
FISCAL POLICY: A NEW FRAMEWORK FOR PUBLIC INVESTMENT

Summary

In the past the policy framework was widely seen as discriminating against capital spending, encouraging cuts in public investment. Because no distinction was drawn between current and capital spending, investment projects were often delayed as an alternative to controlling current spending. Moreover, once assets were acquired, Departments had little incentive to make good use of them. As a result, public investment has fallen to low levels, and capital has been poorly managed. Economic growth and key public services have suffered as a result.

The Government has now put in place a policy framework to tackle these shortcomings. The coherence of the new framework, from the fiscal rules through to capital charging for the use of individual assets, will lead to greater stability, more and higher quality investment, and better use of assets:

Adherence to the Golden Rule over the economic cycle will help to bring about a more level playing field between current and capital spending, putting an end to the bias against capital and to damaging instability in public investment.

The Investing in Britain Fund will finance, from next year, a more than doubling of net public sector investment from $\frac{1}{2}$ to over 1 per cent of GDP. This will support the economy in the near term, at a time when slower growth is likely to see weaker private investment. In the longer term, growth will be supported by the improved flow of more and better quality investment, raising the economy's productive potential.

A Capital Modernisation Fund worth £2½ billion will be used to finance innovative projects that deliver new public services, and increase the quality and effectiveness of existing services in innovative ways - to improve productivity and serve the Better Government agenda.

The discipline of Departmental Investment Strategies will ensure that investments are targeted at the Government's key objectives and that value for money is achieved.

Once fully implemented from 2000, Resource Accounting and Budgeting will support the Golden Rule, by using

the accruals concept to capture the full cost of resources consumed during each reporting period. Capital charging will also provide a continuing incentive to use assets efficiently.

Public - Private Partnerships are to be used to develop innovative ways of delivering public services and secure better value for taxpayers' money.

Introduction

As the Economic and Fiscal Strategy Report describes, public investment has fallen to low levels relative to historical and international standards, and relative to the size of the capital stock. The new fiscal framework which the Government has put in place addresses this problem. This paper looks at the role of public investment; how it can support the Government's strategy for stability and long-term growth, and meet key spending priorities. It then outlines the new framework, from the strict fiscal rules, through to the management of and incentives faced by Departmental capital programmes.

Section 1 outlines past investment performance in terms of the quantity, quality and variability of investment. Section 2 looks at the Investing In Britain Fund and its role in improving economic growth. Sections 3, 4 and 5 look at the implementation of the investment strategy: Departmental Investment Strategies, Resource Accounting and Budgeting and the enhanced use of Private Public Partnerships. All these are designed to ensure that capital is targeted, managed and used in the best way.

1. Past investment performance

1.1 The role of public investment

Capital spending is not an end in itself. The key consideration is the contribution that capital spending can make towards delivering the Government's objectives and outputs. Public investment can contribute to the Government's economic objective of high and sustainable rates of growth and employment by:

providing effective and efficient public services;

improving the infrastructure; and

ensuring that investment contributes to economic stability.

In the UK, the great bulk of public investment is in non-marketed activities. Investment in assets such as schools and hospitals supports the effective and efficient delivery of high-quality public services. Investment here is driven by the necessary modernisation of key public services, which themselves have a role to play in facilitating higher growth and employment.

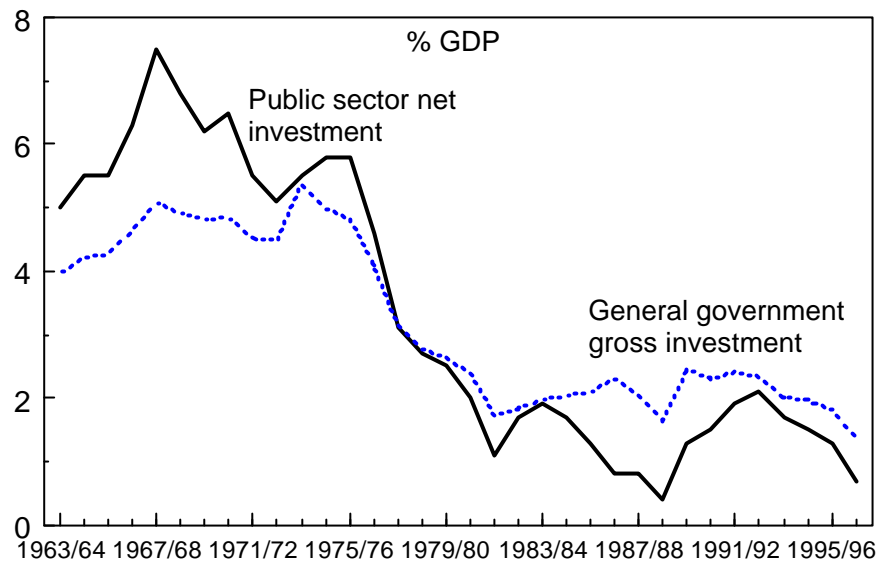
Elsewhere, public investment can add directly to the economy's productive potential. An effective infrastructure network is necessary for an economy to function efficiently. Investment in high quality transport infrastructure is an important complement to investment by private business, and could potentially have an impact on the growth rate. Urban regeneration projects can attract a nucleus of new business and generate a virtuous circle of rising prosperity. Investment in the science base boosts knowledge and innovation, creating the technological base that will give UK firms a competitive edge in the future.

Boom-bust economic instability damages long-run growth. If planned in a long-term and stable manner, public investment can help to provide a backbone of stability for the economy. Well-timed public investment can support the economy's performance through an economic slowdown, helping to ameliorate the economic cycle, and consistent with the Government's long-term approach to economic management.

1.2 The quantity of investment

Net public investment amounted to over 5 per cent of GDP until the mid-1970s. It has fallen sharply since then, reaching a low point in 1996-97. The picture is clouded by privatisation, which has reduced the scope of the public sector, with most public utilities now in private hands, and by other asset sales, for instance the sale of council houses. Moreover, in the 1990s increasing use of private finance has substituted for some investment that might otherwise have been undertaken by the public sector. Nevertheless, even using a more consistent series such as general government investment, the pattern is of a significant fall in public investment as a share of GDP.

Public sector and general government investment



The concept of a maintenance backlog should be treated with care, as there is no unique way of measuring backlogs. Nevertheless, reported investment backlogs in health, education, housing and some areas of transport illustrate the consequences of sustained under-investment. Prior to the boost to capital announced in the Economic and Fiscal Report and the Comprehensive Spending Review this summer, several large investment backlogs were identified: for example, £3 billion in the NHS, around £4 billion in schools, £1 billion in London Transport, and up to £10 billion in social housing.

A further way of assessing missed investment opportunities is to consider rates of return. Here, for instance, benefit / cost ratios suggested that better management of, and maintenance spending on, the existing transport infrastructure could yield high returns, before marginal projects become uneconomic.

1.3 The quality of investment

Simply measuring the size of the public capital stock and its rate of increase is only part of the story. The raw figures cannot show whether investment is well targeted, whether it offers good value for money, or whether it is being conducted in the most efficient way.

In the UK, as well as under-investment in some areas, there has been over-investment and poor use of assets in others. Costly projects have often failed to deliver benefits in proportion to their eventual expense.

Inappropriate incentives and control systems have encouraged slack management in public investment. Weakness in project planning and

management, has resulted in poor performance in a number of investment projects:

Recent NAO reports have highlighted examples such as the British Library.

A hospital expansion project at Guys Hospital suffered cost over-runs and delays. Funding shortfalls had to be bridged with reallocation of capital from elsewhere in the NHS, and

A Cabinet Office study¹ in 1995 reviewed 20 major construction projects covering good and bad performers. Taken together, the 20 projects appear to show an aggregate increase in cost compared to original estimates of about 24 per cent as well as time overruns.

Completion delays and cost overruns have been typical in public sector construction projects. For instance, the Jubilee Line Extension has experienced significant difficulties (although some of these have been completely outside the project's control). It is now expected that the final section will not open until late Autumn 1999. London Transport has now appointed an experienced international private company to provide the expertise needed to ensure the project delivers on time.

A lack of information relevant to investment decisions has hampered the effective planning and management of capital. This not only limits the ability of Departments to evaluate past investments, it also requires a substantial element of judgement in any bids for capital.

An aggregate shortage of funds may have dissuaded Departments from even bidding for finance for worthwhile investment projects. Poor prioritisation may have left significant numbers of worthwhile projects undeveloped.

More effective use can also be made of existing assets through their enhancement, maintenance and more intensive use. Getting more and better outputs per unit of investment is just as important as providing more inputs.

1.4 The variability of investment

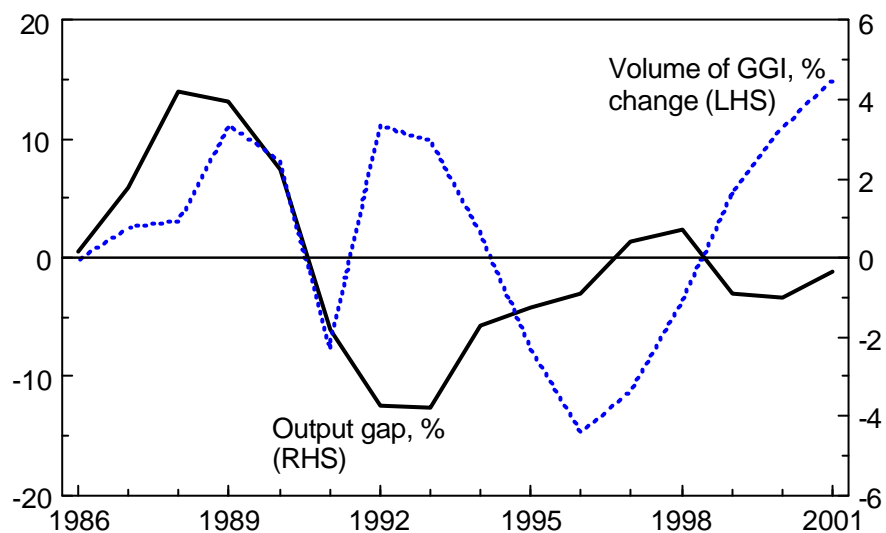
Not only has public investment fallen to low levels, it has also been variable. This has run counter to the need to support stability in the economy. The year to year planning of public investment, based on how much the economy could afford at the time, has led to poor planning and inefficient public expenditure decisions. Fluctuations in the resources

¹ Construction Procurement by Government - An Efficiency Unit Scrutiny, July 1995.

available for public investment have led to a number of projects being started and then abruptly halted. Whether these projects are then started again, or abandoned altogether, significant inefficiencies and costs to the taxpayer have been incurred.

Public investment has at times risen when the economy has been above trend, and fallen when the economy has been slowing down. For example, the volume of general government investment increased by over 10 per cent in 1989, when the economy was already booming, yet it fell sharply in the mid-1990s, when the economy remained weak. So public investment has, perversely, helped to accentuate the swings in the economic cycle, worsening the boom and bust business cycles which have plagued the UK economy and held back long-term growth.

Change in public investment and the output gap



2. Investment for economic growth

2.1 The fiscal rules

The new fiscal framework, and in particular the fiscal rules first set out in the July 1997 Budget, aims to make a clear distinction between current and capital spending, recognising their different economic character.

The Government's fiscal policy is grounded in two strict fiscal rules:

- the Golden Rule - over the economic cycle, the Government will borrow only to invest, and not to fund current expenditure; and

- the Sustainable Investment Rule - public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

The Golden Rule means that current taxpayers pay for current expenditure from which they benefit, ie the public sector current balance should not be in deficit on average over the cycle. Capital spending is financed by borrowing, subject to the Sustainable Investment Rule and checks on the quality of investment. Future taxpayers, by meeting the debt service costs of past borrowing and the depreciation costs, pay for the benefits that they will be receiving from public investment.

However, the Golden Rule does not itself guarantee sound and sustainable public finances. Many investments may yield social returns but do not raise taxable economic output, and so do not pay for themselves in terms of the government's account. For this reason, the Sustainable Investment Rule places a prudent constraint on the amount of investment that may be financed by borrowing and prevents an escalation of public debt.

2.2 A new control regime for public expenditure

The Economic and Fiscal Strategy Report (EFSR) in June set out a new budgeting framework for the management of public expenditure.

Spending on key public services is included in Departmental Expenditure Limits, spanning three-year planning periods. This replaces the inadequate and piecemeal approach of annual bidding rounds with a system of stability and long-term planning.

Consistent with the fiscal rules, capital is planned separately from current expenditure and protected through separate capital budgets within each Department's expenditure limit. This should help ensure worthwhile investment is not sacrificed to meet short-term pressures.

For the first time, Departments will be able to re-invest the savings they make and will also have greater flexibility to carry over unspent reserves from year to year. The framework also prepares the way for the introduction of Resource Accounting and Budgeting.

2.3 The Investing In Britain Fund

The Investing in Britain Fund, introduced in the EFSR in June, begins to tackle the accumulated investment backlog, by providing for the renewal and modernisation of the UK's public sector capital stock.

The intention is to more than double public sector net investment from its present levels of ½ per cent of GDP to over 1 per cent of GDP - a prudent borrowing limit determined by the Sustainable Investment Rule - by the end of this Parliament. In cash terms this represents an increase in net investment from £4 billion in 1998-99 to £11 billion in 2001-02 (equivalent to £30 billion gross investment).

The Comprehensive Spending Review (CSR) allocated the major part of the Investing in Britain Fund to departmental budgets:

The NHS total capital programme, taking PFI and public capital together, is rising from £1.9 bn in 1998-99 to £2.9 bn in 2001-02. The NHS is undertaking the largest ever hospital building programme and a major investment in a new IT strategy.

£1½ billion for schools capital funding in England alone, on top of £1.3 billion of windfall tax revenues allocated to the New Deal for Schools in the July 1997 Budget. The latter has been supplemented by significant leverage of funding from other sources. In addition, many and varied PFI projects for schools are in the pipeline.

£3.6 billion more to improve the condition of council housing. More than 1½ million council houses will benefit from this increased investment.

£1.7 billion additional spending to underpin a new Integrated Transport Strategy. 150 new local integrated transport schemes will reduce congestion, enhance the environment and improve accessibility in towns and cities. Funding for roads maintenance will maintain and improve the condition of motorways, trunk roads and local roads.

A Public-Private Partnership with the Wellcome Foundation to increase and better target investment in the science base.

2.4 The Capital Modernisation Fund

Departmental capital budgets will be complemented by the Capital Modernisation Fund (CMF). This will allocate £2½ billion competitively to fund imaginative and innovative capital, PFI and PPP projects. The aim is to develop new services and new more efficient methods of service delivery, not least by investing to manage existing assets better. This will contribute to Departmental aims and objectives, to improve productivity both within the public sector and in the private sector through its contact with the public sector; and to take the Better Government agenda forward.

The CMF will allow more risk taking, akin to a venture capital fund, making for a more dynamic public sector and helping to contribute to raising productivity. The CMF will also encourage more experimental pilot and pathfinder projects that break new ground and could set new standards of best practice, and will include new forms of joint working, both with other agencies in the public sector and with the private sector, to exploit wider markets.

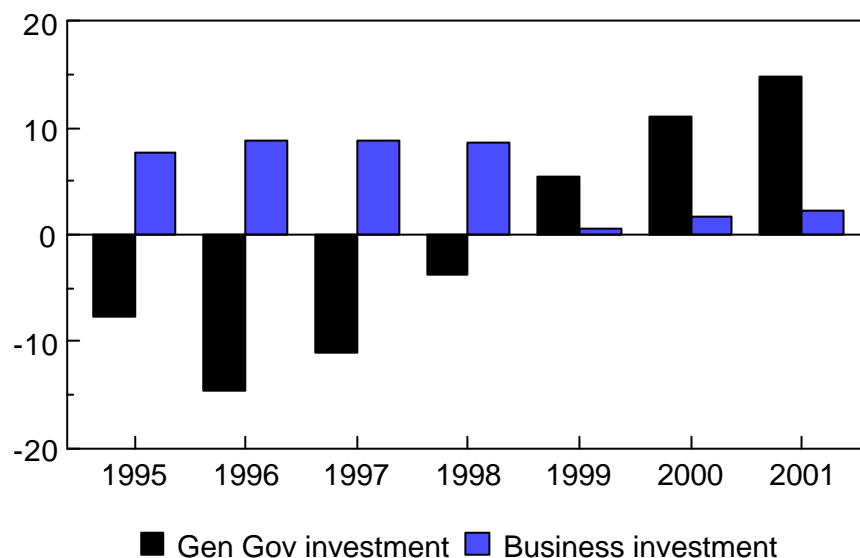
Further guidance on the Capital Modernisation Fund, and the criteria that will be used in its allocation, is being discussed with Departments. The

CMF will be allocated in two tranches; final bids for the first round have been invited by end-January 1999, successful bids will be announced around the time of the Budget. The competition for the second tranche will take place a year later.

2.5 Investment and stability

In tandem with the Golden Rule, the new control regime effectively removes investment decisions from the year-to-year pressures on public expenditure. In doing so, this will contribute an important element of stability to the economy, ensuring that investment does not accentuate swings in the economic cycle. Government Departments, and businesses, will benefit from greater stability and have an incentive for longer-term planning.

Investment: annual % change



In the recent past, net public investment has fallen sharply, while private sector investment has been increasing in line with the economy more generally. The Pre-Budget Report explains why growth is expected to slow more quickly than previously expected in 1999. As a result, private investment, particularly among businesses, is expected to increase only modestly next year. The substantial increase in public investment in 1999 is thus appropriately timed. With private investment weak, there should be little risk of crowding out, and, if the pattern of the early 1990s is repeated, lower inflationary pressures in capital goods may make this period a relatively good time for purchases.

Further ahead, substantial increases in public investment are expected to help support investment in the economy overall, as private investment picks up gradually. This will help maintain a steady improvement in the productive capacity of the economy.

3. Managing capital better

3.1 Departmental Investment Strategies

Departmental Investment Strategies (DIS), setting out how capital resources will be spent and managed, will support the substantial increase in planned public investment announced in the EFSR. The purpose of the DIS will be to ensure that capital funds are focussed on the key objectives and priorities of the Government, as set out in individual Departments' Public Service Agreements, and that systems are in place to ensure that investment decisions are well made and projects are well managed.

Once agreed with the Treasury, a compilation of DIS's will be published in the Spring of next year. DIS's will pave the way for Capital Management Plans to be produced under Resource Accounting and Budgeting (see section 4).

The DIS will give a strategic overview of the contribution of investment to a Department's objectives and targets rather than a detailed list of projects. It will set out quantitative and qualitative information on the additional outputs being delivered and appropriate performance measures and targets.

The DIS will highlight the key interactions between capital and current spending. Capital spending will have current consequences for resource budgets through capital charges and maintenance spending. Furthermore, capital spending may involve either complementary current spending in order to deliver a particular output, or trade-offs with current spending. The DIS will identify these synergies and trade-offs and will set out how decisions between the relative balance of current and capital spending are made.

Departments will also demonstrate how existing assets are being used efficiently, including making use of wider market opportunities (with an assessment of the risks involved). The DIS will provide information on reviews of assets and disposal plans.

3.2 Procedures and systems

DIS's will build on work already underway to improve the management and appraisal of public sector investment projects. Departments have recently been improving their systems for the appraisal and evaluation of investments. For instance, DETR have recently conducted a review and public consultation of the value for money framework with which they appraise alternative approaches to renovation and management of local authority housing stock. On the transport side a new appraisal framework was developed as part of the Roads Review. The framework encompasses a more wide ranging assessment of costs and benefits and distributional impacts of road schemes than simply those that can be monetised.

The DIS will include a summary of how Departments plan and manage capital spending to ensure value for money, identifying areas for improvement and how this will be achieved. This will include an overview of strategic management of the capital programme in terms of setting priorities, choosing between areas of investment and managing key risks - resulting from changing costs, technology or policies.

Each DIS will require a quality control statement describing and assessing the key management systems used for capital spending, focussing on:

appraisal of capital projects;

procurement strategies to improve efficiency;

project and contract management to deliver projects to budget and on time;

evaluation of investment to demonstrate that planned outputs and objectives have been met.

The DIS will also include arrangements for reviewing the adequacy and effectiveness of these systems. The aim is that Departments will demonstrate that they learn from experience and feed back lessons into their systems for capital management and planning.

3.3 Devolved government

After devolution next year the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly will assume responsibility for managing public expenditure on devolved services. Under the EFSR framework they will determine their own priorities for current and capital spending and manage public expenditure on devolved services in what they judge to be the most cost effective and efficient way possible.

In the local authority sector, the Department of the Environment, Transport and the Regions (DETR) is pursuing with local authorities a number of initiatives designed to improve the local authority capital finance regime. These include the proposed creation of a single capital budget, for allocating a large proportion of capital support through a single funding mechanism. This is intended to provide greater local autonomy, increased local accountability and more stability of funding for individual authorities. DETR will also be consulting shortly on how best RAB principles be applied to local authority housing.

4. Getting the incentives right

4.1 Resource Accounting and Budgeting

The changes announced in the EFSR represent a significant step towards Resource Accounting and Budgeting (RAB) which, once in place, will further reinforce delivery of the fiscal framework. It will do so by better aligning the spending aggregates and fiscal rules, providing enhanced information (for instance on depreciation, objectives and outputs) and reinforcing these with sharper asset management incentives.

In broad terms, resource accounting applies to central government the financial reporting practices of both the private sector and much of the public sector. Departments are on course to produce the first full set of published resource accounts for the financial year 1999-2000. These will be accruals accounts, capturing the full costs of resources consumed during the reporting period, including capital costs as measured by depreciation and the opportunity cost of capital. They are similar to those prepared for private sector companies but contain two additional features - a statement showing use of resources approved by Parliament, and a statement analysing spending by objective.

The introduction of full resource budgeting, intended for the next planning round in 2000, will sharpen public expenditure management by:

- Improving the information available for the management of fiscal policy. More accurate measures of depreciation will help ensure that policy remains set to deliver the Golden Rule; and asset information and systems will provide the basis, over time, for more comprehensive measures of the Government's overall net worth.

- Ensuring that the definition of capital is more closely aligned with securing inter-generational equity, focussing on where Government derives an ongoing policy benefit from an investment. This contrasts with the present definition which treats as current spending many of the military assets held by the Ministry of Defence, and as capital some grants which in reality deliver their objective on being made.

- Introducing full-cost departmental budgets which promote better decisions on priorities. At present, the current costs of investment (ie depreciation and cost of capital) are largely excluded from Departmental baselines, distorting relative shares. For instance, in 1998-99 MOD's share of current budgets² measured in cash rather than accruals terms came to some 6 per cent of the total; including depreciation and the cost of capital it was 10 per cent; comparable figures for the DETR were 3 and 5 per cent and the DSS 35 and 30 per cent;

² With military assets defined on a RAB rather than national accounts basis

Shifting the focus away from inputs and towards objectives and outputs, asking what spending is intended to achieve and what investment is necessary to achieve the Government's objectives.

Underpinning the macro-spending framework with enhanced management incentives for Departments. In the past, much new public investment had suffered from mismanagement or low value-added. Capital charging will enhance investment management through more realistic investment appraisal and quicker disposal of under-used assets.

4.2 Developments so far

The new fiscal framework - and in particular the focus of the Golden Rule on capital as it is consumed rather than as it is financed - is not only consistent with RAB but reflects the same underlying accruals principles. Notably, both are designed to achieve a more rational framework for the planning and management of investment. Because of this, and to ensure that the reforms reinforce each other, RAB is being implemented to support and underpin the delivery of the new fiscal rules.

Some of the key features of RAB have already been introduced:

- separate plans for current and capital spending, reflecting their different economic significance, consistent with the fiscal rules;

- improved management of capital through Departmental Investment Strategies, paving the way for fuller Capital Management Plans under RAB.

The National Asset Register, published in November 1997, provided the clearest indication that any government has ever given of the extent and coverage of its assets. Government Departments and other bodies now have a clear statement of their assets, so they can consider what changes are necessary where their assets are not contributing to meeting the Government's objectives. The asset register is consistent with the principles of transparent and efficient fiscal management:

- preparing the ground for RAB, reflecting the necessary information on Departmental assets;

- providing the basis for giving Departments incentives to dispose of surplus assets which are not contributing to meeting the Government's objectives, and to make better use of those assets they retain;

- providing information on the scale of government assets for potential public-private partners, which will form

the basis of proposals for using assets more productively.

From April this year until the arrangements for resource budgeting are fully in place in 2001, Departments are allowed to reinvest all the receipts from the disposal of assets, subject only to limits necessary to ensure that these sales do not distort the Government's overall spending allocation. Around £4 billion of receipts from asset sales are projected for each of the next three years.

Public Service Agreements, introduced in the CSR, include Departments' aims and objectives, and measurable efficiency and effectiveness targets. These are the forerunners of Output and Performance Analysis to be used under RAB.

4.3 Capital charging

A key feature of RAB - as under the Golden Rule - is that the focus of decision making for capital is over its lifetime, through capital charges, rather than only when purchased. This puts capital costs on a 'level playing field' with current costs. Making managers more aware of the assets they employ encourages good maintenance and provides incentive to maximise use.

In contrast, under the previous budgeting framework, identifying the cost in full in the year of acquisition but not depreciating or recognising subsequent opportunity cost, there was an initial bias against capital spending, and no ongoing incentive to manage capital properly once purchased.

So capital charging will embody for public services the disciplines faced by the private sector to manage assets well. Importantly, it focuses incentives at the right point; on the managers taking decisions day-to-day. This will be achieved by the inclusion of capital charges in Departmental resource budgets, over every asset's useful economic life:

depreciation: reflects the consumption of the asset as it is used up over its lifetime;

cost of capital: measures the opportunity cost of tying up funds in capital assets.

Similar arrangements are already in place for some public bodies - such as trading funds and the NHS. However, RAB will extend these disciplines to other users of public capital and ensure that they are supported by an effective link to aggregate decision making through resource budgets. Detailed implementation will, of course, reflect practicalities on the ground, including the relationships existing with end-users.

5. Value for money: Public Private Partnerships and the Private Finance Initiative

5.1 Partnerships to deliver public services

There is no longer a hard and fast boundary between the public and private sectors. The principle of introducing private capital and expertise into the provision of public infrastructure and services already has a long history. In the fields of housing, economic regeneration, transport and municipal enterprise, joint ventures and partnerships between the public and private sectors have made a considerable impact, often achieving improvements to value for money. Entering into partnership with the private sector where this can improve the management of public assets often delivers value for money improvements and may have substantial spin offs in the form of improved quality and service levels. One of the main mechanisms through which the public sector can secure improved value for money in partnership with the private sector is the PFI.

PFI differs from other recent models devised to incorporate private sector expertise into the delivery of public services, such as contracting out and privatisation. PFI concentrates on the “what” rather than the “how”, with the public sector issuing output specifications that provide scope for the private sector to innovate, to the eventual benefit of all parties involved. Through PFI, the private sector is able to bring in a wide range of managerial, commercial, and creative skills to the provision of public services.

Meeting a given need for public service by means of the PFI has essentially the same macroeconomic effects on aggregate spending, output and inflation as through the traditional route of publicly financed investment. Under the PFI, payments to the private sector are made over time, rather than upfront when a new public investment is undertaken. The new fiscal rules and RAB will similarly spread the costs of publicly financed investment over time, thus putting public and private finance on a level footing.

5.2 The benefits of private finance

The PFI seeks to transform the role of government from being an owner of assets trying to provide services directly to the citizen, into a purchaser of services on behalf of citizens, from the private sector. Private firms become long-term providers of services rather than simply upfront asset builders, combining the responsibilities of designing, building financing and operating the assets in order to deliver the services bought by the public sector. The payment structures span the length of the contract, not just the upfront “build phase”, and are such that the private sector partner has the incentives earning a return and recouping its investment by successful long term commissioning of an asset. However, PFI may not be appropriate in every case, so it will only be chosen, where it makes sense, once value for money over the life of the contract, compared to the more conventional alternative, has been demonstrated.

The key to providing added value is the optimal allocation of control and risk, so that risk lies with the party best able to manage it. Unlike the delivery of traditional public services - where the builder of a prison or hospital has no further role when construction is complete, and the taxpayer is left to pick up the bill for any shortcomings - with PFI the level of service is set for the entire contract. With one service provider designing, building, operating and financing, any slippage in standards will lead to reduced payments that will impact on the private sector.

Examples of value for money from PFI projects includes:

The M1/A1 Yorkshire Link should reduce transport costs by some £50 million in its first year. A Highways Agency Report concluded that the average cost saving (assuming the standard 6 per cent discount rate) over what it would have cost conventionally was in the region of 22 per cent.

The first new PFI prisons at Bridgend and Fazarkeley will offer up to at least 10 per cent savings over the life of the contract, compared to conventional procurement. Their building time was twice as quick as that for an average conventional prison - 2 years, rather than 4 or more.

Value for money, together with the time and cost of deals, will improve as Government standardises commercial terms and the procurement process. For example, in its third PFI competition, the Prison Service achieved a 20 per cent reduction in unit costs against an identified specification compared with the best price achieved in its first competition.

5.3 Reviewing and streamlining the PFI

The Government's first action on the PFI on taking office was to commission a review under Malcolm Bates to address the problems that had previously had been encountered in bringing projects to fruition. Implementing the Bates Review recommendations is already helping to reinvigorate the PFI. The Government has assisted potential partners by making its priorities much clearer. Estimated capital spending under PFI in 1998-99 nearly three times the figure for 1996-97. By October 1998, nearly £11 billion of PFI projects had been signed, including nearly £4 billion since the election, in areas as varied as health, education, environment, defence and information technology. In order to ensure the momentum is maintained when the Treasury Task Force reaches the end of the planned two year life, the Government has commissioned a further review by Malcolm Bates to ensure that optimum benefit is achieved from public sector skills and to consider what longer term organisational arrangements are needed.

6. Conclusions

The projections in the PBR show the UK meeting the Golden Rule over the economic cycle for the first time for more than 25 years, despite the pressures of a global economic downturn. At the same time, the Investing in Britain Fund will more than double net public capital investment over the next three years, from ½ to over 1 per cent of GDP. This provides resources for the renewal and modernisation of our social and economic infrastructure, and supports overall investment levels at a time when business investment is expected to slow temporarily.

The new framework brings together a coherent strategy for raising the quantity, quality and stability of public investment. Incentives for better asset management cascade down from the Golden Rule through to capital charging. In essence the Golden Rule already puts fiscal policy under the same accruals approach intended under RAB. Better information and better incentives, in particular the introduction of capital charging, will further underpin this and contribute to better asset management.

The next step is to implement the new framework and make it work. Departmental Investment Strategies and RAB will help the effective management and planning of capital. Departmental Investment Strategies will be submitted to the Treasury by December, scrutinised, collated, and published in the Spring. Once introduced, RAB will support and underpin the Golden Rule, ensuring that all publicly funded or managed capital in which there is an ongoing interest is subject to the right incentives and provides value for money.