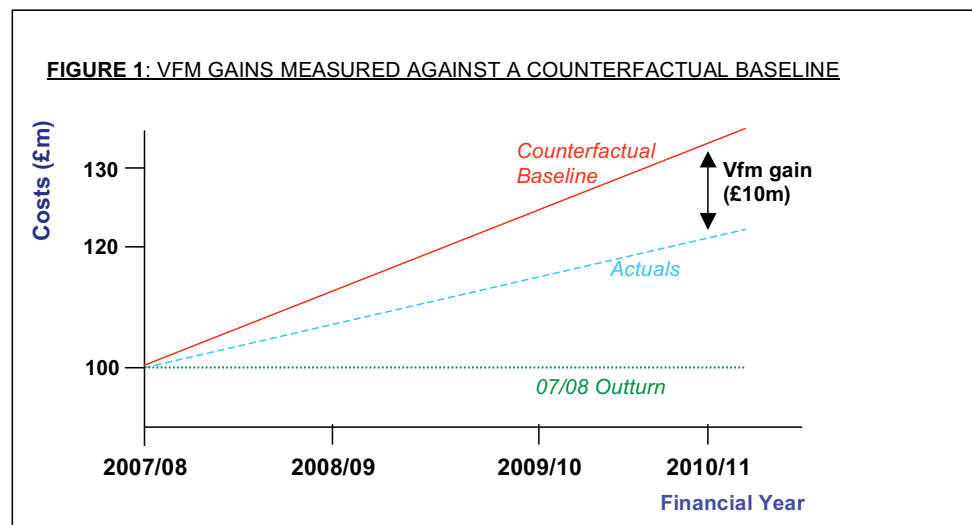
Further assurance that the monitoring and reporting framework is robust and accurate will be obtained by the Department undertaking a systems audit of its vfm measurement systems and approaches to verify compliance with central guidance.

Progress made by the Department in achieving vfm gains will be reported externally twice yearly in Departmental Annual Reports and Autumn Performance Reports.

## Measurement

As in SR04, vfm gains will be valued by comparing performance with that in the baseline year. Vfm gains estimates are calculated from robust counterfactual baselines. The counterfactual concept adopts the assumption that although policies in one period may remain unchanged in the next period, the conditions in which the costs of these policies occur are dynamic (i.e. constantly changing). This means that to demonstrate a more realistic position gains need to be measured against an evidence-based analysis of what would have happened to the pattern and quantum of spending if the Department had adopted a 'do-nothing' approach (that is, made no specific reforms to reduce spending and continued with existing policies).

The concept can be illustrated by the diagram shown in Figure 1 below. In the example, costs in the baseline year (the 07/08 outturn) are £100m. The baseline cost is adjusted to take account conditions that would have changed without any reform taking place (e.g. inflation), to form the counterfactual baseline (shown as £130m in 2010-11). Vfm gains are then measured by comparing the counterfactual baseline with the actual cost outturn. In the example below the vfm gains are £10m.



## Risk Management Strategy

A risk register for the vfm Programme as a whole will be maintained and reviewed on a regular basis. In addition, individual initiatives have their own risk management processes. All key risks to delivery (particularly those that are cross-cutting) will be monitored on an ongoing basis and escalated through the governance process as necessary.

# Section 2: Proposals by Initiative

## New Affordable Housing

Increasing the supply of homes is a key priority for the Government and as such it takes the lead on the cross-cutting Public Service Agreement *Increase long term housing supply and affordability*. Communities and Local Government will make a significant investment to supply more affordable homes over the CSR07 period. The Department will increase delivery of affordable homes to at least 70,000 per year by 2010–11 including at least 45,000 new social homes.<sup>2</sup> These affordable homes will be delivered mainly through the Housing Corporation (and subsequently through the new Homes and Communities Agency once this is in place).

### **Delivery Strategy**

The investment in social housing over the next three years will be supported by the realisation of gains arising from greater efficiencies in affordable housing development and a greater contribution from non-grant financing, including through better use of housing association assets. It is the Department's ambition to achieve at least £734m vfm gains in new affordable housing supply by March 2011 by undertaking actions such as:

- Developing a highly competitive, mixed economy of affordable housing providers and investing in those who offer best vfm;
- Maximising the private finance contribution (e.g. borrowing by Housing Associations) – an analysis by the Housing Corporation of past investments in housing stock concluded that there has been unused financial capacity in the Housing Association sector and if this is utilised then more affordable housing could be provided with less grant;<sup>3</sup> and
- Optimising the planning gain/grant balance, in particular by making investment decisions only when the planning risk and the planning gain contribution is clearer.

The cash-releasing vfm gains will be redeployed within the Housing Corporation's (and subsequently the new Homes and Communities Agency's) Affordable Housing Programme to enable more new affordable homes to be provided than would otherwise have been the case. As well as savings delivered through the Housing Corporation the Department will also seek to

<sup>2</sup> The Housing Supply and Affordability PSA Delivery Agreement can be found at [http://www.hm-treasury.gov.uk/media/9/D/pbr\\_csr07\\_psa20.pdf](http://www.hm-treasury.gov.uk/media/9/D/pbr_csr07_psa20.pdf)

<sup>3</sup> Further details can be found in the Housing Corporation's publication 'Unlocking the Door: Delivering more homes from the CSR07' published in March 2007. This can be found at [http://www.housingcorp.gov.uk/upload/pdf/Unlocking\\_the\\_door.pdf](http://www.housingcorp.gov.uk/upload/pdf/Unlocking_the_door.pdf)

secure cash-releasing vfm gains from other areas within the affordable housing programme, such as section 106 and Private Finance Initiative contributions.

### **Measurement**

Vfm savings in new affordable housing supply will be measured by comparing the level of grant needed to supply a home within the 2008-11 Programme to the level of grant needed to provide an equivalent home in the baseline programme (the 2006-08 Programme).

To ensure the comparison of *like-with-like*, the home will be standardised in terms of:

- *Inflation* – to determine what the average grant per unit would have been in the 2008-11 Programme had there only been the continuation of existing policies. An adjustment will be made to take account of any difference in costs (land and build) that would have occurred in the 2008-11 Programme as a result of changes in inflation. The aggregated inflation factor used will be an agreed figure that reflects both land and build cost inflation. Actual inflation figures (as provided by the Building Cost Information Service (BCIS) and Valuation Office Agency) will be used. As the land and build cost assumptions are national, this inflationary figure can be applied across the whole programme; and
- *Unit size, quality and location* – to determine what the average grant per unit would have been in the 2006-08 Programme had new or changes to policies implemented in the 2008-11 Programme been implemented earlier. A series of adjustments will be made to take account of any additional costs associated with new or changes to policies. These will include adjustments to reflect the Department's drive to provide an increase in the number of larger homes (defined as three or more bedrooms) and the implementation of a new minimum standard of environmental performance for new supply (a movement from EcoHomes Very Good to Code for Sustainable Homes level 3) during the 2008-11 Programme.

Vfm gains achieved in the 2008-11 Programme will be calculated and reported to the Department by the Housing Corporation (and subsequently the new Homes and Communities Agency) on a six-monthly basis. The two reports prepared per annum will include:

- *A Mid-year Assessment report* – providing details of the estimated vfm gain achieved in the first 6 months of the financial year; and
- *An End of Year report* – providing confirmation of vfm savings delivered during the full financial year.

The timing and structure of the reports will enable a vfm savings 'delivered to date' figure to be regularly monitored and reported. Reports will be provided in each of the three financial years.

### **Risk Management Strategy**

The risks to the successful delivery of the Affordable Housing Programme and therefore delivery of the vfm gains include:

- *A marked decline in values in the housing market* – any marked decline in values in the housing market will have a complex impact on the cost of affordable housing. It is expected that in the medium term land prices would fall. However the immediate effect of any marked decline in values might be to reduce income from Low Cost Home Ownership, the cross-subsidy available from providers of market housing activities, and the extent of available developer contributions under section 106 agreements;
- *Land and building cost inflation that is not in line with the counterfactual* – there is a risk of accelerating land and build cost inflation during the three-year period. However, this risk can be mitigated by using an inflation factor which incorporates actual land and build inflation within the calculation;
- *Interest rates that do not remain within the expected range* – in the context of mixed funding for affordable housing investment, higher than expected interest rates in 2008-11 will affect the finance cost of development by delivery partners, putting pressure on grant. Vulnerability to interest rate rises will increase in 2008-11 as efficiency agendas push down the proportion of development cost covered by grant.

### **Governance**

The Head of the Department's Affordable Housing Division will account for the delivery of the vfm aims set for new affordable housing supply. The Housing Corporation Chief Executive Officer is the accounting officer for these savings and is responsible for their delivery.

### **Fire and Rescue Services**

The Independent Review of the Fire Service by Sir George Bain in 2002 made major recommendations for modernisation and change in the role and functions of the Fire and Rescue Services (FRS). Since the review was published, the Department has supported the Service in making good progress in its modernisation agenda, taking on new duties and a wider role for the Service in emergency response and community safety. This progress is demonstrated by the FRS achieving its £105 million cash-releasing efficiency target during the three-year SR04 period. These gains have been delivered, in areas such as better allocation of resources to risk, more efficient working practices, reduced sickness absence and reducing responses to false alarms. The momentum for modernisation in the FRS will continue in CSR07.

CSR07 provides sustained investment in the FRS to improve fire safety and prevention, build on progress in reducing accidental domestic fire related deaths, and strengthen the FRS's national fire resilience capability, through delivery of the New Dimension civil resilience programme, Firelink radio

communication, and FireControl infrastructure projects.<sup>4</sup> To maximise resources, the FRS will deliver £110 million vfm gains by 2010-11 by rolling forward the Bain modernisation programme, including the efficiency agenda, into the CSR07 period.

### **Delivery Strategy**

The National framework for the FRS, in which the Department sets the overall objectives and priorities for the FRS (subject to Parliamentary approval), will make clear that there is more to be done in the context of continued expectation of improved efficiency and better vfm for public services.<sup>5</sup> It provides tools and guidance to help authorities achieve their objectives and supports their improvement planning in light of the Audit Commission's independent Performance Assessment framework.

Value for money is an integral part of the modernisation of the FRS, aimed at producing a more efficient, effective and resilient service with the capability to meet the needs of local communities and work effectively with other agencies to plan for and respond to local, regional and national events. Vfm gains will be delivered by the FRS through actions such as:

- Developing local integrated risk management plans so that Fire and Rescue Authorities (FRAs) can more effectively and efficiently align resources with local risks and deliver better outcomes through prevention, protection and response measures.
- Minimising the impact of false alarms.
- Introducing more efficient working practices, including alternative shift patterns and crewing arrangements, appropriate use of overtime and increased productive time.
- Better management of sickness and ill health.
- Improved collaboration between FRAs, including on service management and delivery, procurement, common and specialist services, personnel and human resource functions and training.

#### *Milestones for achieving vfm gains*

1. Publication of guidance in Spring 2008 for FRAs to complete their Annual Efficiency Statements.
2. Receipt and analysis of FRA backward look 2007-08 Annual Efficiency Statements due 8 July 2008.

<sup>4</sup> The New Dimension Programme was set up to put in place a wide range of new capabilities including equipment and training to deal with a range of major incidents.  
The Firelink project was set up to introduce a common interoperable digital radio communications system.  
The FiReControl project was set up to provide an enhanced control service using a national network of nine resilient regional control centres.

<sup>5</sup> The National Framework for FRS is subject to a consultation process. The proposal for delivering vfm savings in FRS (as set out in this document) is therefore subject to change in accordance to the results of this consultation.

3. Publication of the Audit Commission's Use of Resources results in January 2009.

### Measurement

Vfm gains achieved in the FRS will be measured against the 2007-08 baseline. Cash-releasing efficiency gains may be calculated in a number of ways but will always need to be quantified in £. In all cases the means of calculation will be transparent, objective, accurate and capable of being independently validated. Quantification of efficiency savings will take account of inflation and the upfront investment and ongoing costs. Where possible, FRAs are encouraged to calculate their cash-releasing efficiency savings as follows:

#### Vfm Savings (£) =

Cost of x or y goods and/or services before the efficiency improvement at 2007-08 prices **multiplied by** inflation over the period **minus** the cost of the same or equivalent goods and/or services after the efficiency improvement

FRAs will be expected to report their vfm gains to the Department through Annual Efficiency Statements (AESs), a process that was established and used during the SR04 Efficiency Programme. FRAs will be requested to submit AESs (a backward look and a forward look) twice a year.

- *Forward look* – providing a very brief outline of the strategy for securing vfm efficiency gains, the key actions that will be taken during the next year, and the cash-releasing gains that are expected to result from these; and
- *Backward Look* – setting out the net, cash-releasing gains achieved in the past financial year.

FRAs will continue to use an appropriate quality cross-check, as set out in the Department's AES guidance, to evidence the efficiencies reported and confirm that overall service level is being maintained or enhanced.

### Governance

The Director of Fire and Resilience within the Department will hold responsibility for overseeing delivery of the target set for vfm gains in the FRS vfm initiative. The Fire and Resilience Policy Team will provide periodic reports to the department's Fire and Resilience Director and to the Fire and Resilience Division Management Board.

As in SR04, gains will be based on data from systems that are subjected to regular assurance processes, such as internal audits. Adequate audit trails will be available for any checks made by the auditors on a sample check of statement entries.

### **Risk Management Strategy**

The risks to the successful delivery of the Fire and Rescue vfm gains include:

- *Inaccuracies and inconsistencies with the data provided by FRAs* – This risk will be managed by regular robust evaluation and analysis of the AESs by the Department.
- *The sector not responding effectively to the challenge of new ways of working* – The Audit Commission will provide independent challenge and scrutiny to progress and FRA management practices. It will continue to review FRAs' AESs as part of the work supporting their value for money judgements. They will challenge FRA resource planning and vfm overall and will, by exception, report on whether they consider the methods and approaches used by an FRA in calculating and assessing their AES is appropriate.

Alongside PSA targets which are cross-cutting, each department has agreed a set of DSOs against which its performance can be measured. Community and Local Government's DSOs will include the objective of:

- Ensuring safer communities by providing the framework for the Fire and Rescue Service and other agencies to prevent and respond to emergencies.

Two of the proposed indicators for this DSO are included in the National set of indicators to apply to local government performance agreed as part of the Comprehensive Spending Review. The FRS will also contribute to a range of outcomes measured within the overall set. These measures will help to demonstrate that performance on service delivery remains at the same level or improves while efficiencies are being achieved.

## Administration

The Department has set out on a path to become a more strategic, focused and agile organisation, leading and influencing stakeholders and ensuring effective delivery by delegating to those best placed to achieve it. Through an improved internal planning process, it aims to ensure that its resources are deployed in support of its priorities and reductions in overhead costs are achieved including through reducing and better utilising its estate. The Department (including the Government Office Network) will work to constrain administration expenditure within a reducing envelope of minus 5% in real terms (after inflation has been taken into account) per annum over the CSR07 period.

### **Delivery Strategy**

The £43 million vfm gains proposed in administration spending are those required to enable the Department to continue to deliver against its DSOs and PSAs whilst managing within a falling net administration budget as outlined in the Department's CSR07 settlement. The reduction in spending will be achieved by a combination of bearing down on low impact and low priority work and through improving the delivery of corporate services across the wider group as well as further reducing the size of the central London estate.

### **Measurement**

In order to measure vfm savings the Department will use the final 2007-08 near cash departmental outturn as the baseline. Using the outturn figure as the baseline as opposed to our budget will enable the Department to measure its expenditure and capture vfm savings more accurately. It will also provide greater clarity because the Department's administration budget is subject to change throughout the year, dependent either on Machinery of Government changes or more usually changes to the Government Offices' budget where additional funding is provided by other Government Departments.

The Department will calculate its vfm savings by comparing the level of spend out-turned in each year of the period against the baseline and making adjustments to take account of inflation. The vfm savings will be offset by the total cost of investment for initiatives such as Voluntary Early Exits and in our strategy for reducing our central London estate. The Department will also maintain a summary tracker table showing any changes that impact on the baseline figure (for example, changes as a result of Machinery of Government, additions or reductions to Government Offices funding contributions from Other Government Departments) so that a continual comparative record is available.

The quality of departmental outputs will be monitored as part of the established routine performance management arrangements. A regular report on performance against PSA targets and DSO objectives will be prepared for the Communities and Local Government Board. In-year spend against administration budget will continue to be monitored as part of the

Department's routine financial management arrangements. The data source will be the Department's SAP/R3 (Systems Applications & Products) Accounting system. Spend is reported monthly to the Department's Board and the full year outturn published in the Departmental Annual Report.

Key milestones in the monitoring process will be end year reporting and compilation of the departmental annual resource accounts.

### **Governance**

The Department's Finance Director will hold responsibility for overseeing delivery of vfm gains in the Department's administration budget. Vfm gains will be subject to regular assurance processes, such as internal audits. A risk management strategy will be maintained over the period to identify and take forward any actions needed to ensure, where possible, the Department's vfm ambitions are still on track. Annual Business Planning processes will also look to ensure that available resource is allocated appropriately to the Department's priority activities.

### **Risk Management Strategy**

The risks to the successful delivery of the Administration vfm gains include:

- *Inability to release sufficient resource to make the investment necessary to improve the delivery of corporate services across the wider group – This risk will be managed through Board engagement and realistic planning.*
- *Unfavourable market conditions and outcome of negotiations adversely impact on assumptions about estate rationalisation – This risk will be managed through conservative estimates about what is achievable and by giving careful consideration to the timing of actions.*