

The Government's long-term goal is to deliver world-class public services through investment and reforms to ensure that taxpayers receive real value for money. Through its action to maintain macroeconomic stability and ensure that the fiscal rules are met, it has delivered significant and sustained increases in the resources available to strengthen Britain's public services.

By maintaining economic stability and sound public finances in challenging economic times, the Government is now laying the foundations for further sustainable increases in public spending and investment. It will expand opportunity through high standards of education, ensure the National Health Service (NHS) provides high quality care on the basis of clinical need and not ability to pay, deliver an efficient and sustainable transport system, and promote secure and prosperous communities. This chapter sets out:

- the Government's framework for public spending and how it is delivering real improvements in public service delivery;
- how the Government's approach has freed up additional resources for key public service priorities;
- an additional £1 billion for the National Health Service in the UK in 2002-03;
- the developments to the public spending framework being introduced as part of the 2002 Spending Review;
- the Government's wider goals and priorities for the 2002 Spending Review; and
- cross-cutting reviews in the 2002 Spending Review to find coordinated solutions to cross-departmental challenges.

INTRODUCTION

6.1 The Government's long-term goal is to deliver world-class public services through sustained increases in investment and reforms to ensure that taxpayers receive real value for money. Strong and dependable public services are vital to extend opportunity, tackle social exclusion and improve people's quality of life. They are also fundamental in laying the foundations for a stronger economy.

6.2 Through its action to maintain macroeconomic stability and ensure that the fiscal rules are met, the Government has already been able to deliver significant and sustained increases in the resources available to strengthen Britain's public services.

6.3 To advance its long-term goal, the Government will build on the foundations laid over the course of the last Parliament. The Government is currently conducting a Spending Review, to be completed next year. The 2002 Spending Review will determine how departments' programmes can most effectively deliver investment and modernisation in priority services and will set new departmental spending plans for 2004-05 and 2005-06.

6.4 This chapter describes the main features of the new framework for public spending and how it has helped free valuable resources for investment in, and modernisation of, priority public services. The chapter also describes how next year's Spending Review will take forward further important reforms to promote good policy-making, the goals and priorities for the Review, and how the Government is working across departments to deliver coordinated solutions to shared challenges.

THE PUBLIC SPENDING FRAMEWORK

6.5 A modern and effective framework for the planning and control of public spending is vital to deliver improvements in the quality and cost-effectiveness of public services. The Government's public spending framework is underpinned by four important principles:

- consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;
- judging success by policy outcomes rather than resource inputs;
- good incentives for departments and their partners in service delivery to plan over several years and plan together where necessary; and
- the proper costing and management of capital assets, providing the right incentives for public investment.

Public spending and the fiscal rules

6.6 Sound public finances which are sustainable over the economic cycle are not only essential to ensure economic stability, they are also necessary for sustainable investment in public services. The Government's fiscal rules, described in detail in Chapter 2, are the foundation of the Government's public spending framework and have important consequences for the structure of the budgeting regime. In particular:

- **the golden rule** increases the efficiency of public spending by ensuring that growth-enhancing public investment is not sacrificed to meet short-term current pressures. To ensure adherence to the rule, departments are given separate allocations for resource and capital spending in each Spending Review and these budgets are monitored and controlled separately; and
- **the sustainable investment rule** ensures that borrowing for public investment is conducted in a responsible way and sets the context for the Government's public investment targets. The Government's objective is that public sector net investment should more than double to over £18 billion by 2003-04. With public sector net debt at the historically low level of 31 per cent of GDP, the Government is able to pursue this goal while comfortably meeting the sustainable investment rule.

Public Service Agreements: focusing government on delivery outcomes

6.7 The delivery of high quality public services depends not only on how much the Government spends but also on how effectively it spends it.

6.8 Public Service Agreements (PSAs) were introduced following the 1998 Comprehensive Spending Review. PSA targets set out, for each department, the key outcomes that the Government is committed to achieve – including better health, educational attainment, and crime reduction – rather than the inputs which make them possible. By linking funding to the delivery of service improvements, key reforms and modernisation, they are central to the Government's strategy for improving public services. PSA targets are also an important input to the Spending Review process: funding is agreed in advance for the target period, so that departments have certainty that the resources will be available to ensure delivery and can plan accordingly.

Ensuring delivery of PSAs 6.9 Setting the right targets is necessary to the delivery of public service improvements, but it is not sufficient. To ensure that targets can be met, PSAs must be underpinned by an effective delivery mechanism. This means:

- **departments must secure ownership by those responsible for delivery**, by consulting the individual delivery bodies – including agencies, local authorities, schools, hospitals, the police, and private and voluntary sector organisations – about the targets before they are set;
- establishing robust **performance management systems** which set out how PSA targets will be translated into real service improvements, enable effective monitoring of progress, and identify and take account of risks to delivery. For key departments, the Prime Minister's Delivery Unit is providing important and rigorous support to aid delivery (see box 6.1);
- rigorously **monitoring progress**, both within departments and centrally. At the centre, the Cabinet Committee on Public Services and Public Expenditure (PSX), chaired by the Chancellor of the Exchequer, meets regularly with Ministers in charge of departments to discuss progress against targets and the steps needed to secure delivery; and
- ensuring that those responsible for delivery are **accountable for their performance**. Under the PSA approach, the Minister in charge of each department is responsible for delivering the Government's objectives in the area of that department's activities. To strengthen transparency, both the indicators used to measure performance against PSA targets, and assessments of performance themselves, are published so that the public and Parliament can judge how the Government has performed.

Principles for public service reform 6.10 Delivering improvements in public services also requires change and reform in management culture and systems. The Prime Minister has set out the Government's four principles of public service reform:

- a national framework of standards and accountability;
- within that framework, devolution of power to the local level, with the ability to innovate and develop new services in the hands of local leaders;
- better and more flexible rewards and conditions of employment for frontline staff; and
- more choice for the pupil, patient or customer and the ability, if provision is poor, to have an alternative provider.

6.11 To strengthen the capacity and performance of the public services, the Prime Minister has established the Office of Public Services Reform (OPSR) within the Cabinet Office. The OPSR will contribute to taking forward the Prime Minister's four principles of public service reform. It will work with key stakeholders across the public sector to support the Government's vision for modern public services, and in particular to:

- articulate a positive vision for local government and its role in community leadership and service delivery;
- transform the approach of the civil service to project and programme management;

- keep the focus of public services on customers and tangible service improvements; and
- act as a centre of expertise, gathering and disseminating good practice.

6.12 The OPSR is working closely with the Delivery Unit and the Treasury in delivering Public Service Agreements.

Box 6.1: The role of the Prime Minister's Delivery Unit in public service delivery

The Delivery Unit reports to the Prime Minister under the day-to-day supervision of Lord Macdonald, Minister for the Cabinet Office. The Unit was set up in summer 2001 to concentrate on the areas of health, education, law and order, and transport. Working closely with the Treasury, its role is to strengthen the capacity of the responsible departments to deliver effectively on particularly challenging targets. This way, the Unit aims to ensure that the Government's ambitious programme of public service reform is translated into real improvements on the ground.

In pursuing its goal, the Unit is reviewing whether departments have the right arrangements, people and skills in place to deliver on their targets, and is monitoring progress towards them through regular meetings involving the Prime Minister. The Unit is also represented at the monitoring meetings of PSX Committee, helping to ensure that PSX and the Unit complement each others' work.

Achievements from the PSA system

6.13 The Government's approach to setting and delivering key outcome targets for public service improvements has already had a real impact. For example:

- in education, the percentage of children reaching level 4 or above in key stage 2 tests in English has risen to 75 per cent – a 10 per cent increase since the start of the literacy strategy in 1998. In mathematics, 71 per cent of children achieved level 4 or above compared with 59 per cent in 1998;
- every hospital trust is now offering patients booked appointments in at least two specialties, on the way to meeting the PSA commitment to introduce full booking by 2005, thereby treating patients at a time that suits them in accordance with their medical need;
- recent data on youth justice shows that the average delay between arrest and sentence for persistent young offenders was 66 days in August 2001 – the lowest monthly average so far recorded and the third consecutive month at or below the 71 day target. The average delay in 1996 was 142 days; and
- following the creation of the Rough Sleepers Unit there has been a 62 per cent reduction in the number of people sleeping rough compared with 1998.

6.14 The Government also believes that targets should focus on ensuring that the performance of services in the most disadvantaged areas rises faster than the average. The 2000 Spending Review therefore set departments a number of targets designed to focus attention on service outcomes in poorer communities. For example, the Department for Work and Pensions (DWP) has been set a target to ensure that, by 2004, the 30 local authority districts with the worst labour market problems achieve higher employment rates, narrowing the gap with the national average. Similar targets for health, education, crime and housing

ensure that national improvements are not achieved without substantial progress in the most deprived areas. In November 2001, the Government published the first of its implementation strategies to achieve these targets, with the remainder following over the next two months.

6.15 The Government continues to develop the PSA approach to ensure that it delivers effective results. As a first step, the 2000 Spending Review reduced the number of targets from around 300 to 160, focusing effort clearly on the Government's priority areas for action. Targets will be reviewed and, where necessary, improved as part of the 2002 Spending Review.

Delivering incentives for effective planning

6.16 The Government recognises that public services need a medium-term planning horizon if they are to deliver the reforms that are expected of them. Under the old system of planning and expenditure control, budgets were considered and set on an annual basis. This made it difficult for departments to plan and resource longer-term projects, such as major programmes of investment.¹

6.17 To overcome this problem, the Government has introduced a system of firm and fixed plans for departmental services spending stretching over three years, and reviewed every two. These Departmental Expenditure Limits (DELs) provide departments with greater certainty over their budgets and give incentives to plan over the medium-term.

6.18 Some items are not included in DELs. In general these are large, potentially volatile and demand-led items of expenditure, which would be difficult for departments to absorb within their normal budgets. Examples include social security benefit expenditure, payments under the Common Agricultural Policy and public service pensions payments. These items are collectively known as Annually Managed Expenditure (AME) and are subject to tough annual scrutiny as part of the Budget process to ensure that spending in these areas does not threaten fiscal stability. Taken together, DEL and AME add up to Total Managed Expenditure (TME).

6.19 This system means that the Government is controlling spending in the areas where it can sensibly be controlled, and giving departments planning certainty over a longer time-frame than they have enjoyed previously or is common internationally. To complement this reform the Government has also introduced full End-Year Flexibility (EYF) across departmental programmes, allowing departments to keep resources not fully spent at the end of the year. This is designed to engineer a lasting change in the traditional "use it or lose it" mind-set of public sector budget-holders.

Improving decision-making and asset management through budgeting

6.20 Creating a cultural change in the public sector's approach to asset management and the costs of decisions requires:

- plans to improve, maintain and rationalise the asset base through capital investment, set out in Departmental Investment Strategies;
- a thorough and transparent inventory of what central government owns, in the National Asset Register; and
- a budgeting system which provides incentives to utilise assets efficiently in service delivery.

¹ See *Planning Sustainable Public Spending: Lessons from Previous Policy Experience*, HM Treasury, November 2000

Departmental Investment Strategies 6.21 The Government's fiscal framework establishes a firm division between capital and resource budgets, ensuring that funding for critical long-term investment cannot be used to resource current pressures. Building on this, the Government has also published Departmental Investment Strategies detailing how increases in capital budgets will be used to improve the asset base, and how estates will be rationalised or enlarged to offer the best possible support to service delivery objectives.

6.22 All departments have now published a Departmental Investment Strategy, explaining how they intend to use their increased capital budgets to support the modernisation and reform of public services. Implementation of these plans is subject to ongoing scrutiny by teams of experts from across departments, coordinated by the Treasury. This will ensure that vital capital projects remain on track and that taxpayers receive good value for their money.

National Asset Register 6.23 The Government has also improved the way in which the public sector asset base, valued at £480 billion, is managed and used. This represents 10 per cent of the total UK tangible asset stock, and its good management is therefore critical to wider economic objectives. The publication of the National Asset Register in July is a vital part of the Government's drive to improve efficiency in the public sector. For the first time, it provides a complete list of the main assets held by central government and their value, helping departments to use their assets effectively and to judge whether individual assets are still required. The Register shows that departments disposed of £1.3 billion of assets in 1999–2000, releasing important resources for reinvestment in public services. No other country in the world has access to a register of this kind, making the UK the world leader in this area of public accountability.

Resource budgeting 6.24 This financial year is the first in which departments are budgeting and accounting for their actions on a private sector style basis, rather than using the old cash system. The introduction of Resource Accounting and Budgeting (RAB) across government marks a major reform in financial planning and reporting, allowing the real economic costs of decisions to be reflected in public sector financial information, rather than simply the cash consequences. The 2002 Spending Review will complete the transition to resource budgeting, unlocking a series of important benefits, including:

- **better incentives on assets:** in resource accounts, the full cost of holding an asset is recognised within departmental budgets, including depreciation. This gives departments an incentive to maximise the utilisation of assets and to dispose of those which are surplus to requirements. Departments are already benefiting from the better information on assets provided by RAB and new flexibility in the budgeting system. For example, in 1999–2000, the Ministry of Defence disposed of assets worth over £230 million. By April 2002, it plans to have disposed of estate worth a total of £700 million under the Strategic Defence Review. Under rules introduced by the Government, proceeds from asset sales can be recycled to fund new investment priorities;
- **budgeting for the future impacts of decisions:** the public sector manages a considerable range of liabilities, such as early retirement costs for former employees and clinical negligence. Cash-based budgeting captures the costs only when these liabilities are paid out, which could be over many years. Resource budgeting means that the full consequences of the activity or event are taken into account when the costs are incurred. This provides incentives to minimise future costs, as well as present ones; and
- **a more commercial budgeting system for public corporations:** the resource budgeting framework allows remaining public corporations like the Ordnance Survey greater commercial freedom to invest for future benefits. Provided that a minimum rate of return on capital is returned to the Government, these companies will be able to retain and invest any additional profits from 2003–04.

Box 6.2: Improving the productivity of public services

Improving public services is not just a matter of expenditure. Resources also need to be allocated and used efficiently. Increased public service productivity is desirable not only because it gives people the public services they deserve and require, but also because more efficient services give taxpayers better value for money. Better health, education and transport are also fundamental in laying the foundations for a high productivity economy. The Government's approach to increasing public service productivity has three key strands:

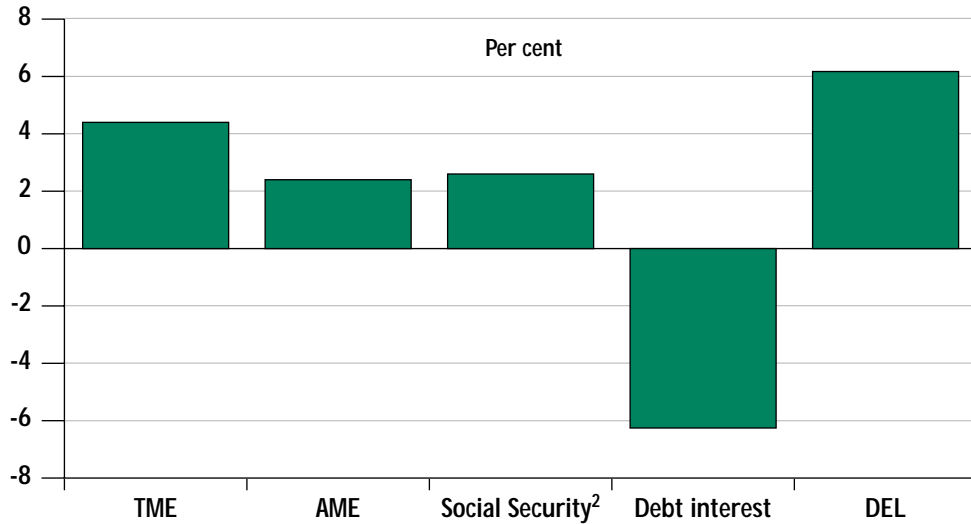
- allocating resources effectively: the Government's public spending framework provides greater certainty for long-term planning, removes discrimination against investment, and delivers a sharper focus on the quality and outcome of public services;
- making the most of resources: PSA targets and improved lines of accountability help to fulfil the potential of staff by clarifying their roles and responsibilities. Effective incentives, such as higher pay thresholds and "golden hellos" for teachers, are needed to recruit, retain and motivate public sector employees to meet their objectives. To make the most of the capital stock the Government is strengthening incentives to use assets effectively and is introducing greater flexibility in budget management, enabling departments to adapt to unforeseen circumstances. The Government is also working to inject stronger customer focus and choice into service delivery, including through reforms to give people more information to help them choose a GP. Greater diversity in service provision and procurement is also vital in helping to deliver better value for money; and
- enhancing performance over time: the Civil Service reform programme has identified a number of areas for improving the skills and expertise of public sector staff, while Departmental Investment Strategies will deliver improvements in the capital stock. The Government is also providing £1 billion to enable public services to be delivered electronically, transforming the way the public sector does business by enabling better, faster and more responsive services. Finally, steps are being taken to grant new freedoms and flexibilities to local public service managers in return for high standards and commitments to deliver outcomes, as demonstrated in programmes like the Building on Success in Schools initiative.

DELIVERING RESOURCES TO PRIORITIES

6.25 By maintaining economic stability and meeting the fiscal rules, the Government was able to deliver significant increases in resources for frontline public services in the 2000 Spending Review. As a result of significant savings on social security and debt interest, the Government has been able to plan departmental spending on services which will be £50 billion higher in 2003-04 than it was in 2000-01.

6.26 Chart 6.1 shows the growth in DEL and AME expenditure over the period of the 2000 Spending Review. Social security payments, even including tax credits for the purpose of comparison, will together grow on average by 2.6 per cent a year in real terms, compared with 4 per cent a year between 1992-93 and 1996-97 and 1.6 per cent a year between 1996-97 and 2003-04. Debt interest payments, which rose by over 6 per cent between 1991-92 and 1996-97, will fall by over 6 per cent over the 2000 Spending Review period. This means that less taxpayers' money is being spent on these areas as a proportion of Total Managed Expenditure (TME), releasing more money for frontline public services within DEL.

Chart 6.1: Releasing resources for public service priorities over the period covered by the 2000 Spending Review¹



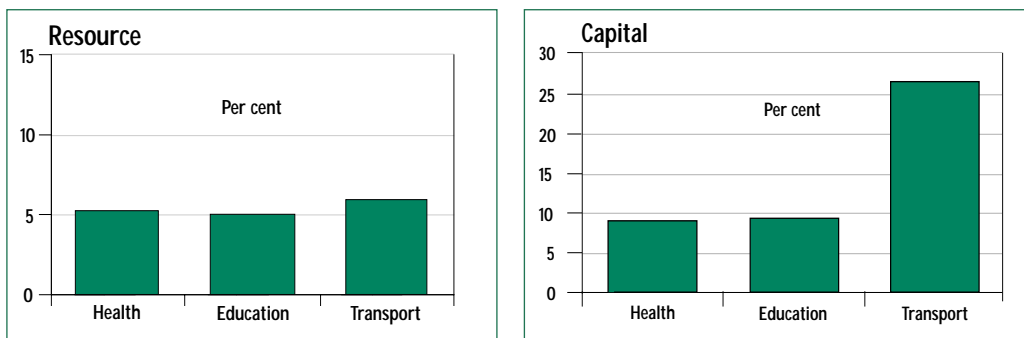
¹ Annual average real growth rates in important categories of spending 2000-01 to 2003-04

² For the purposes of comparison, social security includes the Pension Credit, Working Families' Tax Credit and the Disabled Person's Tax Credit

Source: HM Treasury.

6.27 Some 75 per cent of the additional resources released through the 2000 Spending Review have been devoted to spending plans for the priority areas of health, education, transport, law and order and housing. Chart 6.2 shows the average annual growth in key budgets between 2001-02 and 2003-04. Spending on education is programmed to increase by an average of 5.5 per cent a year in real terms over this period. Real terms spending on transport is planned to rise by 14 per cent a year on average, compared with an annual fall of 4.2 per cent on average between 1991-92 and 1996-97. Between 2001-02 and 2003-04, expenditure on health will increase by an average of 5.4 per cent a year in real terms.

Chart 6.2: Spending growth in key public services by function¹



¹ Annual average real growth rates in key functions 2001-02 to 2003-04

Source: HM Treasury.

6.28 The focus on delivery driven by PSAs is underpinned by the Government's record spending plans for investment in crucial services. The spending plans set in the 2000 Spending Review provided further resources needed to deliver long-term improvements in the nation's infrastructure, including a doubling of public sector net investment over the next three years and a real terms increase of more than 25 per cent in investment in transport in each year from 2001-02 to 2003-04. Over the same period, capital expenditure on education and health will grow by over 9 per cent a year in real terms. Chart 6.2 shows the importance of increasing capital investment within the Government's overall commitment to public services.

6.29 The Government is now delivering on those plans. Net investment increased by a third last year in real terms. Although it will take time to reverse the years of decline, results are already beginning to show: 245 modernisation schemes for Accident and Emergency departments are now complete and 17,000 schools will have received funds for repairs by March 2002.

THE 2002 SPENDING REVIEW

6.30 The Government continues to examine how resources are allocated across its priorities. The 2002 Spending Review will look closely at the effectiveness of existing programmes, and how departments are delivering their current PSA targets alongside their future strategic priorities. As in previous Spending Reviews, the Government's aim is to release funds to spend on priority services.

6.31 The baseline year for the 2002 Spending Review will be 2003-04 and new departmental spending plans will be set for 2004-05 and 2005-06. The main developments in this Spending Review compared with previous exercises will be:

- a greater concentration than previous Spending Reviews on assembling a substantial and relevant evidence base. Departments and the Treasury are currently establishing a number of areas for particularly close joint study, and performance against PSA targets will be factored into eventual decisions on resources and reforms;
- the Review will be conducted and published on a full resource budgeting basis; and
- consideration will be given to the need to plan beyond the three year horizons of firm DEL plans in specific areas, building on the Transport 10 Year Plan and the NHS Plan.

6.32 The emphasis of this Spending Review will be on ensuring that departments have the resources and plans to deliver the stretching priorities that the Government has set itself. Ministers will be looking closely at the evidence base for existing policies and at performance against the delivery of agreed priorities. Links between departments will be scrutinised to ensure that services are being designed for citizens and customers rather than for providers. Seven cross-cutting reviews of policy issues spanning several department's responsibilities will be central to this element of the Review (see Box 6.7). Proposals for new spending will also need to be accompanied by stretching targets and clear plans for effective delivery. Where that requires change, investment will be conditional on reform. All departments are expected to identify old programmes to be wound down to make room for new priorities.

PRIORITIES FOR THE 2002 SPENDING REVIEW

Aim of the Review 6.33 The aim of the 2002 Spending Review will be to determine how best departments' programmes can contribute to the achievement of the Government's priorities, including:

- delivery of high quality, efficient and responsive public services through investment linked to reform and modernisation;
- raising productivity, in the public sector and outside, through improved skills, research and infrastructure;
- spreading opportunity and prosperity more widely, and tackling child poverty and social exclusion;
- improving the quality of life in both urban and rural areas; and
- securing a modern international role for Britain through cooperation with our European and international partners.

Outputs from the Review 6.34 The main outputs of the Review will be:

- new Departmental Expenditure Limits rolling forward the existing plans for 2003-04, and setting new plans for 2004-05 and 2005-06;
- Public Service Agreements rolling forward and, in some cases, being developed further in line with priorities;
- a series of cross-cutting reviews of policy areas spanning several departments' responsibilities; and
- revised and published Departmental Investment Strategies and Service Delivery Agreements, linking PSA targets to capital plans and delivery strategies.

Specific goals for public services in the 2002 Spending Review

Health 6.35 Budget 2000 announced the largest sustained increase in resources for health in the history of the National Health Service (NHS). The spending plans underpin the 10 year NHS Plan for investment and reform announced by the Prime Minister and the Secretary of State for Health in July 2000. The Plan sets out key priorities including shorter waiting times, clear national standards to tackle the major killer diseases, action to reduce health inequalities and improved care for the elderly. To deliver these priorities the NHS is now recruiting more doctors and nurses and investing in modern buildings and equipment. New ways of working and systems are being introduced to reform outdated practices, empower frontline staff, improve incentives and ensure that the NHS is accountable to patients.

The Wanless Review of Long-Term Health Trends 6.36 At the time of Budget 2000, the Chancellor announced an assessment of the long-term trends that may affect the UK health service over the next 20 years and their implications for funding and other resource requirements. In Budget 2001, the Chancellor asked Derek Wanless, former Group Chief Executive of NatWest Bank, to undertake this work.

6.37 Following widespread consultation, within the UK and overseas, Derek Wanless' interim report to the Chancellor is now being published. A Health Trends Conference was held in October to inform the Review, and the conference proceedings are published alongside the report.

Box 6.3: The Terms of Reference of the Wanless Review

The Terms of Reference given by the Chancellor of the Exchequer to the Wanless Review of Long-Term Health Trends are:

1. to examine the technological, demographic and medical trends over the next two decades that may affect the health service in the UK as a whole;
2. in the light of (1), to identify the key factors which will determine the financial and other resources required to ensure that the NHS can provide a publicly funded, comprehensive, high quality service available on the basis of clinical need and not ability to pay; and
3. to report to the Chancellor by April 2002, to allow him to consider the possible implications of this analysis for the Government's wider fiscal and economic strategies in the medium term, and to inform decisions in the next public spending review in 2002.

The report will take account of the devolved nature of health spending in the UK and the devolved administrations will be invited to participate in the Review.

6.38 The Health Trends Review has identified four main factors that are likely to have a significant impact on the health service: changing health care needs arising from demographic changes, patterns of morbidity and trends in health seeking behaviour; patient expectations of the range and quality of health care; technology and medical advances; and workforce development, pay and productivity.

6.39 The report sets out the analysis which has been undertaken in each of these areas, alongside the evidence base. The aim is to encourage feedback over the next two months to assist the Review in producing its final assessment of the resources required for the health service over the next 20 years. The report sets out key issues and questions for consultation. A number of events will be held in England, Scotland, Wales and Northern Ireland to hear the views of patients and NHS and social care practitioners.

6.40 The Review will produce a final report to the Chancellor before the conclusion of the 2002 Spending Review. The Government will consider the implications of the analysis for the Government's fiscal and economic strategies as part of the 2002 Spending Review.

6.41 **The Pre-Budget Report allocates an additional £1 billion to the National Health Service in the UK in 2002–03 by reallocating resources from lower debt interest payments. The Secretary of State for Health will announce how the money will be used shortly.**

Education **6.42** Education is the foundation of a modern and competitive economy. The 2000 Spending Review provided significant new investment for education and training, coupled with modernisation and reform. An additional £1.5 billion will be spent on renovating and improving the schools capital stock in 2003-04 compared with last year. Features of the education plans set in the 2000 Spending Review included ambitious new literacy and numeracy targets, a doubling of direct payments to schools to encourage local innovation and responsibility, and a new emphasis on raising standards in the most deprived areas. In addition to this funding, the Secretary of State for Education and Skills will announce new projects to be funded from the Capital Modernisation Fund.

6.43 In the 2002 Spending Review the Government will examine its strategy for delivering education and training objectives in the following crucial areas:

- providing high-quality early education and childcare for more children. Details of the Government's approach to childcare are set out in box 6.4 and in Chapter 4;

- continuing the progress already made in primary education, focusing on achieving rapid improvements in schools in the most deprived areas;
- transforming secondary education and modernising the 14-19 phase along more flexible and challenging lines, in parallel with the reforms outlined in the recent Education White Paper²;
- increasing and broadening participation in higher education, serving the needs of the economy and society at large; and
- developing workforce skills, especially adult basic skills, so that existing workers are ready to face the challenge of uncertain economic times. Chapter 3 describes the importance of the UK skills base to the productivity and performance of the wider economy.

Box 6.4: Childcare

The Government is undertaking a cross-departmental review of childcare as part of the 2002 Spending Review. The review aims to deliver a ten year vision and strategy for childcare, taking into account its contribution to employment, education and quality of life. The review will enhance the evidence base for childcare, particularly in the areas of supply and demand, and examine delivery options and the outcomes for children, paying special attention to those at risk of exclusion.

Transport 6.44 Transport is of huge economic, social and environmental importance. Poor transport infrastructure is a key factor in restraining potential growth. Tackling congestion and improving the reliability of transport can help to increase productivity, sharpen the competitiveness of British industry, and boost the economic development of all regions. Improving public transport can also help to tackle social exclusion, improving access to public and community services and extending work opportunities. Regeneration is unlikely to occur without high quality integrated transport systems, linked to land-use planning policies.

6.45 To reverse years of under-investment in Britain's transport infrastructure, the Government has introduced a Ten Year Plan for Transport, backed by £180 billion of public spending. The plan aims to reduce congestion, deliver better and more reliable trains, and foster a renaissance in public transport and a significant improvement in transport in London. Following the 2000 Spending Review, spending in 2003-04 will be £4.2 billion higher than in 2000-01. Public investment will rise to £6 billion a year in 2003-04.

6.46 Important steps have already been taken. Some 50 national road schemes have begun, and local authority financing has doubled in the last year, allowing 70 major new local schemes to be approved as well as thousands of smaller schemes. The 2002 Spending Review will build on this progress, ensuring that transport continues to receive the investment needed to meet the targets of the Ten Year Plan. Railtrack is however in administration, with a successor company expected to take over next year. The Strategic Rail Authority's forthcoming plan, under its new chairperson, will set out how the planned additional investment in the railways will deliver new upgrades and service improvements.

² *Schools Achieving Success*, Department for Education and Skills, Cm 5230, September 2001.

Local government **6.47** Local government provides key public services, such as schools and care for the elderly, which play a vital role in improving the lives of local communities. It spends more than £60 billion each year, financed by government grant, non-domestic rates and council taxes. The Government is committed to modernising local government to ensure that high quality and cost-effective services are provided throughout the country.

6.48 To strengthen the delivery of local public services, local Public Service Agreements have been negotiated with 20 pilot authorities that have committed to deliver more stretching outcomes in return for greater flexibilities, freedoms and financial rewards if they succeed. Local PSAs are a new way for local and central government to work together. They provide help for local authorities to deliver, while ensuring that national priorities are met. They have won widespread support in local government and will now be rolled out to 130 larger councils over the next two years.

6.49 The Secretary of State for Transport, Local Government and the Regions will set out in the forthcoming Local Government White Paper how the Government will build on these foundations. The White Paper will explain how central and local government will work closely together to improve local services and enhance the community leadership role of local authorities. The Government will also look at whether more should be done to streamline the number of plans and funding regimes, consent regimes, and the burden of inspection.

6.50 Local PSAs will continue to provide an opportunity to challenge the need for statutory and administrative requirements where an authority is convinced they stand in the way of achieving greater improvements in delivery of services. The Local Government White Paper will go further to strengthen local government's capacity for service delivery and increase their accountability. For instance, the capital finance system will be reformed, restoring local accountability and financial freedom through a prudential borrowing regime.

Box 6.5: Local services

The Chief Secretary to the Treasury has commissioned additional work on local services as part of the 2002 Spending Review. One part of the review will focus on local government finance issues and seek to develop plans for local government grant and capital spending. The rest of the review will look at the development of targets and incentives for local service providers, including targets for delivery in deprived areas. The review will take forward relevant recommendations made in the forthcoming Local Government White Paper.

Housing **6.51** Local authorities and housing associations manage over four million properties for rent. Social housing is therefore one of the principal public services.

6.52 Housing matters because of its links with wider economic and social policy. In some parts of the country, high housing demand, rising prices and scarcity are important social costs: social landlords find it difficult to house vulnerable people suitably, while private and public employers have difficulty recruiting and retaining the people they need. In other areas, low demand and abandonment are serious obstacles to the renewal of deprived neighbourhoods and to the social and economic well-being of wider communities. The complex systems through which poor and vulnerable people receive assistance with finding housing and paying for it are crucially important for tackling poverty and encouraging workless people to find jobs.

6.53 The Government has already taken significant steps to address these issues. In the 2000 Spending Review, the Government announced plans to spend £39 billion over the period to 2003-04 on investment in new housing, the maintenance and renewal of existing stock and support for tenants with their housing costs. The 2002 Spending Review will lay the foundations for further Government action to tackle housing problems – achieving additional improvements in the delivery of housing, and ensuring that housing policy and programmes make the right contribution to regional economic performance, the fight against poverty and social exclusion, and reducing worklessness.

Security at home and abroad

6.54 The current international situation has directed attention toward a new sort of warfare. Britain's armed forces are actively engaged in the campaign against international terrorism. The Spending Review will examine a range of issues, including Britain's capabilities to counter terrorist threats, the manning of the armed forces, the medium-term equipment programme, the implementation of the Defence Training Review, and efficiency and business improvement in the Ministry of Defence. The timing of measures will need to reflect the needs of the evolving situation.

Crime and the police

6.55 Reducing crime is a high priority for the Government. In the 2000 Spending Review, the Government announced plans to spend an additional £1.6 billion on the police by 2003-04 – an increase of more than 12.4 per cent in real terms over the period. While police numbers have now begun to rise, evidence points to significant variations in performance between different forces. The 2002 Spending Review will therefore focus on raising the performance of forces in return for this new investment and the Home Secretary will shortly be publishing a White Paper on police reform. The Spending Review will also focus on tackling the causes of crime, addressing the factors which lead to persistent criminality, and promoting a better and safer environment in public spaces.

Spending and the regional dimension

6.56 As described in Chapter 3, the Government has set a long-term regional economic ambition to reduce the gap in performance between the regions. To advance this ambition, the 2002 Spending Review will assess how departments' policies impact on different regions and seek to ensure that spending is fairly distributed and targeted at those areas where it is needed most and will be most effective. This will include an examination of rural priorities to ensure an equitable balance in resource allocations.

6.57 The Review will also look carefully at the key regional institutions, including the Regional Development Agencies (RDAs), to ensure that they have the tools they need to achieve their objectives and to assess their performance against them. Regional institutions, such as the RDAs and the Government Offices, are being asked to consider the key strategic priorities for their regions to bring about increased productivity. This analysis will feed into departmental allocations and geographical priorities emerging from the 2002 Spending Review.

Box 6.6: Electronic service delivery

The Chief Secretary to the Treasury has commissioned additional work on electronic service delivery as part of the 2002 Spending Review. This work, which will be taken forward alongside the work of the Office of the e-Envoy, will seek to develop a strategy to maximise the impact of electronic public service delivery over the next five years. It will aim to identify the areas in which electronic delivery, in conjunction with the re-design of traditional service delivery systems, can have the largest beneficial impact on services. Working closely with the Office of the e-Envoy, the work will also include an assessment of the impact of e-Government on the size and shape of the public sector workforce over the next 5 to 10 years.

Sustainable development **6.58** The Government's Sustainable Development Strategy seeks to promote a better quality of life for everyone, today and for generations to come. The 2002 Spending Review will be an opportunity to take forward the Government's commitment to sustainable development. Spending departments and the Treasury will both use the Sustainable Development Strategy as the foundation for considering the social, economic and environmental impact of the Spending Review. The Strategy sets out the principles underlying the Government's approach and the indicators against which progress is measured. Further detail on the Strategy is given in Chapter 7.

Cross-cutting reviews

6.59 The 1998 Comprehensive Spending Review introduced cross-cutting reviews of policy areas spanning several departments' responsibilities. The range of cross-cutting reviews was increased in the 2000 Spending Review. The goal of cross-cutting reviews is to ensure that effective solutions are found to solve the biggest challenges facing public services, through coordinated departmental policies, resources and implementation efforts. By looking at issues across departments, the reviews aim to avoid wasteful duplication, identify and fill gaps in services, and ensure that resources are used effectively and efficiently.

6.60 The 2002 Spending Review will assess progress across the range of reviews initiated as part of the 2000 Review. It will also take forward work on seven additional reviews, to be completed in early 2002. The outcome of the reviews will be reflected in individual departments' spending plans, pooled budgets and PSA targets where appropriate. Box 6.7 describes the goals of these additional reviews.

Box 6.7: Goals of the cross-cutting reviews in the 2002 Spending Review

Health inequalities: this review will address the range of factors contributing to health inequalities, such as access to care, education, employment, housing, the environment, and nutrition. Its aim is to devise an integrated approach to addressing these factors to narrow the health gap across socio-economic groups. The review will advance the Government's ability to track and deliver its targets in the areas of infant mortality and life expectancy.

Children at risk: this review will take forward the Government's commitment to tackle poverty and social exclusion across the country by examining the range of programmes and initiatives designed to help children at risk. It will propose solutions to tackle current barriers to delivering services, make recommendations on targets for children's outcomes and identify activities across departments that could be rationalised to eliminate duplication and gaps.

The public sector labour market: public sector employers must be able to recruit, retain and motivate qualified staff to ensure the delivery of public services. This review will identify the trends affecting the size and composition of the public sector workforce over the next five years, and assess how best to improve recruitment and retention, enhance work flexibility and career opportunity in the public sector, and ensure that the skills of staff are used effectively.

The role of the voluntary sector in public service delivery: the voluntary and community sector makes an important contribution to the delivery of public services. The aim of this review is to explore further ways in which central and local Government can work in partnership with the sector to deliver high quality services. It will build on the principles set out in the 1998 Compact on Relations between Government and the Voluntary and Community Sector in England, and identify existing barriers to voluntary sector participation.

Public space: tackling local environmental problems is key to creating stronger communities and improving local quality of life. This review is examining how Government policies, funding and targets can produce improvements in the safety and attractiveness of public space, including how Government can support effective local partnerships between public services, communities, and businesses.

Services to small business: the aim of this review is to improve and streamline interaction between small business and government. The review will identify opportunities to improve the delivery of services to small businesses and the scope for integrating different service providers. It will address barriers to entrepreneurship among disadvantaged groups and propose options for reducing them. It will also evaluate the role, resources and capability of the Small Business Service.

Science and research: this review will examine the funding of the UK science base and the effectiveness of departments' science and research programmes. It will make proposals to improve funding mechanisms, enhance knowledge transfer, and improve recruitment to the research profession. It will also map departments' current and future research plans to improve coordination and value-for-money, and ensure that research priorities are aligned with the Government's overall strategic objectives.