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## DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's long-term goal is to deliver world class public services through investment and reform while ensuring that taxpayers receive value for money.

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

- current spending will rise in total by 3.3 per cent a year in real terms in 2004-05 and 2005-06;
- public sector net investment is projected to rise from its 1.8 per cent of GDP target in 2003-04, to 2 per cent of GDP by 2005-06 and to 2<sup>1</sup>/<sub>4</sub> per cent by 2007-08;
- UK spending on the NHS will increase by an average of 7.4 per cent a year in real terms over the five years to 2007-08; and
- over 75 per cent of additional spending will be allocated to the key priorities of health, education, personal social services, transport, housing and criminal justice.

To ensure that the resources are available to meet the UK's defence and overseas needs in the fight against global terrorism, the Pre-Budget Report provides an additional provision of £1 billion this year to be held in a special reserve.

The Government is determined to secure value for money. In each area of public service delivery, resources allocated in the 2002 Spending Review are tied to reform and results. The Pre-Budget Report describes how the Government is delivering reform, based on:

- **clear long-term goals** that focus service providers on the key outcomes the Government is seeking to achieve;
- **independent audit and inspection** to ensure that departments and agencies are held accountable for their performance, including through a new independent Commission for Healthcare Audit and Inspection, a Comprehensive Performance Assessment in local government and the new Police Standards Unit;
- **maximum local flexibility and discretion to innovate** to ensure that local service providers can respond to local conditions and demand, with new freedoms for high-performing local authorities, Regional Development Agencies, further education colleges and hospitals; and
- **increased transparency** about what is being achieved, with regular web-based reporting of progress against targets from April next year.

### INTRODUCTION

**6.1** The Government's long-term goal is to deliver world-class public services through sustained increases in investment and reform, while ensuring that taxpayers receive value for money. Strong and dependable public services are vital to extend opportunity, tackle poverty, ensure security and improve the quality of life for all. They also lay the foundations for a successful, high productivity economy.

**6.2** Through its action to maintain macroeconomic stability, the Government has already delivered significant and sustained investment in Britain's public services. The departmental spending plans set in the 2002 Spending Review build on these foundations, ensuring that resources are available for priority services, consistent with the fiscal rules. This chapter describes how the Government is increasing investment in priority public services, while ensuring that, in each area of public service delivery, resources are tied to reform and results.

## PROVIDING RESOURCES

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**6.3** Sound public finances that are sustainable over the economic cycle are not only essential to ensure economic stability, they are also necessary for sustainable investment in public services. The fiscal rules, described in detail in Chapter 2, are the foundation of the Government's 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. A new analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report.<sup>1</sup>

**6.4** To help departments plan for the medium term, the Government has introduced a system of firm and fixed Departmental Expenditure Limits (DEL) for departmental spending stretching over three years, and reviewed every two. Expenditure items that are large, potentially volatile and demand-led – such as social security benefits and debt interest payments – are collectively known as Annually Managed Expenditure (AME). These items are subject to tough scrutiny twice a year as part of the Budget and Pre-Budget Report process to ensure that spending does not threaten fiscal stability. Taken together, DEL and AME add up to Total Managed Expenditure (TME).

**6.5** Because they are based on prudent and cautious assumptions, the Government's spending plans for 2002-03 remain robust despite heightened uncertainty in the global economy. Total public spending is planned to rise by 4.4 per cent in real terms over the year as a whole, consistent with the plans for significant investment in public services set out in the 2000 Spending Review. **To ensure that the resources are available to meet the UK's defence and overseas needs in the fight against global terrorism, the Pre-Budget Report provides an additional provision of £1 billion this year to be held in a special reserve.**

**6.6** Within existing spending plans, departments are able to draw on their accumulated stock of end-year flexibility (EYF). EYF allows departments to retain resources not fully spent at the end of the year for use in future years, helping them to plan more effectively and avoiding wasteful end-year surges in departmental spending. This year departments have chosen to draw down £2.9 billion to add to their authorised spending limits. As has been the case in previous years, the Government expects this net addition to spending to be more than offset by the end of the year by under-spends elsewhere within DEL.

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<sup>1</sup> Long-term public finance report: an analysis of fiscal sustainability, HM Treasury, November 2002.

## Releasing resources for priorities

### The 2002 Spending Review

**6.7** Prudent management of the public finances has allowed the Government to sustain and increase the resources available for key public services, while continuing to meet the fiscal rules. The 2002 Spending Review established departmental spending plans for the years 2003-04 to 2005-06, consistent with the firm 'envelope' for total public spending set out in Budget 2002. This 'envelope' allows:

- current spending to rise in total by 3.3 per cent a year in real terms in 2004-05 and 2005-06;
- public sector net investment to rise from its target of 1.8 per cent of GDP in 2003-04, to 2 per cent of GDP by 2005-06 and to 2<sup>1</sup>/<sub>4</sub> per cent by 2007-08, to continue to address the legacy of under-investment in Britain's public infrastructure, while comfortably meeting the sustainable investment rule; and
- UK spending on the NHS to increase by an average of 7.4 per cent a year in real terms over the five years to 2007-08.

#### **Box 6.1: Funding long-term improvements in healthcare**

In Budget 2001 the Chancellor commissioned an independent review of the long-term trends and resource needs that will affect the health service in the UK over the next 20 years. In his report to the Chancellor in April 2002, Derek Wanless concluded that health spending would need to rise substantially over the next 20 years, and most rapidly in the short-term so as to deliver improvements in standards as quickly as possible.

In Budget 2002, the Chancellor accepted the Review's recommendations and announced that UK NHS spending would grow by 7.4 per cent a year in real terms over the next five years. By 2007-08, total UK health spending is projected to reach 9.4 per cent of GDP. To deliver the largest ever sustained spending growth in the history of the NHS, while meeting the fiscal rules and other priorities, Budget 2002 raised national insurance contributions (NICs) by one per cent for employers, employees and the self-employed on all earnings above the NICs threshold from April 2003; and froze the income tax personal allowance for those aged under 65 in 2003-04.

The Government believes that general taxation and NICs provide affordable, comprehensive cover for healthcare as the costs are spread as widely and fairly as possible. They allow the Government to fund healthcare, through the NHS, that is free and accessible to all on the basis of need and not ability to pay. Because the range of medical treatments is growing, and some are more expensive than ever, the risks to a family's finances would be unmanageable if the costs were met from charges or insurance payments. Mr Wanless also concluded that the current funding system is both a fair and efficient one.

Evidence from other countries suggests that charges deter the sick from seeking treatment, to their own detriment and that of their dependents. Private insurance would fail to help those in greatest need, tend not to extend to chronic or emergency care, and be more expensive than the alternatives due to its administrative costs. Social insurance systems reflect the regional or local organisation of healthcare, in contrast to Britain's national service, and may bear disproportionately on employers.

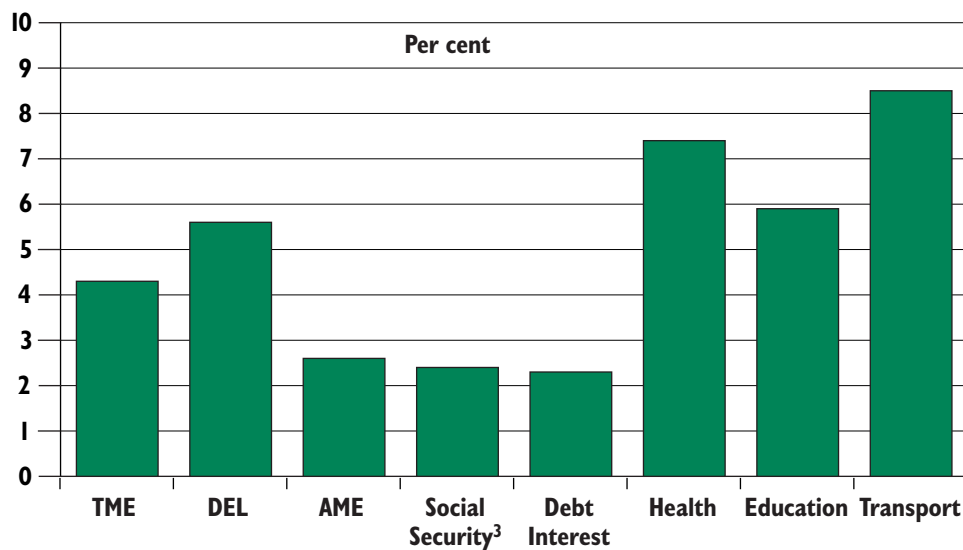
In contrast, NICs offer several advantages as a source of revenue funding. Unlike indirect taxes, and because the new one per cent payment will extend beyond the upper limits for profits and earnings, they reflect people's ability to pay. While most of those in work will contribute, pensioners will not. NICs are also levied on employees and employers, ensuring that all those with an interest contribute to reform of the health service.

**6.8** Overall, total public spending (TME) will rise by 4.3 per cent a year on average in real terms over the period of the 2002 Spending Review. Within this, the Government has been able to target additional resources more effectively on priority public services within DEL, due to savings in AME. For example:

- between 1996-97 and 2005-06, social security payments are forecast to grow by just 1.9 per cent a year in real terms, compared with over 4 per cent between 1991-92 and 1996-97; and
- debt interest payments have fallen by £7 billion since 1996-97 and are expected to fall by 3.7 per cent a year on average in real terms between 1996-97 and 2005-06, compared with an annual average real terms increase of over 6 per cent between 1991-92 and 1996-97.

**6.9** Overall, social security, tax credits and debt interest payments will amount to just 23 per cent of the additional public spending planned over the three years to 2005-06, compared with 57 per cent between 1991-92 and 1996-97. Chart 6.1 illustrates how these savings have been channelled into priority services so that, within the fiscal rules, education spending can grow by 5.9 per cent, UK health spending by 7.4 per cent and UK transport spending by 8.5 per cent a year. A detailed breakdown of departmental spending up to 2005-06 is provided in Table B15.

**Chart 6.1: Releasing resources for priorities<sup>1,2</sup>**



<sup>1</sup> Real annual average growth in spending, 2002-03 to 2005-06.

<sup>2</sup> The growth rates for DEL and AME take account of reclassifications between DEL and AME which have no impact on overall public spending, including increased employer contributions within DEL for NHS and teachers' pension schemes (explained in Annex B). These increases have not been added to the UK health and education growth rates, as they affect only the balance between DEL and AME and do not represent increased spending in these areas overall.

<sup>3</sup> Includes personal tax credits.

Source: HM Treasury.

**6.10** When locally-financed expenditure (LFE) – spending financed directly from revenues raised by local government – is included, spending on the key priorities of education, health, personal social services, transport, housing and criminal justice will account for over 75 per cent of the additional total spending on DEL and LFE between 2002-03 and 2005-06.

**6.11** Within total public expenditure growth of 4.3 per cent a year in the three years to 2005-06, spending in AME is set to grow at 2.6 per cent, allowing DEL to grow at 5.6 per cent, after taking into account reclassifications between DEL and AME. Total DEL is £63 billion a year higher in 2005-06 compared with 2002-03.

#### **Box 6.2: Public sector pay**

To ensure stability and value for money in public services, public sector pay rises, just as in the private sector, must be set at a sustainable rate and be justified by productivity, with all resources used responsibly. Public sector pay represents a significant element of spending on public services. The Government is determined to ensure that these resources are used effectively and that pay policy supports reform and delivery of public services.

Responsibility in setting pay is essential to ensure value for money for the public. In an environment of economic stability with low and stable inflation, unnecessarily high public sector pay bills divert resources away from other expenditure, such as better equipment in hospitals and modern schools to improve the environment for teachers and children. Against a backdrop of low inflation, large increases in basic pay across the board are neither fair nor likely to deliver the best outcomes for the public.

A number of elements are critical to responsible pay setting. Pay must be considered as part of a wider package for employees. Job satisfaction, good terms and conditions and flexible working practices should be taken into account; all have a part to play in improving delivery. In addition, public service providers need to consider the use of alternative delivery methods, such as electronic delivery, where this could prove more cost-effective and deliver more choice to the end user.

Policy on public sector pay is designed to support improvements in public service delivery. In the past, pay scales were nationally determined, and reward was based on time served. Pay systems were rigid and lacked the flexibility to tackle particular employment challenges, or to motivate and reward service delivery.

Those who work in public services perform a vital role, and deserve to be rewarded fairly. Pay systems must promote fair employment practice. They should support and encourage diversity of staff so that the public sector reflects the communities it serves. They should also ensure equal pay for equal jobs across the public sector. To support public service delivery, however, pay systems need to give managers the freedom to recruit, retain and motivate the right number of people with the right skills in particular locations. Pay systems should reward individual employees based on their skills, merit and experience; seek to raise and encourage performance by explicitly linking pay to performance; and allow flexible responses to particular local skill needs and issues.

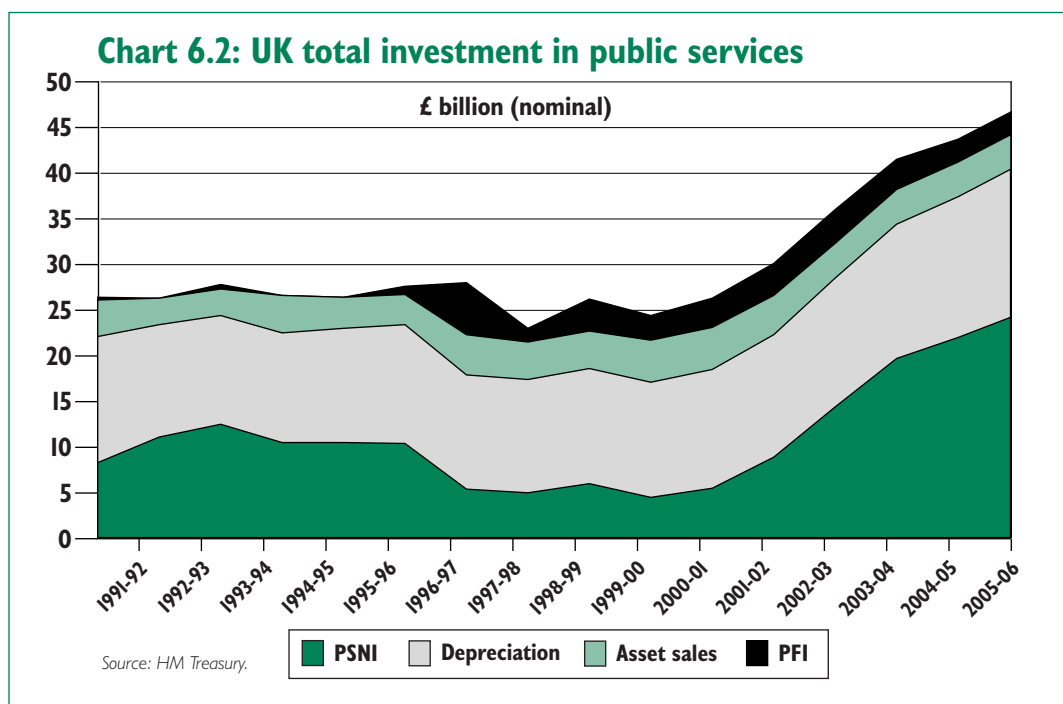
Pay must also be allowed to vary at the local level, according to local pressures. In the private sector, pay differentials of up to 50 per cent exist between different parts of the country. Unless public sector organisations take these differentials into account, service quality will be at risk and both employees and service users in large parts of the country will suffer.

## Resource and capital budgets

**Resource accounting and budgeting** **6.12** The 2002 Spending Review completed the transition to full resource budgeting. For the first time, departments' spending limits have been set on a full resource basis, and include the full economic costs of holding and using capital assets and of incurring longer-term liabilities. The introduction of resource accounting and budgeting (RAB) brings accounting by departments into line with generally accepted accounting practice in the private sector. The implementation and operation of RAB is overseen by an independent financial reporting board that reports directly to Parliament.

**Capital budgets** **6.13** Within total DEL, budgets are split between capital and resource spending. Resource expenditure is that which is needed for the day-to-day running of an organisation, including pay, rent and the procurement of goods and services. Capital spending covers spending on goods and services that are expected to be used for a longer period, including new buildings, equipment and IT systems. Over the three years to 2005-06, capital spending within DEL is set to grow by 9.6 per cent a year on average in real terms, while resource spending is set to grow by 5.1 per cent a year.

**6.14** The focus on capital spending reflects the Government's commitment to reverse two decades of under-investment in the nation's infrastructure. Public sector net investment (PSNI), which measures increases to the public sector capital stock, is set to increase to 2 per cent of GDP by 2005-06 - a five-fold increase compared with 1997-98. Total UK investment in public services, which includes PSNI, depreciation, recycled proceeds from asset sales and investment under the Private Finance Initiative (PFI), will rise to over £46 billion in 2005-06, compared with £23 billion in 1997-98. The vast majority of this increased investment originates in the public sector, with PFI accounting for an estimated 10 per cent this year. The Government will use the discipline of the market to deliver value for money and extend PFI in public procurement to new projects worth £30 billion and to include large-scale regeneration projects, while recognising the limits to markets in areas such as healthcare, education, defence and policing.



**Box 6.3: Public Private Partnerships**

Public Private Partnerships (PPPs) are a key element in the Government's strategy for delivering high quality public services and a more competitive economy. Drawing on the best of the public and private sectors, PPPs provide additional resources for investment in public services and help to ensure that this investment is managed more efficiently.

Private sector investment through PPP contracts typically makes up around 10 per cent of total investment in any one year. Over the next three years, the Government expects that contracts worth at least £12 billion will be signed, with many other deals in procurement. PPP contracts are only pursued where they represent the best value for money option. Where this is the case, they offer a number of important benefits. Since the private sector is not paid until the contracts are complete, there are greater incentives to transfer risk to the private sector to deliver on time and within budget. Moreover the private sector can sometimes be more likely to challenge inefficiency and promote innovative ways of delivering services.

PPPs are already being utilised to deliver successful projects, including:

- the biggest hospital building programme in the NHS. Eleven hospitals built under PFI contracts are already operational and a further 13 are under construction. Successful projects to date include the new Dartford and Gravesham hospital – an acute general hospital on the Darent Valley site, which consolidates services from three hospitals into a single modern, flexible accommodation. The hospital was open in just 44 months – far quicker than would have been the case under a conventional public procurement;
- funding of the Ten-Year Transport Plan. Around £56 billion is expected to be funded through private sector finance, including PPPs. Successful projects to date include the extension of the Docklands Light Railway, which was completed in 1999. This project had a capital value of £200 million, and was delivered within budget and two months early, in time for the Millennium celebrations; and
- improving schools. Forty-eight schools PFI projects have been signed, with a total capital value of £1.3 billion, and covering 550 schools. Successful projects to date include the Barnhill Community School in Middlesex – a new school providing state of the art facilities to educate 1,450 children.

## THE PUBLIC SPENDING FRAMEWORK

**6.15** The Government is committed to ensuring that resources invested deliver value for money for the taxpayer and achieve the outcomes that the public want and expect. The quality of public services depends not only on how much the Government spends, but also on how effectively it spends it.

**6.16** Increased resources will only lead to improved public services if they are allocated and used efficiently. A modern and effective framework for the planning and control of public spending is needed to improve the quality and cost-effectiveness of public services. The Government's public spending framework is designed to deliver:

- consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;
- the measurement of success by policy outcomes rather than resource inputs;
- strong incentives for departments and their partners in service delivery to plan over several years and plan together where necessary; and

- the proper costing and management of capital assets to provide the right incentives for public investment.

**6.17** Since 1997, the Government has introduced a series of important reforms to deliver these objectives. Alongside the transition to full end-year flexibility and resource accounting and budgeting, described earlier in this chapter, these reforms include:

- firm and fixed plans for departmental services spending stretching over three years, and reviewed every two. These Departmental Expenditure Limits (DELs) provide departments with the certainty they need to plan effectively over the medium term;
- Public Service Agreements (PSAs), described below, which set out the improvements in public services that the Government is committed to achieving;
- longer-term budgets for health and transport of five and ten years respectively, reflecting the need to plan beyond the three-year horizons of firm DEL plans to provide stability in specific areas;
- central funds, including the Invest to Save Budget and the Capital Modernisation Fund, which reward innovative policy ideas on a competitive basis; and
- a National Asset Register<sup>2</sup>, the first of its kind in the world, to improve the way in which the public sector asset base is managed. The Register helps departments to use their assets more effectively and to judge whether individual assets are still required.

**6.18** The Government is now considering the scope for developing the budgeting framework, devolving budgets still further and allowing greater local flexibility and discretion to try out new and innovative ways of working. In particular, the Government believes there is a case for looking at:

- extending the cascading of three-year spending plans and end-year flexibility from departments to executive agencies and other major budget holders;
- simplifying the spending control regime, by removing the existing distinction between discretionary and non-discretionary provision which is both bureaucratic and limits departments' flexibility to transfer funds to where they are most needed;
- reducing administration cost controls for those departments that can demonstrate their ability to manage their resources effectively;
- switching from restrictions on how money is spent to greater accountability for results. For example, departments which provide top-up funding to local agencies should apply conditions relating to results, rather than how the money is spent; and
- modernising the civil service pay remit process by giving departments greater control over the detailed pay negotiation and settlement process, while retaining strategic controls at the centre.

<sup>2</sup> *The National Asset Register*, HM Treasury, Cm 5221, July 2001.

**Delivery planning** **6.19** With support from the Treasury and the Prime Minister's Delivery Unit, departments are putting in place effective delivery plans which set out robust and clear milestones towards achieving their PSA targets. Delivery plans show how delivery will be achieved over the target period, through effective implementation of reform and with the minimum bureaucracy. Departments will publish a summary of their plans in the form of Service Delivery Agreements. To further assist departments in this work, the Government recently re-appointed the Public Services Productivity Panel, originally established in 1998, to help identify and remove obstacles to productivity enhancing measures and the implementation of challenging PSA targets.

**Pay and workforce Strategies** **6.20** With decisions on pay-setting devolved to individual Secretaries of State, departments are also developing pay and workforce strategies to underpin their delivery plans. The workforce is an integral part of delivery. Departments must have the right people with the right skills in the right locations, if the Government's programme of public service reform is to be delivered and PSA targets are to be achieved. The development of robust pay and workforce strategies will help departments to take more control of pay and workforce issues. They will also allow departments to assure central government that pay and workforce issues are being well managed and that departments are well placed to deliver.

**Departmental Investment Strategies** **6.21** To ensure that new investment and existing assets are used effectively, departments also need a coherent long-term strategy to guide their investment decisions. Departmental Investment Strategies (DISs) describe departments' plans for investment over the next three years. For each department, DISs explain the contribution that investment will make to the achievement of objectives, as well as the department's plans to manage its asset base more effectively and to ensure it derives value for money from its investment programme. DISs also set out plans for working with the private sector to improve the delivery of public services. Draft DISs informed the conclusions of the 2002 Spending Review. **Consistent with the Government's objective to promote transparency in public service delivery, Departmental Investment Strategies for each department will be published shortly.**

## PUBLIC SERVICE REFORM

**6.22** Reform of the public spending framework has helped to ensure that additional resources made available for public services are allocated and used effectively. However, modernisation of public service delivery is also crucial to ensure that resources deliver the outcomes that the public demands and that the public sector is held accountable for its performance. New resources must be matched with reform to deliver results.

**6.23** Effective public service delivery requires the devolution of power to service providers to encourage the flexibility and creativity that are needed to meet local consumer demands. However, local initiative must be constrained by clear long-term goals and go hand-in-hand with strengthened local accountability, so that innovation does not put at risk shared commitments to the highest quality public services. As with other services, citizens will rightly continue to expect higher quality, more choice and greater flexibility in public services to suit their circumstances. However, where the Government is committed to public services free at the point of use and available to all on the basis of need, it is important to ensure that choice is not promoted at the expense of equity or efficiency, particularly where there are market failures and capacity constraints.

**6.24** The 2002 Spending Review set out the Government's comprehensive programme of public service reform. This programme is underpinned by a commitment to four important principles:

- clear long-term goals, set by the Government;
- independent and effective arrangements for audit and inspection to improve accountability;

- maximum local flexibility and discretion to innovate within a framework of targets and robust accountability arrangements; and
- transparency about what is being achieved.

**Long-term goals** **6.25** Public Service Agreements (PSAs) are central to the Government's strategy for improving public services. The PSAs published as part of the 2002 Spending Review<sup>3</sup> set targets for the full range of public services, detailing the outcomes that departments are required to deliver with the money allocated to their expenditure programmes. Instead of focusing on the resources going in to public services, PSAs focus on the outcomes that the public really care about, such as better health, educational achievement, and lower levels of crime. PSAs are an integral part of the Government's spending plans.

**6.26** Far from strengthening central control, PSA targets, by setting out clearly and simply what outcomes the Government aims to achieve, can allow departments to withdraw from old-fashioned centralised controls over the means of delivery. They can do this by setting a target, empowering local delivery bodies with the freedom and flexibility to achieve it, and ensuring the right accountability framework is in place to deliver value for money. This avoids the need for day-to-day central interference, increasing freedom for delivery bodies. Departments which consult those responsible for service delivery before targets are set are more likely to be successful when it comes to implementing them. Although the methods will vary depending on the nature of the targets, all departments should consult delivery bodies at the target formulation stage.

#### **Box 6.4: PSA floor targets and neighbourhood renewal**

The Government is committed to leveraging up the performance of public services in deprived areas towards the national average. The 2000 Spending Review set specific Public Service Agreement 'floor targets' to ensure that everybody, wherever they live, can expect decent standards of public service provision. The 2002 Spending Review rolled forward and strengthened these floor targets, including by:

- setting new schools floor targets for achievement by 11, 14 and 16 year olds;
- maintaining a target to reduce inequalities in health outcomes by 10 per cent, as measured by infant mortality and life expectancy at birth;
- setting a new target to reduce the gap between those Crime and Disorder Partnership areas with the highest crime and the best comparable areas; and
- extending the floor target on housing conditions to cover the private as well as the social housing sector.

These targets are supported by additional resources allocated in the 2002 Spending Review. On top of increased mainstream resources, the Neighbourhood Renewal Fund has been extended to provide £450 million in 2004-05 and £525 million in 2005-06 to deprived local authority areas in England. At a local level, neighbourhood renewal is overseen by Local Strategic Partnerships (LSPs), which have been set up across England to bring together public, private, community and voluntary sector partners to coordinate solutions to tackle social exclusion.

<sup>3</sup> 2002 Spending Review: Public Service Agreements 2003-2006, HM Treasury, CM 5571, July 2002

**Independent audit and inspection** **6.27** Independent and effective arrangements for audit and inspection are vital if departments and agencies are to be held accountable for performance against their targets. Increased freedom and flexibility must be matched with greater accountability for the resources used. Such arrangements should separate responsibility for setting standards from responsibility for assessing whether they are being achieved. The Government is taking a number of steps to strengthen existing arrangements, including:

- setting up a new independent Commission for Healthcare Audit and Inspection to monitor performance and the use of resources, publish information, carry out local inspections and oversee independent complaints procedures;
- integrating the work of the Social Services Inspectorate and the National Care Standards Commission into a single independent inspectorate for social care services;
- consolidating and developing the role of the new Police Standards Unit, working alongside Her Majesty's Inspectorate of Constabulary; and
- establishing a single housing inspectorate to drive up performance for all types of social landlord, replacing the current separate inspection regimes.

**Maximum local flexibility** **6.28** Within the framework of targets and accountability arrangements, service deliverers should have maximum local freedom, flexibility and discretion to innovate, respond to local conditions and meet differing consumer demands. While devolution may not be practical in certain cases, such as in defence, in general national standards can only be delivered effectively by devolution and delegation, matched with accountability for performance and transparency about results. This framework gives local providers the opportunity to design and develop services around the needs and priorities of their communities, helping to ensure that the highest quality public services are available not just to a few but to all. Additional freedoms and flexibilities for local service providers are given in return for high performance, increasing the incentives on all service providers to raise standards.

**6.29** The Government is committed to promoting prosperity in all regions of the UK. Because public service priorities may differ across regions, to be most effective spending should be targeted on the particular priorities they face. In the 2002 Spending Review, for the first time, the Government invited regional institutions to set out their view of the key public service priorities to promote prosperity in their regions. Departments were required to take these views into account in preparing their own priorities for resource allocation. In response, the 2002 Spending Review established a new PSA target to reduce the persistent differences in economic performance between regions over the longer term.

**Box 6.5: A strong and independent voluntary sector**

The Government believes in a robust and independent voluntary and community sector that has the capacity, where it wishes, to engage with the Government to deliver world-class public services. In September, the Treasury published the conclusions of the cross cutting review into the role of the sector in public service delivery. The review highlighted the additional value that the sector can bring, from designing and planning services to direct service delivery. The sector is a key partner in delivering government policies and the Government is committed to creating a framework in which it can continue to flourish and be strong. The Government is committed to implementing the review in full by 2006, by:

- getting the funding relationship right, ensuring that contracts cover the full costs of services;
- building capacity within the sector to enable it to work with Government to deliver the shared goal of world-class public services; and
- implementing in full the Compact between government and the sector to reinforce the independence of the sector and ensure an open and transparent relationship with government.

The Government has matched these commitments with resources. Some £93 million will be available over the 2002 Spending Review period to implement the review, and an additional £125 million will be invested in a new *futurebuilders* fund to assist voluntary and community organisations in their public service work. The Treasury is leading on the design of *futurebuilders*, in cooperation with the sector. Funding will be directed to those organisations directly involved in delivering key public services in health and social care, crime and social cohesion, education and learning, and support for children and young people.

Schemes that work across these boundaries will be welcomed. The fund will be open to organisations new to service delivery as well as existing ones and will promote innovative ways of delivering services, as well as replicating existing good practice.

In addition to these steps, the Strategy Unit has also set out far reaching recommendations for reform of the legal and regulatory framework for charities. These recommendations reinforce the principle of public benefit as the common factor in charitable status, introduce a new legal form for charities – the Charitable Incorporated Organisation – and a new tailor-made legal form solely for small, locally-based social enterprises – the Community Interest Company.

The Government recognises that volunteering presents opportunities for individuals to gain new skills, aids personal development and helps build strong and cohesive communities. It also contributes significantly to the economy. It has been estimated that the economic contribution of volunteers amounts to over £15 billion, and the Government therefore has a strong interest in seeing the voluntary principle thrive. The Chancellor and the Home Secretary will publish shortly a discussion document setting out the next steps in the Government's strategy on volunteering and giving. As part of this strategy, the Government will seek to pilot a scheme to help young people from lower income backgrounds taking a year out after school or training to volunteer in community projects. It will also consult business on a new Corporate Challenge to encourage support for charities and the voluntary sector.

**6.30** The Government is taking forward its commitment to the devolution of service delivery in a number of ways. For example:

- local authorities which the Comprehensive Performance Assessment (CPA) shows to be performing well will gain new freedoms. Individual local authorities can already negotiate local PSAs which offer freedoms and flexibilities in return for the adoption of challenging PSA targets. More details of the new freedoms and flexibilities that will be available to local authorities are described later in this chapter; and
- Regional Development Agencies (RDAs), tasked with promoting economic development and regeneration in the English regions, have been given considerable new financial flexibilities as well as additional resources and responsibilities. As described in Chapter 3, a single RDA fund has been introduced in place of separate funding streams from five sponsor departments, and overall funding will rise to £2 billion by 2005-06. In return, the RDAs will be required to meet stretching new performance targets.

**Transparency 6.31** The Government is determined to ensure that the public receives regular and reliable information about the progress being made against PSA targets, strengthening accountability for performance. The 2000 Spending Review introduced departmental Technical Notes and Service Delivery Agreements, which set out respectively for the public how performance against targets will be measured and the key steps that departments will take to deliver them. In March 2002, the Government also invited the Comptroller and Auditor General to externally validate the data systems underlying the targets, drawing on the work, and recognising the independence and authority, of the National Statistician and the Audit Commission.

**6.32** In view of the importance of transparency and accountability, the Government is now introducing further major reforms in public reporting:

- starting from now, **departments will publish progress against their PSA targets twice a year** – in the autumn, as well as in their spring departmental reports;
- starting from now, **the Treasury website will provide links to departments' PSA progress reports** as well as to the new Technical Notes, Service Delivery Agreements, and Departmental Investment Strategies, as they are published. This will allow the public to access the full range of published departmental material from a single portal; and
- starting from next April, the Government will introduce **regular web-based reporting of progress against all the new PSA targets**.

**6.33** The degree of transparency embodied in public reporting of performance against PSA targets at the national level needs to be matched by similar arrangements at the local level, to ensure that all service providers can be held accountable for the outcomes they are delivering for local people. A number of reforms are being introduced across Government to ensure this is so. For example, the CPA will bring together and publish evidence on local authorities' performance against their responsibilities; the publication of school examination results provides parents with local information about achievement; star ratings for the NHS, first published in July 2002, will be published every year; and the Home Office will publish comparisons of police force performance across a range of responsibilities at regional force level from 2004-05.

### Putting principles into practice: the next steps

**6.34** These principles provide a clear framework for delivering long-term improvements in public services. Alongside devolution of power and flexibility, and on the basis of transparency about what is achieved, public service providers that perform well should be rewarded with greater resources and additional flexibility in how they use them. Conversely, problems in failing institutions should be dealt with quickly and decisively. This section describes how the Government is putting these principles into practice, setting in train a number of reforms designed to enhance the performance of priority public services.

#### Reforming education

**6.35** A well developed process of localised target setting is now enabling individual schools and their Local Education Authority (LEA) to plan the scale and timing of reforms necessary to achieve both local and national targets for 11, 14, and 16 year-olds.

**6.36** The Government is creating new opportunities for local freedom and innovation. The School Standards Grant (SSG) – paid to every headteacher – has been increased; by 2003–04, SSG will be worth £50,000 a year to a typical primary school, and £165,000 to a typical secondary school. Several policy developments are rewarding improvement or sustained high performance at the school level, both through financial incentives and less regulation or lightened inspection. The new Education Act builds on these local freedoms and incentives by offering new powers to innovate and deregulate, including on the curriculum and staffing arrangements.

**6.37** To ensure that no school is held back in making the best use of new local opportunities, the Leadership Incentive Grant (LIG) will strengthen leadership and help schools in the most challenging areas. £125,000 for each school in the partnership will be paid from April 2003 to 1,400 eligible secondary schools. Details of the allocation of funding will be announced shortly, with funding being conditional on the quality of collaborative working. As part of the process of leadership change, the Department for Education and Skills (DfES) and OFSTED are working together to develop a set of leadership criteria for transforming standards, against which excellent school leadership will be judged, and which will be incorporated in a new OFSTED inspection framework from next year. LEAs will work with partnership in schools, OFSTED and DfES to ensure consistent assessment and maximum scope for innovation in leadership change. LIG will challenge more school leaders to demonstrate some of the attributes traditionally associated with entrepreneurs, including greater innovation.

**6.38** The PSA target for all schools to be able to benchmark their expenditure and pupil attainments against comparable schools has been achieved, giving all headteachers new insights with which to refine their reform plans. In addition, discussions are well advanced on proposals to remodel the school workforce and make full use of all the skills and members of school teams.

#### Delivering better healthcare

**6.39** Having provided the extra funding for healthcare described in Box 6.1, the challenge now is to ensure it delivers results. The Government has set out the outcomes it aims to deliver, and is introducing significant reforms to the structure and funding of the National Health Service (NHS) to promote efficiency and equity and to shift resources and decision-making closer to local people. Nonetheless, while the largest hospital building programme ever is underway, capacity constraints remain. It is therefore essential that the NHS uses its resources in the most efficient manner to deliver the ‘fully engaged’ scenario described in the Wanless report.

**6.40** Primary Care Trusts (PCTs) are central to the Government’s strategy for decentralising and devolving power in the NHS to local communities. First introduced in April 1999, the number of PCTs has since risen to more than 300. Run by GPs, nurses, other health and social

care professionals, and representatives of patients and the community, PCTs are responsible for determining the health needs of local people and commissioning the right mix of services to meet them. They are also responsible for integrating health and social care services to ensure that both systems work together for patients. In 1997, GP fund-holders controlled just 15 per cent of the NHS budget. Today, family doctors and nurses in PCTs control around half of the budget and this is expected to rise to three-quarters by 2004. Building on the model of greater flexibility and reduced bureaucracy already being established for high performing local authorities, the Government is establishing new NHS Foundation Trusts which will provide for financial freedoms and flexibilities for hospitals with a track record of success. The Government is ensuring that these freedoms and flexibilities are balanced by the need to deliver better treatment for NHS patients and to safeguard taxpayers' money.

**6.41** The Government is committed to providing patients and the general public with comprehensive and easy to understand information on the performance of their local health services. Since 2001, information on the relative performance of all NHS trusts providing acute hospital services has been made publicly available. As described earlier, to further enhance audit and accountability, a new independent Commission for Healthcare Audit and Inspection will be established to monitor and publish information about performance and the use of resources, including in an annual report to Parliament. It will also carry out local inspections and oversee independent complaints procedures.

#### Improving criminal justice

**6.42** The Government is introducing a number of reforms to modernise and improve police performance across all forces. Plans to increase delegation to the front line are going ahead, with £50 million of annual funding allocated to Basic Command Units in high crime areas for use in implementing innovative schemes to address local priorities. The Police Standards Unit is establishing new frameworks that will allow resources to be assessed against the delivery of key outcomes, and plans are also being finalised for local police force commanders and Basic Command Units to make annual police performance information available to every household. The Police Standards Unit and the Home Office are working to implement new powers given to police authorities under the Police Reform Act to take action in cases where police forces are performing poorly. Reforms to pay and working conditions within the police are also proceeding, in an effort to modernise all police forces while providing incentives to officers in the highest crime areas.

**6.43** In addition, the Government intends to ensure that prison and probation deliver sanctions that deter offenders and reduce re-offending, while achieving greater value for money. To improve transparency and address examples of failure, performance benchmarking will be introduced for prisons over the next seven years, and failing prisons will be contracted out. The operational management of correctional services will be separated from contracting strategy, standard-setting and performance management.

#### Better housing

**6.44** The key challenges for the Office of the Deputy Prime Minister are to deliver a step change in housing supply in high pressure areas, to tackle the growing problems of low demand and abandonment in parts of the North and Midlands, and to continue to improve housing conditions, in the social and private sectors, for the more vulnerable. The Deputy Prime Minister has already announced major reforms to ensure delivery, including through fundamental reform of the planning system, strengthened regional machinery to ensure coherent spatial, economic and housing strategies, and a unified housing inspectorate to drive up standards in social housing. Further details will be announced in January when the Deputy Prime Minister launches an action programme for sustainable communities. Chapter 3 describes a series of major reforms to the way in which decisions on housing are taken, including the establishment of new regional housing bodies.

**Freeing up local government** **6.45** In line with last year's Local Government White Paper,<sup>4</sup> the Government is taking firm action to ensure that all local authorities see a significant reduction in Whitehall controls, with high performing authorities receiving a radical package of freedoms and flexibilities. As announced by the Office of the Deputy Prime Minister on 26 November, the amount of central government revenue and capital support that is ring-fenced will be reduced, giving all councils greater control over their spending. In addition, the number of plans that councils must produce for central government will be reduced by over 75 per cent, and all inspection activity will in future be carried out on a coordinated and targeted basis.

**6.46** The best councils will see even greater freedoms. The Comprehensive Performance Assessment (CPA) for upper tier authorities will be published in December. Councils that the CPA process has shown to be excellent will benefit from the removal of all revenue and capital ring-fencing, except for direct grants to schools. They will be required to produce just two plans - a Best Value Performance Plan and a Community Strategy - and will be exempt from most inspection activity for a three-year period. Excellent local authorities will be invited to participate in a new Innovations Forum, within which central and local government will explore ways of eliminating bureaucratic barriers to local innovation and excellence. They will also have more freedom to use fine income, new opportunities to trade, and be exempted from the Government's reserve capping powers. The Government is keen to devolve power and responsibility as much as possible, but is ready to take action where authorities are performing badly. With the support of the local government community as a whole, it will therefore ensure that poor councils put in place effective recovery plans that provide their communities with the decent public services that they deserve.

**6.47** The Government recognises the importance of greater financial freedoms for all local authorities. As well as the measures described above, the Government is introducing a new prudential regime for borrowing. These policies add up to a substantial package of increased financial freedoms for local authorities. However, the Government recognises that authorities remain concerned about the strategic issue of the balance of funding between central and local government and the impact that this has on their ability to raise additional revenue. As stated in the Local Government White Paper, the Government will establish a high-level group, involving Ministers and senior figures from local government, to consider all aspects of the balance of funding, reviewing the evidence and looking at reform options. As described in Chapter 7, the Government plans to consult on a new proposal to allow local authorities to retain some or all of any increases in business rates revenue to spend on their own priorities.

## DELIVERING RESULTS

**6.48** Alongside additional resources, the comprehensive programme of reform the Government has put in place aims to deliver significant improvements in public services. With more money invested, more results are required.

**6.49** Public Service Agreements (PSAs) are designed to improve performance by ensuring that all those involved in public service delivery can focus on clear long-term goals. Clear targets, against which performance is regularly monitored, also help policy makers to identify where further action might be needed. As described earlier in this chapter, departments will now publish progress reports against their PSA targets twice a year – once in the spring and once in the autumn. Departments are currently in the process of publishing their first autumn performance reports. This section summarises some of their content.

<sup>4</sup>*Strong Local Leadership – Quality Public Services*, Department for Transport, Local Government and the Regions, CM 5237, December 2001

**Health 6.50** The Department of Health is responsible for over £58 billion this year. Its aim is to transform the health and social care system so that it produces faster, fairer services that deliver better health and tackle health inequalities. The NHS has made good progress towards meeting many of its objectives and PSA targets, though some areas need to be addressed:

- mortality rates from cancer and coronary heart disease fell by nearly 7 and 14 per cent respectively in the three years to 2000, against a 20 per cent reduction target by 2010;
- the number of people waiting over three months for an out-patient appointment has almost halved since 2000, against a target of a maximum three month waiting time by 2005. Over the same period, the number of in-patients waiting over 12 months also fell by more than half, against a target of a maximum six month waiting time by 2005; and
- challenges remain to tackle the delayed discharge of older people from hospitals, improve the life chances of children in care, and strengthen accident and emergency provision.

**Education 6.51** The Government plans to spend around £45 billion on education and skills in England this year. Important improvements have continued in all areas, though progress has not always been as fast as the Government wanted, highlighting the scale of the challenge in some areas of provision. In 2002:

- over half of all 16 year olds achieved five A\*-C grades at GCSE, exceeding the target;
- 75 and 73 per cent of 11 year olds achieved required standards in literacy and numeracy respectively, building on the substantial gains made over the last few years though falling a little short of the targets of 80 and 75 per cent; and
- the Government is on track to meet its target of helping 750,000 adults gain basic skills by 2004.

**Crime 6.52** The Government's aim is to build a safe, just and tolerant society. Nearly £15 billion will be spent this year on the fight against crime, and the Home Office, the Lord Chancellor's Department and the Crown Prosecution Service have all been set challenging targets. While further progress is needed in some areas, significant results have been achieved in others:

- overall crime levels, as recorded in the British Crime Survey, have fallen;
- by the end of March 2002, vehicle crime had fallen by 8.8 per cent, and domestic burglary by 9 per cent, against respective reduction targets of 30 per cent by 2004 and 25 per cent by 2005 compared with 1998-99 levels. In the two years to 2002, vehicle crime has fallen by 14 per cent and domestic burglary by 23 per cent;
- recorded robberies have increased by 35 per cent since March 2000 against a targeted 14 per cent reduction by 2005. However, since the Street Crime Initiative (SCI) began, the number of robbery offences in the ten SCI police force areas has fallen by 28 per cent; and
- figures for July 2000 reveal a 14 per cent fall in the reconviction rates of young offenders since 1997, well ahead of the targeted 5 per cent reduction by 2004.

**Transport 6.53** The Government's Ten-Year Plan for Transport sets ambitious targets to be delivered by 2010, supported by more than £180 billion of public and private spending. The Secretary of State for Transport will report shortly on progress toward delivering the Plan's ambitious objectives and the department is conducting a review to re-assess the way ahead, and to roll forward the Plan into the next decade. The baseline for congestion, against which performance will be measured, will be published alongside the progress report. Progress has been made in a number of areas:

- the number of deaths or serious injuries from road accidents has continued to decline - falling by 15 per cent compared with the average over the period 1994 to 1998, against a target of 40 per cent by 2010. For children, the decrease has been 27 per cent over the same period, against a target of 50 per cent by 2010;
- bus and light rail use increased by 1.1 per cent in 2001, although there are regional variations, against a new combined local public transport target of 12 per cent by 2010;
- network capacity on the London Underground increased by 2.5 per cent and reliability improved by 7 per cent compared with last year, in support of the Government's target to reduce journey times by increasing capacity and reducing delays; and
- the rail network was hit hard by the consequences of the accident at Hatfield, which led to extended disruption to services. Subsequently there has been a steady recovery in rail performance, though passenger levels are not yet at where they were pre-Hatfield. Passenger use increased by 2.6 per cent compared with 2000-01, against a target increase of 50 per cent by 2010 from 2000 levels.

**Housing 6.54** Over eight million people live in more than four million local authority and housing association homes. The availability and condition of social housing, and the systems through which people gain access to it and help with its costs, are vitally important for tackling poverty and regenerating deprived neighbourhoods. By 2005-06, investment in housing in England will have risen by £1.1 billion from this year's level to £5.9 billion. Through existing investment and reform, the Government:

- has enabled local authorities to reduce the backlog of council homes needing repairs by around 180,000 dwellings, with around 660,000 additional council houses benefiting from new investment;
- is on course to bring a third of non-decent social housing – around 500,000 homes – up to a decent standard between 2001 and 2004, as part of its long-term target to make all social housing decent by 2010;
- is building up to 22,700 affordable homes through the Housing Corporation in 2003-04, exceeding its social housing target for 2001-04; and
- has met six years early its target that, by 2008, 60 per cent of additional housing should be provided on previously-developed land and through conversions.

**Box 6.6: Investing in better infrastructure**

The Government has delivered a significant increase in capital investment to reverse the decline seen over the previous two decades. This investment has been underpinned by Departmental Investment Strategies to ensure that capital programmes are delivered effectively. Significant results have been achieved.

**In education:**

- 20,000 schools have benefited from building improvements since 1997. By 2003-04, a typical secondary school will receive direct capital funding of around £75,000 and a typical primary school around £22,000. By 2004, over 650 schools will have benefited from rebuilding or major renewal;
- the computer to pupil ratio in primary schools is now 1:9.7 and 1:6 in secondary schools. These ratios will be improved to 1:8 and 1:5 respectively by 2004; and
- 553,000 childcare places had been created by June 2002, helping over one million children.

**In health:**

- over 1,300 GP premises have been upgraded. 10,000 GP practices and 1,000 hospitals are now connected to NHSnet, which handles 1.5 million messages per day with usage rising by 8 per cent a month; and
- an £8.5 billion hospital programme is now underway – the biggest in NHS history. By 2008, of the 68 major hospital schemes so far approved to proceed, over 50 will be operational with all of the remaining schemes under construction. The extra investment will allow an increase in treatment capacity equivalent to over 10,000 beds.

**In transport:**

- £4 billion has been invested in rail carriages. Since 1997, over 4,000 new carriages have been ordered, of which over 1,400 are already in service. Over 2,100 railway stations have been improved and 17 new stations built.

**In crime:**

- as a result of the 2000 Spending Review, the Home Office has allocated further funding of £146 million to its existing CCTV initiative, for 683 new CCTV schemes. 500 schemes are now in place and the remainder will be in operation by March 2003. Early findings from a number of implemented schemes have shown a very positive impact on crime reduction.

