2000 Spending Review:

Investing in the Future
Departmental Investment Strategies:
A Summary

November 2000

Presented to Parliament by the Chief Secretary to the Treasury
by Command of Her Majesty
November 2000

Cm 4916

£6.50

This document can be accessed from the Treasury's Internet site: **http://www.hm-treasury.gov.uk**

FOREWORD BY THE CHIEF SECRETARY TO THE TREASURY

This Government is committed to reversing the legacy of under-investment in the nation's infrastructure. Major increases in capital investment are needed to deliver the continued improvements in health, education, transport and housing we have targeted. That is why we are doubling public sector net investment over the next three years.

We have already achieved a great deal. We have launched the biggest new hospital building programme in the history of the NHS with 38 major hospital plans already approved since May 1997. Some 17,000 schools, 70 per cent of all maintained schools in England, have benefited from New Deal for Schools funding to improve the condition of their buildings. We have completed 20 major trunk road schemes, increased investment to maintain roads by 20 per cent, provided £2 billion to modernise London Transport services and seen private investment in our railways more than double. We have invested in over 1.5 million council houses to reduce the backlog of repairs that has built up.

But more remains to be done and in the 2000 Spending Review we set out the capital resources needed to deliver long-term improvements: a two and a half fold increase in transport investment linked to the Ten Year Plan for Transport; a further £1.4 billion of capital for the NHS linked to the National Plan and a further £1.6 billion for education and employment.

To get the best value out of this new investment, and to make best use of existing assets, departments need clear long-term plans. Each department has drawn up a Departmental Investment Strategy setting out how extra capital, both from public and private sectors, will be spent and managed.

For too long short-term funding pressures have meant the longer-term benefits of a sound infrastructure have been neglected. For too long an annual 'patch & mend' mentality has existed in place of a coherent strategy for investment over the long term to deliver the shape and scope of public infrastructure required for effective public service delivery.

Departmental Investment Strategies rectify this. They set out a strategy for investment over the next three years and beyond. They focus not only on new investment but also on full utilisation of the existing asset base and the opportunities from public private partnership. They examine the lifecycle of the asset from procurement decision to disposal. Together they show the Government's determination to improve the quality of Britain's infrastructure.

Andrew Smith

Contents

Introduction

1.1 Departmental Investment Strategies (DISs) set out departments' plans to deliver the scale and quality of the capital stock needed to underpin the Government's proposed improvements in public services. The Government set out its spending plans for the next three years in the Spending Review 2000 White Paper[1] and the objectives and targets it aims to achieve in the Public Service Agreements White Paper[2] in July.

1.2 DISs modernise the way capital is planned and managed. As inputs to the 2000 Spending Review, DISs informed capital allocations over the next three years by linking Government objectives to the condition and utilisation of the existing asset base. Final strategies and allocations can now be published.

1.3 Net public sector investment is set to double to £18 billion a year by 2003–04. In particular extra resources have been targeted to deliver:

- a two and a half fold increase in transport investment;
- a further £1.6 billion for education and employment;
- a further £1.4 billion for the NHS;
- a £1 billion programme of investment in science laboratories; and
- £1 billion to ensure public services can be delivered online.

1.4 This is enhanced by Public Private Partnership (PPP) deals anticipated to involve some £12 billion of capital over the three years from 2000–01.

1.5 It is essential that this additional capital is managed effectively and that investment decisions are taken against a coherent, long-term strategy. Each Strategy therefore covers the complete life-cycle of investment from options appraisal, through procurement and utilisation to disposal. This is set out in four sections:

- strategic policy context: the role investment plays in delivering the department's objectives, its long-term strategy and the determinants of investment over the spending review period;
- existing asset base: the scope and condition of the existing asset stock (including maintenance backlogs), plans for enhanced utilisation (PPPs and wider markets) and plans for disposal;
- new investment: plans for new public capital and Private Finance Initiative (PFI) investment in the spending review; and
- systems and processes: the processes the department adopts to ensure it is maximising the use of the current asset base and delivers value for money in new investment.

1.6 This document:

- summarises Government plans for increased investment, the background to these decisions and the framework for public investment;
- explains how DISs will help deliver this strategy; and
- gives examples of how individual DISs will contribute.

1.7 Each department is publishing its DIS in conjunction with this summary. These are available through the Treasury's website at **www.hm-treasury.gov.uk**

[1] "Spending Review 2000: New Public Spending Plans 2001–2004" (Cm 4807).

[2] "Spending Review 2000: Public Service Agreements 2001–2004" (Cm 4808).

2 WHY PUBLIC INVESTMENT MATTERS

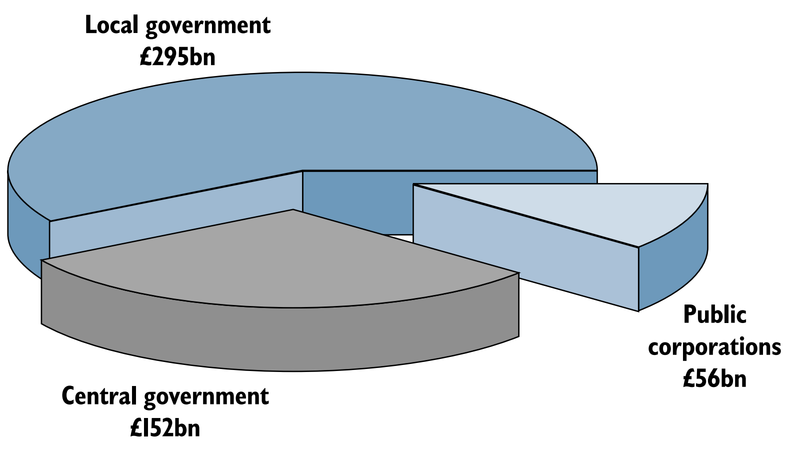
2.1 The public sector owns about an eighth of the UK's total asset base; just over £500 billion (see table 2.1) of the £3,900 billion of assets in the nation as a whole[1]. The scale of these holdings, and the use they are put to, will therefore have a direct impact on the economy as a whole.

2.2 The Government's central economic objective is to achieve high and stable levels of growth and employment. This requires macroeconomic stability underpinned by a fiscal policy framework that delivers strong and sustainable public services. From this platform, the reasons for holding public assets and spending scarce resources to enhance them are:

- to encourage productivity growth in the economy – by providing high-quality infrastructure, through good transport links and regenerated land and buildings, and a skilled labour force through education facilities and state of the art facilities for scientific and technological research;
- to create the capital stock necessary to deliver quality public services – to supply the services demanded by the public in the form of, for example, health care and crime deterrence that will also have direct economic benefits; and
- to improve the cost and quality of public services – for example through delivery of services over the internet.

2.3 To this end, the public sector holds an extensive set of assets. Summary details of the asset base by sector are set out in chart 1 and by sector and type in table 2.1.

Chart 1: Total public sector assets by sector (£ billion, end 1999)



Source: National Statistics "United Kingdom National Accounts" chapter 10.

[1] Source: National Statistics "United Kingdom National Accounts" chapter 10.

Table 2.1: Public sector non-financial assets, £ billion at end 1999

	Central government	Local government	Public corporations	Public sector
Tangible assets:				
Residential buildings	2.1	76.6	4.3	83.0
Agriculture assets	0.9	1.8	1.0	3.7
Commercial and other buildings	40.8	77.6	27.0	145.4
Civil engineering works	89.6	134.1	8.3	231.9
Plant and machinery	13.7	3.8	8.9	26.4
Transport equipment	3.9	0.7	1.7	6.3
Stocks and work in progress	0.6	–	1.3	2.0
Total tangible assets	**151.7**	**294.5**	**52.5**	**498.7**
Intangible non-financial assets	0.6	0.5	3.5	4.6
Total non-financial assets	**152.3**	**295.0**	**56.0**	**503.3**

Source: National Statistics "United Kingdom National Accounts" chapter 10.

2.4 Points to note:

- local government comprises the majority (60 per cent) of the public sector asset base – this includes schools, local transport and social housing;
- central government holds some 30 per cent of the total – the main items being motorways and trunk roads, prisons and defence assets; and
- public corporations represent an eighth of the public asset base. This includes the assets of NHS Trusts as well as the Post Office and BBC.

2.5 These publicly owned assets are supplemented by privately owned and managed assets used for the delivery of public services. The public sector is increasingly looking to enhance value for money in public service delivery by purchasing services directly from the private sector under the Private Finance Initiative (PFI) and other Public Private Partnership (PPP) arrangements. Such contracts to purchase quality services on a long-term basis take advantage of private sector management skills and the enhanced incentive of having private finance at risk. Table 2.2 shows the estimated capital spending committed by the private sector each year to support public service delivery.

Table 2.2: Value of Private Finance Initiative capital spend

Private Finance Initiative	£ million					
	1993	1994	1995	1996[1]	1997	1998
Estimated capital spending by the private sector	42	11	862	6,066	1,500	2,679

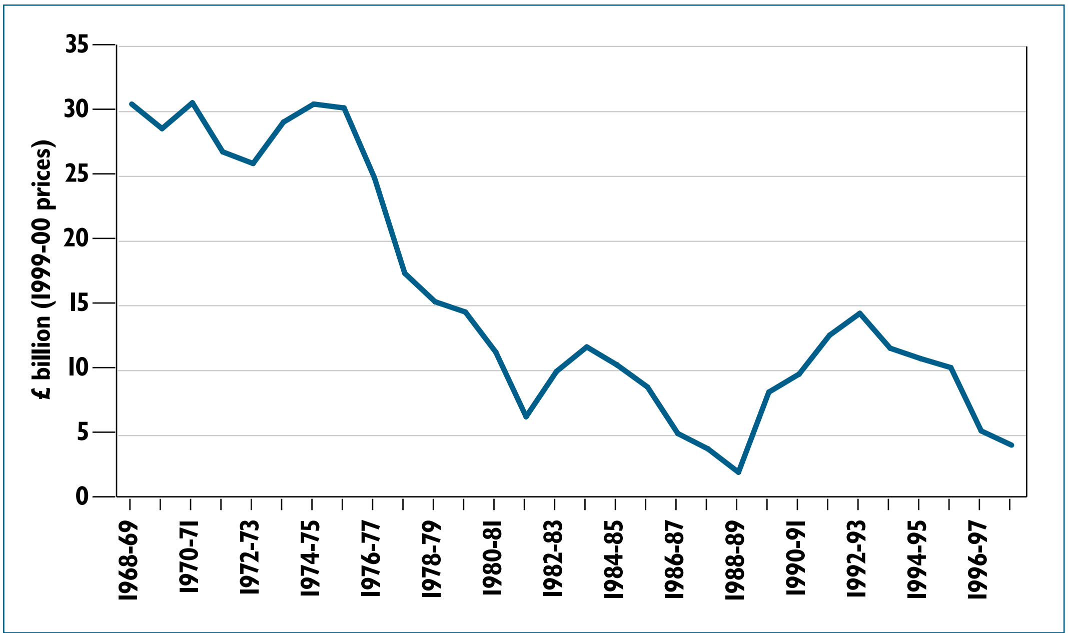
[1] Includes Channel Tunnel Rail Link.

2.6 In addition, there are assets owned by private companies delivering public transport. For example, Railtrack's assets totalled £12.9 billion at 31 March 2000 and rolling stock leasing companies hold between £2 billion and £3 billion of passenger rolling stock. Bus operators run some 80,000 licensed buses worth over £650 million.

HISTORIC TRENDS IN PUBLIC INVESTMENT

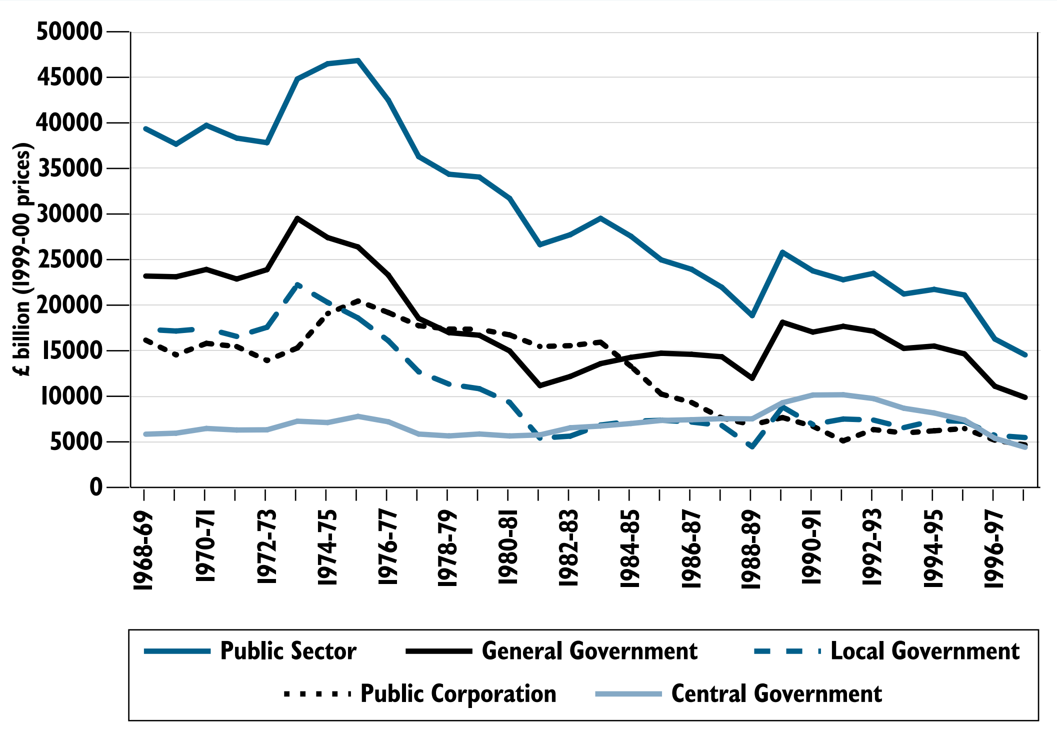
2.7 Chart 2.2 shows the marked reduction in public sector net investment over recent decades (gross and net investment are defined in table 3). Public sector net investment fell from 5 per cent of GDP in 1963–64 to 0.5 per cent in 1997–98. Like any business, government's investment decisions will reflect broader policies about what activities it wishes to engage in and how those activities can best be undertaken. Since the 1970s, government has withdrawn from a range of activities, most notably the former nationalised industries and much local authority provision of council housing. More recently, the increasing use of the Private Finance Initiative has meant government is procuring services backed by privately owned assets rather than procuring these assets directly in the public sector. But the fall in net public investment shown in chart 2.2 cannot be fully explained by changes in the size of the public sector.

Chart 2.2: Public sector net investment (real terms, 1968–69 to 1997–98: £ billion)



2.8 Chart 2.3 sets out gross fixed capital formation, the acquisition less disposal of fixed assets, by government sector. These figures show the decline in public corporation and local government capital spend we might expect from the change in the size of the public sector over the 1970s and 1980s. However, it also shows the marked decline in general government spend – central plus local government – since the start of the 1990s, a decline of nearly £8 billion a year in real terms by 1997–98.

Chart 2.3: Gross domestic fixed capital formation in real terms by sector



2.9 Investment levels had fallen to a level where they were inadequate to deliver the quality of services demanded by the public and have led to an infrastructure that was not fit for its purpose. Specifically historic underinvestment in public services has led to major maintenance backlogs across the public sector in England estimated at:

- in excess of £7 billion in schools;
- £3.1 billion for NHS buildings;
- up to £6.75 billion on local authority roads; and
- £10 billion on council housing;

2.10 It is too simplistic to argue that this deterioration in the quality of the asset base resulted simply from a lack of resources. Other causes can be identified:

- a short-term planning horizon that often led to longer-term capital investment projects being crowded out by short-term current pressures;
- no clear distinction in funding between capital and current funding within budgets;
- a lack of incentives to manage and utilise the existing asset base to its potential and dispose of surplus assets and recycle the receipts; and
- a focus on quantities of money rather than on outcomes – drivers to invest being determined by arbitrary planning totals rather than the actual change in public services delivered by new investment.

THE GOVERNMENT'S STRATEGY FOR PUBLIC INVESTMENT SINCE 1997

2.11 Since 1997, the Government has developed a new strategy for public investment that addresses these historic problems and their underlying causes. The strategy has five key objectives:

- *improving the nation's infrastructure* – improving the facilities that allow productivity and competitiveness in our economy;
- *modernising public services* – financing the asset base necessary to meet citizen's expectations of public services as we move into the 21st century;
- *focusing on the long-term* – extending planning horizons from the historic levels of one year, sometimes looking ten years ahead;
- *tying resources to results* – ensuring that the allocation of resources is linked to the achievement of objectives and targets, to guarantee that the public get 'something for something'; and
- *recycling sale receipts* – ensuring that the public sector holds only those assets that are necessary for the efficient and effective discharge of its current responsibilities, and that surplus assets are sold to help generate the funds for renewal and modernisation.

2.12 Underpinning all five of these objectives is the need to *ensure financial sustainability*. The Government can invest only at a rate that is consistent with macro-economic stability and sound public finances.

2.13 To achieve its objectives the Government has deployed **new rules, new reforms** and **new resources**.

Rules

2.14 The Government's fiscal framework – enshrined in the Code for Fiscal Stability – is designed to deliver sound public finances over the economic cycle. The two firm rules set by the Government for fiscal policy are:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

2.15 This means that current spending should be covered by current taxpayers' revenue over the cycle. The additional costs of borrowing above and beyond current revenues should be limited to investment as it has a retained, longer-term value. The extent of such borrowing, and resulting debt, must be kept at a stable and prudent level.

2.16 Budget 2000 set the envelope for capital and current budgets for the 2000 Spending Review consistent with the fiscal rules. Current spending was set to grow at 2.5 per cent a year in real terms over the period to 2003–04 to meet the golden rule. However, with net debt as a percentage of GDP expected to fall over the review period, this allowed faster growth in investment as set out below.

Reforms

2.17 Building on the fiscal rules, the Government has introduced the following reforms to tackle the historic problems with investment set out in paragraph 2.10:

- *long-term focus* – three year budgets were introduced for departmental spending in the 1998 Comprehensive Spending Review. This gives departments certainty of funding and a sounder base for planning. Departments are free to carry forward any underspending between years;

- *distinct capital budgets* – the 1998 Comprehensive Spending Review was also the first to set specific departmental capital and current budgets for each department to comply with the fiscal rules and protect investment from short-term, current pressures;
- *tying resources to results* – the introduction of Public Service Agreements has brought a new outcome focus to planning public spending with each department stating the specific targeted improvements it aims to deliver over the review period not just the money it intends to spend;
- *asset management incentives* – the Government has introduced a number of incentives to improve management of the public asset base, notably:
  - *recycling receipts,* the right for departments to recycle the receipts from sales of surplus assets to be reinvested in new capital projects;
  - *resource budgeting* introduces into the budgeting system two charges for holding onto assets: depreciation, measuring the cost of capital consumed, and a cost of capital charge, measuring the opportunity cost of holding capital assets (see paragraph 4.12); and
  - *the National Asset Register*, a public inventory of central government assets, heralded as a landmark in openness and accountability.
- *innovation* – the Government has set up the Capital Modernisation Fund (CMF) to sponsor innovative approaches to public service delivery (see box 1); and
- *strategy* – DISs require departments to link plans for investment to the quality of the existing asset base.

Box 1: Capital Modernisation Fund

The Capital Modernisation Fund was set up to help unlock innovative ways of delivering high quality public services. The fund is allocated, on a challenge basis, to projects that move away from traditional delivery of public services to more modern and effective methods. It plays a central part in the Government's drive to renew and modernise the UK's public sector capital stock.

The initial £2.5 billion CMF was set up as part of the Comprehensive Spending Review in July 1998. Funds have been allocated in two rounds announced at or after Budget 99 and Budget 2000. Details of allocations in both rounds can be found on the treasury website at www.hm-treasury.gov.uk/cmf/index.html. Allocations have included £470 million to provide 1,000 UK Online and City learning centres across the UK, £68 million to match job seekers to employers online, and £30 million for a health programme to deliver action on cataracts.

A further £2.5 billion Capital Modernisation Fund was set up to run over the next three years. Again, it will be run as a challenge fund with the focus of this investment being to fund innovative ways to maximise the quality, coverage and efficiency of public service delivery.

Resources **2.18** The Government's new spending plans are set to double net investment over the next three years. Box 2 sets out what has been achieved since 1997, and table 2.3 sets out planned spending.

Box 2: What has been achieved to date?

Health:

- **the biggest new hospital building programme in the history of the NHS is underway with 38 major hospital plans and 31 medium sized schemes already approved since May 1997;**
- **a £150 million programme to update, expand and modernise Accident and Emergency departments is underway, funding 242 schemes in 182 hospitals; and**
- **NHS Direct, a 24-hour nurse-led helpline providing confidential healthcare advice, has been set up, and now covers the whole country. Thirty-six nurse-led NHS Walk-in Centres, covering 10 million people, have been set up this year alone.**

Education:

- **some 17,000 schools, 70 per cent of all maintained schools in England, have benefited from New Deal for Schools funding to improve the condition of their buildings;**
- **88 per cent of schools were online by spring 2000: 98 per cent of all secondary schools and 86 per cent of all primary schools; and**
- **700 University for Industry "Learndirect" centres have been opened already.**

Transport:

- **20 major trunk road schemes have been completed;**
- **investment to maintain local roads has increased by 20%;**
- **£2 billion has been provided to modernise London Transport services; and**
- **private investment in our railways has more than doubled.**

Housing:

- **over 1.5 million council houses have been invested in to reduce the backlog of repairs that has built up.**

Crime:

- **five new prisons worth £215 million are being provided through PFI, giving modern high quality facilities which are effective in reducing reoffending.**

Table 2.3: Future capital spending plans

Capital budget (£ billion)	2000–01	2001–02	2002–03	2003–04
Gross investment	25.8	30	34	38
Less asset sales	–3.8	–4	–4	–4
Less depreciation	–15.0	–15	–16	–17
Net investment	7.0	11	15	18
Capital spending by the private sector	4.3	4.0	3.5	4.0

Source: Pre-Budget Report November 2000, Cm 4917.

2.19 Table 2.3 sets out measures of public investment. The gross investment line shows the total new funding committed each year. From this total, a proportion is funded through recycling asset sales receipts rather than raising new funds. However, within the existing asset stock, capital will be consumed over time through use and ageing. Unless new investment is committed assets tend to fall in value over time. Depreciation is the measure of the consumption of fixed capital each year. Net investment adjusts new investment committed to allow for depreciation. In addition to this public investment, the table shows estimates of capital spending committed by private sector through the PFI. Under PFI the private sector delivers and manages the assets used in public services in return for a payment stream.

Chart 4: Public sector net investment (£ billion)

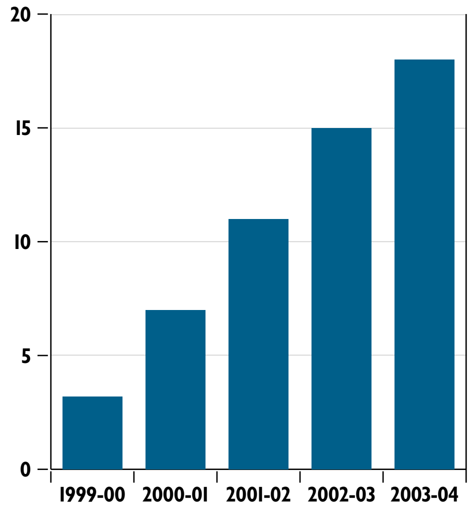
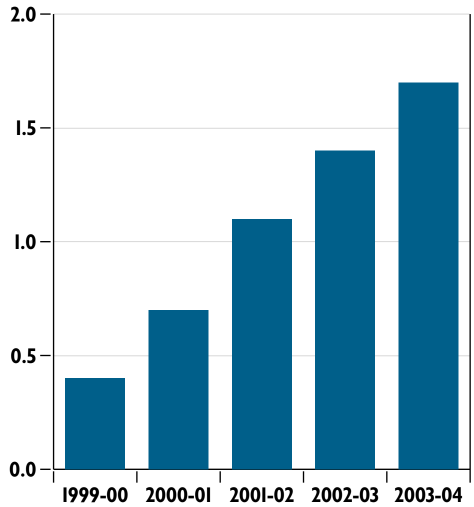


Chart 5: Public sector net investment (percentage of GDP)



2.20 The 2000 Spending Review settlement provides for public sector net investment to more than double from 2000–01 to 2003–04. The Government needs to ensure that this money is spent prudently and effectively, to create the national infrastructure and public services that people want and value. Departmental Investment Strategies (DISs) are the key device for achieving these goals. Each department's DIS:

- establishes coherent *strategies for investment*, setting out the role that the asset base (and investment on it) will play in helping each department achieve its aims, objectives and targets;
- explains how the department will make proper use of the *existing asset base* – by improving utilisation (looking at PPP and other commercial opportunities where appropriate) and disposing of assets where they are no longer required;
- outlines high-quality proposals for *new investment* – showing how money spent on existing and new infrastructure, buildings, IT and equipment will allow the realisation of government objectives; and
- details the *systems and procedures* to guarantee successful, value for money delivery of the new investment.

2.21 Each department has published its DIS, to allow detailed scrutiny of investment and asset management plans. This White Paper summarises the key messages from across the individual DISs. In the process, it provides an overview of what the Government wants to achieve with its asset base and capital resources and how it intends to achieve these goals.

3 ESTABLISHING COHERENT STRATEGIES

3.1 The starting point for each DIS is to examine the environment within which the department will operate and its longer-term policy strategy, identifying the main drivers of new investment over the spending review period. In particular the strategy sets out details of:

- the external environment the department will operate within, including the affect of trends in demography, need and demand for services;
- the objectives the department aims to achieve, specifically the targets for improved service outcomes set out in their Public Service Agreements, and related policies that will impact on investment;
- the key strategic challenges facing the department including changes to methods of service delivery; and
- the role, and relationship with, the different bodies that deliver the department's overall objectives from local government and non-departmental public bodies to the private sector.

3.2 The Public Service Agreements set for each department an aim, objectives and quantified targets for improved services over the Spending Review period. The DIS must identify the implications of this for investment and asset management. This will highlight the main areas in which investment is needed such as upgrading or expanding the asset base, introducing innovative methods of service delivery, shifting the balance between IT and property assets or integrating facilities with other departments.

3.3 A coherent strategy requires a long-term view. The Spending Review saw a move to longer-term planning in a number of key areas, for example in the Ten Year Plan for Transport (see box 3) and the NHS Plan (see box 4). The Strategic Defence Review, conducted alongside the last Spending Review, perhaps sets out future requirements most simply through the Ministry of Defence objective to deliver the capability:

> "*…to undertake successfully a major operation on a similar size and duration to the Gulf War, or two medium scale operations (of a similar size to that in Kosovo)*".

3.4 Long-term planning is also evident from the increasing use of 'whole-life costing' techniques across government and notably for education investment. These seek to measure from the outset the cost of building, running and maintaining a project across its useful life. This represents a move away from a 'patch and mend' approach that often saw cheaper but less durable options chosen with higher long-term costs.

Box 3: Ten Year Plan for Transport – taking the long-term approach

The Ten-Year Plan for Transport is designed to deliver the Government's priorities of reduced congestion and pollution, better integration and a wider choice of quick, safer and more reliable travel. The Plan outlines a strategy to transform the national transport infrastructure within 10 years, benchmarking performance against the best in Europe. The aims of the Strategy are outcome-focussed with targets by 2010 to deliver:

- a reduction below current levels for congestion on the inter-urban trunk and large urban road network;
- a 50 per cent increase in rail passenger use in Great Britain;
- a 10 per cent increase in bus use in England;
- double light rail use; and
- a 40 per cent reduction in numbers killed or seriously injured on roads.

Such change requires significant investment and overall, the Strategy commits over £121bn of capital investment, with just under £65bn being funded by public expenditure and over £56bn coming from private sources.

It outlines the problems and challenges that will impede progress and proposes a series of programmes designed to realise the Plan. Programmes are grouped around railways; the strategic road network; local transport; and transport in London. For each the profile of resources for investment and the split between public and private funding is set out.

The Ten Year Plan for Transport is appropriate given the deep-rooted nature of many of the problems and the need to change attitudes and behaviours as well as complete major infrastructure projects. The Plan's timescale creates the long-term framework required for developing and delivering big projects.

Box 4: the NHS Plan – the role of investment

The NHS Plan aims to transform the health service to produce faster, fairer services delivered to a consistently high standard and to tackle health inequalities.

The Plan and the Investment Strategy highlight historic underinvestment as one of the principal obstacles to better NHS performance. This has led to an ageing building stock (with one third of buildings pre-dating the NHS itself), high levels of maintenance backlog (estimated at £3.1bn) and insufficient modern equipment and information technology.

The Plan highlights as a first priority the need to direct additional investment to 'get the basics right in the health service with the right number and the right type of beds, buildings, service and equipment'. It aims by 2010 to affect the following health outcomes:

- reduce mortality from heart disease in under 75s by 40%;
- reduce mortality from cancer in under 75s by at least 20%;
- reduce suicide and undetermined injury by at least 20%; and
- narrow the health gap between socio-economic groups and between the most deprived areas and the rest of the country.

By the end of 2004, it prioritises:

- the elimination of at least a quarter of the maintenance backlog;
- additional hospital and specialist diagnosis and treatment centres;
- the refurbishment or replacement of at least 3000 GPs' premises and the creation of 500 one-stop primary care centres;
- an increase in the levels of equipment to improve cancer, renal and heart disease services; and
- over £300m invested in information technology by 2004 to allow electronic access to medical records, electronic prescribing of medicines.

To deliver this the NHS must invest and modernise. The Plan recognises that this is a long-term strategy and that the immediate focus will be on the clinical priorities of coronary heart disease, cancer, mental health services and services for older people.

4 Making better use of the existing asset base

4.1 The Departmental Investment Strategy (DIS) aims to link a department's objectives to its existing asset holdings and new investment. The DIS ensures that requirements for new investment are informed by a thorough analysis of the scope, condition and use made of the existing asset base. Effective asset management requires:

- the quantification of all the assets held by the department;
- an understanding of the fit between service strategy and current holdings of assets;
- an analysis of the condition of these assets and the existence of any maintenance backlog that might hinder service delivery;
- an explicit assessment of whether these assets are being used to the full; and
- an analysis of where any mismatch exists, identifying what departments have that they no longer need and what they need but do not have.

Quantity

4.2 The size of asset holdings by department is set out in table 4.1. This shows central government department and their non-departmental public bodies' assets as at March 2000.

Table 4.1: Departmental Total Assets (1999–2000: £ million)[1]

	£ million
Education and Employment	223
Health – Health Authorities and NHS Trusts[2]	23,220
Environment, Transport and Regions	68,072
of which: Highways Agency	*65,455*
Home Office	502
Legal Departments	1,284
Defence	67,000
of which: Land & Buildings	*14,000*
of which: Fighting Equipment[3]	*28,000*
Foreign and Commonwealth Office	1,286
International Development	17
Trade and Industry	81
Agriculture, Fisheries and Food	521
Culture, Media and Sport	2,914
Cabinet Office	125
Social Security (administration)	69
Northern Ireland Office	505
Chancellor's Departments	969

[1] *Based on draft departmental resource account balance sheets for 31 March 2000.*

[2] *Net Book value of Health Authorities' and Trusts' assets.*

[3] *UK national accounts classification excludes fighting equipment from tangible assets.*

4.3 The Government published a detailed inventory of central government asset holdings by department in the National Asset Register in 1997. This is currently being updated to include asset valuations and set out changes since the first Register and will be published in spring next year.

Condition and Utilisation

4.4 Analysis of the condition and use of the existing asset base is essential to allow informed decision making on setting and allocating new investment budgets. This link between the stock of existing assets and the flow of new investment is the area where DISs add most value. Such analysis needs to be underpinned by robust data and accurate measurement of the state and use of current holdings. Departments have made impressive progress in pulling together this data. Each DIS reports on the state of its asset holding before examining the extent to which they are being fully utilised. Two examples of specific indicators used to measure utilisation are those used by NHS Estates and highlighted in the Productivity Panel report 'Sold on Health'[1] and the following indicators used by Foreigh and Commonwealth Office (see box 5).

Box 5: Asset Utilisation – Foreign & Commonwealth Office's Estate Key Performance Indicators

The Foreign and Commonwealth Office has developed a series of Key Performance Indicators (KPIs) for its overseas estate, to measure performance of individual properties and enable identification of properties that may not be performing optimally. Performance measurement includes:

- **economic potential – whether the property is being fully exploited including comparing use value with open market value and the return on capital employed;**
- **the intensity of utilisation – whether residential accommodation is too large or small and density of office use including staff per square metre;**
- **annual cost of owned properties compared to the cost of leasing;**
- **condition – whether buildings are in good condition from surveyor assessment; and**
- **fit for purpose – a questionnaire based analysis of functionality coupled with analysis of adequacy of security.**

Role of Key Performance Indicators (KPIs)

A system of 'traffic light' colour codes is applied to each KPI: acceptable (green), suspect (amber) and unacceptable (red). Two red lights automatically prompt a re-evaluation of a property's performance. If under-performance is proven, the FCO will dispose of a property or take steps to correct the cause of under-performance where possible.

Any KPI can be compared with the average (calculated across a region or worldwide) for the same type of property to determine whether a property is performing above or below average.

Public Private Partnership

4.5 Many public services need assets which are only used part of the time. For example, the school that is required for teaching pupils only between 9.00am and 3.30pm on weekdays, or the Armed Forces' facilities that may be at full stretch only during times of military engagement. The Government has developed strategies making better use of assets through: improved business processes; investment in information and communications technology; the use of Public Private Partnerships (PPPs) and projects under the Wider Markets Initiative (see box 6).

[1] 'Sold on Health' (May 2000) is available at www.hm-treasury.gov.uk

Box 6: The Wider Markets Initiative

The Wider Markets Initiative encourages departments to make better use of their assets by engaging in commercial services where this is appropriate. This applies to both physical and non-physical assets such as databases, skills and intellectual property. Such public sector commercial activity can generate additional resources for the department and the economy as a whole through more productive use of assets. To encourage selling services into wider markets departments have the right to retain the benefit of receipts generated by sales.

Examples of such initiatives are:

***The Royal Parks Agency*, which through a partnership company has developed an extensive range of commercial activities based on the Royal parks in London. These concerts, such as Party in the Park, open air activities, and sponsorship, publishing and licensing opportunities using the Royal Parks brand.**

***British Waterways* has a long-term programme to eliminate its maintenance backlog on the canal infrastructure. This is aided by the PPP they have negotiated that allows a private sector company to use canal towpaths to lay fibre optic cables with capacity then sold to telecommunications companies. Under this BW will receive an annual payment of £6.5 million plus a 10 per cent shareholding in a new 'Fibreway' company.**

***The Ministry of Defence* has earned additional income from its core activities through the sale of charts, maps and meteorological services by the Hydrographic Office, the Meteorological Office and Military Survey; and the provision to non-military pupils of education and training services at MoD-run facilities. New wider markets opportunities are being developed through: the innovative use of land, buildings and manpower by film and TV companies; offering MoD facilities for recreational purposes; and the continued exploitation of the Defence Research and Evaluation Agency's long standing experience of transferring military technology into the civil sector.**

4.6 Public Private Partnerships are a key element in the Government's strategy for delivering modern, high quality public services and promoting the UK's competitiveness. By drawing on the best of the private and public sectors, PPPs are bringing new investment and better management into Britain's public services, and are helping state-owned businesses achieve their full potential.

4.7 Since the Government came into office in May 1997, it began to enhance PPPs by overhauling the PFI. It introduced standardised contracts and focussed on a smaller number of projects. The flow of deals has risen rapidly as a result, and in less than two years contracts with a combined value of approaching £5 billion have been signed in areas as diverse as hospitals, schools, military helicopter training and water treatment services, compared with £4 billion[2] over the whole of the previous Parliament. Between 1992 and 1997 no PFI hospital deals were signed. Yet in this Government's first two years 34 major hospital projects have been approved and, including deals in the pipeline, there are a total of 100 health projects in the programme. This represents the largest investment in new hospital facilities since the NHS was established.

4.8 Over the next three years the Government expects to sign contracts for projects with an estimated capital value of a further £12 billion.

[2] Excludes the Channel Tunnel Rail Link project (which had to renegotiated in 1998).

4.9 The Government is also using Public Private Partnerships in many state-owned industries to help these businesses to compete and provide improved services to their customers, while retaining responsibility for public interest issues (notably safety) in the public sector. In particular:

- London Underground: the Government is taking forward a PPP in which private sector partners will be granted long-term concessions to upgrade and modernise the tube infrastructure, including some £8 billion of new investment over the first 15 years, backed by a tough performance regime to ensure that this investment leads to better services; and
- National Air Traffic Services (NATS): the Government intends to introduce a Public Private Partnership to fund and manage more effectively the company's large, modernising investment projects. Separate, public regulation will ensure NATS maintains its high safety standards and offers value for money for airlines and their passengers.

Forthcoming plans for the next three years include:

- Defence Research and Evaluation Agency (DERA): to strengthen DERA's ability to continue to provide world class scientific advice a PPP is proposed. This takes full advantage of developing new business and attracting investment, while at the same time preserving essential defence interests and valuable collaborative arrangements. The proposed PPP option would involve a separation of around three-quarters of the existing organisation to form a company that as soon as its potential is judged suitably developed would be sold, probably in the form of a floatation.
- Tote: the Government has decided to sell the Tote to place it on a more commercial footing. After a review into the options for the future, a decision has been taken in principle to sell the Tote to a racing consortium. This will require primary legislation.
- Commonwealth Development Corporation: the Government has announced its intention to sell a majority stake in the Commonwealth Development Corporation (CDC) to enhance the business' ability to raise funds, which will continue to be invested in the poorest countries in the world.

Disposals

4.10 Scarce resources should not be tied up in assets that are under-used or have become surplus to requirements. The best way to improve utilisation of the existing asset base in such cases is to dispose of surplus and redundant assets and reinvest the receipt into more useful capital investment. The Treasury has established a financial framework within which departments have the incentive to shed surplus assets. Departments have the opportunity to retain capital receipts from disposals and use them for their own investment programmes. Departments also retain the administration and associated running costs saved from the disposal.

4.11 These incentives are reinforced through the following mechanisms:

- disposals for the next three years are agreed between each department and the Treasury as part of the 2000 Spending Review settlement;
- the updating of the National Asset Register will lay open to public scrutiny the level of departments' holdings and the progress made since the Register was first published in 1997; and
- the move to Resource Accounting and Budgeting now makes explicit the full costs of holding assets.

4.12 The 2000 Spending Review is the first review to be conducted on a resource basis. The move to Resource Budgeting introduces significant incentives for better management of assets into the budgeting process. In particular, it requires each department to measure the annual cost of holding on to assets not simply the original cash purchase price of the asset. It does this through two charges:

- a charge for **depreciation** of assets used by the department measuring the capital consumed in each year – the extent the value of the asset has declined with use;
- a **cost of capital charge** measuring the opportunity cost of holding assets and calculated at a rate of 6 per cent on the net assets employed by each department. This reflects the fact that there is a cost to tying-up resources in an asset measured by the return that might be expected if these resources were invested elsewhere.

4.13 These provide a specific measure of annual cost of holding assets upon which departments can act. Over the next three years departments will build up experience and expertise in analysing and forecasting these charges. It is the intention that, in the light of experience, these will be moved into departmental budgets where, as direct costs to the department, there will be a clear incentive to use assets to their full ability or dispose of them to realise savings in these charges. The total numbers are shown below, and departmental totals can be found in each departmental DIS.

Table 4.2: Capital charges on central government departments (£ million)

	1999–00	2000–01	2001–02	2002–03	2003–04
Depreciation	7,313	7,199	7,533	8,625	9,103
Cost of capital	13,007	12,822	12,789	11,995	12,270
Total capital charges	20,320	20,021	20,322	20,620	21,373

4.14 The combination of incentives and sanctions has generated good progress since. Some £13 billion of receipts from fixed asset sales were raised in the first three years of this Government with receipts in 1999–00 being over £1 billion greater than the corresponding level in 1994–95 as shown in table 4.3.

Table 4.3: General government receipts from sales of fixed assets (£ billion)

	Central government	Local government	Total fixed assets sales
1994–95	0.7	2.8	3.5
1995–96	0.9	2.4	3.3
1996–97	1.8	2.5	4.4
1997–98	1.6	2.5	4.1
1998–99	1.3	2.8	4.1
1999–00	1.1	3.7	4.8
2000–01	1.0	2.8	3.8
2001–02	1.0	2.8	3.8
2002–03	1.0	2.8	3.8

Source: Public Expenditure Statistical Analyses 2000-01 and Pre-Budget Report, November 2000

4.15 Disposals planned from 2001–02 to 2003–04 will generate at least £3.75 billion of receipts a year. The aim remains to realise receipts from unproductive assets that are not needed to fund service improvements that are needed. Specific examples include:

- the Department of Health expects to realise sales averaging some £300 million a year over the next three years. This is mainly NHS non-operational estate. The Valuation Office recently valued total NHS surplus estate at £1.58 billion;
- Defence: the department has a challenging target to dispose of over £600 million of assets in the next three years; and
- Foreign and Commonwealth Office: plans to dispose of £100 million of assets over the next three years, mainly properties abroad with Key Performance Indicators informing the choice (see box 5).

Managing local authority assets

4.16 Local government bodies own and control their own assets ranging from schools to local transport, police stations, Magistrates' courts and council housing. As the main source of finance, however, central government has a keen interest to ensure these organisations are using their assets to the full. The Government has set out a series of statutory and non-statutory plans that require public bodies to outline their planned asset management strategies, including rationalisations. Future investment is linked to the quality of these plans. This is central to the move to a single capital pot for local authorities (see box 11). A good example is the Department for Education and Employment's Asset Management Plans (see box 7 below).

Box 7: Managing beyond the boundary: Local Education Authorities' Asset Management Plans

Over the past two years the Department for Education and Employment (DfEE) has been phasing in the introduction of a system throughout England of asset management planning for schools at local authority level. These will play a central role in decision-making about resource allocation by the department and the level of autonomy offered to Local Education Authorities (LEAs) for the management and delivery of their capital programmes.

The aim of asset management plans is to set out the information needed, and the criteria used, to make decisions about spending on school premises that will:

- **raise standards of educational attainment;**
- **provide sustainable and energy-efficient buildings;**
- **provide innovative design, reflecting the future needs of ICT-based education;**
- **increase community use of school facilities;**
- **maximise value for money; and**
- **ensure efficient and effective management of assets.**

Plans share the logic of DISs: they state the policy context, assess existing premises, and identify needs and determine priorities. They then evaluate options (include the potential for use of PFI/PPP) and outline proposed programmes. Plans reflect local priorities agreed with all schools in each respective LEA.

The DfEE will appraise plans. Where these are judged satisfactory LEAs will then have the freedom to spend their allocations in line with locally agreed priorities with minimal subsequent intervention. Over time, the proportion of funding that is allocated according to formulae rather than through bids will rise. Where performance is unsatisfactory there will be greater intervention from the DfEE.

5 NEW INVESTMENT

5.1 The capital allocations made to departments in the Spending Review are listed in table 5.1. The Review set new capital allocations for the years 2001–02 to 2003–04.

Table 5.1: Departmental Expenditure Limits: capital budget by department (£ billion)

	2000–01	2001–02	2002–03	2003–04
Education and Employment	1.9	2.5	3.0	3.8
Health	1.8	2.0	2.6	2.8
Environment, Transport and Regions	6.2	6.4	8.4	10.7
Local Government	0.0	0.1	0.3	0.3
Home Office	0.6	0.9	1.0	0.9
Legal Departments	0.1	0.1	0.2	0.2
Defence	5.2	5.5	5.7	6.2
Foreign and Commonwealth Office	0.1	0.2	0.2	0.2
International Development	0.3	0.4	0.4	0.4
Trade and Industry	0.5	0.7	0.8	1.0
Agriculture, Fisheries and Food	0.2	0.2	0.3	0.2
Culture, Media and Sport	0.1	0.1	0.1	0.1
Social Security (administration)	0.0	0.1	0.1	0.0
Scotland	2.3	2.6	3.0	3.2
Wales	0.9	1.0	1.2	1.3
Northern Ireland Executive	0.8	0.8	1.0	1.1
Northern Ireland Office	0.0	0.1	0.1	0.0
Chancellor's Departments	–0.1	0.2	0.2	0.2
Cabinet Office	0.2	0.2	0.2	0.2
Employment Opportunities Fund	0.6	0.0	0.0	0.0
Capital Modernisation Fund	0.1	0.4	0.9	1.2
Reserve	0.5	0.3	0.4	0.5
Total capital budget DEL	**22.4**	**24.7**	**29.8**	**34.7**

Source: "Pre-Budget Report, November 2000" Cm 4917

What does this buy?

5.2 The following box sets out the main outcomes capital and current spending are expected to deliver, as set out in Public Service Agreements. Specific plans for capital investment are then listed under the headings of: new infrastructure, clearing backlogs and acquiring new buildings, equipping our public services and moves to electronic service delivery.

Box 8: Public Service Agreement targets

Public Service Agreements, published as part of the 2000 Spending Review, set specific targets for policy outcomes and service improvements. These targets are a precise and accountable statement of the Government's top priorities. Clear commitments have been made on key issues of concern – for example the Government will:

- **reduce preventable deaths from cancer and heart disease – by 2010 mortality rates in the under 75s from heart disease will fall by at least 40%, and by at least 20% from cancer;**
- **increase pupil attainment at GCSE level, especially in the most disadvantaged localities – ensuring a four percentage point improvement in the proportion of pupils obtaining 5 or more GCSEs at A* level to C between 2002 and 2004, with at least 38% of pupils achieving this standard in every LEA;**
- **cut domestic burglary, especially focusing on the areas with the worst rates – reducing domestic burglary by 25% by 2005, with no local authority area having a rate more than three times the national average; and**
- **bring congestion on our major roads under control – by 2010 congestion on the inter-urban trunk road network and in large urban areas in England will be brought below current levels.**

5.3 New infrastructure for UK economy, particularly:

- a two and a half fold increase in transport investments by 2003–04 contributes to the Ten Year Plan targets to reduce congestion through a 50% increase in rail passenger use, 100 new bypasses, 360 miles of motorway and trunk roads, 10% growth in bus patronage and up to 25 new light rail schemes; and
- a £1 billion programme of capital investment to keep British science competitive internationally through investment in labs and equipment, in partnership with the Wellcome Trust.

5.4 Clearing backlogs and acquiring new buildings, particularly:

- ensuring that all social housing meets set standards of decency by 2010, with the number of households living in social housing that does not meet these standards falling by a third between 2001 and 2004. Central government support for capital spending on housing in England will rise to £4 billion a year by 2003–04. Backlogs of renovation will be tackled in: 420,000 homes through the Large Scale Voluntary transfer pool; 400,000 homes through the local authority capital investment programme and 100,000 homes through support by new Arms Length Companies;
- reducing the NHS maintenance backlog by at least one quarter by 2004 through the extension of the new hospital building programme and greater use of discretionary and block capital;

- following from the 17,000 schools already benefiting from New Deal for Schools funding to address around a third of the schools condition backlog will be allocated between the start of the New Deal for Schools programme and 2004; and
- the Highways Agency's top priority is to maintain the strategic road network on a minimum whole life cost basis. The priority for local road maintenance is to halt the deterioration in the condition of local roads by 2004 and eliminate the maintenance backlog by 2010.

5.5 **Equipping our public services**, particularly:

- building on the 38 major hospital developments and 31 medium sized schemes already underway, the NHS Plan announced the intention to go ahead for 9 new hospital schemes each in 2001 and 2002 and a total of 100 new hospital schemes between 2000 and 2010;
- providing substantial investment for crime reduction programmes including increasing police spending plans so that by 2003–04 an additional £930 million will have been invested and a further £333 million will have been invested in Prison and Community Probation Services; and
- Defence investment rising to over £6 billion a year by 2003–04 will provide new equipment for our Armed Forces, including delivery of the Eurofighter, Apache Attack Helicopters and improvements in fighting equipment identified from the Kosovo campaign.

5.6 **Moves to electronic service delivery**, to improve public service delivery:

- as part of the commitment to get all government services online by 2005, £1 billion has been allocated in the next three years, both as capital and current funding, for investment in electronic service delivery. Examples of improvements that will be delivered are:
- the move to electronic filing of tax returns, with Inland Revenue targeting a 50% take-up by 2005;
- the electronic payments of benefits with the Department of Social Security aiming to pay benefits to 85% of its customers directly into their bank accounts by 2005, and have introduced electronic claims forms for income support, jobseekers allowance and incapacity benefits by 2004;
- £114 million will be invested in the Small Business Service from 2001 to 2004 to provide web-based information, advice and finance opportunities to small business; and
- the reorganisation of Common Agricultural Policy Paying Agency (see box 9).

Box 9: CAP Paying Agency

Two organisations, the Ministry for Agriculture Fisheries and Food (MAFF) and the Intervention Board, administer Common Agricultural Policy (CAP) payments for some 70 schemes amounting to £2.8 billion annually.

The spending review funds the creation of a new CAP Payments Agency to deliver schemes more efficiently and more effectively. This organisation brings together the payments functions of MAFF and the Intervention Board. The project involves significant investment in new information technology, the redesign of administrative processes, the reorganisation of offices and a reduction in staff. Setting up the new agency will cost £130m, in return for which the project will deliver:

- **95% electronic service delivery capability by March 2004;**
- **a move from eleven to five regional offices and a reduction of 40% in staffing levels;**
- **an overall target of reducing the unit costs of payment administration by at least 10% by March 2004.**

The agency will deliver a better service to its customers by:

- **making payments more quickly – electronic submission and processing of claim data will lead to quicker turnaround time for payments;**
- **improve accessibility and advice with high quality service accessible by telephone, the internet or a network of third parties;**
- **ensuring form completion is easier and quicker, avoiding the need to repeat information; and**
- **provide stakeholders with a single point of contact for CAP administrators.**

Local authority capital spending

5.7 Over the next three years, local government investment will increase substantially to modernise local services such as schools, housing and local transport. Local government capital spending can be funded directly from council tax spending, by borrowing or by grants from central government. Central government support comes in the form of capital grants or credit approvals, which are borrowing permissions for capital projects. Credit approvals bring with them a stream of revenue funding through which local authorities meet debt charges and the ultimate repayment of the debt. This is allocated as part of the standard spending assessment and total £1.95 billion in 2001–02 rising to £2.62 billion in 2003–04. Total capital grants and credit approvals by major spending area are set out in table 5.2. These include a central capital fund of £350 million to finance local authority electronic service delivery projects and help meet the target of all transactional services being available electronically by 2005. Further information is set out in the 'Local Investment Overview'[1] published today by DETR. In addition the Government will support local authority PFI investment rising to £1.6 billion by 2003–04 (see table 5.3).

[1] 'Local Investment Overview' (November 2000) available at www.detr.gov.uk

Table 5.2: Local authority investment: allocations of credit approvals and capital grants

	2001–02	2002–03	2003–04
Housing	2,392	2,553	2,634
Transport	1,101	1,118	1,195
Education – buildings	1,670	1,950	2,550
Health	65	87	87
Regeneration	360	337	362
Home Office	214	240	242
Electronic Service Delivery	25	135	190
Local Public Service Agreements	20	130	125
Total	5,847	6,550	7,385

Private finance

5.8 Public capital investment does not represent the total stock of investment in public services. Central to the Government's approach is to use Public Private Partnerships (PPPs) where these provide better value for money compared to public sector investment projects. The private sector is normally more skilled in running business activity and managing complex investment projects. By introducing private investors who put their own capital at risk there is an added discipline to deliver projects to time and budget. PPPs enable the Government to tap into the disciplines, commercial dynamism, incentives, skills and managerial expertise the private sector has developed in the course of its normal business.

5.9 Under PPPs, the public sector specifies the outputs required from the investment, but the responsibility for, and many risks associated with, delivering those outputs is transferred to the private sector partner. As shown in table 2, progress in the early years of the Private Finance Initiative (PFI) was slow. It became clear that many of the advantages of PFI were not materialising. The Government has taken action to rectify this by ending universal testing and implementing the 1997 Bates review to create a Taskforce in the Treasury to spread accumulated skill and experience, establish standard contracts and prioritise projects to focus on delivering quality transactions.

5.10 These reforms have lead to a level playing field between conventional and private finance delivery where the mechanism for decision remains value for money. Table 5.3 sets out the expected future flows of PFI.

Table 5.3: Value of Private Finance Initiative spending

Private Finance Initiative (£ million)	1999-00	2000-01	2001-02	2002-03	2003-04
Estimated capital spending by the private sector[1]	1,649	4,343	4,045	3,435	3,750[2]
Estimated payments under PFI contracts	1,650	2,060	2,054	2,478	2,922

[1] *Includes central and local government signed projects and those close to signature (preferred bidders)*

[2] *Estimate*

Source: Financial Statement and Budget Report 2000, HC 346

5.11 Examples of major proposed PFI deals are:

- the Department of Health expects private finance in the hospital investment programme to total around £800 million in each of the next three years. The private sector remains the preferred route to deliver major developments due to the efficiency they can offer. Efforts are being made to increase competition, reduce bidding costs and standardise procedures and encourage PPP in primary and intermediate care;

- The Highways Agency expects to procure around 25 per cent by value of current and new major road schemes by using design, build, finance and operate contracts under PFI;

- The MoD has signed 34 partnership deals to date involving some £1.6 billion of capital spend. A further 70 deals are being actively considered, including the future strategic tanker aircraft and redeveloping Colchester garrison, with £1.6 billion anticipated as the capital spend in 2003–04 alone;

- following the transfer of the Department of Social Security estate to private sector ownership and maintenance (the PRIME contract), the Inland Revenue and Customs & Excise estate will be transferred from 1 April 2001 (STEPS contract). All three departments are pursuing PFI solutions to maintaining their information technology to deliver their services from benefit payment to tax collection, electronically; and

- the Ten Year Plan for Transport includes plans for up to 25 new light rail schemes. Recent examples in Manchester, the Midlands and Croydon were built under design, build operate and maintain arrangements. In addition to these, the extension to the Manchester Metrolink will be constructed and operated by the private sector, who take the risk for such activities, but partly funded partly from central and local contributions.

5.12 Table 5.4 sets out the allocation of local authority PFI credits by department over the 2000 Spending Review years. A PFI credit is intended to assist authorities in meeting the payments for the capital investment made by the private sector. They are similar to mainstream credit approvals in that they bring with them a stream of revenue funding through which local authorities can meet those parts of the payments to the private sector for delivery of the service relating to the repayment of capital investment.

Table 5.4: Local authority PFI credits

£ million

	Spending area	2001–02	2002–03	2003–04
DfEE	Schools	450	550	650
DETR	Housing	160	300	300
	Transport	77	145	220
	Waste	50	70	100
	Other DETR	45	50	65
DCMS	Libraries	30	30	30
HO	Police, fire and probation	100	125	125
LCD	Magistrates courts	70	70	70
DH	Social services	40	40	40
Joining-up fund	Joint initiatives	30		
Total		**1,052**	**1,380**	**1,600**

6 Systems and procedures

6.1 A step change in the level of resources requires a step change in the capacity to manage those resources to deliver desired outcomes. Departmental Investment Strategies (DISs) set out how departments plan to manage capital spending to promote value for money. They provide an overview of how each department sets about managing its capital programme from appraisal, allocation and procurement through to evaluation of the final outcomes of the programme. This section of the DIS looks at how information is collected to take informed decisions, how choices between public and private finance are taken and how incentives are set to deliver value for money in bodies outside the direct control of the department.

Allocation

6.2 The Government is seeking to secure effective performance from the people who deliver public services. This means influencing the people who take allocation decisions in operating units of central government departments, in local authorities and non-departmental public bodies and agencies.

Box 10: Allocation in the NHS

Capital investment in the NHS is prioritised at national, regional and Trust level. Trusts control their 'block' capital allocation with considerable freedom on how this can be spent. They do, however, need to demonstrate that their plans deliver NHS Plan requirements including reductions in backlog maintenance.

Discretionary capital is allocated to fund larger schemes. Access to this is controlled at a regional level and allocated on the basis of prioritising business cases. Over the next three years the department aims to maximise the proportion of block capital funding to give Trusts more control over their local priorities.

A proportion of capital is earmarked for specific investment priorities, such as modernising coronary heart disease facilities. This is also used to distribute investment where there is an uneven regional distribution of need. The majority of the planned increased funding for primary care facilities will be used to tackle inequalities in access and thus targeted to areas of greatest need.

All capital investment must be supported by a full business case setting out the strategic fit, option appraisal, affordability case, value for money case and an examination of a public or private method for delivery. Approval is subject to delegated limits that are being reviewed to ensure the required level of accountability without unnecessary delays.

6.3 The Government is keen to devolve responsibility and flexibility on use of resources to agencies and operating units that deliver and incentivise the right performance. This is particularly the case for local authorities that, as chart 1 shows, own some 60 per cent of total public sector assets. The Department for the Environment, Transport and the Regions, through the white paper *Modern Local Government – In Touch with the People*[1], has been actively improving allocation procedures and introducing stability and certainty. Local authorities received three year certainty on capital funding as part of the 2000 Spending Review and will also benefit from the streamlining of funding through the single capital pot (see box 11).

[1] 'Modern Local Government–In Touch with the People' (July 1998) is available at www.detr.gov.uk.

Box 11: Single capital pot and improved asset management planning

The Government is introducing a long-term framework for local authority investment that encourages councils to spend their capital provision in the most effective manner coupled with a rigorous review of their existing asset holdings.

A single capital pot will be introduced from 2002–03 that gives a cross-service allocation of capital rather than individual allocations by programme. Coupled with three-year allocations of capital, this will encourage:

- **better planning through greater certainty in funding;**
- **more freedom to act on local priorities by increasing authorities' autonomy and accountability; and**
- **a more strategic, cross-cutting view of service delivery.**

Initially 95% of the pot will be allocated by formula on the basis of need. Ministers will allocate the remaining 5% as a discretionary amount. The allocation will be informed by the calibre of two documents councils must produce: a capital investment strategy, setting out the broad policy context, and asset management plans, setting out asset condition and how councils will improve management and use. The Government aims to increase this discretionary element to 20% over time.

Appraisal

6.4 Guidance on both appraisal and evaluation in government is set out in the 'Green Book': *Appraisal and Evaluation in Central Government*.[2] The guidance is intended to ensure consistency across government in departmental practice. It is currently being reviewed by the Treasury to ensure that it embodies best practice. The outcome will be published in an updated Green Book shortly. Departments have their own guidance that applies to their area and is consistent with the Green Book.

Box 12: DETR's New Approach to Appraisal

DETR's New Approach to Appraisal presents, in a concise and consistent way, the economic, environmental and social impacts of solutions to transport problems, across all modes. Using a single page Appraisal Summary Table, projects are appraised against five criteria: environmental impact; economy; safety; accessibility and integration. Each of these criteria is divided into a number of sub-criteria. For example, the environment criterion is broken down into assessments for noise, local air quality, greenhouse gas emissions and impacts on landscape, townscape, biodiversity, heritage, water assets, physical fitness and journey ambience.

The net impact of a project, compared with a scenario without the project, is summarised against each sub-criterion either in monetary terms, expressed quantitatively in physical terms, or expressed in qualitative terms. This approach helps ensure that all impacts are considered in a balanced way, that alternative options are fully appraised and that the option that best achieves the Government's objectives is chosen.

Evaluation

6.5 A project or programme will have a set of defined objectives. Appraisal is the ex-ante analysis comparing a wide range of options to consider which best meets those objectives and offers the best value for money. Evaluation is ex-post analysis of the outturn, taking a critical and detached view of the extent to which the project or programme has delivered the objectives stated at the outset. Evaluation provides lessons from experience to help future project appraisal, design, management and implementation. Appraisal and evaluation are linked at either end of one management process that departments are encouraged to consider and plan together from the outset of a project.

[2] 'Appraisal and Evaluation in Central Government' (1997) is available at www.hm-treasury.gov.uk

Box 13: Improving the management of information technology projects

Ambitious goals have been set to transform the way the public sector works through electronic service delivery. In order to deliver these and improve performance in public sector information technology (IT), the Government needs to address the way it handles projects.

The Cabinet Office report *'Successful IT: Modernising Government in Action'* studied dozens of IT projects across the private and public sector in the UK and overseas. It sets out measures to improve project delivery and includes 30 recommendations that aim to ensure that all Government IT projects across all departments are as good as the best.

6.6 Finally, to help deliver its value for money agenda, the Government has recognised the need to create centres of excellence that can offer specialist advice to departments and project managers across government. To achieve this, two new organisations have been set up: the Office for Government Commerce and Partnerships UK.

Box 14: New organisations to help departments deliver value for money

The Office of Government Commerce (OGC)

The OGC was established in early 2000 to improve the efficiency and effectiveness of the Government's £13 billion annual civil procurement budget. It has been set up to become the Government's centre of excellence in procurement for up to 200 departments, non-governmental bodies and agencies.

The OGC has a target to deliver £1 billion of value for money improvements in government procurement by 2002–03. It will achieve this by helping departments secure value for money through the use of best practice techniques and by catalysing and facilitating commercial relationships with suppliers and partners across government.

The OGC has a particular role to play in driving forward improvements in the management of large, complex and/or novel projects. Peter Gershon's review of procurement in 1999 recommended a gateway review system should be implemented at each stage of procurement of such projects. In 2000 the OGC successfully piloted such a system which will be rolled out across government in 2001.

Partnerships UK (PUK)

Building on the success of the Treasury PFI Taskforce, PUK will bridge the gap between the public and private sectors by combining private sector specialist skills and experience with a strong public sector mission to facilitate public private partnership deals. It will play a pivotal role in the development of PPPs in the UK with greater resources, new and innovative products and access to private sector capital.

Partnerships UK will be a PPP itself: a joint venture with the public sector owning a minority interest and the private sector owning a majority. The governance structure has been designed to balance private sector disciplines with Partnerships UK's public sector mission.

[3] 'Successful IT = Modernising Government in Action' (2000) is available at www.cabinet-office.gov.uk

7 NEXT STEPS

7.1 Departmental Investment Strategies represent a major step forward in the systematic planning of both future investment and asset management. They ensure that capital is deployed in a strategic manner to meet the Government's key objectives and priorities so that the best use is made of limited capital resources.

7.2 For departments, Investment Strategies represent a new management tool at both the planning, allocation and delivery stages of investment. Departments will be able to make decisions on the allocation of new investment informed by both an overall strategy for the next three years and beyond and their analysis of the condition and utilisation of their existing asset base. Progress against implementation of these plans and targets will be reported in departments' annual reports. As chapter 5 suggests, departments will need not only need to complete their projects and programmes on time and to budget, but also to evaluate the effectiveness of their expenditure and capture the lessons from projects for application in the future.

7.3 The Treasury will have an important role in challenging and supporting departments over the 2000 Spending Review period to ensure successful implementation of these Strategies. In addition to monitoring departmental performance and assisting with the appraisal of large projects, the Treasury will strive to highlight and disseminate good practice across departments and the wider public sector in order to encourage and facilitate the learning that is necessary for improvement.

7.4 The Government's investment plans are ambitious – but their achievement is essential if the nation is to enjoy the economic performance and public services that it demands and deserves. Although much investment has already been delivered in the last three years, there remains a lot more to do. Through prudent management of the economy and the public finances, the Government has been able to generate the resources for modernisation and renewal. The challenge now is to spend those resources effectively and realise the benefits of investing for the long-term.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
Dd 5069643 11/00 565301 19585