

# OVERVIEW: STABILITY, SECURITY AND OPPORTUNITY FOR ALL

The Government's objective is to build a strong economy and a fair society with stability, security and opportunity for all. The 2004 Spending Review sets targets and allocates resources up to 2007-08 in support of this objective.

The 2004 Spending Review sets departmental spending plans for the three years from 2005-06 to 2007-08 within the overall envelope for public spending set in Budget 2004 and consistent with the fiscal rules. These plans lock in the significant additional resources for public services delivered in the past three Spending Reviews and focus additional investment on the Government's long-term priorities.

Investment must be matched with reform and the 2004 Spending Review confirms and reinforces the Government's commitment to improving public service performance. This Spending Review sets ambitious performance targets for all government departments to 2007-08. It also sets out stretching efficiency targets, agreed with departments, that will deliver efficiency gains equivalent to over £20 billion a year across the public sector by 2007-08. Together these steps will ensure that increased resources have the greatest possible impact on front-line delivery.

The outcome of the 2004 Spending Review is set out under four key themes.

## **A stronger more productive economy**

To raise productivity and deliver balanced growth across the UK, the 2004 Spending Review:

- sets a ten year ambition to **increase the ratio of UK R&D spending to GDP to 2.5 per cent, with science spending over £1 billion higher in 2007-08 than in 2004-05, an annual average growth rate of 5.8 per cent in real terms;**
- invests in learning and skills, with total spending on education in England £12 billion higher in 2007-08 than in 2004-05 and **average per pupil funding rising to at least £5,500 by 2007-08, more than double the 1997 figure;**
- launches a **major programme of investment in affordable housing and housing decency**, with spending on housing £1.3 billion higher in 2007-08 than in 2004-05, delivering a 50 per cent increase in new social housing building;
- increases **investment in transport and provides additional resources to put the railways on a sustainable footing**, with real terms growth in transport spending of 4.5 per cent a year on average over the three years of the Spending Review and expenditure in 2007-08 £2.4 billion higher than in 2004-05; and
- devolves **additional resources and responsibilities to the Regional Development Agencies** to support small business, invest in skills, improve business-university links and promote economic development and regeneration in the regions.

## **A fairer society with stronger communities**

To increase opportunity for all and ensure stronger, safer communities, the 2004 Spending Review:

- provides **significant additional resources for children, delivering 2500 Children's Centres by 2008**, on the way towards achieving the Government's goal of a Children's Centre in every community;

- reaffirms the Government's commitment to eradicate child poverty, with a **new target to halve the number of children in relative low-income households by 2010, on the way to eradicating child poverty by 2020**;
- confirms the increased resources for health announced at Budget 2002, with **health spending growing at an annual average of 7.2 per cent a year in real terms between 2002-03 and 2007-8**;
- tackles crime and the fear of crime, with **spending on crime and justice £3.5 billion higher in 2007-08 than in 2004-05 and 20,000 more Community Support Officers by 2008**; and
- draws together existing funding streams into a new **Safer and Stronger Communities Fund** to empower communities to tackle anti-social behaviour, improve public space and reduce crime.

#### **Global security and prosperity**

To combat terrorism and create a safer, fairer world for all, the 2004 Spending Review:

- reinforces the Government's commitment to tackling global poverty with development spending increasing to nearly £6.5 billion in 2007-08, reaching a **ratio of official development assistance to Gross National Income of 0.47 per cent, the highest level since 1979**;
- delivers resources to enable UK Armed Forces to respond to global threats, with spending on defence growing in real terms every year for seven years to 2007-08, **the longest period of real terms growth in planned defence expenditure for over twenty years**; and
- provides the resources necessary to ensure the UK is prepared for the threat from international terrorism, with **over £1 billion more for counter-terrorism by 2007-08, raising spending in this area to double the pre 11th September 2001 level**.

#### **Better public services**

To ensure excellent and efficient public services for all, the 2004 Spending Review:

- sets out stretching efficiency targets, agreed for all departments, **delivering over £20 billion a year of efficiencies across the public sector by 2007-08, a gross reduction of over 84,000 civil service posts and the relocation of 20,000 others out of London and the South East**;
- strengthens and refines the Public Service Agreement framework, **with clear outcome-focused national targets for further improvements in public services**, developed in consultation with front-line staff; and
- devolves greater responsibility for delivery to local managers and the front line, **confirming the abolition of over 500 input and process targets**.

## **STABILITY, SECURITY AND OPPORTUNITY FOR ALL, INVESTING FOR BRITAIN'S LONG TERM FUTURE**

1.1 The Government's objective is to build a strong economy and fair society, with opportunity and security for all. As a result of the tough decisions the Government has taken since 1997 – making the Bank of England independent, setting clear fiscal rules, cutting debt – Britain now has the lowest inflation for thirty years and mortgage rates have been at their lowest for forty years. Quarterly figures show that Britain is benefiting from the longest period of sustained growth on record.

**1.2** The challenge now, building on the foundation of this economic stability and strength, while ensuring the sustainability of the fiscal position, is to make the necessary investments to equip the economy to meet the global challenges ahead and to renew public services for this and future generations. Britain will only succeed if the Government invests not just for a year or two but for the long term. On the basis of economic stability and growth, this Spending Review continues historically high increases in spending on hospitals, schools and public services.

**1.3** This investment must be matched with reform. The Government is extending devolution, increasing choice, flexibility and personalisation in public services, strengthening output targets to make them more focused on results, and securing efficiency gains to release additional resources to the front line. Throughout this Spending Review and in the departmental five year strategies, the Government's requirement is clear: for more given in resources, more is expected in results.

**1.4** Building on the significant extra investment delivered in the past three Spending Reviews, the 2004 Spending Review sets out new resources matched with reform to:

- deliver world-class public services that enhance opportunity for all;
- equip Britain to meet the challenges of the global economy;
- strengthen communities across the country and build a fairer society; and
- enhance Britain's security and promote stability and prosperity around the world.

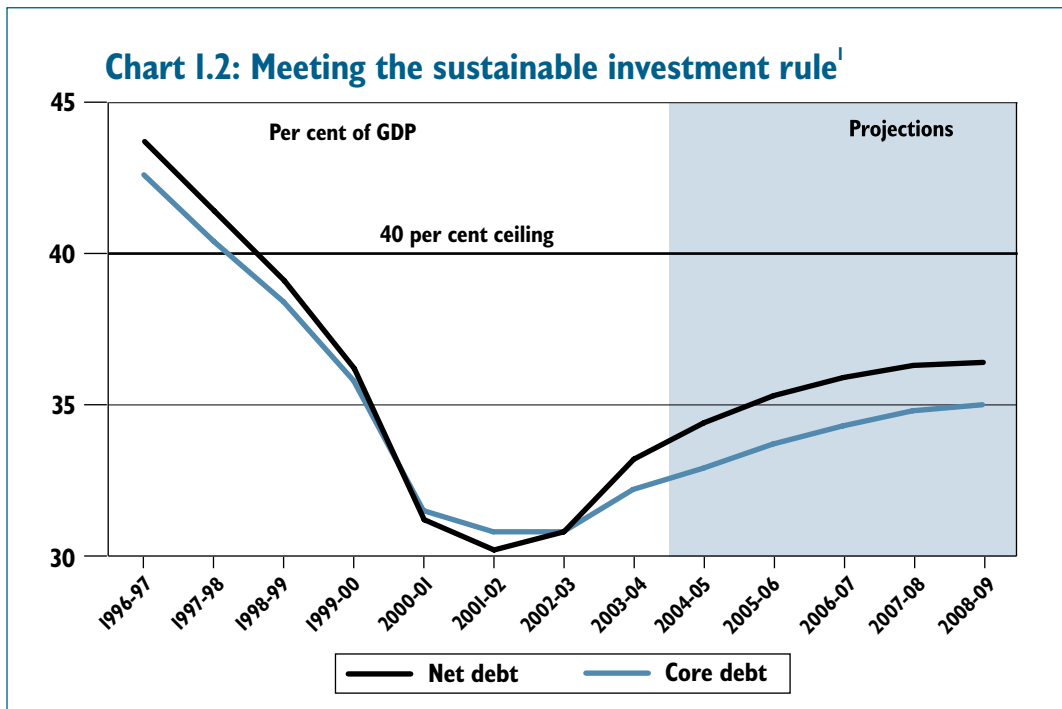
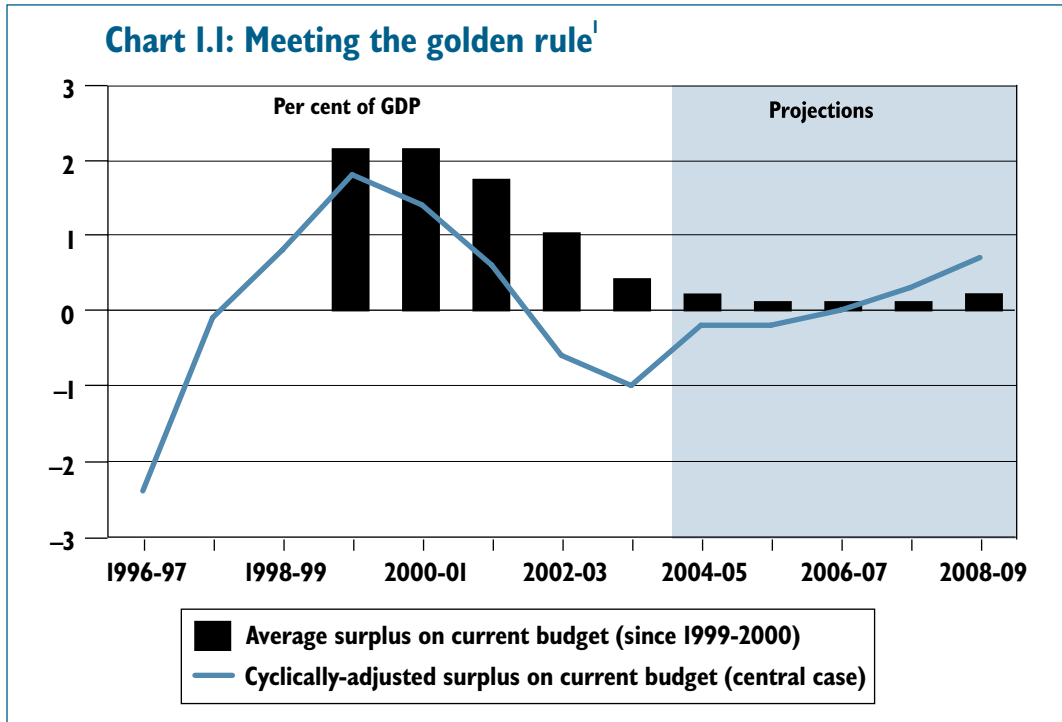
## SUSTAINABLE PUBLIC FINANCES

### Meeting the fiscal rules

**1.5** The Government's macroeconomic framework is designed to maintain economic stability over the long term. The monetary policy framework seeks to ensure low and stable inflation, while fiscal policy is underpinned by clear objectives and two strict rules to ensure sound public finances over the medium term whilst allowing fiscal policy to support monetary policy over the economic cycle. The Government's fiscal rules are:

- the **golden rule**: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the **sustainable investment rule**: public sector net debt as a proportion of GDP will be held at a stable and prudent level over the economic cycle. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

**1.6** As shown in Charts 1.1 and 1.2, the public finance projections from Budget 2004, which were based on independently audited, cautious assumptions, show that the Government is on course to meet its fiscal rules over the economic cycle. The current budget since the start of the current economic cycle in 1999-2000 shows an average annual surplus up to 2005-06 of 0.1 per cent of GDP, and the Government is therefore on track to meet the golden rule. With the economy assumed to be on trend from 2005-06 onwards, the projections show that, based on cautious assumptions, the average surplus over the period 2005-06 to the end of the projection period in 2008-09 is also 0.1 per cent of GDP. At this early stage, the Government is therefore on track to continue to meet the golden rule after the end of this economic cycle.



**I.7** Public sector net debt is projected to remain low and stable over the next five years, stabilising at just under 36½ per cent of GDP, well below the 40 per cent ceiling set in the sustainable investment rule. A fully updated assessment of economic and fiscal prospects will be published as usual in the 2004 Pre-Budget Report.

<sup>1</sup> Budget 2004 projections.

## The public spending envelope

- I.8** Budget 2004 set an overall envelope for the 2004 Spending Review period, allowing:
- **current spending to increase by an annual average of 2.5 per cent in real terms over 2006-07 and 2007-08;** and
  - **public sector net investment to rise from 2 per cent of GDP to 2¼ per cent by 2007-08,** to continue to address historic under-investment in the UK's infrastructure while meeting the sustainable investment rule.

**I.9** The growth rate of both overall public spending and departmental spending is lower in the 2004 Spending Review than in the 2002 Spending Review, reflecting the Government's prudent approach to the public finances and the progress made since 1997 in correcting historic under-investment in public services. As announced at Budget 2004, departmental spending plans for 2005-06 that were set in the 2002 Spending Review have not been re-opened in this Spending Review. Taken together, spending plans set in the 2000 and 2002 Spending Reviews will have increased the level of public spending by 20 per cent in real terms between 2000 and 2006. New spending plans for 2006-07 and 2007-08 announced in this Spending Review will lock in public spending at these new higher levels and focus additional resources on the Government's long-term priorities. Together with planned efficiency gains equivalent to at least £20 billion a year by 2007-08, these resources will enable the Government to continue to deliver sustained improvements in front-line public services over the 2004 Spending Review period.

**I.10** Within the overall envelope for Total Managed Expenditure (TME) over the 2004 Spending Review period set at Budget 2004, Table 1.1 shows the split between Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). AME covers volatile and demand-led spending such as social security benefits. AME forecasts for 2004-05 and 2005-06 have been updated since Budget 2004 to take account of lower independent forecasts of unemployment, which have reduced projected social security payments, and to reflect several TME-neutral transfers between DEL and AME. Table 1.1 shows the first full forecasts of AME spending for 2006-07 and 2007-08. The DEL figure is the overall amount available for allocation to departments in the 2004 Spending Review.

**Table 1.1: Total public spending**

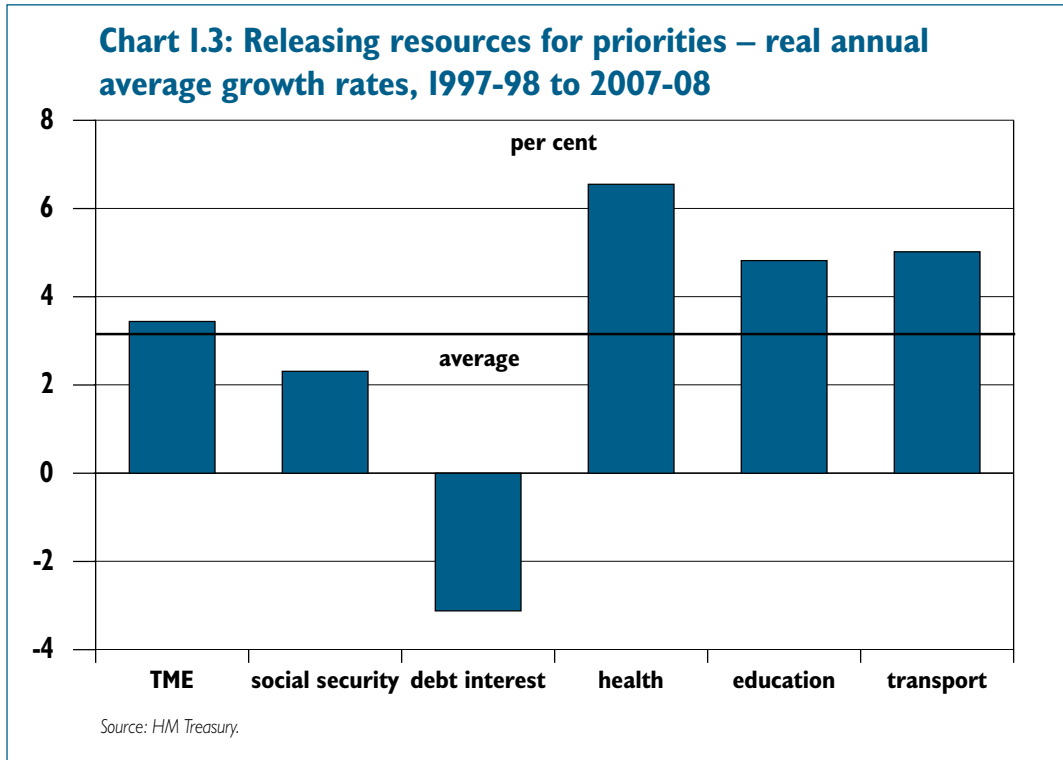
£ billion	2004-05	2005-06	2006-07	2007-08
Departmental Expenditure Limits (DEL) <sup>1</sup>	279.3	301.9	321.4	340.5
Annually Managed Expenditure (AME)	208.3	218.9	227.8	239.5
<b>Total Managed Expenditure</b>	<b>487.6</b>	<b>520.8</b>	<b>549.2</b>	<b>580.0</b>

<sup>1</sup> Net of depreciation.

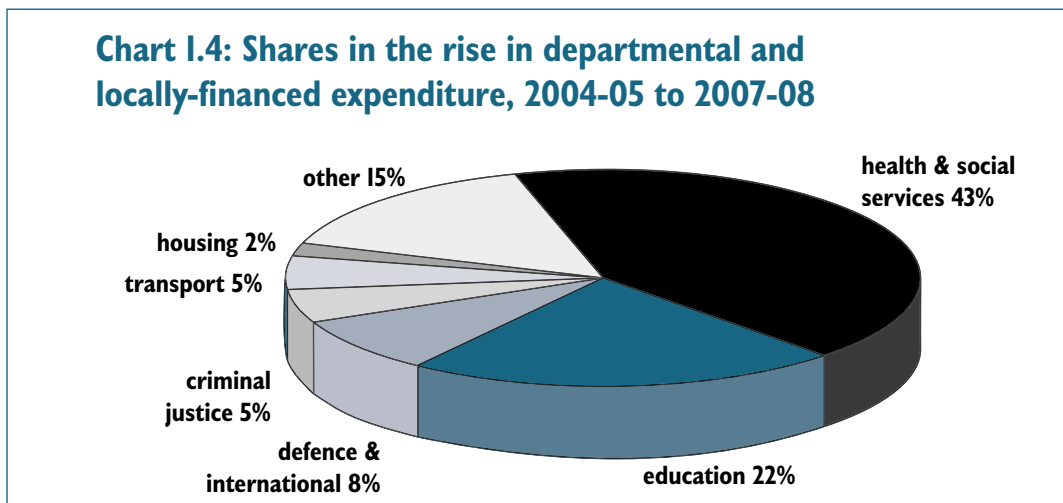
## Releasing resources for the front line

**I.11** The Government's prudent management of the public finances has released additional funding for key public services over successive Spending Reviews. In the 2004 Spending Review lower growth in AME spending will continue to enable higher increases in departmental spending on public services. AME is growing at 2.1 per cent per year on average in real terms between 2004-05 and 2007-08 therefore allowing DEL to grow at 4.2 per cent a year on average. In total, social security, tax credits and debt interest payments will account for only 23 per cent of additional public spending over the three years to 2007-08, compared with 57 per cent between 1994-95 and 1996-97.

**I.12** Chart 1.3 compares real terms growth in debt interest and social security since 1997 with growth in health, education and transport spending. The Government's prudent management of the economy and the public finances have enabled it to continue to contain growth in social security and debt interest whilst delivering a step change in funding for key public service priorities in the four spending reviews since 1998. By 2008, public spending on the NHS will be around 90 per cent higher in real terms than in 1997 while total spending on schools will be about 60 per cent higher in real terms than in 1997. Increased resources mean the NHS now employs around 67,000 more nurses than in 1997 and similarly, across the country there are 14,000 more police officers.



**I.13** The 2004 Spending Review locks in the significant increases in resources for priority public services delivered in the past three Spending Reviews and reaffirms the Government's commitment to focusing additional resources where they will have most impact on outcomes. Taking into account locally financed expenditure (LFE), spending on key priorities of education, health, social services, transport, housing and criminal justice will account for around three quarters of the total extra planned spending over the Spending Review period.



**Efficiency I.14** Building on historic levels of public investment, the 2004 Spending Review announces further steps to improve the efficiency of public services and ensure increased resources are focused on the front line, informed by the results of Sir Peter Gershon's independent review of public sector efficiency. The Efficiency Review was announced at Budget 2003 with the aim of releasing significant resources for front-line services and Government priorities. Sir Peter Gershon's report *Releasing Resources to the Front Line* is published alongside this White Paper.

**I.15** On the basis of the Efficiency Review's initial work, Budget 2004 announced a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5 per cent a year over the three years of the 2004 Spending Review, delivering gains equivalent to over £20 billion a year by 2007-08. This Spending Review confirms this overall target and:

- **sets agreed efficiency targets for all departments**, delivering over £20 billion of efficiency gains a year by 2007-08 for recycling to front-line public services;
- confirms that the **administration budgets of all departments will be set at or below 2005-06 levels**, excluding exceptional security measures;
- announces departmental plans for **a gross reduction of over 84,000 civil service posts and the relocation of 20,000 others** away from London and the South East.

**I.16** This Spending Review also sets out a framework for delivering efficiencies over the Spending Review period. Efficiency targets will be transparent and measurable, with details of how each target will be measured published in efficiency technical notes. A central Efficiency Team under John Oughton, Chief Executive of the Office of Government Commerce, will drive progress towards these targets and on cross-cutting efficiency issues such as procurement and financial management. Further details of efficiency programmes and the Government's response to the Efficiency Review are set out in Chapter 2.

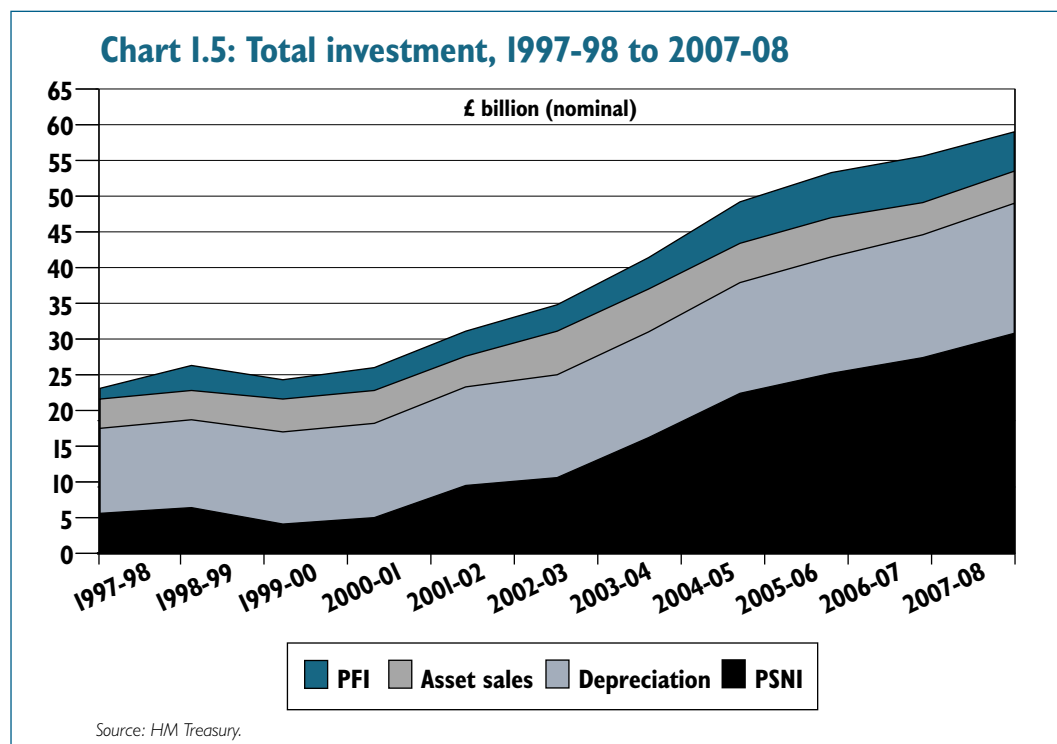
## Public investment

**I.17** High quality public services and a productive economy depend on effective public service infrastructure. In 1997, public sector net investment (PSNI) stood at just £4.9 billion – 0.6 per cent of GDP – the lowest level for over a decade. Investment in public services had been on a declining trend since the mid-1970s, resulting in falling standards in the quality of schools, hospitals and other assets. This in part reflected a budgeting system that encouraged short-termism and a bias towards spending on current pressures rather than capital infrastructure.

**I.18** The Government is committed to reversing this historic under-investment. The fiscal rules and reforms to the budgeting system, including the introduction of Departmental Investment Strategies, have addressed the previous bias against investment and improved the quality of public investment and its utilisation. Successive Spending Reviews have provided additional investment for the nation's infrastructure and for key public services. In the 2002 Spending Review the Government committed to increasing net investment to 2.0 per cent of GDP by 2005-06. In this Spending Review, consistent with the fiscal rules, PSNI will increase further to 2¼ per cent of GDP by 2007-08.

**I.19** Chart 1.5 shows how total investment, which includes PSNI, depreciation, recycled proceeds from asset sales and investment through Public Private Partnerships (PPPs) and the Private Finance Initiative (PFI), is set to rise to over £58 billion by 2007-08. This will lock in the step-change in total investment to support the delivery of high quality public services and

ensure that the country has the infrastructure it needs. The vast majority of investment in public services will continue to be undertaken by the public sector, with private sector investment remaining at its historic level of between 10 and 15 per cent of total investment in each year of the 2004 Spending Review.



## PUBLIC SPENDING AND PERFORMANCE FRAMEWORK

**I.20** Throughout this Spending Review, the Government's requirement is clear: for more given in resources more is expected in results. Increased spending and investment only lead to improved outcomes if resources are allocated and managed effectively. The Government has introduced a series of important reforms to the public expenditure framework to ensure that the right incentives are in place for departments to plan effectively and spend efficiently, including:

- firm and fixed DEL budgets for three years, allowing departments, and in future local authorities, to plan with greater certainty over the medium term;
- a five-year fixed budget for health and ten-year plans for transport and science, to allow for longer-term planning and sustainable growth in these areas;
- full End-year Flexibility (EYF), allowing unspent funds to be carried forward from one year to the next, preventing wasteful end-year surges;
- central funds, including the Invest to Save Budget, which support innovative policies and spread best practice;
- resource accounting and budgeting to capture accurately the full cost of running public services and enable departments to take better-informed decisions about asset management; and
- Public Service Agreements (PSAs) setting out what increased investment will deliver in terms of public service improvements. PSAs ensure departments focus on outcomes rather than inputs.

**I.21** Departments are allocated separate resource and capital budgets and are free to move DEL provision from their resource budgets to their capital budget but not in the other direction. This supports achievement of the golden rule. Further background on resource and capital budgets and resource accounting and budgeting is set out in Annex B.

## Public Service Agreements

**I.22** The Government is committed to ensuring that increased resources for public services deliver the outcomes the public want and expect. Therefore, alongside the allocation of extra resources, departments have agreed challenging national targets in the form of Public Service Agreements. PSAs were introduced in 1998, and are an integral part of the Government's public spending framework. They make certain that measurable outcomes are delivered in return for resources, helping to ensure value for money in the delivery of public services. PSAs are also a key part of the Government's approach to public service reform, which focuses on:

- clear, **outcome-focused national goals**, expressed in PSAs and developed in consultation with stakeholders and the public;
- **devolution** of responsibility to public service providers, giving front-line professionals greater freedom to define local priorities and decide how best to deliver them;
- developing a **new professionalism** among public sector workers, with a strengthened culture of continuous improvement, innovation and collaboration; and
- more **personalised public services** that are shaped around the needs and preferences of the individual and empower users through greater choice and shared decision-making.

**I.23** This Spending Review sets new PSA targets for the three years to 2007-08. These targets focus on the Government's priorities and on the long-term outcomes that matter to the public. They represent a commitment to the public, sending a clear message about what the Government can be expected to deliver over the Spending Review period and beyond. The outcomes expressed in PSA targets provide a focus for all those involved with delivery and enable departments to mobilise their resources effectively in order to deliver results.

**I.24** Whilst PSA targets set clear national long-term goals and standards to achieve across the country, they do not prescribe the means of delivery. By focusing on the outcomes and results which the Government seeks to achieve – rather than on the inputs or the process of delivery – PSAs encourage local freedom and flexibility, encouraging departments and delivery agents to think creatively about how their activities and policies can best contribute to delivering results.

**Achievements I.25** The combination of increased resources and clear national priorities and goals is delivering noticeable change and improvements across public service delivery and outcomes. For example:

- between 1997 and 2003 the percentage of 11 year olds achieving expected standards in literacy and numeracy rose from 63 per cent to 75 per cent in English, and from 62 per cent to 73 per cent in mathematics;
- since 1997 there has been a 7.8 percentage point increase in the number of 16 year olds achieving 5 or more A\* to C grade GCSEs;

- since 1997, mortality rates from cancer and coronary heart disease have fallen by over 8 and 20 per cent respectively. Additionally, 99 per cent of urgent GP referrals for suspected cancer are now seen by a specialist within two weeks;
- waiting times for operations have been halved; from 18 months in 1997 to 9 months in April 2004;
- between 1997 and 2003 overall crime rates fell by 25 per cent, vehicle crime by 34 per cent, and domestic burglary by 40 per cent;
- since 1997 employment has risen in all UK regions, and overall by over 1.8 million. The unemployment rate is now the lowest among G7 countries; and
- by 2002-03 there were around half a million fewer children in relative low-income households compared to 1998-99, ensuring continued progress towards the Government's long-term ambition to eradicate child poverty by 2020.

**2004 Spending Review PSAs**

**I.26** These improvements represent significant achievements. Nonetheless there is more to be done in many areas of public service. The 2004 Spending Review PSAs will drive through further performance improvements in some key areas whilst maintaining the high standards already achieved in others. The PSA framework is also evolving in a number of ways. The PSAs set in this Spending Review reflect much greater consultation with stakeholders than was the case with previous PSAs. At the same time the number of intermediate input and process targets has been reduced, so local public service managers have more flexibility over how they achieve national targets. In areas where the Government's ambitions for delivery sought in previous PSA targets have been achieved, PSA standards are being introduced so that performance data will continue to be monitored and reported and high levels of performance maintained.

**I.27** The PSAs agreed by departments in this Spending Review include targets which will:

- halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020;
- raise standards in English and maths so that by 2006, 85 per cent of 11 year olds achieve level 4 or above, with this level of performance sustained to 2008; the proportion of schools in which fewer than 65 per cent of pupils achieve level 4 or above is reduced by 40 per cent;
- ensure that by 2008 no-one waits more than 18 weeks from GP referral to hospital treatment;
- improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvements by 2008;
- reduce crime by 15 per cent and further in high crime areas by 2007-08;
- reduce race inequalities and build community cohesion;
- make progress towards the Millennium Development Goals in 16 key countries in Africa, demonstrated by a reduction of 4 percentage points in the proportion of people living in poverty across the entire region, against the 1999 baseline;
- halt the year-on-year increase in obesity among children under 11 by 2010 in the context of a broader strategy to tackle obesity in the population as a whole;

- demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors;
- reduce greenhouse gas emissions to 12.5 per cent below 1990 levels in line with our Kyoto commitment and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables; and
- demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projection.

**I.28** Chapter 3 sets out further details of how the PSA framework is evolving in line with the Government's wider public service reform agenda. Full details of 2004 Spending Review PSAs can be found in the 2004 Public Service Agreements White Paper, published alongside this White Paper. PSA technical notes, which will set out how individual PSA targets will be measured, will be published this summer.

## SPENDING PLANS

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**I.29** Table 1.2 shows the total allocations made to each department in the Spending Review by Department Expenditure Limit (DEL) and by function. Further detail and comparative information is set out in Annex A.

**Table 1.2 Total DEL by Department**

	£ billion				
	Baseline <sup>3</sup>		Plans		Average annual growth rate <sup>1</sup>
	2004-05	2005-06	2006-07	2007-08	
<b>Resource and Net Capital Budget</b>					
Education and Skills	27.6	31.1	32.9	35.2	5.7%
Health	71.5	78.5	86.0	94.4	6.9%
<i>Of which: NHS</i>	69.4	76.4	83.8	92.1	7.1%
Transport	10.4	11.0	13.6	12.9	4.5%
Office of the Deputy Prime Minister	7.0	7.5	7.8	8.4	3.3%
Local Government	43.7	46.2	48.6	51.0	2.6%
Home Office <sup>4</sup>	12.7	13.2	14.2	14.9	2.7%
Constitutional Affairs	3.4	3.7	3.8	3.9	1.5%
Law Officers' Departments	0.6	0.6	0.7	0.7	2.9%
Defence	29.7	30.8	32.1	33.4	1.4%
Foreign and Commonwealth Office	1.5	1.5	1.6	1.6	1.4%
International Development	3.8	4.5	5.0	5.3	9.2%
Trade and Industry	5.0	6.1	6.5	6.6	3.0% <sup>2</sup>
Environment, Food and Rural Affairs	3.2	3.3	3.4	3.5	1.2%
Culture, Media and Sport	1.4	1.5	1.6	1.7	2.3%
Work and Pensions	8.2	8.3	8.2	8.1	-2.8%
Scotland	21.3	22.8	24.2	25.5	3.5%
Wales	11.0	11.8	12.8	13.6	4.5%
Northern Ireland Executive	7.0	7.4	7.9	8.3	3.1%
Northern Ireland Office	1.2	1.2	1.2	1.2	-2.7%
Chancellor's Departments	4.9	5.2	5.3	5.5	1.1%
Cabinet Office	1.9	1.9	2.0	2.1	1.2%
Invest to save	0.0	0.0	0.0	0.0	-
Reserve	1.9	2.7	2.0	2.8	-
<b>Total DEL<sup>6</sup></b>	<b>278.7</b>	<b>300.8</b>	<b>321.4</b>	<b>340.5</b>	<b>4.2%</b>

<sup>1</sup> Average annual growth rates are calculated off a 2004-05 baseline.

<sup>2</sup> This growth rate for the whole DTI group over the 2004 Spending Review period excludes the Nuclear Decommissioning Authority which is established from 1 April 2005. The growth rate including the NDA is 7.0 per cent.

<sup>3</sup> Excludes one-off and time limited expenditure.

<sup>4</sup> 2004-05 includes spending on the Bloody Sunday Inquiry and other programmes on a declining profile such as compensation.

<sup>5</sup> Home Office growth rate excluding asylum is 4.0%

<sup>6</sup> numbers may not sum due to roundings