

The Government's goal is to build a stronger, more flexible economy and a fairer society. World class public services are crucial to this goal. A healthy and educated workforce, modern and reliable transport network, and adequate supply of affordable housing promote productivity and flexibility and help to ensure opportunity and security for all. The Government's strategy is to deliver improvements in public services through sustained investment and reform to ensure that taxpayers receive value for money.

The 2002 Spending Review set departmental spending plans for the three years up to 2005-06, and five years for the NHS, consistent with the fiscal rules. These plans deliver substantial extra investment in public services, with:

- current expenditure set to rise by 3.1 per cent a year in real terms in 2004-05 and 3.8 per cent in 2005-06 and public sector net investment projected to rise to 2 per cent of GDP by 2005-06 and to 2¼ per cent of GDP by 2007-08;
- more than 75 per cent of planned additional spending allocated to the key priorities of health, education, criminal justice, housing and transport; and
- UK NHS spending plans rising by 7.2 per cent a year in real terms over the five years to 2007-08, with substantial investment in IT, buildings and equipment.

To deliver the largest ever sustained spending growth in the history of the NHS while meeting the fiscal rules and other priorities, Budget 2002 raised national insurance contributions by one per cent on all earnings above the threshold from April 2003, and froze the income tax personal allowance for those aged under 65 in 2003-04. Budget 2003:

- **provides £332 million to invest in further counter-terrorism measures** over the next three years, to ensure that UK citizens are protected within the UK from the threat of international terrorism;
- **sets out key issues to be investigated in the run-up to the next Spending Review**, including a new study into the scope for relocating public service staff from London and the South East to other parts of the country, and an update of the long-term challenges in implementing the 'fully engaged' scenario set out in last year's Wanless Review of long-term health trends, with a particular focus on preventative health and health inequalities; and
- **provides details of the next steps in reform**, with action to increase regional and local flexibility in public service pay systems and to increase transparency about performance, including through the introduction from April 2003 of regular reporting on the Treasury website of performance against all new Public Service Agreement targets.

INTRODUCTION

6.1 The Government's long-term goal is to deliver world class public services through sustained increases in investment and reforms to deliver efficient and responsive services which meet public expectations throughout the country. Strong and dependable public services lay the foundations for a flexible, high productivity economy, supporting greater efficiency among businesses and adaptability within the workforce. They also promote opportunity and security for all, helping to tackle poverty and social exclusion and improving the quality of life. For example:

- a healthy, educated and highly skilled workforce allows businesses to update products, services and working practices at the rate demanded by rapidly changing global markets and tastes;
- a modern and reliable transport network extends workers' travel-to-work horizons, helping them to access jobs in areas beyond where they live, and provides businesses with access to markets, a pool of available labour and new investment opportunities;
- an adequate supply of affordable housing in all regions ensures that people are able to move easily between jobs and localities in response to changing local labour market conditions; and
- responsive public sector pay systems that reflect differences in regional and local labour markets provide incentives for labour to move in response to changes in demand, reducing the likelihood of imbalances between supply and demand in sectors or regions.

6.2 The Government is committed to ensuring that the public services support wider efforts to promote flexibility and fairness. Sound macroeconomic management has enabled the Government to release significant extra resources to increase investment in public services, while ensuring that the fiscal rules are met. The 2002 Spending Review announced departmental spending plans for the next three years, with additional resources focused on the priority services of health, education, transport, housing and criminal justice.

6.3 These extra resources are being accompanied by wide-ranging reforms to ensure that they are used efficiently and effectively and that taxpayers receive value for money from their investment. A framework of national standards for the quality of public service provision accompanied by robust accountability and audit arrangements is allowing increasing devolution of responsibility away from central government and towards local service providers. This chapter describes how, across the public services, increased resources and ambitious reforms are helping to deliver results.

RESOURCES

6.4 Sound public finances lay the foundations for economic stability and for sustainable investment in public services. The fiscal rules, described in detail in Chapter 2, underpin the Government's public spending framework, ensuring that the public finances are sustainable over the economic cycle and that taxation and spending impact fairly between generations. The rules have important consequences for the way in which the Government budgets for public spending, removing past disincentives to invest and ensuring that borrowing for investment is conducted in a responsible way.

6.5 To help departments plan their spending programmes for the medium term the Government has introduced a system of firm and fixed Departmental Expenditure Limits (DELs) for departmental spending stretching over three years, and reviewed every two. Expenditure items that are large, potentially volatile and demand-led – such as social security benefits and debt interest payments – are collectively known as Annually Managed Expenditure (AME), and are subject to rigorous scrutiny twice a year as part of the Budget and Pre-Budget Report process. Taken together, DEL and AME add up to Total Managed Expenditure (TME), the Government's measure of total public spending.

Military conflict in Iraq **6.6** The 2002 Pre-Budget Report confirmed the Government's plans for public spending in 2002-03. The Pre-Budget Report also made a special contingency allocation of £1 billion to ensure that resources were available for the UK's international defence and security needs. These resources allowed the UK's armed forces to prepare, on a contingency basis, for the event that the Iraqi regime failed to comply with the conditions set down in United Nations (UN) Security Council resolution 1441.

6.7 The failure of the Iraqi regime to comply with the will of the international community as expressed in resolution 1441 led to the commencement in March of coalition military action to enforce these conditions. The Government has therefore increased its contingency provision to £3 billion to ensure that resources are available to cover the full cost of the UK's military obligations.

6.8 While the full amount of this provision has been allocated to 2002-03, there is considerable uncertainty over when these costs will fall. In the light of this uncertainty, and to protect committed investment while responding prudently to heightened global risks, the Government has decided to make no further allocations from the Capital Modernisation Fund (CMF). Instead unallocated CMF funding will contribute to the rebuilding of the AME margin to ensure that the public spending projections include a prudent and cautious safety margin against unexpected events. Resetting the AME margin to £1, £2 and £3 billion for the years 2003-04, 2004-05 and 2005-06, in accordance with usual practice, increases projections for TME by £1 billion in 2004-05 and by £1.8 billion in 2005-06, compared with those in the 2002 Pre-Budget Report.

6.9 In addition, as described in Chapter 5, the Government has also allocated £240 million towards the costs of humanitarian assistance in Iraq, including \$100 million for UN-led assistance. In addition, the Government is putting aside a further \$100 million to back up the UN, and the work of reconstruction and international development.

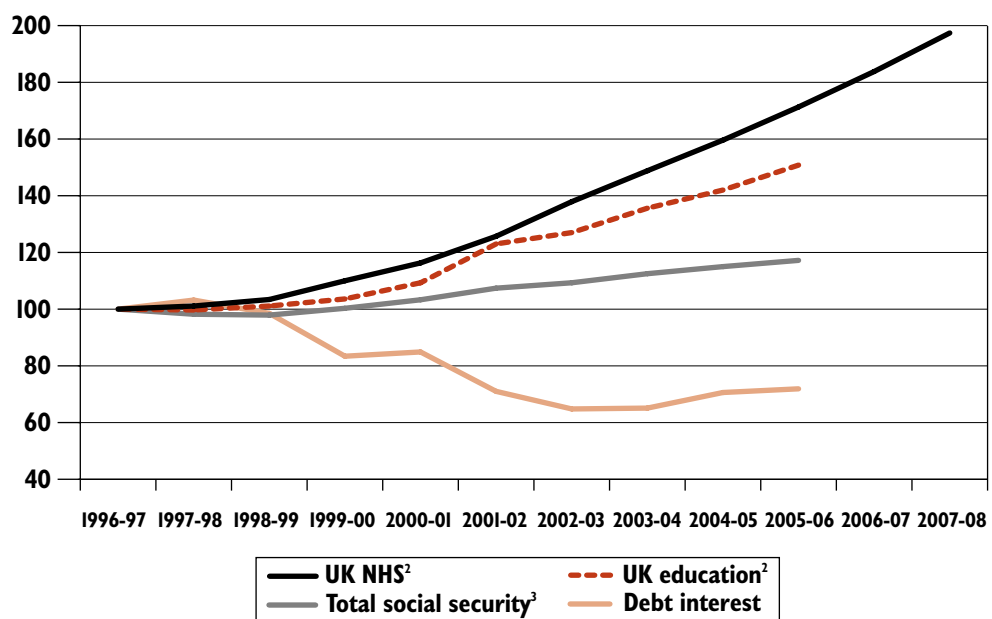
Domestic security **6.10** The Government is committed to ensuring that UK citizens are protected within the UK from the threat of international terrorism. Building on the significant increase in resources for counter-terrorism and security requirements allocated in the 2002 Spending Review, **Budget 2003 allocates a further £332 million over the next three years to invest in new counter-terrorism measures that will enhance the security of the UK and the ability of the emergency and other services to counter the terrorist threat.**

The 2002 Spending Review 6.11 Prudent management of the economy and the public finances means that the overall spending 'envelope' set in Budget 2002 and confirmed in the 2002 Spending Review remains sustainable and fully consistent with the fiscal rules. This 'envelope' allows:

- current spending to rise in total by 3.1 per cent a year in real terms in 2004-05 and 3.8 per cent in 2005-06;
- public sector net investment to rise from its target of 1.8 per cent of GDP in 2003-04, to 2 per cent of GDP by 2005-06 and to 2¹/₄ per cent by 2007-08, continuing to address the legacy of under-investment in public infrastructure, while meeting the sustainable investment rule; and
- planned UK spending on the NHS to increase by an average of 7.2 per cent a year in real terms over the five years to 2007-08.

6.12 With TME set to rise by 4.3 per cent a year in real terms between 2002-03 and 2005-06, new resources are being targeted at front line public services where they can be used most effectively. While spending on debt interest and social security is forecast to grow in real terms by only 2.5 and 2.3 per cent a year respectively over the next three years, planned spending on education is set to grow by 5.7 per cent a year and on transport by 8.3 per cent. Over 75 per cent of the planned increase in DEL and locally-financed expenditure over the coming three years is being targeted at the Government's key priorities of health, education, personal social services, transport, housing and criminal justice.

Chart 6.1: Releasing resources for priorities¹



¹ Real growth in spending rebased to 1996-97 = 100

² UK NHS and education spending measured on a near-cash basis

³ Includes personal tax credits

Source: HM Treasury.

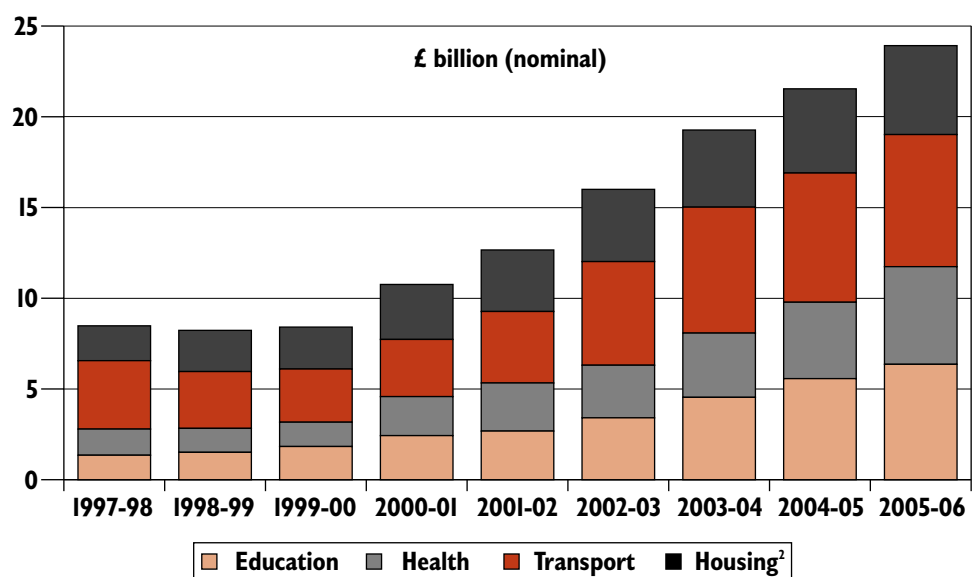
Public investment 6.13 A prerequisite for delivering high quality public services is having the right public service infrastructure in place. In 1997, public sector net investment stood at just £4.9 billion – 0.6 per cent of GDP – the lowest level for over a decade. Investment in public services had been on a declining trend since the mid-1970s, resulting in more than twenty years of falling standards in the quality of schools, hospitals and other public service assets. This reflected a budgeting system which encouraged short-termism and a bias towards spending on current pressures rather than on capital investment.

6.14 The Government is committed to reversing this under-investment in public service infrastructure. Public sector net investment (PSNI) is now expected to rise to 2 per cent of GDP by 2005-06. Total investment, which includes PSNI, depreciation, recycled proceeds from asset sales and private sector investment through Public Private Partnerships and the Private Finance Initiative, is set to rise to over £47 billion by 2005-06 in the largest sustained increase in public sector investment for over twenty years.

6.15 As shown in Chart 6.2, within the increased level of resources devoted to investment, the Government has focused on the four priority areas of education, transport, health and housing:

- capital spending on health in the UK is set to grow by an average of 15 per cent a year in real terms between 1997-98 and 2005-06;
- capital spending on education in England will rise on average by 18 per cent a year in real terms between 1997-98 and 2005-06;
- investment in transport in the UK will grow from £3.8 billion in 1997 to over £7.2 billion by 2006; and
- investment in housing will increase from £2.1 billion in 1997-98 to £4.9 billion by 2005-06. Over the six years to 2005-06 capital investment is set to grow on average by over 10 per cent a year in real terms.

Chart 6.2: Capital investment in public service priorities¹



¹ These numbers are subject to allocation decisions by local authorities and the devolved administrations.

² Includes Major Repairs Allowance in AME.

Source: HM Treasury.

Reforming the public spending framework

6.16 Increased resources will only lead to improved public services if they are allocated and used efficiently and effectively. Since 1997, wide-ranging reforms to the public spending framework have removed unnecessary central controls on departmental finances and given departments the freedom and flexibility they need for successful delivery. The reforms include:

- firm and fixed resource and capital DELs for spending on departmental services stretching over three years, with longer-term budgets for health and transport of five and ten years respectively. 2003-04 sees the introduction of full resource budgeting, with DELs for the first time reflecting the full economic costs of delivering services. This will provide improved incentives for the management of public assets and investment, and will increase transparency by providing better information to managers and the public about the true costs of providing public services;
- end-year flexibility (EYF), which allows departments to carry forward resources and capital not fully spent at the end of any financial year into future years. This helps departments to plan their programmes more effectively and removes any incentive for wasteful end-year surges in spending. Most departments with responsibility for agencies or non-departmental public bodies are cascading EYF, thus ensuring that the full benefit of this budgetary freedom is realised. In 2002-03 departments chose to draw down £5.0 billion of EYF to add to their authorised spending limits. As has been the case in previous years, the Government expects this net addition to be more than offset by under-spends elsewhere within DEL. For future years it is assumed that resource and capital DELs are fully spent; and
- a National Asset Register¹ to improve the way in which the public sector asset base is managed. The Register helps departments to use their assets more effectively and to reach better judgements as to whether individual assets are still required.

¹ *The National Asset Register*, HM Treasury, July 2001.

REFORMING THE PUBLIC SERVICES

6.17 The Government's goal is to build a stronger, more flexible economy and a fairer society, with opportunity and security for all. Advancing this goal implies different responsibilities for individuals, markets and communities, including government, each of which has a role to play in the delivery of fair and efficient outcomes. While markets on their own or with limited government regulation are in principle well placed to deliver many goods and services fairly and efficiently, there may often be an important role for government in helping markets to work better. Chapter 3 describes how the Government is seeking to improve the functioning of markets to deliver a more flexible and productive economy. In the case of some services however, the level of government regulation that would be required to deliver fair and efficient outcomes can be so high that the public sector is better placed to fund and manage delivery. In these circumstances, the Government's role is to improve the public sector's potential to deliver successful outcomes through investment and reform, and thereby to advance the public interest.

Delivering public service reform **6.18** The Government's programme of public service reform seeks to ensure that, where in principle the public sector is best placed to advance the public interest through the delivery of services, in practice this potential is realised. The Government's public service reforms aim to deliver efficient, responsive public services, with high standards achieved across the country, through:

- clear, long-term, outcome-focused goals, set by the Government;
- devolution of responsibility to public service providers themselves, with maximum local flexibility and discretion to innovate and incentives to ensure that the needs of local communities are met;
- independent and effective arrangements for audit and inspection to improve accountability; and
- transparency about what is being achieved, with better information about performance both locally and nationally.

6.19 The public sector is a major presence in the economy, and its productivity reinforces the productivity of the wider economy. The Government's framework for raising public service productivity, which complements its approach to raising productivity in the private sector, is set out in a new discussion paper, *Public services: meeting the productivity challenge*, published alongside this Budget.

Setting long-term goals **6.20** A crucial prerequisite for delivering better public services is clarity about the objectives which the Government is seeking to achieve. Public Service Agreements (PSAs) provide this clarity and are central to the Government's strategy for public service reform and improved delivery. First introduced in the 1998 Comprehensive Spending Review and covering the whole range of the public services, PSAs set targets for the outcomes that each department is committed to achieving. As such, they form an integral part of the Government's public spending framework, relating resource inputs to the outcomes that matter to the public, such as better health, improved education performance, and lower levels of crime.

6.21 The targets set out in PSAs have contributed to a genuine shift in departmental culture away from inputs and processes and towards the delivery of outputs and results. They provide:

- a clear sense of direction and ambition. The aim, objectives and targets in each PSA provide a clear statement around which departments can mobilise their resources. This helps in business planning and in communicating a clear message to staff and to the various public bodies which contribute to delivering each department's programme;
- a focus on delivering results. By starting from the outcome the Government is trying to achieve, the targets encourage departments to think creatively about how their activities and policies contribute to delivering those results. They also encourage departments to look across boundaries to build partnerships with those they need to work with to be successful. Departments prepare delivery plans for each of their targets, providing clarity to those responsible for delivery about what needs to be done. The Prime Minister's Delivery Unit and the Treasury help departments plan and monitor progress with implementation;
- a basis for monitoring what is and is not working. Clarity about aims, and tracking progress in achieving them, allows departments to gauge whether what they are doing is working. If it is, this success can be rewarded; if it is not, poor performance can be tackled; and
- better public accountability. Targets are meant to be stretching so not all will be met. But regular reporting of progress against targets allows everyone to see what progress is being made.

6.22 Since 1998, the overall number of PSAs has been reduced substantially to an average of less than seven per department, helping departments to focus on the Government's key priorities. The quality of the targets has also improved, as demonstrated by a National Audit Office study² which showed that the proportion of outcome-focused targets rose from 16 to 68 per cent between the 1998 and 2000 Spending Reviews. The 2002 Spending Review took the process of improving targets further. For example:

- education floor targets are now focused on the school rather than the local authority level;
- the Department for International Development's PSA has been restructured to align it directly with the international community's Millennium Development Goals, its own organisational structure, and partner countries' priorities and plans; and
- the Office of the Deputy Prime Minister's target to improve social housing conditions has been broadened to include the private sector.

² *Measuring the performance of Government departments*, National Audit Office, March 2001.

Increasing local discretion **6.23** PSAs allow for increased devolution of responsibility to front line service providers, enabling the Government to remove itself from old fashioned command-and-control methods of public sector management. Those at the front line of service delivery are often best placed to assess and respond to local conditions and to meet changing customer needs. By setting targets for local delivery bodies, consistent with the national standards set out in PSAs and with appropriate accountability arrangements in place, departments can now empower local organisations with the freedom and flexibility they need to provide high quality and responsive services. This helps to ensure that local services are built around the needs of local people, while maintaining a focus on the achievement of national standards across the country.

Box 6.1: Public sector pay and workforce – supporting better public services

Delivering high quality public services demands that the best use is made of the public sector workforce. This means the responsible deployment of the significant resources directed to public sector pay and careful consideration of workplace conditions to enable the public sector to recruit, retain and reward a responsive and motivated workforce with the right skills.

The Government aims to use pay as part of its package of reforms to improve public service delivery. In reaching decisions on pay, the right balance needs to be struck between rewarding people appropriately for their skills and setting pay at responsible rates that are consistent with economic stability. Many recent public sector pay settlements have reflected these principles – in particular, the decisions of the Pay Review Bodies – by establishing greater links between pay and reform, increasing the focus on rewarding skills and performance, and directing pay to address local recruitment and retention needs. Departments are also taking a more strategic approach to pay and workforce issues, linking these directly to delivery requirements.

To recognise local and regional conditions in pay, such as the extra costs for retention and recruitment that arise in London and the South East, especially for the low paid, the Government will also make sure that the remit for the Pay Review Bodies and for public sector workers, including the civil service, includes a stronger local and regional dimension.

Enhancing accountability **6.24** Independent and effective arrangements for audit and inspection are essential if departments and agencies are to be held properly accountable for performance against their targets. There should be separate responsibility for setting standards from responsibility for assessing whether they are being achieved. Such arrangements are being implemented across a range of public services. For instance:

- the role of the new Police Standards Unit is being consolidated and developed, working alongside Her Majesty's Inspectorate of Constabulary; and
- a single housing inspectorate has been established to drive up performance for all types of social landlord, replacing the current separate inspection regimes.

Increasing transparency **6.25** The Government is committed to providing public access to regular and reliable information about performance against PSA targets to increase transparency and improve public accountability. Departments now publish details of progress against their targets twice a year, in the autumn as well as in spring departmental reports. This information is supported by the publication of departmental Technical Notes and Service Delivery Agreements, which set out respectively how performance is measured and the key steps that departments will take to ensure that targets are met, and by the release of Departmental Investment Strategies, which set out departments' investment plans and how these contribute to the achievement of objectives. The Treasury website now provides a link³ to this full range of performance information, ensuring that the public can gain access to it from a single portal.

6.26 In a further major innovation, representing a step-change in the level of transparency and public accountability, **regular web-based reporting against all the new PSA targets will be introduced on the HM Treasury website from April 2003, making all the latest performance information accessible to the public in a single place.** Departments will continue to publish performance data in the usual way, and the website will be regularly updated to reflect any changes.

6.27 In March 2002, the Government invited the Comptroller and Auditor General to externally validate the data systems underlying PSA targets, drawing on the work, and recognising the independence and authority, of the National Statistician and the Audit Commission. Over the past year the National Audit Office (NAO) has undertaken a number of short validation trials. These will be completed by the end of April and lessons from the trials will be drawn on by the NAO as it implements plans for the validation of data systems underpinning all PSAs.

Implementing reforms, delivering results

6.28 New investment is being coupled with reform across the public services, and a transparent approach to reporting performance is enabling the public to see the progress that is being made. The following section describes how resources and reform are driving delivery across a range of public service priority areas, and sets out some of the key challenges ahead. The final section describes the Government's strategy for delivering a world class healthcare system for the 21st century.

Education **6.29** The Government's Leadership Incentive Grant is already helping to ensure that no school is held back through weak leadership. All 1,400 eligible secondary schools in poorer areas have now developed plans for improved leadership, and a new set of leadership criteria, developed as part of this process, is to become an integral part of the OFSTED inspection process.

³ See www.hm-treasury.gov.uk/performance/docs

6.30 The Government has also initiated a major programme of reform in further education, to raise standards and improve performance across the sector. The 2002 Spending Review allocated an additional £1.2 billion to further education, to be invested over the next three years. To facilitate better planning, the Department for Education and Skills has cascaded three-year budgets and full 100 per cent end-year flexibility to the Learning and Skills Council (LSC), to be devolved in turn to local LSCs and learning providers. New approaches to funding will reward colleges that deliver on minimum floor and performance improvement targets for participation, success rates and employer engagement. The higher education White Paper⁴ published earlier this year set out plans for reform in universities and higher education colleges.

6.31 Progress has been made in all areas to improve standards of attainment in education. In 2002, over half of all 16 year olds achieved five A* to C grades at GCSE, exceeding the target set in the 1998 Comprehensive Spending Review. The percentage of pupils achieving five or more GCSEs at grades A* to C has now increased by more than six percentage points since 1997, from 45 to over 51 per cent of pupils. Between 1997 and 2002, the proportion of 11 year-olds reaching expected levels in English and maths rose by 12 percentage points and 11 percentage points respectively, to 75 and 73 per cent. The lowest achieving Local Education Authority (LEA) is now performing at around the level of the average LEA of five years ago and the percentage of schools achieving below 65 percent in English and maths has been roughly halved since 1998. The key challenge ahead for schools is to ensure that rising standards for the majority are sustained, while ensuring that all LEAs and schools are able to reach minimum attainment levels.

Local government **6.32** Local government provides a range of essential public services, including schools and care for the elderly, and therefore has a vital role to play in delivering higher quality and more efficient public services. In line with the Local Government White Paper⁵, the Government has taken action to promote local autonomy in service delivery by reducing Whitehall controls for all local authorities. The amount of central government revenue and capital support that is ring-fenced will be reduced, giving all councils greater control over their spending. The Government will also reduce by 75 per cent the number of plans that councils must produce, and all future inspection activity will be carried out on a coordinated and targeted basis.

6.33 The Local Government Bill currently passing before Parliament will further increase the freedoms available to local authorities. The Bill introduces a new prudential regime for borrowing that will make local authorities' capital investment more transparent and provide a framework for greater financial flexibility to deliver local priorities. It will also include provisions for a new scheme to allow local authorities to retain some or all of any increases in business rates revenue generated by increases in local business activity, as described in Chapter 3.

⁴ *The Future of Higher Education*, Department for Education and Skills, January 2003.

⁵ *Strong local leadership – quality public services*, the Office of the Deputy Prime Minister, December 2001.

6.34 The first Comprehensive Performance Assessment (CPA) for single-tier and county authorities was published in December 2002. The CPA represents a step-change in the reporting of local government performance, bringing together for the first time all available information on the performance of councils to help improve accountability to local people. Single-tier and county authorities that achieved an ‘excellent’ rating in the CPA will benefit from the removal of all revenue and capital ring-fencing, except for direct grants to schools. In future, they will be required to produce just two plans – a Best Value Performance Plan and a Community Strategy – and will be exempt from most inspection activity for a three-year period. Over half of all local authorities have been rated good or excellent, and will therefore benefit from increased freedoms and flexibilities.

6.35 In the first CPA, under ten per cent of authorities have been judged poor. The Government is engaging with these authorities and requires them to implement effective recovery plans that provide communities in these areas with the high quality public services they deserve. CPA will be extended to all lower-tier councils over the coming 18 months.

Criminal justice 6.36 The Government is determined to cut crime and the fear of crime, and the Home Office, Lord Chancellor’s Department and Crown Prosecution Service are working together to meet challenging targets in this area. Improved police performance, based on increased investment matched with wide-ranging reform, will be crucial to deliver a step change in performance. With police numbers now at a record high, the Government is therefore:

- delivering the three-year National Policing Plan, which establishes a clear national framework for raising the performance of all police forces, and indicators against which performance will be judged;
- increasing transparency and accountability through the introduction of Police Performance Monitors, allowing the public to compare the performance of their local police force with that of similar forces for the first time;
- implementing the recommendations of the Bureaucracy Taskforce to ensure police officers’ time is used effectively;
- implementing pay reform for police, including an element for good performance;
- allocating £50 million a year direct to Basic Command Units in high crime areas for use in innovative schemes; and
- **allocating a further £174 million over three years for correctional services in England and Wales.**

6.37 Overall crime has fallen by 28 per cent since 1997, but in the last year has remained flat. Since 2000, there has been a 23 per cent reduction in vehicle crime and a 27 per cent reduction in domestic burglary, though vehicle crime and burglary levels have remained broadly the same over the past year. Recorded robberies have increased by 28 per cent in the year to March 2002. Since the start of the Street Crime Initiative (SCI) in April 2002 they have fallen by 25 per cent in the ten SCI areas. But the overall target of a 14 per cent reduction between 1999-00 and 2005 remains challenging.

Housing 6.38 In February, the Deputy Prime Minister set out a detailed programme of action to improve delivery in housing, planning and regeneration⁶. The programme includes stock renovation, the provision of new affordable housing and measures to address imbalances in regional housing markets. To support delivery, the Deputy Prime Minister also established Regional Housing Boards that are producing housing strategies for their regions and will deploy resources from a single regional housing investment pot, thereby linking housing delivery with planning and wider regional economic strategies. Chapter 2 gives details of a new review into the factors affecting the supply and responsiveness of housing.

6.39 Good progress is being made in improving the quality of life in urban areas and other communities and in reducing social exclusion and fuel poverty and regenerating deprived neighbourhoods through the availability of decent social housing. The Government is on course to bring a third of non-decent social housing – around 500,000 homes – up to a decent standard by 2004 and is introducing new measures to deliver its target to make all social housing decent by 2010. Up to 22,000 affordable homes will also be built through the Housing Corporation in 2003–04. To improve the sustainability of new housing development, 61 per cent of all new dwellings in 2001 were provided on previously developed land or through the conversion of existing buildings, meeting the target of 60 per cent six years early. Significant challenges for the future include achieving a better balance between housing availability and demand in all English regions and tackling low demand and abandonment in parts of the North and the Midlands.

Transport 6.40 A modern and reliable transport network is key to a flexible and high productivity economy, helping to improve labour mobility and providing businesses with access to new markets and investment. The Department for Transport is currently conducting a review of the Ten Year Plan for Transport to assess how best to roll it forward in response to the challenges that need to be met up to 2015 and beyond.

6.41 Among the issues to be considered by the review are:

- addressing the challenge of higher forecasts for road congestion, driven in part by higher economic growth, including through focused action and making better use of the existing network;
- connecting national targets with local delivery; and
- improving investment appraisal across transport programmes.

6.42 On the railways, the creation of Network Rail, coupled with a strengthened Strategic Rail Authority, has created an improved structure for the rail industry. The challenge is now to deliver improvements in performance, efficiency and cost control. The rail industry and the rail regulator are working together to achieve this.

⁶ *Sustainable communities: building for the future*, Office of the Deputy Prime Minister, February 2003.

6.43 The Department for Transport is making progress against its targets in a number of key areas. The number of deaths or serious injuries from road accidents in 2001 was 15 per cent lower than the average between 1994 and 1998, against a target reduction of 40 per cent by 2010. Accidents involving children have fallen by 27 per cent against a target of 50 per cent. In addition, passenger use of railways had risen by 2.5 per cent by the end of 2002 compared with 2000-01, against a target increase of 50 per cent by 2010. While London Underground has made good progress in increasing network capacity and reducing journey times, the consequences of the Chancery Lane derailment mean that targets in these areas are unlikely to be met this year. Bus and light rail use has risen by 1 per cent in each of the last two years, against a new combined local public transport target of a 12 per cent increase by 2010.

Box 6.2: futurebuilders

It is now widely recognised that the voluntary and community sector can add significant value to the delivery of public services, whether operating across geographical and administrative boundaries or by reaching out to some of the most vulnerable and disadvantaged people in society. Many voluntary and community organisations wish to develop their service delivery role and the Government wants to help them do so.

To take forward its commitment, the Government is investing £125 million in a new *futurebuilders* fund to assist voluntary and community sector organisations in their public service work. Funding will be directed to those organisations involved in delivering front line public services in health and social care, crime and social cohesion, education and learning, and services which support children and young people. *futurebuilders* complements the new framework for service delivery between the Government and the voluntary and community sector, agreed as part of last year's cross-cutting review into the role of the voluntary sector in delivering services. The Government is working in partnership with the voluntary and community sector to design the fund and will consult shortly on specific proposals for how funding should be used.

The Government now intends to build on the cross-cutting review with a study of departmental involvement with the voluntary and community sector in local service delivery, and the potential for going further, to inform the next Spending Review. In particular, the Government will seek to develop further the Community Interest Company (CIC), an entirely new legal form designed for socially responsible enterprises. The Government does not intend that CICs should deliver essential public services such as schools or hospitals. However CICs have a clear role to play in complementing government services at the community level in areas such as childcare provision, community transport or leisure.

Next steps

6.44 The Government is determined that every pound of public spending should deliver the best possible return in high quality services. This means focusing on the drivers of performance and efficiency, and redoubling efforts to achieve consistent standards and to tackle inequalities, including looking at ways of better integrating funding streams. **To make the best of funding allocated in the 2002 Spending Review and to prepare the ground for the next Spending Review, the Government will investigate a number of key issues including:**

- tackling child poverty – to examine how public services and welfare reform can most effectively tackle child poverty, further integrate services for the under 5s, and improve the prospects of work and opportunity for families, especially in deprived areas;
- devolving decision making from the centre – to examine how best to achieve decentralised delivery and responsive local and regional services in a way that is consistent with equity and efficiency, against a clear framework of national standards. This will consider the way in which targets are set and the flow of information on performance;
- engaging the voluntary and community sector – to assess the progress made by departments in encouraging the involvement of the voluntary and community sector in local service delivery and the potential for going further; and
- delivering better childcare – building on the inter-departmental childcare review, to focus on the further steps needed to ensure an adequate supply of good quality childcare, as part of the wider consideration, announced in January, of possible next steps to help parents balance work and family life.

6.45 In addition the Government will be examining the scope for relocating civil service and other public service staff from London and the South East to other parts of the country, to improve cost effectiveness and achieve a better regional balance of government activity. This study will be led by Sir Michael Lyons. The Government will also be reviewing new ways of providing departments, their agencies and other parts of the the public sector with incentives to exploit opportunities for efficiency savings, and so release resources for front line public service delivery.

A HEALTHCARE SYSTEM FOR THE 21ST CENTURY

6.46 The Government's goal is to deliver a world class health service, available to all on the basis of clinical need rather than ability to pay, as a vital component of a flexible, dynamic and productive economy. Over the past 30 years the UK has consistently invested a smaller share of its national income in healthcare than comparator countries. As a consequence, the UK has fewer doctors, nurses, beds and items of diagnostic equipment per head of the population than in comparable economies. Historical underinvestment has resulted in long waiting lists and, on most measures, poorer health outcomes than the EU average.

6.47 Because a market-based approach would lead to unacceptable health outcomes in terms of both efficiency and equity, the Government is committed to public funding of health services matched by public provision, combining fairness and efficiency in the pursuit of opportunity and security for all. To address historical underinvestment in the provision of health services, Budget 2002 announced the largest ever sustained spending growth in the history of the National Health Service (NHS), with additional resources linked to a substantial package of reforms to strengthen the local delivery of services, promote accountability and patient choice, and provide for greater contestability to drive efficiency and reward innovation.

The Wanless Review of long-term health trends

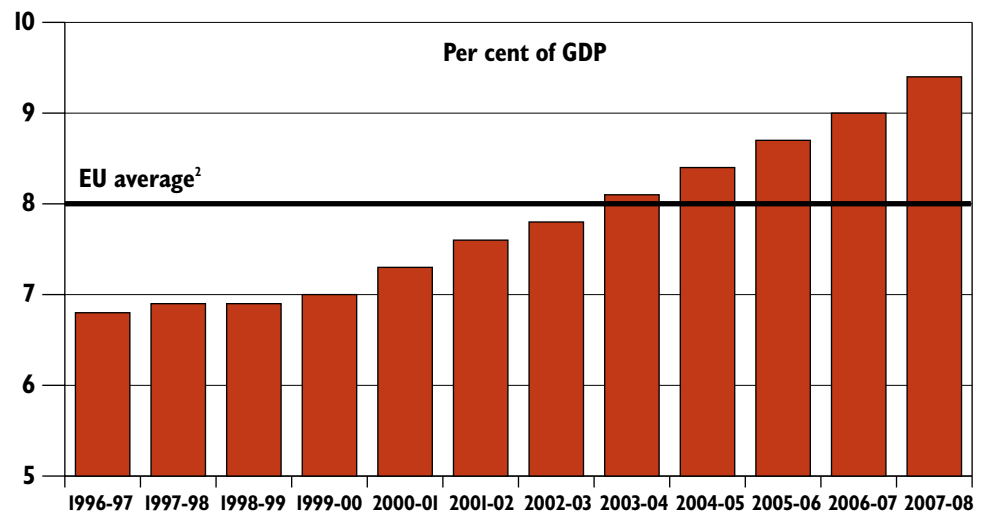
6.48 In Budget 2001, the Chancellor commissioned Derek Wanless, former Group Chief Executive of NatWest Bank, to undertake an independent review of the long-term trends that will affect the resource needs of the health service in the UK over the next 20 years. The final report, published at the time of Budget 2002, concluded that in order to deliver a high quality health service the UK would need to devote a substantially larger share of its national income to health over the next 20 years. To ensure that additional resources are used to maximum effect, the Review also recommended a series of reforms to address the strategic issues facing the NHS in the coming years, including:

- the importance of setting national standards for clinical care and integrated information and communication technology systems;
- the significant scope to give more discretion to those delivering care at the local level, helping to drive up performance across the board;
- the need for a mechanism to ensure regular and rigorous independent audit of all health care spending;
- the vital interface between health and social care, and the need for similar quality improvements in the social care sector; and
- the need for public engagement to increase health awareness, based on a better understanding of rights and responsibilities.

Providing resources 6.49 The Review concluded that the resources needed to deliver a high quality health service over the next 20 years would depend on developments in the demand for and supply of health services, including the health needs and demands of the population, technological developments, workforce issues and productivity. The Review set out three scenarios – ‘solid progress’, ‘slow uptake’ and ‘fully engaged’ – to illustrate how different developments in these areas would affect the resources needed. For each of the scenarios, the period of fastest growth in spending is in the early years, enabling improvements in standards to be delivered as quickly as possible. The Review concluded that the ‘fully engaged’ scenario was the least expensive although it delivered the best health outcomes.

6.50 The Government accepted the conclusions of the Wanless Review. In line with its recommendation that the fastest period of spending growth should occur in the early years, UK NHS spending plans will grow by 7.2 per cent a year in real terms over the five years to 2007-08, from £68.1 billion in 2002-03 to £109.4 billion in 2007-08. By 2007-08, total UK health spending is projected to reach 9.4 per cent of GDP, above the EU average but still lower than in Germany and France, thereby addressing the consistent underinvestment in health relative to comparable economies that has characterised the UK over the past 30 years. The new plans include substantial increases in capital for investment in modern IT, buildings and equipment as well as record investment in the NHS workforce.

Chart 6.3: UK health spending¹



1. Total UK health spending as a percentage of GDP. Source: HM Treasury.

2. EU health spending as a percentage of GDP (unweighted average) in 2000, the latest year for which this data is available. Source: OECD Health Data 2002.

Box 6.3: Funding long-term improvements in healthcare

General taxation and NICs provide affordable, comprehensive cover for healthcare as the costs are spread as widely and fairly as possible. They allow the Government to fund healthcare that is free at the point of use and accessible to all, irrespective of income. Because the range of medical treatments is growing, and some are more expensive than ever, the costs of health care are increasing around the world and the risks to family finances and to business would be greater than ever if the costs were met from charges or private insurance payments:

- charges would mean the sick paying for being sick. The experience of other countries is that charges deter the sick from seeking treatment – in the US one in four adults report that they have gone without medical care because they could not afford it;
- administrative costs mean that private insurance tends to be more expensive than the alternatives – in the US, half of all bankruptcies result from inability to pay medical costs;
- private insurance may not be affordable to those in the greatest need. In the US, where private insurance is the dominant method of financing health care, over 40 million people are uninsured, including around 18 per cent of non-elderly adults and 14 per cent of children;
- in social insurance systems, there is the potential for schemes to deny the full range of benefits to individuals, or for a two-tiered system to develop, as in Germany, where some people seek additional private insurance to supplement the basic insurance. As a result, the share of health spending borne by general taxation in France is increasing, to improve access for the poor and widen the revenue base; and
- the costs of social insurance can also fall disproportionately on employers – in France, employers rather than employees pay the majority of the premium.

As well as helping to ensure fairness in the provision of health services, public funding is consistent with economic efficiency. The Wanless Review concluded that there was no alternative financing method to that currently in place in the UK that would deliver a given level and quality of health care at lower cost to the economy.

To deliver the largest ever sustained spending growth in the history of the NHS, while meeting the fiscal rules and other priorities, Budget 2002 raised national insurance contributions (NICs) by one per cent for employers, employees and the self-employed on all earnings above the NICs threshold from April 2003, and froze the income tax personal allowance for those aged under 65 in 2003-04.

While the NHS has always been, and will continue to be, funded in part from NICs, the Government does not support the hypothecation of revenues to the NHS or other public services, since it would make their provision subject to the ups and downs of the economic cycle and unpredictable changes in revenues. Hypothecation would not provide what the NHS needs: a sound long-term and sustainable stream of funding.

Reforming the NHS

6.51 While public provision is in principle the most fair and efficient means of delivering health services, reform is essential to ensure that the public sector is able to meet its potential and that increased resources deliver results. Increased investment in the NHS since 1997 has therefore been matched with extensive reform, including:

- the devolution of commissioning power to local Primary Care Trusts (PCTs), run by front line doctors and nurses;
- the introduction of star ratings to improve performance, linking increased freedoms to better results;
- the establishment of a Modernisation Agency to identify and spread good practice and drive performance improvement;
- National Service Frameworks (NSF) for cancer, coronary heart disease, older people, mental health and diabetes, setting out national standards for treatment and services that should be available within the NHS;
- the establishment of the National Institute for Clinical Excellence (NICE) to assess the clinical cost-effectiveness of drugs and treatments and to tackle the postcode lottery; and
- improvements to patient access through the NHS Direct helpline, which handles over 100,000 calls a week, and through 42 walk-in centres across the country.

6.52 Over the next five years, extra resources will be matched by a renewed focus on reform to ensure that the priorities set out in the Department of Health's PSA are achieved. Consistent with the reform principles described above, there will be:

- devolution of power to front line organisations;
- new financial incentives for better performance;
- the separation of the standard-setting role of the Department of Health from the delivery role of the NHS;
- two new independent regulators to improve accountability in health – the Commission for Healthcare Audit and Inspection – and social services – the Commission for Social Care Inspection; and
- a more responsive health service providing better information and more choice to patients.

Devolving power to the front line **6.53** Resources and responsibility for delivery have been and will continue to be progressively devolved to local organisations, with the greatest freedoms and flexibilities going to the highest performing organisations. PCTs are central to the Government's strategy for decentralising and devolving power in the NHS to local communities. Run by GPs, nurses, other health and social care professionals, and representatives of patients and the community, PCTs are responsible for determining the health needs of local people and for commissioning the right mix of services to meet them. They are also responsible for integrating health and community health services to ensure that both systems work together for patients. From 2003-04, local PCTs will control 75 per cent of NHS resources and will be able to use them to commission care from a range of providers, delivering high quality services to patients in both community and hospital settings.

Rewarding performance **6.54** A new set of performance improvement incentives will underpin the devolution of resources and responsibilities, including a new system of financial flows that will encourage and reward efficient use of resources. High performing organisations will also benefit from less monitoring and inspection, improved access to capital and increased operational freedoms.

Box 6.4: Financial flows in the NHS

A new system of financial flows is being introduced across the NHS, which will encourage and reward the efficient use of resources by directing more funding to hospitals that treat more patients. Previously, the use of block contracts has meant that hospitals have not been rewarded for using their spare capacity to treat more patients. The new system will reward strong performers with additional resources to treat more patients.

The new system of financial flows works by grouping together activities that use similar resources into Health Resource Groups (HRGs). A new single national tariff is then set for each of these HRGs. Hospitals will be paid according to the mix of services they deliver.

This type of case-mix based payment system was developed in the US in the 1960s and 1970s, and many OECD countries have now introduced similar systems. The evidence from their introduction in Australia and the US suggests that this payment method has helped increase output and minimise costs by reducing patients' length of stay and fostering a shift from inpatient to day-patient and ambulatory care.

The Government's objective is to ensure that providers are paid fairly and transparently for the services they deliver and that the new financial flows regime supports patient choice, rewards efficiency and quality, matches demand to capacity, and promotes a shift away from price negotiation to a focus on quality and delivery. By 2005-06, almost all NHS Trust activity will be commissioned on the basis of HRGs.

6.55 NHS Trusts and social services are now able to earn autonomy through the star ratings system. For the highest performers there are increased freedoms, including extra discretion over the use of capital and performance fund money, and a reduced burden of inspection.

6.56 Building on the model of greater flexibility and reduced bureaucracy already established for high performing local authorities, the Government is also planning to introduce NHS Foundation Trusts which will provide additional financial and operational freedoms for hospitals with a track record of success. These freedoms will be balanced against the need to:

- deliver better treatment for all NHS patients;
- safeguard the Government's absolute commitment to NHS care free at the point of use determined on the basis of need and not ability to pay;
- prevent any perverse incentives to expand private provision or undermine investment in NHS capacity; and
- safeguard taxpayers' money.

**Strengthening
accountability
and increasing
choice**

6.57 The role of the streamlined Department of Health will be to set standards and hold the NHS to account for delivery. Day-to-day management of the NHS will become the responsibility of the 28 new strategic health authorities, who will hold local services to account, build capacity and support performance improvement.

6.58 Accountability will be strengthened by the establishment of two new inspectorates for health – the Commission for Healthcare Audit and Inspection – and social services – the Commission for Social Care Inspection. The inspectorates will be independent of government and will have a range of responsibilities, including value for money audit and inspections, the publication of an annual report to Parliament on performance and use of resources in the NHS and social services, the publication of star ratings, and independent scrutiny of patient complaints.

6.59 Accountability to the public will also be reinforced by greater choice for patients. As capacity expands, NHS patients will have more choice over where and when they are treated, with booked appointments for all hospital admissions. Patients and their GPs will also receive independently validated information about hospital performance to help them make informed choices

**Integrating
health and social
services**

6.60 A modern and integrated healthcare system requires effective provision of social care services. Social services capacity has already increased significantly in recent years. Between 1999-2000 and 2002-03, 3,300 intermediate care beds have been created. Between 2000-01 and 2001-02, the number of households receiving intensive home care has risen by over 5,000, with 16,000 more households now benefiting from this service than in 1998. In view of the importance that the Wanless Review attached to investment in social services, plans for spending on social services in England rise by 5.9 per cent a year on average in real terms between 2002-03 and 2005-06. This investment will support the 10-year NSF for older people, which sets new standards and service models of care for all older people, whether they live at home, in residential care or are being cared for in hospital. The Government is also piloting Children's Trusts that will enable local partners jointly to plan, commission, finance and deliver social services for children.

6.61 The Government is taking steps to improve integration between health and social care services by introducing strong financial incentives for local authorities to assess individuals who are in hospital and make provision for any community care services they may need as quickly as possible.

Delivering results

6.62 Between 1996-97 and 2002-03, expenditure on the NHS in England has increased by about 40 per cent in real terms. There is now more capacity in the health service, activity levels have risen, waiting lists are down and good progress is being made on health outcomes.

6.63 There are already 10,000 more doctors, almost 50,000 more nurses and 8,400 more therapists working in the NHS today than in 1997. Last year over 23,000 students started nurse or midwifery training, an increase of over 50 per cent on 1996-97. The Government's health spending plans for the next five years will deliver further increases in capacity. By 2008, there will be over 20,000 more GPs and consultants, 44,000 more therapists and scientists, and 66,500 more nurses, midwives and health visitors than in 1997. Eight thousand more nurses will leave training each year and there will be an extra 1,900 medical school graduates a year compared with 2001-02. Improvements in working practices stemming from pay reform will also serve to increase NHS capacity.

6.64 The largest ever hospital building programme in the history of the NHS is also underway. In 2000, over half of the existing stock of NHS buildings had been built before 1973, and one third pre-dated 1948. Since 1997, 29 new hospital developments have been completed and are fully operational. By 2010, over 100 new hospitals will have been built since 1997. More surgery will take place in new freestanding diagnostic and treatment centres, with 250,000 patients on course to be treated in such centres by 2005. Over the next three years, £2.3 billion will be invested in IT, improving the ability of the NHS to deliver change and reform, while enhancing the patient experience and the quality of care.

6.65 Increased investment and reform is enabling the Department of Health to make good progress against its PSA targets and deliver results which matter to the public:

- there are now 130,600 fewer patients waiting for treatment than in 1997, and the number of patients waiting more than one year for an operation has fallen by 78 per cent;
- good progress is being made in reducing the number of people delayed in hospital, with delays among those aged over 75 down from 5,100 in December 2001 to 3,500 in December 2002;
- over 98 per cent of patients with suspected cancer are now seen by a specialist within two weeks;
- as a result of more effective prescribing driven by the NSF for cancer, statins – life saving drugs that reduce the level of cholesterol in the blood – now save as many as 6,000 lives a year; and
- 31,000 patients are benefitting from new anti-cancer drugs following NICE appraisal.

6.66 The further expansion in capacity and activity that will be possible as a result of sustained increases in investment over the next five years will enable the NHS to continue to deliver improvements in standards, with better access and improved health outcomes. The Department of Health's PSA sets out the key objectives that investment and reform are set to deliver, including:

- guaranteed access to a primary care professional within 24 hours and to a primary care doctor within 48 hours from 2004;
- hospital appointments that are booked for the convenience of the patient by the end of 2005;
- maximum waiting times of three months for outpatients and inpatients by 2008;
- substantial reductions in mortality rates from the major killers, including a reduction of 40 per cent for heart disease in people under 75 and a reduction of at least 20 per cent in cancer for people under 75 by 2010; and
- a 10 per cent reduction in health inequalities as measured by infant mortality and life expectancy at birth by 2010.

Reviewing progress

6.67 Budget 2002 announced that the Government would invest an additional £40 billion a year in the NHS by 2008 in line with the recommendations of the Wanless Review. Seventy five per cent of NHS funding has been allocated directly to PCTs for the next three years – the largest allocation to front line services in the history of the NHS. This investment is coupled with reform to deliver a world class health service for the 21st century.

6.68 The Government is determined to press ahead in matching new investment with reform in the NHS, to deliver a world class health service. In addition, as is usual with external reviewers, **Derek Wanless, against a background of progress made, and given the public expenditure implications after 2008, will provide an update of the long-term challenges in implementing the “fully engaged” scenario set out in his report on long-term health trends – with a particular focus on cross-departmental work on preventative health and health inequalities.** He will provide his update to the Government early next year.

