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DELIVERING HIGH QUALITY PUBLIC SERVICES

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

The 2002 Spending Review set departmental spending plans for the three years to 2005-06, and to 2007-08 for the NHS, consistent with the fiscal rules. Building on previous Spending Reviews, these plans are delivering substantial extra investment in key public service priorities. Recognising the crucial role of local government in delivering public services, the Government is increasing the Revenue Support Grant in England in 2004-05 by £340 million to support local authorities as they improve services in key areas. Combined with wide-ranging reform to improve public service productivity, increased investment is delivering improved results across a range of services.

In Budget 2003 the Government made a special contingency provision of £3 billion to meet the costs of the military conflict in Iraq and its other international obligations, £1 billion of which was allocated to the Ministry of Defence in 2002-03. The Government is carrying forward the £2 billion unallocated special reserve into 2003-04 and is adding £500 million. A further £300 million is being added in 2004-05 to ensure that the Government is able to meet its international commitments in Iraq and elsewhere in the war against terrorism.

The 2004 Spending Review concluding next summer will lock in the step change in funding for key public services delivered in previous Spending Reviews. The Review will determine new departmental spending plans for 2006-07 and 2007-08 and a new set of Public Service Agreements. Additional funds above existing baselines will be targeted at front line public service priorities on the basis of a rigorous assessment of where new resources will have the greatest impact on outcomes.

In setting out the next steps in public service reform, the Review will in particular focus on increasing devolution to the front line, enabling public service providers to respond flexibly to local needs. Demonstrating the Government's commitment to reducing burdens on the front line and giving service providers maximum flexibility in the way they deliver key priorities, this Pre-Budget Report announces the abolition of Service Delivery Agreements for the 2004 Spending Review, removing over 500 lower level input, output and process targets.

To inform the outcome of the 2004 Spending Review, Budget 2003 announced a number of reviews of key issues focusing on the drivers of performance and efficiency in the public services. This chapter sets out details of progress in a number of these reviews.

INTRODUCTION

6.1 The Government's long-term goal is to deliver efficient and responsive public services that meet public expectations throughout the country through sustained increases in investment and reform. 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 quality of life.

RESOURCES

6.2 Sound public finances that are sustainable over the economic cycle are not only essential to ensure economic stability; they are also necessary to deliver the sustainable investment in public services required to deliver standards that meet public expectations. The Government's fiscal rules, described in Chapter 2, are the foundation of the public spending framework, ensuring that the public finances are sustainable over the economic cycle and that spending and taxation impact fairly between generations. The rules have important consequences for the budgeting regime, removing the past discrimination against investment and ensuring that borrowing for investment is conducted in a responsible way. For the second year, an analysis of long-term fiscal sustainability, the *Long-term public finance report*, is published alongside this Pre-Budget Report, providing a comprehensive analysis of long-term economic and demographic developments and their impact on the UK public finances.

6.3 Consistent with the longer-term expenditure planning horizon allowed by the fiscal rules, 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. Departments now have certainty over their budgetary position for well over a year ahead, enabling them to plan and manage their programmes sensibly without the risk that crucial funding will be removed. Departments are also able to draw on their stock of end-year flexibility (EYF). EYF allows departments to carry forward resources not fully spent at the end of the year for use in future years, enabling them to plan their spending effectively and helping to avoid inefficient end-year surges in departmental spending.

6.4 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). These items are subject to tough scrutiny twice a year as part of the Budget and Pre-Budget Report process to ensure that volatility in AME does not threaten fiscal stability. The Government recognises the uncertainties in planning public expenditure, allows for this through the DEL reserve and AME margin and remains vigilant to pressures and risks. Taken together, DEL and AME add up to Total Managed Expenditure (TME), the broadest measure of total public expenditure.

2002 Spending Review

6.5 The 2002 Spending Review set spending plans for 2003-04 to 2005-06 for public services other than the NHS, for which spending plans to 2007-08 were fixed in the 2002 Budget. Building on previous Spending Reviews, these spending plans allow for significant increases in investment in key public services, including:

- planned UK spending on the NHS increasing by an average of 7.1 per cent a year in real terms over the five years to 2007-08; and
- planned UK spending on education increasing by 6.0 per cent a year in real terms between 2002-03 and 2005-06.

6.6 As shown in Chapter 2 the Government's spending plans are fully consistent with meeting its strict fiscal rules. In 2003-04 total public spending is planned to rise by 6.9 per cent in real terms over the year as a whole relative to 2002-03, with DEL spending rising by 7.3 per cent and AME spending rising by 6.4 per cent. This year departments have chosen to draw down £2.5 billion of EYF so far to add to their authorised spending limits. The Government expects this net addition to spending to be offset by the end of the year by underspends elsewhere within DEL.

6.7 Since September 2001, the Government has spent nearly £2 billion on the war in Afghanistan and to combat terrorism both domestically and abroad. In Budget 2003, the Government made a special contingency provision of £3 billion to meet the costs of the military conflict in Iraq and its other international obligations. Of that special reserve, £1 billion was allocated to the Ministry of Defence DEL in 2002-03 with the rest remaining unallocated. A further £1.3 billion of current spending has been charged against the special reserve in 2003-04. **In this Pre-Budget Report, the Government carries forward the £2 billion unallocated special reserve into 2003-04 and adds a further £500m taking the total special reserve for this year to £2.5 billion. A further £300 million is being added in 2004-05** as a prudent allowance against continuing commitments. This will ensure that the Government is able to meet its international commitments in Iraq and elsewhere in the war against terrorism.

2004 Spending Review

6.8 The 2004 Spending Review will set new spending plans that lock in the step change in funding for key public services delivered in previous Spending Reviews. The Review will determine new departmental spending plans for 2006-07 and 2007-08 and a new set of Public Service Agreements. Departmental spending plans for 2005-06 determined in the 2002 Spending Review will not be changed. Increases in departmental plans above the 2005-06 baseline will be rigorously targeted where they will have the greatest impact on front-line delivery, and settlements will be conditional on real efficiency savings being achieved by departments. More detail about the 2004 Spending Review is set out below.

Funding local services

6.9 The Government has increased grant to local authorities by 25 per cent in real terms since 1997, recognising the crucial role of local government in delivering public services. Alongside this increase in resources, the Government is committed to increasing local flexibility to improve efficiency and allow local authorities to respond to local priorities. The 2002 Spending Review announced a commitment to reduce the proportion of ringfenced funding to 10 per cent by 2005-06 and an additional £750 million of funding will have ringfences removed from next year. More widely, Nick Raynsford, the Minister for Local Government, is chairing a high-level committee looking at the balance of funding, reviewing the evidence and identifying long-term reform options to improve the sustainability of local government finance.

6.10 **The Government will increase the Revenue Support Grant in England in 2004-05 by £340 million to support local authorities as they improve public services in key areas.**

6.11 In particular, local authorities' role in services for children was emphasised in the recent Green Paper, *Every Child Matters*.¹ Working towards the Government's commitment to eradicate child poverty, local authorities should make progress on the objectives in the Green Paper to protect all children and ensure that every child has the best start in life. Local authorities are also at the centre of the Government's aim to create sustainable communities. They have an important role in improving liveability, eliminating anti-social behaviour and making their communities places where people want to live.

6.12 The grant will not be ringfenced. It comes in addition to the planned £300 million which was part of the package announced in July to enable councils to meet the Government's expectations for funding schools without damaging other services, and the £120 million extra for school funding announced last month, adding up to an increase of £760 million for 2004-05 in total.

¹ *Every Child Matters*, Department for Education and Skills, September 2003.

6.13 This additional resource will mean that local government grant will increase by 7.1 per cent for next year. The new £340 million brings the total newly unringfenced resource available for 2004-05 to well over £1 billion. Including these new resources, by 2004-05 the Government will have increased grant to local authorities by 30 per cent in real terms since 1997. This will enable local authorities to provide the public services people expect without excessive council tax rises.

Box 6.1: Public sector pay

Pay is of crucial importance to the delivery of high quality public services.

Pay must be set at levels that allows the necessary recruitment, retention and motivation of staff. Over the last three years, the public sector average earnings index has increased by 15.9 per cent, which is 4.8 per cent more than the private sector. This has enabled reforms to pay systems and working practices needed to support delivery of improved public services, including for teachers, nurses and NHS support staff. However, excessive paybill costs would eat into money intended to improve public services and must therefore be avoided. Chapter 4 sets out how the Government aims to increase the responsiveness of public sector pay systems to local circumstances to support service delivery.

Departments have been putting strategies in place to cover all aspects of pay and workforce over the medium term. The strategies determine what workforce capacity they need to deliver their PSA targets, and set out how they will achieve this capacity. They will also cover how staff can be most efficiently deployed and where they should be located, incorporating the results of the efficiency review being conducted by Peter Gershon and Sir Michael Lyons' review of the case for public sector relocation.

RESOURCES, REFORMS AND RESULTS

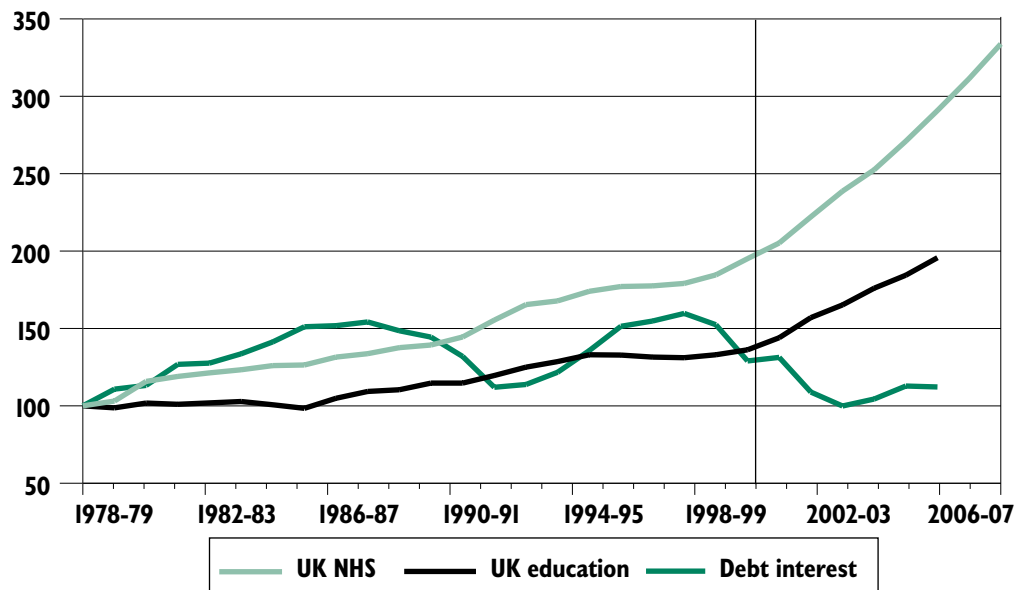
6.14 The UK has historically invested less of its national income in key public services than comparable economies such as the US and many EU countries. OECD data shows that throughout the 1970s, 1980s and 1990s, the UK spent a significantly lower share of its GDP on health than France, Germany and the US. In 1997, total health spending per capita in the UK was lower than in every other EU country except for Greece, Ireland, Portugal and Spain.² Spending on educational institutions as a proportion of GDP in the UK has also lagged behind that in the US and many EU countries.³

6.15 Extensive reform of the system for managing public expenditure, underpinned by the new fiscal framework, and prudent management of the economy and the public finances have enabled the Government to deliver a step change in resources for key public service priorities in the three Spending Reviews since 1998. After a period of relative stagnation in the mid-1990s, since the 1998 Comprehensive Spending Review health and education have benefited from significant and sustained real increases in investment. By 2006, public spending on education in the UK is set to be about 50 per cent higher in real terms than in 1997, and by 2008 spending on the UK NHS will be approximately 90 per cent higher in real terms than in 1997.

² OECD Health Data 2003. Total expenditure on health per capita, measured on a US dollar PPP basis.

³ Education at a Glance, OECD, 2003.

Chart 6.1: Long-term trends in spending on key public services¹



¹ Real spending on UK NHS, UK education and central government debt interest rebased to 1978-79 = 100. Vertical line at 1999-00, the first year covered by the 1998 Comprehensive Spending Review.
Source: HM Treasury.

6.16 A prerequisite for delivering high quality public services is having the right public service infrastructure in place. In 1997-98, public sector net investment stood at just £5.6 billion, or 0.7 per cent of GDP. Investment in public services had been on a declining trend since the mid-1970s, in part reflecting a budgeting system that encouraged short-termism and a bias towards spending on current pressures rather than on capital investment. The new fiscal framework, which removes the previous bias against capital investment, and the introduction of separate capital and resource budgeting for departments have helped reverse the declining trend in public sector net investment, which is now set to rise to 2 per cent of GDP by 2005-06. This substantial increase in investment is allowing departments to deal with inherited maintenance backlogs and establish the asset base necessary to deliver high quality public services. For example, substantial increases in NHS treatment capacity through additional hospital beds and treatment centres will continue to help reduce patient waiting times and improve health outcomes.

Raising public service productivity

6.17 The Government's aim is to build a stronger, more flexible economy and a fairer society, with opportunity and security for all. This implies a role for the Government both to tackle market inefficiencies where it can do so effectively, and to intervene where market-based provision of vital services to the public would be inefficient and where markets would lead to unacceptable disparities in the quantity and quality of services provided.

6.18 Chapter 3 sets out details about how the Government is tackling inefficiencies in markets to achieve a more flexible and productive economy. In the case of certain services, the level of government intervention required to ensure efficient market-based provision and fairness in outcomes would be so high that public funding and sometimes public delivery may be appropriate. This is particularly the case where information failures are so extensive that markets would be unable to function properly, and where market provision would lead many to be deprived of key basic entitlements such as healthcare, a decent education and protection from crime. In these circumstances the principle of consumer choice applied in the wrong way would risk leading to both inefficient and inequitable outcomes.

6.19 Where in principle the public interest is best served through public funding and, in some cases, delivery of services, it is vital both that those services are properly resourced and that the Government's interventions are undertaken effectively and efficiently. Effective public services that respond to customers' needs contribute significantly to quality of life both through their direct impact on people's lives, and through enhancing the productivity of other sectors of the economy.

6.20 Earlier sections of this chapter set out how the Government has addressed historic underinvestment in the UK's public services as a prerequisite for improving their performance. The Government recognises that while UK public services perform well in some areas there is considerable scope for improvement in others. As well as providing the necessary resources, it is committed to implementing reforms to raise the productivity of the public services and thereby maximise their contribution to a flexible and productive wider economy. The Government's approach to meeting this public service productivity challenge⁴ is underpinned by:

- clear long-term goals expressed as desired outcomes;
- greater devolution of decision-making to local service providers, combined with effective governance structures;
- improved information about performance; and
- better incentives for service providers to meet users' needs.

6.21 Reliable measures of public sector output are crucial to gain an accurate sense of how public service productivity is changing and to inform policy decisions. The National Statistician has therefore asked Sir Tony Atkinson to undertake a review of the future development of measures of government output, productivity and associated price indices so as to advance methodologies. Box A4 sets out more detail about the review.

6.22 A critical reform underpinning the Government's approach to raising public service productivity has been the introduction of Public Service Agreements (PSAs) in the 1998 Comprehensive Spending Review. These represent a contract between the Government and the public, setting out clear, ambitious targets for improvements in public service performance. In Spending Reviews since 1998 the PSA framework has been continually refined by reducing the number of high-level targets, from around 350 in 1998 to about 130 in 2002, and by ensuring that they are focused on the outcomes that matter to the public. PSAs enable increased devolution of decision-making by providing a framework of clear long-term goals, within which departments and delivery agents are free to determine how best to deliver. They are an important driver for better performance information, and regular web-based reporting of progress provides unprecedented transparency about the results that investment in the public services is delivering.

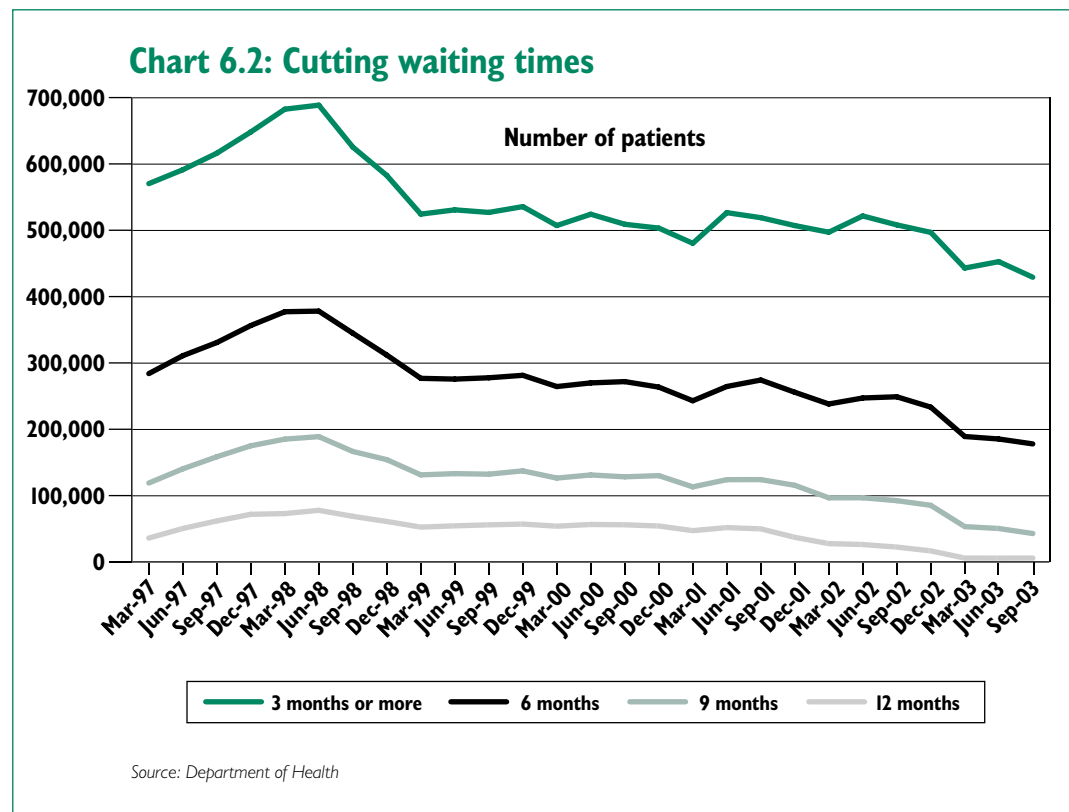
⁴See *Public Services: Meeting the productivity challenge*, HM Treasury, April 2003.

Delivering results

6.23 This approach to improving public service productivity is being put into practice across the public services, and investment matched with reform is delivering real improvements in standards and in outcomes. The 2004 Spending Review will seek to consolidate and build on progress so far, and will set out the next steps in reform that will help drive continuous improvement in performance.

Health 6.24 Record increases in investment in the NHS combined with extensive reform are helping to deliver a more effective and responsive health service. Compared with 1996-97, there are now 450,000 more operations each year and there are nearly 186,000 fewer patients waiting for treatment than in March 1997. Almost no patient now waits over 12 months for an operation, 67 per cent fewer patients are waiting over nine months than in March 1997, and the number of patients waiting over six months is almost 42 per cent lower. The NHS is on target to deliver maximum waiting times of six months for inpatients and three months for outpatients by the end of 2005. Progress is also being made in tackling the major killers, cancer and coronary heart disease:

- an estimated 6,700 lives a year are saved through the provision of statins, lifesaving drugs that reduce blood cholesterol levels, which are now prescribed for around 1.5 million people; and
- almost all suspected cancer patients are now seen by a specialist within two weeks, and 31,000 patients can now benefit from new anti-cancer drugs following National Institute for Clinical Excellence appraisals.



6.25 The Government is building on the existing base of reforms implemented since 1997, with a particular focus on:

- reducing health inequalities. Earlier this year, a cross-Government action plan⁵ set out the key areas where further progress is needed. The greatest challenges now lie in developing a stronger evidence base for policies, and in delivery. Derek Wanless' review *Securing Good Health for the Whole Population* will discuss this further (see below); and
- better cross-working between health and social services. Creating seamless pathways of care between the NHS and social care providers will help to deliver improved, patient-centred services for the most vulnerable sections of the population.

Box 6.2: Choice in the NHS

As capacity in the NHS grows, the Government is committed to extending choice for patients as a means to improving the patient and user experience. Extension of choice enables patients, users and professionals to make shared and sustainable decisions, and will support the NHS and social care in delivering more responsive services that help tackle unfairness. In this way choice and equity can go hand in hand.

A national initiative offering a choice of hospital is already being implemented for patients waiting over six months for elective surgery, and from December 2005 a choice of hospital will be offered to every patient at the point of referral from their GP.

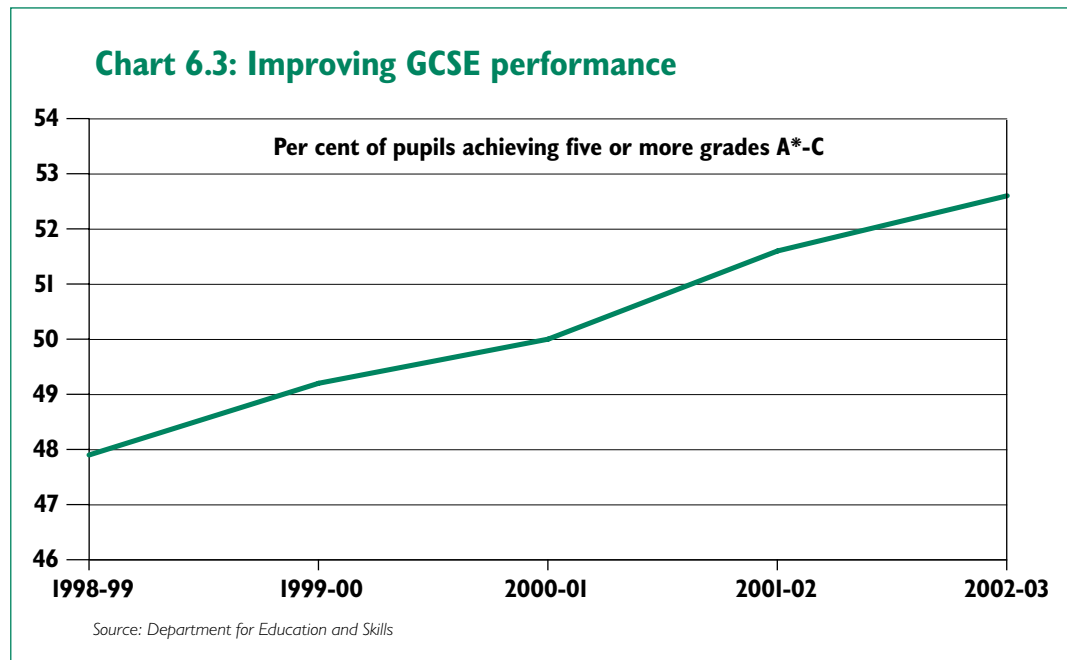
***Building on the Best*, published this month by the Department of Health, sets out further proposals for extending choice across the NHS through:**

- **giving patients a greater say over their own treatment, including enabling them to record their own information and preferences in their health record;**
- **widening choice for patients in primary care, in maternity care and over where, when and how they receive their medicines; and**
- **fulfilling the potential of information technology to ensure that patients have access to high quality information and support, enabling them to make real choices about their health and health care.**

Education 6.26 The 2002 Spending Review announced record levels of new investment for education coupled with a reform agenda that aims to widen access to the benefits of increased freedom and flexibility for high performing schools. Higher performing schools have gained from a flexible approach in areas such as workforce reform and curriculum balance.

6.27 Investment and reform have enabled considerable progress to be made in raising standards and improving attainment across the education system. For example, in schools between 1997 and 2003 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 proportion of 16 year-olds achieving five A* to C grades at GCSE rose over the same period from 45 per cent to 52 per cent.

⁵ *Tackling Health Inequalities: A Programme for Action*, Department of Health, July 2003.



6.28 Despite these gains and strong progress in reducing the number of the poorest performing schools and providers, the Government recognises the continuing challenge of driving improvement at all levels of the education system. Education reform priorities for the future will be in areas such as administration, inspection, funding, local decision-making and child poverty, and will build on the reviews being undertaken in the run up to the 2004 Spending Review (see below).

6.29 Higher education is central to the development of a highly skilled workforce. The Government's aim is that, by 2010, 50 per cent of young people will have the chance to participate in higher education. To achieve its target, the Government is seeking to widen access to higher education and to improve the current funding system to ensure that universities are better able to sustain teaching and research excellence. The 2002 Spending Review provided additional resources to support improvements in the UK's international research competitiveness.

Box 6.3: Choice in education

The Government is committed to widening the variety of choices in education to enable all pupils to learn the essential skills that best match their needs and interests. Reform must ensure that every pupil has real and effective choice options – which in the past were constrained by the existence of weak and failing schools.

As new investment increases capacity in schools – with more and better head teachers, teachers, assistants, IT equipment and buildings – effective choice is improving for everyone. The number of failing schools is now lower than ever before. However, the Government is committed to making greater progress in reducing the scale of underperformance in coasting schools. Plans for personalised learning will lead many schools to become more responsive to individual pupils' needs, supported where appropriate by workforce reform, curriculum flexibility, extended schools and better links to children's and other local services. The enterprise pilots that started in September 2003, following the Davies review of enterprise and education, provide a good example of different learning experiences and skills that can widen meaningful choice options in line with particular pupils' needs.

6.30 The January 2003 White Paper, *The future of higher education*, set out a range of proposals to widen participation in higher education and to ensure that universities are equipped to compete in the world economy, including:

- major improvements in the funding of research and knowledge transfer;
- measures to support participation by those from disadvantaged backgrounds; and
- a new Graduate Contribution scheme from 2006.

Transport 6.31 The Ten Year Plan for Transport, announced in 2000, set out an unprecedented £180 billion programme of transport investment, aimed at tackling the legacy of decades of under-investment and addressing rising demand for travel. This was set against ambitious targets and stretching reforms to ensure resources were used efficiently and effectively. As the plan progresses these reforms are gathering pace, and in particular the Department for Transport has:

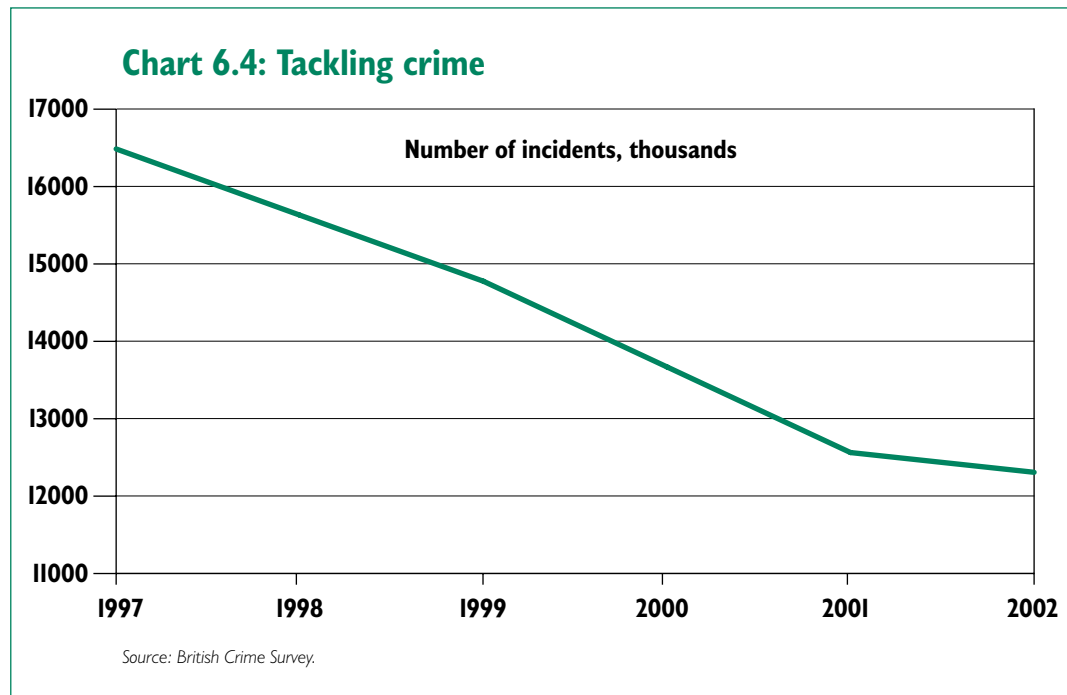
- begun a programme of consultation with key local authorities to set out shared priorities, and to develop local targets for delivery against national transport objectives, with a particular focus on urban congestion; and
- been developing improved methods for the appraisal of transport investments to inform spending decisions across different modes and locations.

6.32 The Department for Transport is making good progress against its road safety and local public transport targets, and the Department has announced a number of measures to tackle the growth in congestion on the trunk road network. On the railways the focus has shifted from growth to the twin challenges of performance (punctuality and reliability) and cost control. The ability of all parts of the rail industry to deliver efficiency improvements, control costs and raise performance levels will be key issues for the 2004 Spending Review and the parallel review of the Ten Year Plan, the horizon for which will be rolled forward from 2010-11 to 2015-16.

6.33 Other transport reform priorities for the Department for Transport being considered as part of the Spending Review and review of the Ten Year Plan include:

- delivering the Highways Agency's new role on active traffic management, making demonstrable impacts on congestion on key parts of the strategic network by the end of 2005; and
- investigating with regional and local stakeholders ways to improve regional planning and regional choice in transport investment.

Crime 6.34 According to the British Crime Survey, overall crime has fallen by 28 per cent since 1997, with a 34 per cent reduction in vehicle crime and a 41 per cent reduction in domestic burglary over the same period. With police numbers at a record high of 136,000 across England and Wales, the challenge now is to sustain this downward trend by continuing to improve police performance. Key to this is the role of Crime and Disorder Reduction Partnerships, which bring together the police and other key public services to develop local strategies to tackle crime and anti-social behaviour.



6.35 The Government's ambitious programme of reform to policing will help to deliver improvements in police performance, in particular through:

- improved transparency and accountability through the publication of the second set of annual Police Performance Monitors, allowing the public to compare the performance of their local police force with that of similar forces across a range of performance indicators;
- a tailored intervention programme, developed by the Police Standards Unit and HM Inspectorate of Constabulary, to share operational best practice across all police forces and to aid individual police forces to improve their performance; and
- considering further radical reform, centred on giving local people a greater involvement in policing decisions and solutions. The Government is seeking the public views on these ideas through the *Policing: Building Safer Communities Together* consultation document.⁶

Housing 6.36 The Office of the Deputy Prime Minister aims by 2004 to have reduced by around 1 million the number of non-decent homes, and aims to make all social housing decent by 2010. It is also making significant progress in addressing the imbalances in regional housing markets. Housing completions are now at the levels set in Regional Planning Guidance for London and the South East, and recent figures for planning decisions have shown their best rate of improvement for more than a decade. Meanwhile, almost all of the nine Market Renewal Pathfinders in areas experiencing low demand are expected to have submitted their prospectuses and plans by January 2004, with that for Manchester/Salford already approved and being implemented. Further details on the Government's strategy for housing and planning is provided in Chapter 3.

⁶ *Policing: Building Safer Communities Together*, Home Office, November 2003.

6.37 A single housing inspectorate under the Audit Commission came into operation on 1 April 2003, unifying the separate inspection regimes for local authority and housing association landlords to drive up standards in social housing provision. Regional Housing Boards were established in February 2003 and submitted their first Regional Housing Strategies to the Office of the Deputy Prime Minister in July. These have informed capital funding allocations to local authorities and housing associations for 2004-05 and 2005-06. The Government intends to build on these reforms in the 2004 Spending Review. In delivering the Communities Plan, it will consider the scope for a more strategic approach to housing and related services at regional and local levels and options to improve the functioning of the housing market to ensure a better match between supply and demand.

Local government 6.38 Local government plays a key role in representing local communities and in delivering, commissioning and overseeing a wide range of services for local people. The Government wants to see vibrant, innovative and responsive local government delivering high quality public services for their communities. To this end, central and local government are working together, including through the Devolved Decision-Making Review (see below), to ensure that local organisations, supported by appropriate performance frameworks and accountability arrangements, have sufficient flexibility to respond effectively to local needs.

6.39 The Local Government Act 2003 introduces new freedoms and flexibilities for local authorities to deliver local priorities. From 2004-05 the prudential regime will come into effect, offering new financial flexibilities for local authorities to borrow for capital investment. Local authorities will also have new powers to trade, which will increase diversity and choice in the delivery of public services. Trading will support the development of a dynamic and entrepreneurial public sector by introducing new players to the market and encouraging best value authorities to extend and improve the range of services they offer to local people.

6.40 Local PSAs encourage authorities to deliver service improvements above and beyond what would normally be expected in return for financial rewards. Last week the Government launched the second generation of local PSAs with an increased focus on addressing local priorities for improvement and building more effective local partnerships.

6.41 These reforms are being matched by greater accountability. The Comprehensive Performance Assessment (CPA) brings together, for the first time, assessments of the individual services for which the authorities are responsible, with an overall assessment of the council's ability to lead the community, forge change and effect cross-service delivery improvements. In the first CPA for single-tier and county authorities over half were rated good or excellent and therefore benefit from increased freedoms and flexibilities over and above the general reforms. The Government is actively engaging with those authorities judged poor to ensure they can provide their communities with the high quality public services they deserve. CPA is now being extended to all lower-tier councils and refreshed scores for upper and single-tier authorities will be announced shortly.

2004 SPENDING REVIEW

6.42 The 2004 Spending Review will set new spending plans that lock in the step change in funding for key public services delivered in previous Spending Reviews. The baseline year for the Review will be 2005-06 and it will set new plans for 2006-07 and 2007-08 other than for the NHS, for which plans were set in Budget 2002. Departmental spending plans for 2005-06 determined in the 2002 Spending Review will not be changed. The Review will examine the effectiveness of existing programmes in delivering the Government's objectives. Additional funds above existing baselines will be targeted at front-line public service priorities on the basis of a rigorous assessment of where new resources will have the greatest impact on outcomes. Settlements will be conditional on the achievement of real efficiency gains by departments. In setting out the next steps in reform, the Review will in particular focus on increasing devolution to the front line, enabling public service providers to respond flexibly to local needs.

Next steps in public service reform – the Budget 2003 reviews

6.43 In Budget 2003, the Government announced that it would investigate a number of key issues to make the best of funding allocated in the 2002 Spending Review and to prepare the ground for the 2004 Spending Review. These reviews are focusing on the drivers of performance and efficiency in the public services, to help ensure that the public receives value for money for its investment and enjoys consistently high and continuously improving standards. Progress in these reviews, which will feed into the outcomes of the 2004 Spending Review, is set out below. Details of the Child Poverty Review and Childcare Review, also announced in Budget 2003, are set out in Chapter 5.

Efficiency in the public sector

6.44 The Government's commitment to improving standards in the public services has been matched by a focus on the efficiency of its spending. For instance:

- the implementation of resource accounting and budgeting is helping to improve the efficiency of public sector asset use;
- the Office of Government Commerce (OGC), established in 2000, is helping departments to improve the efficiency of government departments' procurement activity; and
- every department has a PSA target specifically focused on improving efficiency or value for money.

6.45 Building on this focus, the independent review of efficiency in the public sector announced in Budget 2003, led by Peter Gershon, aims to release significant resources for the front-line services that address the public's highest priorities. It will consider for example how significant new investments agreed in the 2002 Spending Review can be used to deliver efficiencies in the public sector, and how the bureaucracy faced by front line professionals can be reduced to free them up to respond to the needs of their customers.

6.46 Initial work by the Gershon Review and the results of consultation with the public and private sectors suggest that there is substantial scope to generate efficiency savings in public spending, in particular through exploiting opportunities to join up delivery and adopt current best practice. Potential savings are particularly large in:

- procurement (current annual spend in excess of £100 billion), for example building on OGC work generating economies via shared purchasing strategies, use of electronic purchasing, and the development of capacity in contract management;
- the corporate back office (some £28 billion annually), exploiting opportunities to provide shared services across public sector bodies in activities such as Finance, Human Resources management, and procurement; and
- transactional services – such as payments of benefits and tax – between people, businesses and the public sector (some £11 billion annually), for example through maximising the benefits of investment in more efficient communication channels such as the web interfaces and call centres.

6.47 As a result of the Gershon Review's initial work, the Government will look radically at the way in which policy is set for, funding provided to and quality regulated in front line public service delivery organisations such as hospitals, schools and police forces (current annual spend on these activities is around £9 billion) and comparable policy, funding and regulation activity which impacts on the private sector (£3 billion). Finally, the Government will seek to ensure significant improvements in the productive time of front line public service professionals by realising benefits from investments agreed in the 2002 Spending Review in information and communications technology, workforce reform and sharing of best practice.

6.48 2004 Spending Review settlements will be conditional on real efficiency savings being achieved in these areas. Departments will be asked to bring forward proposals for unlocking substantial efficiency savings as part of their Spending Review submissions. The Government will be considering how best to ensure that departments and public sector managers have incentives to identify and deliver those savings.

Improving the efficiency of public sector procurement

6.49 The Government purchases over £100 billion of goods and services every year, and achieving value for money in procurement is therefore fundamental to improving the quality and cost effectiveness of public services. The Government's key objectives are to:

- leverage economies of scale and scope in procurement, while maximising local decision-making and flexibility;
- develop and embed world class procurement policy and practice throughout the public sector by building expertise in key areas and rolling out successful tools and techniques;
- manage supplier relationships to strike the right balance between ensuring competitive markets and building longer-term, strategic relationships; and
- minimise the costs of procurement for both the public and private sectors.

6.50 A good start has been made in working towards these objectives. The OGC is today reporting value for money gains of £1.6 billion to March 2003. New best practice tools, such as the Gateway process, have placed the UK public sector amongst world leaders for structured procurement review methodology, and Centres of Excellence have been set up in departments to embed programme management skills.

6.51 The Government is committed to accelerating this improvement and securing greater efficiencies from its purchasing activity. The new measures identified in Chapter 3 to increase competition and reduce costs for business are an important component of an enhanced approach to public sector procurement.

6.52 The Government is also considering further steps to unlock additional value for money gains more quickly. In moving forward careful consideration will be required to ensure that a new approach to public sector procurement complements a range of existing, successful initiatives across the wider public sector. But it is clear that much more can be done to meet the Government's procurement objectives; to optimise engagement with suppliers and markets; to bring to bear the right capabilities on the right projects at the right time; and to ensure a more joined-up approach across the public sector.

6.53 The Government will now consider in detail how its approach to procurement will evolve with a view to finalising the way forward in the 2004 Spending Review and implementing this by the end of 2004. There are two key elements to this work. First, departments will be expected to identify and deliver significant procurement efficiencies in the context of the Gershon Review. Second, the Government will explore in detail radical options for reforming its approach to public sector procurement with departments and the wider public sector. Potential models include:

- stronger central co-ordination and strategic direction on procurement across the wider public sector, providing clearer links into key business processes and improved performance management;
- greater devolution to centres of commercial excellence within the public sector to lead and embed best practice, ensure that procurement expertise is close to service delivery and significantly improve collaboration in key areas; and
- greater focus on market sectors such as construction and IT, with improved coordination across the public sector to achieve deeper commercial expertise, enable procurement professionals to deliver the best results, and enhance the public sector's ability to influence markets and the nature of provision.

Public sector relocation 6.54 The independent review of public sector relocation, led by Sir Michael Lyons, will make recommendations on relocating government activity from London and the South East. Box 6.4 describes the provisional interim findings of the Lyons Review.

Box 6.4: The Lyons Review of public sector relocation

The independent review of public sector relocation announced in the 2003 Budget is being led by Sir Michael Lyons. The Review published an interim report in September 2003 confirming that at least 20,000 government jobs could be relocated from London and the South East. The review's final report will be published in March 2004.

Sir Michael will shortly be publishing new evidence, which further demonstrates the benefits for efficiency and quality of public services in relocating government activities. Work based unnecessarily in London and the South East imposes extra costs on departments, through higher accommodation and staff costs and lower recruitment and retention rates, and affects the delivery of public services. As well as reducing these costs, well planned and executed relocations can trigger business and culture change in organisations. There is a close read-across between these themes and the Gershon Review of efficiency in the public sector.

The latest evidence shows that relocation is likely to have a positive economic impact on the areas receiving government activity, with potential benefits for the UK economy as a whole. Sir Michael will also be exploring other potential benefits of relocation, including a contribution to regeneration and urban renewal, delivery of the Government's PSA target for regional economic growth, improving the visibility and accessibility of government functions and preparing for future devolution.

In the light of Sir Michael's work the Government has committed to take forward relocation as a key strand of the public service reform agenda, underpinned by a clear responsibility on civil service heads to realise the benefits of relocation for their departments, the need for suitable incentives and a tighter coordination of the Government estate. Work on these elements will be taken forward by the Government over the coming months.

Voluntary and community sector 6.55 The Government believes that voluntary and community sector (VCS) organisations have a crucial role to play in the reform of public services and the reinvigoration of civic life, building a bridge between the needs of individuals living in communities and the capacity of the state to improve their lives. The cross cutting review of the role of the voluntary sector in public service delivery undertaken in the 2002 Spending Review was an important start in this process. The review's recommendations were focused on developing the capacity of the sector to enable it to engage with government more effectively, resulting in real change in service delivery where the sector is in a position to provide added value.

6.56 The key to this improvement in capacity lies with the new fund, *futurebuilders*, details of which were published in September 2003.⁷ This fund will have the flexibility to invest through a range of finance, tailored to the needs of individual organisations, in schemes delivering improved and expanded public services, offering greater choice to service users. A preferred provider to manage the fund is being selected through an open competition. The fund will transfer to the Active Communities Directorate (ACD) in the Home Office in the New Year and the ACD will take forward implementation.

⁷ *futurebuilders: An Investment Fund for Voluntary and Community Sector Public Service Delivery*, HM Treasury and the Compact Working Group, September 2003.

6.57 The Treasury issued *Guidance to Funders*⁸ in September 2003 to help departments and VCS organisations to develop better arrangements when they are negotiating service contracts. This will enable the sector to deliver priority services more effectively, especially when the aim is to engage with harder-to-reach groups.

6.58 The 2002 cross cutting review was the first step in considering ways to develop the important partnership between government and the sector. As part of the Voluntary and Community Sector Review announced in Budget 2003, key delivery departments and local government will be considering how they can work more constructively with VCS organisations to deliver their PSAs. The review is focusing on how both central and local government can better engage with the VCS and social enterprise to aid delivery in top priority areas including children and families, housing and homelessness, education and employment, crime and social cohesion, and health and social care.

Box 6.5: Securing good health for the whole population

Budget 2003 announced that Derek Wanless would provide an update on the long-term challenges in implementing the ‘fully engaged’ scenario set out in his 2002 report on long-term health trends, with a particular focus on the efficiency of cross-departmental work on preventative health and health inequalities.

The review will consider how public health spending decisions are taken and will examine how to ensure that they can be taken as cost-effectively and consistently as possible, in order to improve health outcomes through the efficient use of resources. Underpinning this work is a preliminary report outlining the main causes of mortality, morbidity and key risk factors amenable to public health interventions in England, including trends over time.

England performs poorly compared to other countries on some key measures of health outcomes and chronic disease such as coronary heart disease (CHD), cancer and particularly respiratory diseases. Chronic diseases such as CHD and cancer are also strongly related to lifestyle factors such as smoking, poor diet, high blood pressure, obesity, physical inactivity and alcohol.

In addition, a significant proportion of avoidable ill health is related to socio-economic deprivation. Mortality rates are much higher for lower socio-economic groups, and this is strongly linked to socio-economic differences in lifestyle factors, as well as to social and environmental factors such as poverty, lack of education, unemployment, and poor housing and access to health services. For example, it is estimated that half the difference in the numbers of people surviving to 70 years of age between the highest and lowest socio-economic groups is due to the higher prevalence of smoking in the lowest group.

The background report describing these health trends has been published on HM Treasury’s^a and the Department of Health’s websites to provide a backdrop to the final report, *Securing Good Health for the Whole Population*, due in February 2004.

^a www.hm-treasury.gov.uk/wanless.

Devolved decision-making **6.59** The Devolved Decision-Making Review announced in Budget 2003 is considering 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.

⁸ *Guidance to Funders*, HM Treasury, September 2003.

6.60 PSA targets, combined with increased investment and local capacity, provide the framework within which the Government can develop a more devolved system of public service delivery. This requires a new relationship between central government and local and regional bodies, based more on trust, negotiation and greater local accountability and less on control. A more devolved approach can lead to:

- improved efficiency and an increased range of choices available to users through greater flexibility to tailor services to local needs based on better local information and knowledge;
- improved organisational morale and internal management capacity through empowering local leadership and frontline staff, thereby improving productivity by harnessing internal drivers of continuous improvement; and
- more local engagement with public services and greater accountability of local service providers.

6.61 In terms of targets and performance management, such an approach will require change in two key areas:

- continuing the evolution towards fewer nationally set targets, reflecting only the Government's key priorities, with greater scope for local flexibility to determine outcomes and methods of delivery; and
- improving efficiency by creating sharper, clearer roles, accountabilities and incentives.

6.62 Refining the approach to targets and controls will require much greater discipline and local consultation in national target-setting. The focus and impact of PSAs must be maintained. To achieve this, it is necessary to reduce substantially the aggregate number of external controls such as ringfencing, inspection and targets unrelated to the PSA framework that are faced locally by schools, hospitals, local authorities and others. In addition, the transmission of PSA targets must take more account of local circumstances and performance and allow greater local flexibility in delivery. To this end, **this Pre-Budget Report announces the abolition of Service Delivery Agreements (SDAs) for the 2004 Spending Review, removing over 500 lower level input, output and process targets** and thereby increasing flexibility for local managers to determine how to deliver desired outcomes. Furthermore, once local organisations meet a national standard and have demonstrated their capacity to maintain and improve service levels, externally set target levels should not generally need to be increased. Local organisations should be given the freedom to choose targets and measures against the outcomes most important to their local communities, building on approaches such as local PSAs.

6.63 To strengthen incentives for continuous improvement it is necessary to remove overlapping accountabilities that exist between front-line units, intermediate tier organisations (such as police forces and local authorities) and government departments. In particular the respective performance management roles of these organizations must be clarified. Improved accountability needs to be supported by a clearer framework of rewards and sanctions for local organisations, including through greater application of the earned autonomy principle.

6.64 These changes require further improvements to the culture of performance management at the local level and within central government. Building on policies such as the Comprehensive Performance Assessment (CPA) in local government, departments and inspectorates should focus on spreading best practice in local performance management and on creating incentives to introduce improved approaches.

6.65 Greater local flexibility must be underpinned by improvements to the quality, use and transparent reporting of robust and timely performance data. Improved information plays a key role in strengthening accountability to the public by increasing transparency and engendering trust. An example is the introduction of the Police Performance and Assessment Framework (PPAF), which provides a clear comparison of how police forces around the country are performing in key areas. Driven by the need to measure performance against a national PSA target, this is a clear example of how performance at local levels can be effectively reported.

6.66 The Government will publish the findings of the Devolved Decision-Making Review's work on targets and performance management next month. This will allow the approach to be considered and developed by departments in the run up to the 2004 Spending Review as the Government develops a more devolved, less bureaucratic approach to public service reform within a clear framework of national standards.

