

# **Value for Money Delivery Agreement**

**December 2007**

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**Note on conventions used**

1. Financial years are shown as 2007-08, Academic years as 2007/08.

# Part one - Vision

## **Our mission and departmental objectives**

1.1.1 Only an inclusive society that creates opportunities for all its people will have the strength and resource to be at the leading edge of the world economy or meet the global challenges of the 21st century. Britain can only succeed in a rapidly changing world if we develop the skills of our people to the fullest possible extent, carry out world-class research and scholarship, and apply both knowledge and skills to create an innovative and competitive economy. In turn, we need to raise skills levels in order to take advantage of the opportunities that an innovative economy brings. So the three strands of DIUS's work are all crucial for the future of this country. But they are also crucial to building a society where no-one is left behind, and where ordinary people are given a greater stake in the community in the form of higher wages, higher aspirations and more stable and secure lives. DIUS offers a more direct and distinct voice at Cabinet level which will help to drive forward this important agenda.

1.1.2 DIUS is working with partners from the commercial, public and voluntary sectors to:

- accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life;
- improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the global economy;
- build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills;
- pursue global excellence in research and knowledge, promote the benefits of science in society, and deliver science, technology, engineering and mathematics skills in line with employer demand;
- strengthen the capacity, quality and reputation of the Further and Higher Education systems and institutions to support national economic and social needs;
- encourage better use of science in Government, foster public service innovation, and support other Government objectives which depend on the DIUS expertise and remit.

1.1.3 To enable DIUS to deliver these objectives, the Department will strive to add value across the delivery chain, be innovative in the way it works internally and with others, and be mindful of the intrinsic value of the pursuit and application of knowledge as a worthwhile activity.

## **Our vision and ambition for value for money**

1.2.1 To ensure the UK maintains its position as one of the best locations in the world for science, research and innovation, and has the skilled workforce it needs to compete in the global economy, the total DIUS 2007 CSR settlement provides 2.2 per cent annual average real growth in expenditure over the CSR07 period, from £18 billion in 2007-08 to £20.8 billion in 2010-11. This will ensure that:

- total public investment in the science base will rise by 2.5 per cent each year in real terms from £5.4 billion to £6.3 billion by 2010-11 meeting the commitment in the ten-year framework to increase investment in the public science base at least in line with the trend growth rate of the economy; and
- total spending on Higher Education (HE) and Adult Skills will rise by 2.0 per cent each year in real terms from £14.2 billion in 2007-08 to £16.4 billion by 2010-11.

1.2.2 This additional cash investment will be accompanied by value for money (VfM) reforms that will boost further the benefits from spend, supporting the Government's continued drive to improve public services. This will come from generating annual net cash-releasing savings of £1,543 million by 2010-11. This saving is assessed by comparing, at a detailed level, what spend would have been in 2010-11 based on simply continuing planned spend in 2007-08, with planned spend in 2010-11 after value for money savings.

1.2.3 The programme plans to use a range of strategies, such as increasing co-funding, reprioritising spend and improving procurement, to improve VfM across the full range of the DIUS remit. The key to its approach is to use the appropriate strategies for each area, so that funding is released to generate real gains in service to the public. For example:

### **Increasing the co-funding of activities**

1.2.4 Where appropriate, increasing co-funding will make investment by the taxpayer go further. It also brings greater engagement in ensuring that benefits from investment are realised. For instance:

- Train to Gain is a service to employers aimed at driving up demand for skills by employers by providing an expert impartial brokering service to help them identify the skills their business needs for success and then directing them to quality training. This in turn will lever in greater investment by employers in training for a given level of public investment;
- increasing the level of co-funding from the private sector by Research Councils will generate a substantial part of the annual net cash releasing savings of £243 million by 2010-11 being found by the

Research Councils. Increased contributions by the private sector to support specific projects – from which the private sector should gain - means either that individual research projects can improve the quality and benefits from their work from increased funding or that public money is freed up to support additional research projects.

## **Reprioritising funding**

1.2.5 Within a range of spending programmes aimed at supporting particular objectives, we always need to keep the mix of programmes under review to ensure that benefits to customers, and the return on investment by the taxpayer, is maximised. As circumstances change or evidence of performance develops, this means some areas of spend should be reduced so that other areas, where benefits are greater, can be increased. For instance:

- by reprioritising funding for students who are studying for a qualification that is equivalent to, or lower than, a qualification they have already achieved, the Government will be able to increase and widen participation, by focusing more public funding, estimated at nearly £100 million by 2010-11, on students participating in the system for the first time;
- we are able to reprioritise over £100 million on the Science Research Investment Fund (SRIF) since the major repairs backlog in the science infrastructure, for which SRIF was set up, has now been significantly reduced. This will enable the funding to be used for entirely new investment projects.

## **Improving the procurement of services**

1.2.6 Improving procurement practice is a key tool for DIUS and its delivery bodies in reducing costs to the taxpayer. Along with sharing key corporate services between delivery bodies, improving co-operation in procurement will enable costs to be reduced and funding deployed elsewhere. Key examples include:

- Further Education procurement savings of £40 million by 2010-11 on non-pay spending estimated at £1 billion. This will be delivered through such things as groups of colleges clubbing together to secure better deals from suppliers and increasing the expertise in procurement at individual colleges so they get more expert at negotiating lower prices;
- Higher Education procurement and shared service savings of up to £150 million in total by 2010-11. Again, this is to be delivered by improving how universities work together in buying goods and services to secure better deals, and through sharing more of their common functions, such as financial processing.

## **Part two - delivery strategy**

### **Departmental level**

2.1.1 The Department is putting in place robust structures to oversee and ensure that Value for Money gains are achieved. Where appropriate, these build on the structures that have successfully delivered improved value for money during the previous Spending Review period. The objective is to ensure delivery with the senior level scrutiny that such an important area deserves, but avoiding heavy multiple layers of monitoring. This is particularly important since most improvements to value for money have to be implemented by delivery bodies such as colleges of further education, universities and funding councils.

### **Governance**

2.1.2 At Departmental level, the Management Board, chaired by the Permanent Secretary, will oversee delivery of the overall programme. Each member of the Management Board is accountable to the Board as whole for delivery of savings within their area and will establish structures in their commands to oversee delivery of value for money within them. This means that there are programme delivery structures covering each of the Higher Education, Further Education and Skills, Innovation, and Science areas. They have representatives of the key delivery projects on them, normally those who are accountable for their delivery.

2.1.3 Where gains are based on reprioritisation, this does not require a significant specific project structure since this will be achieved through reallocating budgets through normal processes. However, it will demand that there is clear evidence that reprioritisation has been followed through.

2.1.4 Arrangements for individual projects and savings will differ according to the area. These are summarised below. The general approach is for delivery bodies to take the lead in detailed planning and implementation, working with Departmental oversight bodies. For instance HEFCE is working with universities and colleges to deliver savings, and is represented on the Department's HE Strategy Programme Board, as is the Student Loans Company. Key is the use of appropriate formal project and programme management disciplines to monitor progress and support delivery.

### **Measurement**

2.1.5 The Department is adopting the approach to defining and measuring value for money in line with Treasury standards with the objective of maximising the overall social benefit from the goods and services it acquires

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and delivers. Achieving this means adopting the ‘three Es’ of value for money: economy, efficiency and effectiveness:

- economy – reviewing the use of resources to save expense, time or effort and to re-prioritise between different spending options;
- efficiency – changing the way in which services are delivered so as to achieve the same level of service for less cost;
- effectiveness – improving the extent to which an activity relates to its intended purpose or function.

2.1.6 In addition, our approach here focuses on cash releasing value for money savings – being those savings that enable, if desired, funding to be redeployed to other services.

2.1.7 Savings are measured against a “counter-factual baseline” whereby the starting point for measuring savings is the 2007-08 baseline for each initiative or business area. This is then nominally projected forward across the CSR period assuming no value for money initiative takes place. Typically for DIUS, this assumes that the 2007-08 baseline goes up in line with inflation. This does mean, inevitably, that savings planned and made are always going to be estimates.

### **Risk management strategies**

2.1.8 By establishing a strong project and programme management structure, placed close to the bodies actually able to implement value for money savings but with clear links to the DIUS Board, the Department is building effective risk management into how the VfM programme is delivered.

2.1.9 For the programme as a whole, it will also look to:

- ensure external independent review of the programme, through Internal Audit review and possibly by the National Audit Office;
- engage with HM Treasury in regular discussion of progress on the programme as part of the Department’s ongoing dialogue on spending and performance;
- use the Gateway Review process (whereby projects are reviewed at critical stages by external experts) to evaluate and support major projects.

2.1.10 DIUS is also looking at setting up its own delivery unit that will challenge and support delivery of key departmental priorities including value for money savings. This will focus on high risk areas.

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2.1.11 As a new Department, DIUS is also looking at the best way to build effective risk management capability at a corporate level as well as within projects and programmes. This will include visibility and discussion of corporate risks, as well as the value for money programme, at Board level. For the value for money programme, DIUS also plans to manage risk through working level contact groups to share understanding and experience of risks and issues.

2.1.12 Specific key project level risks are dealt with in the description, below, of each project. Key risks that exist in common include:

- inertia across an extensive and autonomous delivery chain. This applies in all sectors particularly in HE and Further Education and Skills (FES) and will need to be addressed through sector specific strategies, for instance to establish strong networks of good practice;
- the preparedness of partner bodies, including the private sector, to increase the level of partnership funding. For instance, more difficult than expected market conditions might reduce employers' willingness to contribute to or release staff for training programmes, or reduce organisations' willingness to invest in joint research programmes. Explaining well the benefits of partnership funding to bodies making contributions will be key to ensuring targets are achievable.

2.1.13 The remainder of this document sets out in more detail our approach to delivering some of the key efficiency and effectiveness measures planned to achieve the Department's value for money target of £1,543 million. The balance of savings not detailed in this agreement are planned to come mostly from additional FES and HE gains. Further contributions will also come from the Science and Innovation area and from the Department's own administrative costs. At this stage we are still finalising details, but we expect the balance of savings, in the region of £700 million, to come from FES, HE and Science and Innovation additional VfM activity, and £12 million from the Department's own administrative costs.

## **Further Education and Skills**

2.2.1 The key VfM efficiency savings in Further Education and Skills lie in improved **procurement**, and in delivery of the **Train to Gain** programme. The high level governance structure for delivering value for money savings in the Further Education and Skills (FES) sector is twofold: (i) through the FES programme board structure within DIUS, which reviews overall performance in delivering our FES strategies and the skills PSA; within that, the procurement programme reports through the FE Reform programme board to the Skills PSA Programme Board, and Train to Gain performance reports through the Leitch Implementation Plan programme board to the Skills PSA Programme Board, and (ii) specific progress in relation to the efficiency programme is reported to the FESG Funding and Strategy Group on a regular basis. The

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Director of the Further Education and Skills Performance Group will be Senior Responsible Officer within DIUS for delivery of all FES VfM savings.

2.2.2 **Procurement** savings of £40m by 2010-11 on non-pay spending estimated at £1 billion will be delivered through the Learning and Skills Council's (LSC's) dedicated procurement team that that is already successfully delivering significant savings. It will develop and promote projects and initiatives that will deliver savings in the FE sector. These include better use of the Government Procurement Card (GPC), E-market places, and collaboration between colleges that will extend the use of consortia procurement solutions.

2.2.3 Detailed measurement methodologies will build on those already used, reflecting expected spend without value for money initiatives compared to actual spend. So, for instance it is possible to compare the expected costs of services under existing contracts with the equivalent cost under new contracts. Reports on progress by FE colleges will be made quarterly.

2.2.4 Key milestones include:

Milestone	Date
Analysis of results from follow up to the NAO 2005 survey of procurement in FE completed	Apr 2008
Procurement road map for the FE system published	May 2008
Regional team members to have contacted all colleges in their area.	July 2008
Results from e-marketplace pilot	July 2008
Completed a review of key consortia, supplier relationships, contracts (updated each year)	Sept 2008
Completed benchmarking exercise (updated in later years)	Dec 2008
80% of colleges to be attending network meetings	Mar 2009
200 colleges to be using a GPC card	Mar 2009
90% of colleges attending network meetings	Mar 2010
300 colleges to be using a GPC card	Mar 2010
100% of colleges attending network meetings	Mar 2011
380 colleges to be using a GPC card	Mar 2011

2.2.5 The key risks are that, with the FE sector being a diverse and highly devolved sector, individual colleges will not engage sufficiently to benefit from joint procurement. This has to be countered by developing better engagement and communication with the sector, including good evidence of performance. Network meetings involving all colleges is a key workstream and target for the project.

2.2.6 **Train to Gain** efficiencies of £170 million are planned for by 2010-11. As a service for employers it is aimed at driving up demand for skills by providing an expert impartial brokerage service to help employers identify the skills their business needs for success. The skills broker then signposts them to quality training to meet those needs and to other sources of business support.

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2.2.7 The approach to measuring efficiencies is based on the number of successful first full Level 2 learners Train to Gain is expected to deliver in the CSR period, and the associated cost. A calculation is then performed to establish the cost of achieving the same number of successes through the Further Education route. As it is cheaper to deliver a success in Train to Gain, and it is more likely to be a first full success than in FE, this provides a more efficient way to deliver our Level 2 Skills PSA indicator. This serves as a net cash releasing saving. The savings from Train to Gain are eroded over time as we expect FE performance to improve at a faster rate than Train to Gain.

2.2.8 The Senior Responsible Officer for Train to Gain is the DIUS Skills Director who, with a representative of the Learning and Skills Council, chairs jointly the Employer Demand Board (EDB) which is responsible for the delivery of Train to Gain. The EDB's members represent key stakeholders such as: the Department for Business Enterprise and Regulatory Reform (BERR); E-skills, the Sector Skills Council for information technology and telecommunications; South East England Development Agency (SEEDA); Skills for Logistics, the Sector Skills Council for freight logistics and wholesaling; Department for Work and Pensions and Jobcentre Plus (DWP/JC+); Quality Improvement Agency (QIA); and Sector Skills Development Agency (SSDA). The EDB reports to the Leitch Implementation Group, jointly chaired by the Skills Director of DIUS and a representative of the Department for Work and Pensions (DWP) which in turn reports to the UK Leitch Steering Group.

2.2.9 A detailed delivery plan is being worked out with the Learning and Skills Council. Milestones will be agreed in this plan.

2.2.10 The key risk to success is failure to deliver the expected improved completion rates. This will be countered by making the funding paid to employers more dependent on qualifications being achieved.

## **Higher Education**

2.3.1 Higher Education efficiencies will be delivered through a range of activities. Key areas being targeted are in HE institutions, including procurement savings, shared services, better use of ICT and of accommodation space. In addition, some savings will be delivered through the development of new shared services.

2.3.2 The Senior Responsible Officer (SRO) for delivery of Higher Education savings will be the Department's Director of HE Student Finance Strategy reporting to the HE Strategy Programme Board. The SRO will chair the HE Efficiency Review programme board. This is made up of DIUS policy owners at Director level, and representatives of the two key delivery areas – the Higher Education Funding Council for England (HEFCE) and the Student Loans Company (SLC) and is supported by a dedicated programme office.

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2.3.3 HEFCE delivered VfM savings have been divided into specific activity areas, such as Procurement, new Shared Services, Use of Information and Communications Technology (ICT), Improved Use of Assets. These will be delivered in the higher education sector working with existing key cross sector groups such as the Universities UK Strategic Procurement Group, the English National Purchasing Consortium, the Association of University Purchasing Officers, the Association of University Heads of Administration, the British Universities Finance Directors Group, and the Association of Universities Directors of Estates. Development funding will be made available to support specific proposals to support delivery of agreed objectives.

2.3.4 Further detail on two of the key projects is given below.

2.3.5 HE **procurement** savings are planned to be £75 million in total by 2010-11. HEFCE will work in partnership with procurement experts to deliver procurement improvements in the Higher Education sector. This will be in addition to the £89.5m of sustainable procurement efficiency gains expected to be achieved during SR04. The procurement efficiencies in CSR07 will be delivered through a number of strands of activity including stakeholder engagement, collaboration, E-sourcing, systems, skills, sustainability. Delivery will be in two broad areas: those achieved by consortia, acting for a number of HEIs, and those achieved by individual HEIs. The former will be captured through consortia annual reports, the latter will be measured through a standardised approach – the Efficiency Measurement Model – being used to demonstrate efficiencies in individual HE institutions.

2.3.6 Governance will be through reports of efficiencies for this savings area being reviewed and agreed by HEFCE's Chief Executive's Group before reporting to the Department and the HEFCE Board.

Key milestones include:

<b>Milestone</b>	<b>Date</b>
Preferred approach to spend analysis developed	May 2008
Adoption by the sector of spend analysis tool	From August 2008
Stakeholder engagement strategy in place	July 2008
Changes to capital equipment procurement in place	July 2008
Energy efficiencies metrics developed	December 2008
First cohort through the Leadership Foundation programme	December 2008
Survey of HEI usage of Procurement Management Information	November 2009
Procurement consortia annual reports	Nov 2009,2010, 2011
Annual request by HEFCE for Efficiency Measurement Model reports	September 2009, 2010, 2011
Increase in consortia activity from the current 15% penetration towards 20% of institutional non-pay spend	March 2010
60% of HEIs have engaged with some aspects of the e-sourcing agenda	March 2010
CUPID functionality enhanced	December 2009
Spend analysis data available for 60% of institutions	March 2010
Study on the benefits of training and development in procurement delivered	December 2010

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Sector survey of sustainable procurement to identify incompatibilities

Report March 2009

2.3.7 The key risk lies in lack of buy-in from what are relatively autonomous institutions and their existing collaborative bodies. This needs to be overcome through good communications, collaborative working, and good evidence of the achievability of savings.

2.3.8 HE savings through greater use of **shared services** are estimated as up to £75m in 2010-11. They will be achieved through:

- transaction processing services moving more to regional and vendor based models;
- extension of existing models of professional services shared services;
- establishment of new areas of professional services shared services;
- establishment of student and research centred services;
- implementation of new methods of delivery using technology as a catalyst for change.

2.3.9 Governance will be through reports of efficiencies for this savings area being reviewed and agreed by HEFCE's Chief Executive's Group before reporting to the Department and the HEFCE Board. In addition, a specific Advisory Group has been set up, with membership across the sector. This will support work that engages with cross sector bodies and individual institutions, and which supports and appraises projects from the sector.

Key milestones include:

<b>Milestone</b>	<b>Date</b>
Establish Sector Advisory Group	August 2006
Assess the sector's appetite for Shared Services and invite expressions of interest from the sector in leading Shared Service feasibility studies	March 2007
Consider expressions of interest and agree which should be taken forward to feasibility study stage	From June 2007
Begin commissioning proposals for Shared Service projects	From July 2007
Receive outcome reports	From Dec 2007
Develop pilot projects. Further milestones to 2010 will be developed during 2008 based on the details of individual pilot projects	From Jan 2008
Communicate outcomes and promote adoption	From Sept 2008

2.3.10 Feasibility studies will establish what the current cost base is and identify potential efficiencies. Monitoring of project outcomes will establish what efficiencies are actually achieved.

2.3.11 The key risks lie in lack of buy-in from what are relatively autonomous institutions and their existing collaborative bodies. As with improvements to procurement, this needs to be overcome through good communications, collaborative working, and good evidence of the achievability of savings.

There are also issues around the treatment of VAT that need to be resolved to avoid before shared services can be seen as widely attractive.

## **Science and Technology**

2.4.1 Efficiency savings in Science and Technology will come primarily from the Research Councils UK (RCUK) Efficiency Delivery Project that is aiming to deliver £243 million by 2010-11 against a baseline of 2007-08 expenditure adjusted for inflation. Delivery is overseen by the RCUK Efficiency Delivery Project Board chaired by the Project SRO and made up of Research Council representatives. Each Research Council appoints a “Senior Responsible Officer” who is held to account for delivery of its savings. The Project SRO provides the link into the Department’s management structure. This structure is the same as that which has delivered very successfully – exceeding targets – in the previous Spending Review period.

2.4.2 Savings fall into a number of categories:

- reducing Research Council spend on administration costs;
- increasing the efficiency of Research Council Institutes;
- growing co-funding of research and post-graduate training;
- reprioritisation of expenditure.

2.4.3 Detailed action plans currently being developed by the Research Councils include plans to find savings through:

- reducing administrative costs as a proportion of total spend from 3.4% in 2007-08 to 2.9% in 2010-11. This will be achieved, for example, through reducing consultancy spend to fill skills gaps by improved training of staff, reducing staff costs through recruitment restrictions and redundancy schemes. A specific example is in the the Biotechnology and Biological Science Research Council (BBSRC) where savings of £9 million will arise from the disposal in 2008-09 of the Houghton Grange site in Bedfordshire which is surplus to requirements. Another is the Medical Research Council (MRC) which is taking measures such as setting up a single health research fund and adopting the Research Councils UK shared service centre framework;
- restructuring of institutes when funds can be channelled to research of higher quality and/or relevance. For instance, the BBSRC will transfer the Roslin Institute to the University of Edinburgh and Institute of Grassland and Environmental Research to the University of Wales, Aberystwyth with effect from 1 April 2008. Another example is the Natural Environment Research Council’s (NERC’s) institute restructuring – specifically of the Centre for Ecology & Hydrology – that will also start to generate cashable savings which can be recycled in other priority areas;
- increasing income from the exploitation of intellectual property (IP);

- ensuring that other joint funders of research make a full and appropriate contribution to costs;
- reprioritisation, investing in the highest priority research areas. Reprioritisation decisions will be validated as deliberate and strategic, for instance by being traceable in high level statements of policy and strategy – for instance in Delivery Plans. For instance, the MRC's establishment of a single health research fund will lead to closer strategic co-ordination and rationalisation of research funding, infrastructure and training across public sector health research. This will improve productivity (less potential for duplication, better focus on key areas etc) of health research in the UK. It should also strengthen co-operation with industry in clinical research and thus enhance leverage of funds.

2.4.4 Detailed delivery plans will be finalised in early 2008 with the RCUK Efficiency Delivery Project Board currently meeting monthly to oversee their development.

2.4.5 The key risk to delivery is probably the willingness of contributing organisations, such as private sector companies, to increase the amount of co-funding available. This will need to be countered through making clear the benefits from making effective investment in research.