



HM TREASURY

# Value for money delivery agreement

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Revised  
**July** 2009





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# 1

## Introduction

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**1.1** The 2007 Comprehensive Spending Review (CSR) settlement for the Treasury Group<sup>1</sup> was agreed in Budget 2006. The settlement was challenging: a reduction in both resource and capital DEL spending of 5 per cent per year in real terms, amounting to £30 million, consistent with the cross-government aim to achieve at least 3 per cent net cash releasing savings, on the 2007-08 baseline budgets for near-cash resource and capital. The savings already made through the efficiency programme in the 2004 Spending Review period put the Treasury Group in a strong position to meet this further challenge. The Treasury published a Value for Money (VfM) Delivery Agreement in December 2007 setting out how the Group would identify, achieve and monitor VfM savings through the CSR period (2008-09 to 2010-11).

**1.2** The Government announced in the 2008 Pre-Budget Report that an additional £5 billion of value for money savings could be delivered in 2010-11 on top of the £30 billion of savings targeted over the current Comprehensive Spending Review period. In Budget 2009, the Treasury Group has committed to achieving an extra £5 million of savings, increasing its target to £35 million in 2010-11

**1.3** Since the CSR settlement and through the first year of the original Delivery Agreement, the Treasury has faced significant new delivery challenges. Unprecedented instability in global financial markets has led the Government to develop a range of new policy responses, requiring the Treasury to refocus its resources on meeting these new priorities. The Treasury Group is committed to supporting the economy through the downturn and equipping it for the upturn.

**1.4** Through releasing savings from its core areas of work, the Treasury Group has been able to commit significant additional resources to support new pressures in managing the current economic conditions and the Government's interventions to maintain stability in the financial services sector. Through realising further value for money gains and the commitment of new resources where necessary, the Government is ensuring that the Treasury has the resources it needs to meet these new pressures in the remaining years of the CSR period.

**1.5** Significant additional Capital DEL spending has been required during 2008-09 as a result of the Government's interventions to support the UK financial services industry. These additional resources – and any impact of them on the Treasury's Resource expenditure – are outside the scope of the Treasury Group's VfM delivery plans, but are subject to independent value for money studies by the National Audit Office.

### Treasury Group's objectives and vision

**1.6** During the CSR period, the Treasury Group is committed to delivering its **Departmental Strategic Objectives** (DSOs), with stretching objectives set for all areas of Treasury work. The DSOs for the Treasury Group, and their outcomes, are shown in Box 1.A: below.

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<sup>1</sup>HM Treasury Group comprises HM Treasury, the Office of Government Commerce (with its agency, Buying Solutions) and the UK Debt Management Office.

### Box 1.A: Departmental Strategic Objectives 2008-11

#### **DSO1: Maintain sound public finances**

Meeting the fiscal rules.

Ensuring that the tax yield is sustainable and risks managed.

Managing public spending.

Professionalising and modernising the finance and procurement functions in government.

Managing government cash, debt and reserves efficiently and effectively.

#### **DSO2: Ensure high and sustainable levels of economic growth, well being and prosperity for all**

Supporting low inflation.

Promoting the efficiency and fairness of the tax system.

Improving the incentives and means to work, supporting children and pensioners and helping people plan and save for the future.

Improving the quality and value for money of public services.

Supporting fair, stable and efficient financial markets.

Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions.

Protecting the environment in an economically efficient and sustainable way.

Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

**1.7** To support the delivery of these DSOs the Treasury as a department has strengthened its corporate strategy, and established a new **Departmental Corporate Objective (DCO)** that presents the Treasury's continuing corporate agenda in a similar way to the two DSOs. Box 1.B: sets out how seven **DCO outcomes** underpin the achievement of this new corporate objective. Further information about this DCO will be published in the Treasury Group Annual Report and Accounts 2008-09.

### Box 1.B: Departmental Corporate Objective

#### **Enable HM Treasury to deliver effectively and efficiently, and remain a strong, respected and professional economics and finance ministry**

Underpinning DCO outcomes:

DCO1 Managing our work, performance and risk.

DCO2 Managing our people.

DCO3 Managing our finances.

DCO4 Managing our knowledge and information systems.

DCO5 Managing our relationship with Ministers and Parliament.

DCO6 Managing our stakeholders and communication.

DCO7 Managing our infrastructure and estate securely and sustainably.

**1.8** In conjunction with the delivery of the DSOs, the Treasury Group is a delivery partner for six cross-government **Public Service Agreements (PSAs)**, shown in Box 1.C: below. HM Treasury provides the lead for the child poverty PSA.

**Box 1.C: Treasury Group Public Service Agreements (PSAs)**

PSA 1	Raise the productivity of the UK economy.	PSA 9	Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020.
PSA 6	Deliver the conditions for business success in the UK.	PSA 27	Lead the global effort to avoid dangerous climate change.
PSA 7	Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.	PSA 29	Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals.
PSA 8	Maximise employment opportunity for all.		

**1.9** In 2007, HM Treasury set out its vision for 2011, showing how – working with other organisations in the Treasury Group – it intends to focus its resources on delivering better value for money by the end of the CSR period. The Vision is set out in Box 1.D:

**Box 1.D: Treasury Vision 2011**

- In 2011 the Treasury will continue to be at the heart of government: a strong respected and professional economics and finance ministry.
- As a department we shall provide consistently accurate and rigorous analysis and honest advice. We will actively encourage open debate giving weight to the evidence and listening to and challenging our wide range of stakeholders.
- Our stakeholders will view us as competent and prudent as well as approachable understanding and collaborative.
- To meet our changing strategy and delivery responsibilities, we shall be more agile, prioritising our resources, streamlining our processes and working flexibly across traditional boundaries.
- We shall continue to offer our people a compelling work experience, the chance to work in a fast moving and stimulating environment with the right tools, training and systems.
- Our diverse and committed workforce will develop their skills, expertise and professionalism and apply them in demanding and rewarding jobs within the Treasury.

## Value for money savings

**1.10** Over the CSR period, the Treasury Group will deliver a revised target of £35 million annual, cash-releasing VfM savings, net of costs. Delivering these savings will mean the Group must become more efficient in the way it delivers its core business, focusing resources on priority areas, and putting the right systems in place to support and enable staff to deliver the Group's objectives. Through realising further value for money gains and the commitment of new resources where necessary, the Government is ensuring that the Treasury has the resources it needs to implement policies to support the economy and maintain stability in the financial services sector.

**1.11** The original VfM programme was based on a number of zero-based reviews undertaken in 2006-07 that looked at specific areas of activity to determine:

- where a good fit exists with the Group's vision and DSOs;
- the link between expenditure and outcomes;
- where trends show rising baselines that will continue into the CSR period unless modified; and
- the scope for the extension, or introduction, of co-financing.

**1.12** In headline terms, the Group's CSR07 VfM programme was originally set up to establish a streamlined, cost-conscious Treasury Group for 2011, achieving £30 million VfM savings, by:

- setting a strong challenge across HM Treasury by restructuring its directorates to release savings and headcount for priority activities;
- building on the innovative Group Shared Services (GSS) initiative which brings together corporate services for HM Treasury, the Office of Government Commerce (OGC) and the UK Debt Management Office (DMO);
- rationalising the use of building space to maximise efficiency from the estate and reduce the amount of unused surplus space;
- reviewing OGC's forward strategy to focus resource where it can deliver best value for money; and
- refining the DMO's procedures to increase automation and increase the efficiency of support services, so that higher transaction volumes can be managed effectively.

**1.13** By continuing to drive these initiatives forward, HM Treasury, OGC and DMO are releasing resources from their core areas of work to redeploy to new priorities and increased levels of activity. Budget 2009 announced plans to increase the Treasury Group's VfM target by £5 million in 2010-11, through realising opportunities enabled by the Operational Efficiency Programme and other initiatives.

# 2

## Delivery strategy

**2.1** The Treasury Group VfM Delivery Agreement published in December 2007 was designed to ensure that Treasury Group delivered its DSO commitments whilst making the necessary savings. The internal distribution of funds across the group has since been reviewed in line with ongoing need, reflecting progress on the transformation plans and emerging new priorities. This revised Agreement represents the position at the start of 2008-09 and the revised target of £35 million.

**2.2** The VfM programme was built on an analysis of how the Group's resources (capital, financial and human) are deployed. The outcome from this analysis helped identify areas where reductions and economies of scale, that do not adversely affect the Group's outputs, can be made. In preparation for this, prior to April 2008, actions already taken within the Treasury Group included:

- rationalisation of core Treasury's directorate structure to achieve synergies, deliver economies of scale and to reflect changed emphasis in priorities;
- co-location of OGC's London base with HM Treasury headquarters building;
- the transfer and rationalisation of OGC corporate service staff and budgets into a Group Shared Service operation;
- publication of Transforming Government Procurement, which outlined the future role of OGC; and
- the completion of the first phase of the DMO's major systems upgrade.

**2.3** Budget 2009 announced further plans to increase the Treasury Group's VfM target through participation in the Operational Efficiency Programme and other initiatives. Compared to the 2007-08 baseline, the programme will now achieve overall savings of £35 million recurrently by 2010-11. Trajectories for the Group's VfM savings over the CSR period are shown in Table 2.A:

**Table 2.A: Treasury Group Value for Money programme<sup>a</sup>**

<i>£ million</i>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Counterfactual	243	248	249
Spending Plans	231	225	214
Target savings	12	23	35

*Source: HM Treasury*

<sup>a</sup> Baseline 2007-08 = £237.0 million

**2.4** The measurement of these minimum projected savings is set out in Chapter 3.

**2.5** Table 2.B: gives indicative figures for the savings each member of the Treasury Group is expected to deliver in each year of the CSR period. Treasury Group's Autumn Performance Report recorded strong progress towards these plans at 30 September 2008. Outturns for 2008-09 have not yet been finalised, but are shown in the table as provisional (unaudited).

**Table 2.B: Treasury Group indicative Value for Money savings by organisation**

<i>£ million</i>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Core Treasury	4.8	8.9	15.3
Group Shared Services	3.1	7.5	12.8
Office of Government Commerce	2.6	5.0	5.9
UK Debt Management Office	0.1	0.4	0.7
Programme	1.3	0.8	0.3
<b>Treasury Group Total</b>	<b>11.9</b>	<b>22.6</b>	<b>35.0</b>

*Source: HM Treasury*

**2.6** This VfM programme is focused on making savings on the Group's administration budgets. The savings from Programme expenditure (shown in Table 2.B:) are less controllable than the Administration costs experienced by each member of Treasury Group; therefore, it is anticipated that inflationary pressures will erode the savings made in 2008–09 in the subsequent years of the CSR period, when measured on this basis.

**2.7** Over the CSR period, Buying Solutions<sup>1</sup> (an executive agency of OGC) continues to be set a challenging Return on Capital Employed target. As a trading fund, the savings made to achieve this target will be monitored, but do not form part of Treasury Group's VfM programme.

## **Core Treasury and Group Shared Services**

**2.8** HM Treasury is the United Kingdom's economics and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy. Its aims are to maintain sound public finances and ensure high and sustainable levels of economic growth, well-being and prosperity for all. The Treasury is heavily dependent for its success on a high quality, well-motivated workforce who can work effectively with and through others.

**2.9** Core Treasury policy areas are achieving VfM savings by rationalising their organisational structure to exploit synergies across business areas and absorb new responsibilities. The restructuring provides the opportunity to ensure that the core Treasury workforce becomes more highly skilled and more flexible. Core Treasury's resources (capital, financial and human) will be focused on the achievement of DSO outcomes whilst delivering the necessary savings. To date, this has been achieved by redeploying staff to service financial stability developments, supplementing the skills mix with external support, whilst maintaining an efficient SCS ratio and a governance structure proportionate to business need.

**2.10** The Treasury Group established a shared services structure as part of the efficiency programme in the 2004 Spending Review period, consolidating separate corporate services from HM Treasury and OGC. It sits within the management structure of core Treasury and the Group's existing governance structure. It is delivering enhanced services and efficiencies through the standardisation of processes and economies of scale. The VfM programme for shared services over the CSR period concentrates on building on the progress made since its establishment in June 2006. The major initiatives in the VfM plan are better use of the Group's estate,<sup>2</sup> and the further refinement of the Group's HR, Finance and IS functions.

<sup>1</sup> From April 2009, *Buying Solutions* is the new name for *OGCbuying.solutions*.

<sup>2</sup> The rationalisation of the Group's estate is the main element of the Treasury Group Asset Management Strategy, published alongside the earlier version of this VfM Delivery Agreement in December 2007.

**2.11** The Operational Efficiency Programme has added even greater momentum to the reforms planned within the Group. HM Treasury and its shared service functions will deliver their share of the Group’s VfM savings targets through the initiatives outlined below.

**Back office operations and IT**

**IT services**

**2.12** Over the next 2 years, HM Treasury will be modernising its IT infrastructure and support services using modernisation funding. It is intended that this will reduce the time and cost of delivering outputs from Treasury’s core policy teams through improved management of knowledge and information, and enhanced financial and people management through facilitation of better collaborative tools and communications.

**HR support services**

**2.13** The Treasury Group is improving its HR services, to improve the efficiency of its shared HR service function and support managers with better information and tools.

**Travel costs**

**2.14** The Treasury Group has developed and launched a new system for staff to book travel tickets and hotel accommodation online. In its first year this produced savings of around £0.7 million against the list price of bookings, and reduced travel spend by 17% against the 2007-08 baseline.

**2.15** By investing in new processes to support the electronic submission of travel and other expenses claims, the Treasury Group will save 3 posts in its finance processing function by 2011.

**Collaborative procurement**

**2.16** The Treasury Group will establish a benchmarking process across its procurement activities, to assure that its major contracts – especially in ICT and consultancy – continue to deliver good value. It will also drive increased value from 3rd party spend on consultancy and advice through tools such as OGC’s Consultancy Value Programme and implementation of its Procurement Capability Review Improvement Plan. Planned savings on expenditure with 3rd party suppliers against baseline 2007-08 spend are shown in Table 2.C:

**Table 2.C: Treasury Group planned reductions in expenditure with 3rd party suppliers**

2008-09	2009-10	2010-11
£2.8m	£4.7m	£6.0m

*Source: HM Treasury*

**Property**

**2.17** The Treasury Group benchmarks its office workspace against the cross-Government standards set out in OGC’s High Performing Property Initiative. By optimising its use of space, it increased the number of desks in its London headquarters by 53 during 2008-09. As part of this, the workstations occupied by other public sector bodies rose by 29, producing annual value-for-money gains of more than £0.4 million. The Treasury is currently reviewing all of its workspace to seek further gains by 2011 and is committed to making best use of its property.

## Re-prioritisation of staff resources

**2.18** Core Treasury rationalised its Directorate structure and continues to be flexible and responsive in how it mobilises and deploys staff to priority areas through its business planning cycle and review. In 2008-09 it has in particular mobilised staff to deal with financial services and economic policy challenges.

## Office of Government Commerce

**2.19** OGC was created in April 2000 to lead a wide-ranging programme to modernise procurement in central government and deliver substantial value for money improvements. Since the publication of *Transforming Government Procurement* in January 2007,<sup>3</sup> it has been specifically responsible for improving value for money by driving up standards and capability in procurement, from commodities buying to the delivery of major capital projects, maximising the effective use of 60% of Government spending and a £30 billion property estate.

**2.20** OGC is tasked with the transformation of government procurement and with driving up standards and procurement capability across central Government. OGC will do this through: setting the right procurement standards and ensuring they are met; capitalising on the government's collective buying power to achieve value for money; and playing a stronger role in the successful delivery of major projects.

**2.21** OGC is delivering its VfM savings over the CSR period as part of its broader programme to become a more efficient organisation that is better able to deliver the Transforming Government Procurement agenda. Cost reductions arising from changes as a result of *Transforming Government Procurement* are excluded from the VfM baseline. OGC is delivering value for money savings through:

- reducing spend on its core work, including consultancy;
- lower staff costs in areas where functions are being merged; and
- a simplified top management structure.

**2.22** OGC's work programme has also expanded beyond the remit originally set out in *Transforming Government Procurement* to meet a number of new priorities and focus resource where it can deliver best value for money. For example, OGC has been working to improve:

- the performance of major projects through the Major Projects Review Group;
- the sustainability of the government estate through the creation of the Centre of Expertise in Sustainable Procurement;
- spend management, efficiency and performance reporting on property and procurement; and
- collaborative procurement in the additional categories of construction, food and facilities management.

**2.23** Within the Treasury Group, additional resources have been allocated to fund these new priorities, alongside income retained by OGC from:

- recovery of costs associated with Gateway review teams since April 2008; and

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<sup>3</sup> *Transforming Government Procurement*, HM Treasury, January 2007 – available from [www.hm-treasury.gov.uk/d/government\\_procurement\\_pu147.pdf](http://www.hm-treasury.gov.uk/d/government_procurement_pu147.pdf)

- the successful exploitation of commercial products such as Prince2 and the IT Infrastructure Library.

**2.24** OGC will also be integral to the delivery of the recommendations arising from the Operational Efficiency Programme on collaborative procurement and estates, and from the Glover Review of support for SMEs competing for public sector contracts.

## **UK Debt Management Office**

**2.25** The DMO was established on 1 April 1998 with its main aim to carry out the Government's debt management policy of minimising the financing cost over the long term taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way. As the government's treasury manager, the DMO's aim, with HM Treasury, is to lead, develop and deliver the government's debt, cash and fund management objectives.

**2.26** The DMO is accustomed to driving through change, making active use of technology and has also generated a culture of innovation and continuous improvement. Its small size has enabled it to be flexible in adapting to new situations and requirements and it has achieved a smooth transition from initial growth to consolidation over the last nine years.

**2.27** Since December 2007 the DMO's responsibilities have increased in scope, volume and complexity, mainly as a result of the changes in the financial markets and the economy. In 2008-09, gilt issuance work increased sharply, and to almost double 2007-08 levels. The DMO has taken on major additional responsibilities including operation of the Credit Guarantee Scheme, the Special Liquidity Scheme, the Discount Window Facility and the Emissions Trading Scheme, and is preparing for the running of the Asset Backed Securities guarantee scheme.

**2.28** To support the Government's response to market developments, the DMO has taken on additional resources. The DMO is a small agency and new activities are generally absorbed into existing delivery teams to utilise existing expertise and systems where relevant. Nevertheless, the DMO is committed to achieving savings from its VfM initiatives, including:

- investing in enhanced technology to further streamline processes and reduce support costs – completing major upgrades to its main systems, with plans to consolidate lending activity onto the central system, and continued automation of a number of operational processes;
- increasing the skills of staff and making targeted recruitments; and
- achieving better value from its estate by accommodating increased staffing levels within the same floor area.

## **Resourcing new responsibilities**

**2.29** The scale and longevity of the new delivery responsibilities facing the Treasury (such as the Asset Protection Scheme, Credit Guarantee Scheme, UKFI and The Infrastructure Finance Unit) were funded in 2008-09 on a part-year basis through recycling of existing resources. For the rest of the CSR07 period (2009-10 and 2010-11), the Treasury Group has in place an agreement to access previous underspends to meet additional pressures. This will enable the recruitment of some additional 70 staff, supplementing a similar number already mobilised internally, to focus on the shift in priorities. These additional skills and increased capacity will be supplemented by bought-in expertise under consultancy contracts to help kick-start some of the delivery areas, and to provide additional capacity during the set-up and transformation period.

**2.30** These new resources are subject to their own controls and their deployment will be carefully monitored. However, they do not form part of the 2007-08 baseline and are excluded from the £35 million VfM savings target. In addition, cash released from savings made under the VfM programme may be recycled into these new areas.

# 3

## VfM programme management

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### Measuring VfM savings

**3.1** Achieving the £35 million VfM savings target for Treasury Group represents a challenge. Given that the target requires cash releasing savings, the main measurement of VfM is through expenditure savings in near-cash resource DEL for all members of Treasury Group and its shared services.

**3.2** The VfM savings are calculated as the difference between Treasury Group's actual expenditure (excluding non-recurrent restructuring costs) and its counterfactual, being the baseline costs adjusted to maintain existing activity in the absence of a VfM programme and a flat cash capital budget. Cost reductions in OGC resulting from *Transforming Government Procurement* were excluded from these baseline costs, as are funds allocated to the group to undertake new responsibilities. Resources released from one area and allocated to another to undertake any new work to address new pressures count as additional VfM savings.

**3.3** Calculating VfM savings in this manner demonstrates how the Group's core expenditure is falling against its base costs, and all of the savings made are cash-releasing and available for use on other priority activities. Delivery against the Group's DSO outcomes and PSAs will ensure that the VfM programme is achieving these savings while delivering agreed performance outcomes across the Group.

**3.4** The Treasury Group publishes progress against this VfM programme in its annual Departmental Report and Autumn Performance Report.

**3.5** Table 2.A: has set out how the £35 million savings target compares to the baseline and to the CSR07 settlement. The settlement will be translated into budgets delegated to budget managers and therefore enforced at the point of spending control. Group-wide initiatives (such as collaborative procurement) as well as targeted VfM programmes (such as initiatives to drive down travel and subsistence expenditure) will enable budget managers to continue to deliver against objectives within delegated budget control totals. Wider initiatives, such as the OEP workstreams on back office and property, will add further information and impetus into the VfM programme and enable the Treasury Group to identify further areas where it can rationalise and refocus to provide even more efficiency.

### Programme governance

**3.6** As HM Treasury's Permanent Secretary, Sir Nick Macpherson is the Senior Responsible Officer for the Treasury Group's VfM programme. He is the chair of the Treasury Board and the Principal Accounting Officer, with overall responsibility for Group's finances. During the planning and implementation stages the Permanent Secretary was supported by a Programme Board, which provided oversight and challenge to the development of the delivery plans, ensuring that interdependencies and risks against the programme as a whole were managed.

**3.7** Since 2008, the VfM plan has been fully integrated into delegated budgets so that performance against the plan corresponds to performance against budget. Performance against the Group's budget is monitored by Treasury Group's Finance Committee, which is chaired by

Dave Ramsden, a member of the Treasury Group’s Board. The Finance Committee is a sub-group of the Board, meeting on a monthly basis to discuss the financial performance of the Group and associated risks.

**3.8** The Treasury Board regularly receives summary information on the Group’s financial and operational performance and associated risks.

## Risk management strategy

**3.9** Risks to achievement of the VfM programme’s £35 million savings target are being managed as part of the Treasury Group’s overall risk strategy. The risks to the delivery of VfM, and their appropriate responses, are monitored through the VfM programme’s governance structure. Table 3.A outlines the main risks to the delivery of the VfM savings.

**Table 3.A: Main risks to the delivery of Value for Money Programme savings**

<b>Risk</b>	<b>Response</b>
Anticipated savings on key projects fail to materialise	Continual monitoring of largest VfM projects and active identification of further VfM opportunities
Further unforeseen economic shocks, or changed policy priorities, necessitate increased Treasury Group resources, masking savings from baseline.	Clear quantification of any additional resource requirements not included in baseline.
Further unforeseen economic shocks, or changed policy priorities, reduce opportunities to make savings from Treasury Group baseline costs.	Ongoing focus on driving vfm benefits from core Group activities through robust programme governance and management.
Planned VfM savings have unforeseen adverse consequences for ability to deliver DSO or DCO outcomes	Ongoing monitoring of performance against DSO outcomes and robust performance management
Pressure of cost reductions leads to loss of talent with detrimental impact on Group performance	Close linkage of VfM programme to Treasury people strategy to we recruit and retain sufficient staff with appropriate skills
<i>Source: HM Treasury</i>	

### **HM Treasury contacts**

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