

PLANNING SUSTAINABLE PUBLIC SPENDING: LESSONS FROM PREVIOUS POLICY EXPERIENCE

Summary

The history of public expenditure control in the United Kingdom has highlighted a number of problems with the way in which governments have traditionally approached the planning and management of resources. This paper describes these previous problems and how the new system, introduced from 1997, has learnt from them.

The 2000 Spending Review, completed in July, set new plans for public spending until 2003-04. The Government's approach to fiscal policy and public spending - in the Pre-Budget Report and future Budgets and Spending Reviews – will continue to be based upon the following lessons from the past:

Lesson 1: Plan for the longer term

An inadequate macroeconomic framework generated instability which in turn did not allow successful long-term planning of public expenditure. For well over 30 years governments operated within a regime of annual spending rounds. An effective planning horizon of one year only was not sufficient for the sensible management of public services. Short-termism and a 'use it or lose it' mentality gave poor value for money. Insufficiently clear fiscal principles and rules meant that the necessary discipline was lacking which would have created a steady flow of funding for vital public services.

Lesson 2: Be open and transparent

Inadequate account was taken of the impact of the cycle on the economy and estimates of trend growth and cyclically adjusted fiscal balances were not published. This prevented full and effective scrutiny of performance, and tempted governments to relax policy at inopportune moments, with subsequent adverse consequences for public services.

Lesson 3: Take a prudent approach

Previous fiscal policy was insufficiently prudent. The mistake was to believe that cyclical improvements in the public finances were permanent. A failure to guard against optimism and build in a margin for prudence against unexpected events led to undesirable outcomes for spending plans, with funding for public services lurching from expansion to contraction.

Lesson 4: Release resources for public spending priorities

Prudence and stability allow resources to be released for public services. Without them, instead of steady growth for key priorities, the history of public spending has been one of volatility, with the costs of unemployment and debt interest payments taking a significant share of the total of available funding.

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Lesson 5: Avoid a bias against capital investment

The previous framework made no distinction between capital and current spending, despite their different economic effects. Investment was not protected. As a result, capital programmes were cut as a way of meeting short term current pressures, with long term detrimental effects. Public infrastructure became run down as large maintenance backlogs built up in key services.

Lesson 6: Judge success by outcomes, not inputs

Spending rounds were not informed in any systematic way by data on the outputs of expenditure. The absence of a systematic framework of this kind made it harder to take decisions about the balance of resources between different areas, or to lever up performance in public services. Approaches to cross-cutting problems were organised around existing administrative units, rather than the nature of the issue to be tackled.

The Government has taken these lessons on board in the design and implementation of the new public spending framework:

- The new macroeconomic framework is based on a clear set of principles and rules designed to embed policy credibility and economic stability. A platform of low inflation and sound public finances means affordable public spending plans can be set on a firm basis for the longer term.
- Estimates of cyclically-adjusted fiscal balances and trend growth are published regularly, allowing proper scrutiny of policy decisions.
- Cautious and prudent assumptions help ensure the Government's fiscal rules are met and significantly reduce the chances of spending plans being derailed by unexpected events.
- This prudent approach means that public service priorities can now enjoy sustained high growth without the fear of sudden retrenchments.
- Capital spending is protected so that necessary investment in public infrastructure is not cut for short term reasons.
- Published performance targets in the Public Service Agreements focus planning on the end results which funding is supposed to deliver, and which taxpayers expect.

PROBLEMS WITH PREVIOUS APPROACHES TO PUBLIC SPENDING

Economic instability

1 The public spending system in the United Kingdom has had a chequered history. Looking back over that experience highlights a number of problems with the way in which governments approached the planning and management of resources.

2 Macroeconomic instability has been a prominent feature of British economic performance in the past. High and volatile inflation rates damaged the public sector's ability to plan ahead in the same way as they did for the rest of the economy. Large fluctuations in national output, on which the resources for public services depend, prevented effective long term planning of public spending, especially on public investment.

3 A key factor behind this instability was the macroeconomic framework. The main failures in monetary and fiscal policy have been documented in detail elsewhere.¹ These included:

- a lack of clear principles and targets;
- a lack of transparency and accountability;
- ill-defined roles and responsibilities;
- inadequate mutual support between monetary and fiscal policy in promoting stability;
- over-optimistic and insufficiently forward-looking assessments;
- decisions not always made in the best long term interests of the economy.

Shortcomings in the fiscal policy framework, in particular, further increased the difficulties in effective management of public services.

Short planning horizons

4 Lacking a clear set of principles and well-defined rules, policy was too often driven by short term changes. Moreover, the long term sustainability of the public finances did not receive the attention it required.

5 For example, in the light of an apparent improvement in the public finances at the end of the 1980s, fiscal policy was relaxed through sizeable tax

¹ This is the third in a series of Lessons papers. Previous papers in the series were *Fiscal policy: lessons from the last economic cycle*, November 1997; and *Delivering Economic Stability: Lessons from macroeconomic policy experience*, November 1998. Among other relevant Treasury papers are *The New Monetary Policy Framework*, October 1999; and *Analysing UK fiscal policy*, November 1999.

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cuts. Yet by 1992-93 public sector net borrowing was 7.8 per cent of GDP and by the following year was over £50 billion. It became clear the position had become unsustainable. The rapid deterioration of the public finances during this period and the consequential attempts at consolidation through expenditure restraint in public services imposed significant costs on the economy.

6 Instability in the fiscal position and a culture of short-termism inevitably brought down the range over which governments could plan with confidence. As a result, short term planning horizons became institutionalised in the expenditure planning system through yearly spending rounds.

7 The problem was a long-standing one. For well over 30 years governments operated a regime of annual Public Expenditure Surveys, with departments' provision revisited each year and a new set of plans drawn up and published each November for the financial year beginning the following April.

8 While these annual Surveys set *indicative* plans for three years ahead, as all participants knew that plans for years 2 and 3 would be reopened in the following year's Survey, the totals set were essentially notional. Neither the Treasury nor departments and public services could work on the basis that they would be delivered. Plans for the coming year were unchanged from the level set in the previous spending round in only two out of the ten years between 1987-88 and 1996-97.

9 For investment spending, in particular, an effective planning horizon of one year is clearly far too short. A hospital typically takes up to two years to plan and three to four years to build. The Ministry of Defence's procurement programme looks ten years ahead. Short horizons affect the quality of investment as well as the quantum, pushing procurement towards what may be lower value, "patch and mend" approaches.

10 Institutional short-termism in the previous system was compounded by the operation of strict annuality in budgeting. Apart from a small margin departments were typically unable to carry over resources from one financial year into another. Underspends had to be surrendered to the Exchequer. This led to a "use it or lose it" mentality and poor value for money spending at the year end. Departments and agencies could not be sure that the resources would not otherwise be lost in next year's spending round.

11 The system of annual review wasted resources by drawing a lot of management effort into achieving a more generous settlement the following year, rather than concentrating on doing a better job with existing resources. There was little incentive to uncover efficiency savings if the only result was that they would be taken away in the next Survey.

Lack of transparency

12 Policy credibility and performance also suffered through a lack of transparency. Inadequate information was given on the underlying position of the economy. Estimates of trend output and cyclically adjusted fiscal indicators were not published. This prevented full and effective public and parliamentary scrutiny of the underlying health of the public finances. In turn, this meant that

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the affordability of public spending plans was not transparent.

13 The costs of failure to be transparent were high. At the end of the 1980s, when the economy was booming, fiscal surpluses gave a highly misleading picture of the health of the public finances. Because the economy had moved very far above its true potential, the poor underlying position was obscured. The mistake was made of assuming a cyclical improvement in the public finances was a structural one. Policy was relaxed inappropriately, which only served to compound the subsequent difficulties and need for retrenchment.

14 Furthermore, the objectives of fiscal policy were subject to change on a number of occasions, with direct consequences for public spending. The lack of constancy of stated objectives allowed policy too easily to escape the question of performance and ex post evaluation. Policy was not obliged to compensate for past slippages, since the objectives could be changed according to circumstances – at least until it was too late.

Insufficient prudence

15 Fiscal policy also failed to be sufficiently prudent. A key error in the 1980s was to assume, as the boom wore on, that the trend growth of the economy had improved. For example, in successive Financial Statements and Budget Reports from 1984-85 onwards, the projected average rate of growth into the medium term was ratcheted up from 2¼ per cent to 3 per cent by 1988-89. It was not long, however, before these estimates were radically trimmed back as the economy went into a deep and prolonged recession. The result of premature optimism was that policy was not based on firm foundations, and decisions made on one basis rapidly went into reverse.

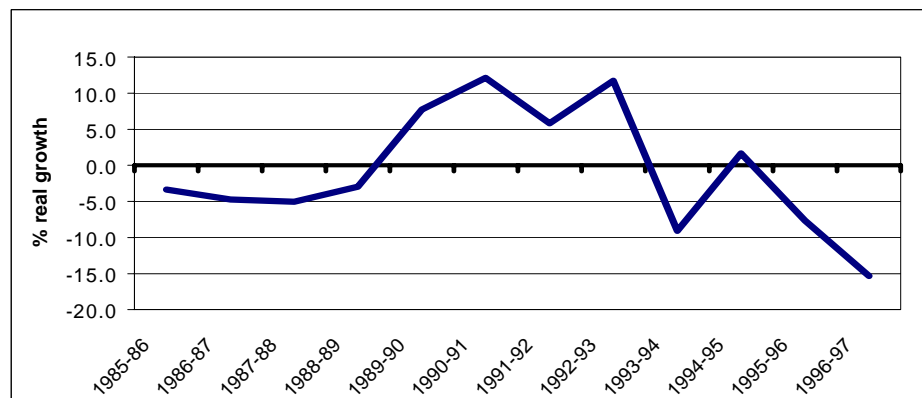
16 With errors like these in failing to take a prudent view of trend and the implied output gap, the deterioration in the finances was inevitable given that there were no additional guards against optimism in underlying fiscal forecasts. Nor were fiscal projections subjected to ‘what if’ scenarios or ‘stress testing’.

17 The experience of the 1980s and 1990s shows how the lack of a margin for prudence in previous systems made sensible public spending planning difficult as there was nothing to insulate plans from downturns. It compounded the bias against the long term by making future plans unreliable. Governments were frequently forced to switch rapidly from expansion to deficit reduction. Even when plans for overall spending were being revised upwards, spending on public services was often going in the opposite direction because of what had proved optimistic forecasts on social security and debt. Instead of steady growth for key priorities, the history of public spending was one of volatility.

18 As an illustration, Chart 1 shows year on year percentage real growth in UK transport spending from 1985-86 to 1996-97. After reductions in the late 1980s, spending increased fairly rapidly for a period before falling sharply away between 1994 and 1997.

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Chart 1: Year on year real growth in transport spending 1985-86 to 1996-97



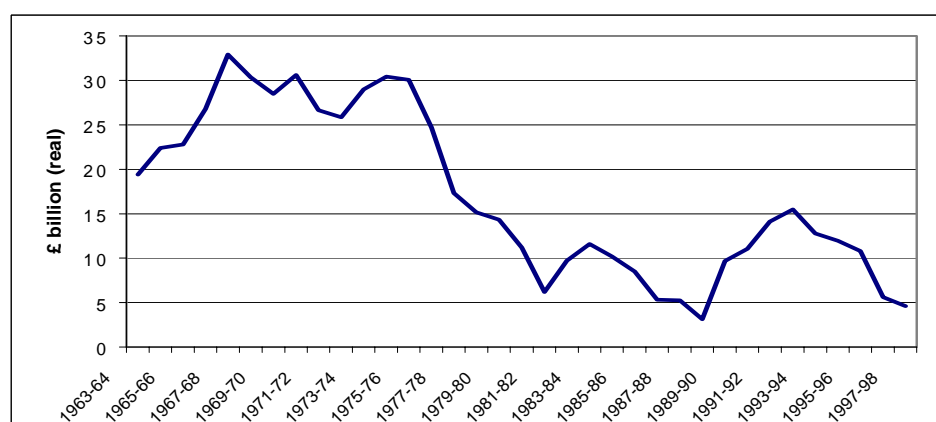
19 The path of education spending over recent decades appears more steady, but in seven of the 18 years to 1997, spending was still cut in real terms. Moreover, this overall pattern masks some sharper effects in funding per student. Unit funding in higher education fell in real terms by 4.5 per cent a year between 1992-93 and 1996-97. Spending per secondary school pupil fell by 6 per cent in real terms between 1992-93 and 1996-97.

Reduced capital spending

20 Previous systems suffered from another defect. Chart 2 shows the sharp decline in net investment spending by the public sector. It has to be interpreted with caution because of changes to the composition of public sector over that period due to privatisation and asset sales, for instance of council houses. Nonetheless these factors alone do not explain the dramatic run-down in investment.

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Chart 2: Public Sector Net Investment, 1963-64 to 1997-98



21 It is likely that this decline was due at least in part to the way capital spending was treated in the expenditure control framework. There was no distinction made between capital and current spending, despite their different economic effects. Investment was not protected, and, because of long lead times, easier to cut.

22 With the system overall focused on a primary objective of restraining total spending, capital investment programmes were obvious targets because the effects of reductions take time to be felt. Maintenance backlogs built up in schools; roads; council housing; and the NHS.

A focus on inputs

23 Another problem with the previous framework was its lack of outcome focus. Spending rounds were not informed in any systematic way by data on the outputs of spending. The absence of a systematic framework of this kind made it harder to take decisions about the relative value for money of marginal increases in resources for different areas. Discussion in the annual review process focused on increments or cuts to an existing baseline. Agreed measures of performance, by which success to date could be judged, did not exist for many programmes.

24 Without output data, it was harder for Parliament and the public to judge what new spending plans would deliver, or to hold government to account. Most importantly, public servants themselves were often not clear what specific improvement in services was expected of them. In the absence of a performance information system, government did not have the levers to lead change or manage delivery.

Departmentalism

25 Under the previous system a complaint from front line service providers and users was that government needed to be much more flexible in the way it approached cross-cutting issues.

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26 Over the 1970s government moved from setting public spending plans on a functional basis to doing so department by department. This had some strengths in making lines of accountability and control more direct and transparent.

27 However, many of the biggest challenges facing modern societies straddle traditional administrative boundaries. The Public Expenditure Surveys of the 1980s and 1990s tended to approach such problems through bilateral negotiations with the various agencies involved. With hindsight it was probably not sensible, for example, to approach budgeting for multi-faceted issues like crime reduction or drugs in this way. Any solution likely to succeed has to be organised around the nature of the problem rather than designed to fit existing administrative units.

THE NEW FRAMEWORK: LEARNING FROM THE PAST

28 In designing the new public spending framework, the Government was determined to learn from these problems of the past. The following lessons have been taken on board in the design of the new system.

Lesson 1: Plan for the long term

29 A background of economic instability provides an inadequate basis on which to plan public spending on a secure footing.

30 The Government has therefore put in place a new macroeconomic framework based on sound principles and supported by firm rules to deliver a platform of economic stability. An environment of low inflation and strong public finances has in turn allowed the Government to take a much longer term view in plotting a course for public spending than has been possible in the past.

31 The new monetary framework put in place in May 1997 addresses the previous weaknesses in monetary policy that generated volatility. Similarly, the new fiscal framework, given statutory backing under the Code for Fiscal Stability, is designed to avoid the instability of the past.

32 While monetary policy is geared to meet the Government's inflation target, the Government's key fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly both within and across generations. In practice, this requires that:
 - the Government meets its key taxation and spending priorities while avoiding an unsustainable and damaging rise in the burden of debt;
 - those generations who benefit from public spending also meet, as far as possible, the costs of the services they consume.
- to support monetary policy over the cycle where possible.

33 The objectives are linked in the Government's two fiscal rules, against which the sustainability of fiscal policy can be judged:

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

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34 Within overall spending totals set to meet these clear fiscal rules, the Government now lays down firm limits for departments' spending (Departmental Expenditure Limits, or DELs) that guarantee their level of funding for three years ahead rather than just one. This gives public services the stability to plan their operations on a sensible timescale without the fear that resources may be cut back the following year. By the same token, departments cannot now look to an annual Survey to bid up their funds.

35 Within the longer planning horizon provided by DELs, the Government has been able to remove unnecessary lower level controls on spending, operating instead through overall limits and performance targets rather than on micro-management through a detailed system of approvals. Departments now have the flexibility inside overall limits to reprioritise expenditure to meet their objectives most efficiently. Management focus can turn to delivery of high quality services within a known resource total.

36 Annuality in budgeting has been abolished: an End Year Flexibility system avoids perverse incentives for wasteful end year surges by enabling departments to carry over 100% of unspent resources into the following financial year. Government is taking steps to ensure that these freedoms are cascaded to agencies and sponsored public bodies, so that management flexibility is available where it is most needed, at the front line.

37 Other expenditure, which cannot reasonably be subject to firm, multi-year limits, is known as Annually Managed Expenditure or AME. AME includes social security benefits; local authority self financed expenditure; payments under the Common Agricultural Policy; debt interest; and net payments to EU institutions. Controlling this more volatile expenditure outside three year totals means sensible long term planning is not precluded by short term demand led fluctuations. However, AME is subject to tough scrutiny as part of the Budget process. Policy measures which would have the effect of increasing spending on elements of AME are not taken unless the effects of these decisions can be accommodated prudently within the fiscal rules and can be financed by a fair and efficient tax system that promotes incentives to work, save and invest.

Lesson 2: Be open and transparent

38 Stability is enhanced by allowing markets and commentators, Parliament and the public to understand clearly what the Government is trying to achieve and how it intends to go about doing it; and by providing adequate information for an independent assessment of success or failure to be made.

39 The fiscal framework, built around the Code for Fiscal and underpinned by legislation, provides a robust, open and transparent framework against which policy can be evaluated. This openness is carried through into the Government's presentation of its spending plans and the service improvements they are intended to deliver (see Lesson 6 below).

40 Moreover, key assumptions are now independently audited by the National Audit Office (NAO). This helps ensure that policy is set in the UK's long-term interest and that policy credibility is and remains high.

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Lesson 3: Take a prudent approach

41 Estimates of the trend level of output are now published, and cyclically-adjusted fiscal indicators are set out in each Budget and Pre-Budget Report. There is thus adequate information for all to evaluate the appropriate policy stance and make ex post assessments of performance.

42 A critical consideration in the conduct of policy is to avoid making the mistake of assuming cyclical improvements in the public finances are structural. This points both to conducting fiscal policy in a transparent way as noted above but also on a cautious basis. As the evidence shows, failure to do so is a potential recipe for disaster.

43 The public finances forecasts which are published in the Pre-Budget Report and the Budget are now central forecasts but are explicitly underpinned by cautious and prudent assumptions. This asymmetry is deliberately designed to take account of the lessons of the past by ensuring the Government does not exaggerate the health of its finances. The problems of reversing a deterioration of the fiscal position are much greater than those of dealing with a more favourable outturn.

44 These cautious assumptions, which are audited by the NAO, include the main determinants of tax revenues and the AME expenditure forecast. For example, unemployment is assumed to remain at its current level if the average of independent forecasters expect it to fall, and to rise in line with the consensus otherwise. This ensures that potential savings are not banked before they are demonstrably achieved. Most importantly, the public finance projections are based on a cautious trend growth assumption of 2¼ per cent, which is lower than the Treasury's neutral estimate of 2½ per cent.

45 Recent Treasury work has assessed the importance of this prudent approach. An analysis of fiscal forecast errors – that is, errors after adjustment for the cycle – suggests there was an optimistic bias in the past. Over the last full economic cycle (1985-86 to 1996-97) the cyclically adjusted current budget outturn one year later was on average around 0.4 per cent of GDP worse than expected. The deliberately cautious assumptions now used would have avoided that.

46 The Government further tests the likelihood of meeting its fiscal rules by evaluating a still more cautious case. An additional projection is made based on a scenario in which the level of trend output is assumed to be 1 per cent lower than in the main projection. This models the implications of it turning out unexpectedly that a greater proportion of any projected surplus on current budget has resulted from the cyclical strength of the economy. By requiring policy to pass this 'stress test' the chances of repeating earlier errors are reduced accordingly.

47 The effect of using cautious assumptions and then testing the fiscal policy setting against the still more cautious case greatly increases the certainty of meeting the fiscal rules.²

² For example, if past errors in forecasting were to be repeated, the use of deliberately cautious assumptions revises the probability of meeting the fiscal rules from 50 per cent to around 80 per cent.

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48 Further layers of caution are provided in the new public expenditure framework by margins for DEL and AME. For example, should outturns for AME programmes come in higher than forecast there is thus a buffer for absorbing costs without affecting the fiscal aggregates. The AME margin was set at £1.5 billion for 2000-01 in the 2000 Spending Review, and then at £1, £2 and £3 billion over the coming three years reflecting the greater uncertainty into the medium term. The equivalent figures for the DEL reserve in the planning years 2001-02 to 2003-04 were £1.5, £2.0, £2.5 billion.

49 Altogether, the greater certainty made possible by a prudent and transparent approach means that policy can more easily focus on longer term plans with a higher degree of confidence. This means that these plans are less likely to be derailed by unexpected events, thus helping to avoid costly reversals of policy.

50 Key priorities - health, education, transport - are now enjoying sustained high growth in resources, allowing sensible planning of investment decisions in order to maximise value for money. Built-in caution in the public finances is allowing key services to map out a path for future operations without having to reckon with forced retrenchments.

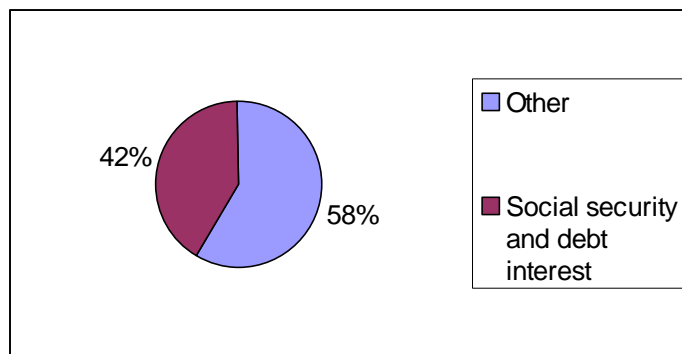
51 Over the Spending Review period, UK spending on the NHS is planned to grow by 5.6 per cent a year in real terms over the three years to 2003-04. UK education spending will grow by 5.4 per cent a year. Transport spending across the UK will grow by 14 per cent a year.

Lesson 4: Release resources for public spending priorities

52 The last few years have seen greater stability in the UK economy than experienced over previous decades. Unemployment has fallen steadily. In addition, following the change to the monetary policy framework and the greater credibility that has been generated, government borrowing costs have fallen appreciably.

53 There have been substantial effects both on social security spending and on debt interest payments. Social security spending and central government debt interest payments accounted for 42 per cent of the increase in spending between 1979 and 1997.

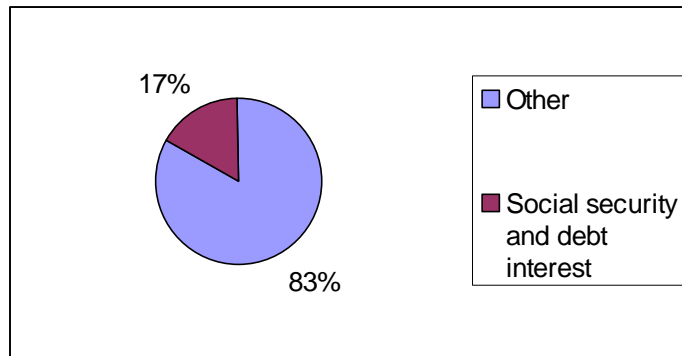
Chart 3: Proportion of total extra spending 1978-79 to 1996-97 accounted for by social security and central government debt interest payments



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54 Over this and the next three years, the balance of spending will be quite different. The Government's prudent approach to managing the public finances and its success in reducing unemployment and its associated costs has led to savings in debt interest and social security spending. Between 2000-01 and 2003-04, only 17 per cent of the extra spending will be taken up by these elements, freeing up more resources for improving public services.

Chart 4: Proportion of total extra spending 2000-01 to 2003-04 accounted for by social security and central government debt interest payments



Lesson 5: Avoid a bias against capital investment

55 The history of the last thirty years suggests that special treatment is needed for capital spending to protect investment for the future from being raided to fund short-term current pressures.

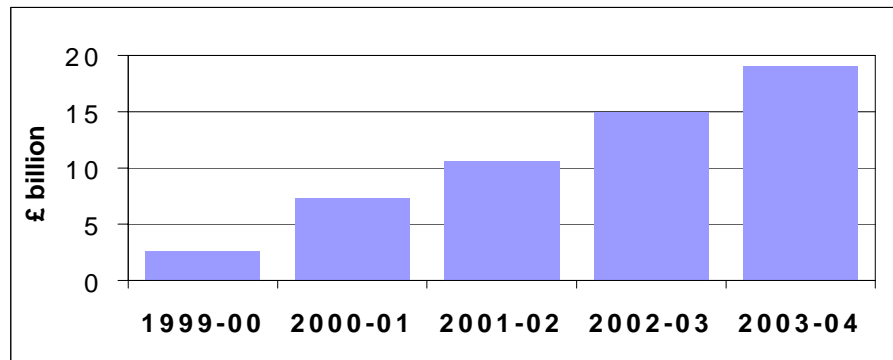
56 The Government's fiscal rules now require different control arrangements for capital and current spending, reflecting their different economic effects. The golden rule distinguishes between current spending, which benefits the present generation, and capital spending which benefits both present and future generations.

57 To protect investment and ensure the fiscal rules are met, capital and current spending are now planned and managed separately. Within their DELs, departments are able to channel funds earmarked for capital spending into current expenditure only up to an agreed percentage: some margin is needed for managerial flexibility, or to finance public-private partnerships.

58 Over the next three years, safeguarded by these new arrangements, net investment is forecast to more than double, as shown in Chart 6.

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Chart 5: Public Sector Net Investment, 1999-2000 to 2003-04



59 Sustained growth will reverse the decline in public infrastructure, allowing substantial programmes of investment in transport, health, education, and other priorities. A £2.5 billion Capital Modernisation Fund, allocated on a challenge basis to innovative new projects, is helping to unlock good opportunities. The Treasury is monitoring departmental investment timetables to make sure that the improvement programme is delivered.

60 One clear message from past experience is that capital spending cannot be turned on and off like a tap. To ensure that departments have the mechanisms in place to ensure that capital projects are appraised and managed to deliver value for money, each has to draw up a Departmental Investment Strategy. New Strategies covering the next three years will be published shortly, together with a White Paper drawing out main themes.

61 At the same time, the Treasury is reviewing the project appraisal and capital approval system, to ensure that it embodies best practice. Several elements are involved. The need is to ensure:

- that the guidance available to budget holders is itself fully consistent with best practice, but also easily accessible to those who need to use it. The Treasury will issue a revised version of the "Green Book", *Project Appraisal and Evaluation in Government Departments*, in due course;
- that the appraisal and approval system produces the best outcome for society, having regard to economic fundamentals. Benefits, for example, need to be assessed carefully and figure in the equation together with cost effectiveness; costs should reflect the full impact of decisions upon taxpayers and upon the community, and decision-making should give appropriate weight to the welfare of future generations. The move to resource accounting and budgeting - see below - will help ensure that the accounting treatment reinforces proper economic evaluation rather than being in tension with it;

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- that incentives and other mechanisms mean the guidance is applied properly and effectively.

The outcome of the review will be published when it is complete.

62 Cash-based as opposed to accruals budgeting is generally acknowledged to give rise to some perverse asset management behaviour. Under the cash accounting framework operated by the UK until recently, assets were treated as a free good once bought. The true cost of delivering objectives was therefore understated; and departments and agencies had no economic incentive to dispose of underutilised assets despite the opportunity costs of retaining them. As a result, the true extent of government holdings was not even known. Resource budgeting, introduced in the 2000 Spending Review, gives better incentives for sensible asset management, by making departments aware of the true resource cost of holding capital. The National Asset Register, updated next year, will track progress in holdings and disposals. Resource budgeting also brings the Government's accounting systems into line with modern private sector practice, by recording transactions at the point at which commitments are made rather than when invoices happen to be paid.

Lesson 6: Judge success by outcomes, not inputs

63 Planning needs to focus on the outcomes of government activity, not just the inputs to it.

64 The new Public Service Agreements (PSAs) have refocused the process of planning public spending onto end results. Through the PSAs the Government is specifying the definite, measurable improvements in public services which taxpayers' investment will buy. Agreements provide the framework for the Government's efforts to drive up performance across the public sector.

65 Each main department and cross-departmental programme now has a PSA setting out its aim and objectives for the three years ahead, and below them, specific, quantified performance targets against which progress can be judged. These targets are set as far as possible in terms of the outcomes which taxpayers' money is intended to achieve - for example:

- to reduce deaths from cancer in under-75s by 20 per cent by 2010;
- to reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent by 2010;
- to reduce vehicle crime by 30 per cent by 2004;
- to increase the number and proportion of recorded crimes for which an offender is brought to justice;

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- to continue the reduction in the number of unemployed people over the age of 18; and
- to maintain the UK as the prime location in the EU for foreign direct investment.

66 The new PSAs have been agreed with departments alongside new spending plans. Through them, resource allocations are informed by a systematic view of what marginal increases in spending for each area would achieve. The process of agreeing objectives and targets highlights links between departments' activities, allowing Government to develop increasingly complementary policies in overlapping areas.

67 The PSAs make the goals of each main programme clear, so that public sector managers know what they are working towards. They make responsibility for delivery explicit. The Government's plans are now much more transparent to Parliament and the public since taxpayers can see what they are getting for the money and can hold Government to account for the outcomes. The new Service Delivery Agreements - published on 3 November 2000 - make clear the detailed programmes and actions that departments will be working on in order to deliver the high level targets.

68 Performance against the targets is reported annually in detail in Departmental Annual Reports. The next reports are due in spring 2001. In addition, the Government is preparing to provide more regular progress reports on PSA target delivery on the Internet. This detailed public reporting provides a strong incentive to carry through the commitments contained in the PSAs. The Cabinet Committee on Public Services and Public Expenditure (PSX), supported by the Treasury, rigorously monitors departmental performance, assessing progress against agreed milestones.

69 PSX is supported in its work by a Public Services Productivity Panel, composed of change management experts from business and across the public sector. The Panel is currently planning a number of new projects. This is likely to include a study to identify how to motivate public sector managers to be more innovative and less risk averse in order to improve service delivery. The Panel also intends to examine best practice in organising and managing the delivery of PSA targets within departments and other public sector bodies. This will include how to ensure targets are owned throughout organisations from the front-line to top managers drawing on best private sector practice.

70 New, *Local* Public Service Agreements are being piloted with 20 local authorities in 2001-02. In return for signing up to around 12 challenging outcome targets in key services such as education, social services and transport, local authorities will stand to gain greater local flexibility and freedom, some up-front pump priming funding and reward payments on delivery.

71 The Government plans to roll-out Local PSAs, which will build on the local authority Best Value framework, to the largest 150 councils in 2002.

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72 Local PSAs should help to drive up performance and strengthen the partnership between central and local government and other key local partners.

73 With the PSA framework, the Government has introduced arrangements for better co-ordination and joint working more generally, recognising that dividing up responsibility for overlapping policy areas between several departments can make intervention less effective.

74 Fifteen cross-departmental studies were established as an integral part of the 2000 Spending Review, providing an overarching approach to issues such as drugs and crime reduction, young people at risk, and care of the elderly. Analytical work from a selection of these studies is being put into the public domain, through the Treasury website, for the benefit of researchers and practitioners.

75 Around half of all departmental spending allocated in the Review was scrutinised in cross-departmental studies. The Review has introduced new and better mechanisms for co-ordinating effort in these areas. Departments will now manage joint budgets where that makes sense. Over 30 of the Public Service Agreement targets are now joint targets, shared by more than one department. Approaches are organised around the nature of the problem to be tackled, rather than existing administrative units.

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CONCLUSIONS

- 76** The Government's fiscal and public spending framework has been designed specifically to avoid the mistakes of the past.
- The fiscal rules; multi-year spending limits** **77** The new macroeconomic framework is delivering a platform of low inflation and economic stability. The clear fiscal rules are delivering sound public finances and set out a transparent framework for the long term against which policy can be judged. Incremental annual spending rounds have been abolished; departments are now set firm multi-year spending limits, allowing them to plan ahead.
- Openness and transparency** **78** Estimates of cyclically adjusted fiscal balances and trend growth are published regularly, allowing proper scrutiny of policy decisions. Key assumptions are audited by the National Audit Office.
- Prudence and caution** **79** The public finances forecasts are underpinned by deliberately asymmetric, prudent and cautious assumptions. The likelihood of meeting the fiscal rules is enhanced by testing against the cautious case.
- Protecting capital** **80** Capital is now planned and managed separately from current spending in the control framework, protecting vital investment against short term pressures and ensuring that the fiscal rules are met.
- The Public Service Agreements** **81** Through the Public Service Agreements, planning is now firmly focused on the real-life outcomes of Government activity. Joint budgets and targets are unlocking effective co-ordination across departments and ensuring that solutions are designed around what public service users need.