



Chapter Two: Spending Review 2007 – Our Future Challenges

This chapter sets out the strategic challenges which the Department faces over the next three years and the resources that we have at our disposal to meet them.

Spending Review 2007: Our Future Challenges

2.1 The strategic challenges that we need to respond to and overcome are clear:

- changes in society – leading, amongst other things, to more separation and divorce, more cohabitation, childbearing at later ages, a greater desire to work while children are young and a greater preference for self-employment and part-time work;
- demographic change – an ageing population will mean a greater need to focus on savings and retirement, the need to raise employment levels to sustain an older population and issues around ensuring healthier lives and independence for older people;
- increased globalisation and technological change – leading to a widening of the earnings distribution, poorer labour-market opportunities for low- and un-skilled workers and more inward and outward migration increasing the diversity of our population, creating different preferences for work and retirement; and
- rising customer expectations – customers expect more personalised services, with greater choice of access. They have increasing expectations that their transactions with the state will be automated, without compromising the security of their personal data.

2.2 To meet these challenges, we must improve opportunities for people to get back into work from inactivity, better target resources to those most in need and facing the most difficult circumstances and support older people to live longer, more active lives.

2.3 Our more detailed response to these challenges is described in the next chapter, which looks at each of our strategic objectives in turn and sets out how we plan to deliver them by 2011.

2.4 In addition, taxpayer expectations concerning the value for money they expect from public services have rightly increased. It will therefore be essential that we continue to maximise efficiency in every part of our business.

Our finances

2.5 We are currently responsible for an annual expenditure of around £135 billion. Approximately £8 billion of this is Departmental Expenditure Limit expenditure, i.e. expenditure used to run the Department and its programmes. The remaining spend is Annually Managed Expenditure, paid to our customers in benefits and pensions.

2.6 Following a period of significant growth in spending on public services, government departments are being asked to deliver significant efficiencies in their Departmental Expenditure Limit expenditure over the Spending Review 2007 period.

2.7 We reached agreement with HM Treasury over funding for the Spending Review 2007 period in Budget 2006. That agreement commits us to reducing our expenditure by an average of 5.6 per cent in real terms in each of the next three years (facilitated by a dual key £550 million modernisation fund). Based on what we delivered in 2007–08, this settlement requires us to make net savings of over £2 billion over the three years of the Spending Review.

2.8 However, this plan is not based on a programme of cuts. We aim both to maintain and, where possible, improve our services and deliver additional wide-ranging reforms to which the Government is committed. These include:

- the further roll-out of the Pathways to Work programme for people on incapacity benefits and the introduction of the Employment and Support Allowance;
- the setting up of the replacement for the existing Child Support Agency – the Child Maintenance and Enforcement Commission;
- creating the new system of personal pension accounts as part of the Government's wider private pension reform;
- the reform of state pensions; and
- further investment in programmes to alleviate child poverty.

2.9 The scale of the efficiency challenge we face in delivering these reforms is large by any standard. Delivering it will mean, amongst other things:

- engaging customers and front-line staff in redesigning or removing inefficient processes to improve our service to customers and reduce waste;
- making better use of our estate, including continuing to reduce its total size;
- renegotiating our contracts with all our major suppliers. Unlike most departments we own almost no physical assets – our buildings, computers, telephony, etc. are all owned by our suppliers;
- working with local authorities to ensure that the costs of administering Housing Benefit fall at least in line with our settlement; and
- reallocating resources, in particular within our employment programmes, so that we focus spend on activities which effectively target those client groups who most need our help.

2.10 Chapter Four sets out the value-for-money programme we will implement over the Spending Review 2007 period to deliver these efficiencies. It should be read alongside our Value for Money Delivery agreement, published in December 2007.³

³ <http://www.dwp.gov.uk/publications/dwp/2007/CSR-value-for-money-delivery-agreement-2007.pdf>