

# Technical Note - HM Treasury

Technical Note for HM Treasury's Public  
Service Agreement (PSA) 2003-06

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2002 Spending Review (SR2002)



HM TREASURY

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HM TREASURY

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# Technical Note - HM Treasury

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# FOREWORD TECHNICAL NOTE FOR HM TREASURY'S PUBLIC SERVICE AGREEMENT (PSA) 2003-06

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The following note sets out the technical details of how the PSA for HM Treasury, published in 2002 Spending Review; Public Service Agreements 2003 – 2006 (Cm 5571, July 2002), will be measured.

The note covers the data to be used, its source, availability, validation arrangements, definitions, time period of the measurement and territorial scope. Where a target is not susceptible to quantitative measurement, the note sets out what information will be used to ascertain whether or not a target has been met.

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# PSA I

**Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.**

**1.1** The trend rate of growth is the rate at which the potential output of the economy can grow without putting upward or downward pressure on inflation. However, it cannot be measured directly. There are several methods that can be employed to estimate trend growth. The Treasury's approach is to measure trend growth as the annual average percentage increase in real non-oil Gross Value Added (GVA) over a complete economic cycle. The economic cycle is defined as a period between two points when the economy is identified as being on-trend and which includes both a period when the economy is above trend and a period when it is below trend. For example, the economic cycle starting in the first half of 1997 is judged to have been completed in mid-1999.

**1.2** Estimates of the trend rate of growth, both over the recent years past and looking forward, as well as judgements on the economic cycle, are published by HM Treasury in Pre-Budget Reports and Financial Statement and Budget Reports. Estimates are made using National Statistics data. Further information on how the judgement on the economic cycle is made and the method used to estimate trend growth over the economic cycle is available in Fiscal Policy: Public Finances and the Cycle (March 1999), Trend Growth: Prospects and Implications for Policy (November 1999) and Trend Growth: Recent Developments and Prospects (April 2002).

**1.3** In the 2000 Spending Review (SR2000), the following Public Service Agreement (PSA) target for trend growth was adopted: 'By 2004, raise the trend rate of growth from the current estimate of 2.5 per cent.' In other words, the baseline for assessment of performance against the current 2002 Spending Review (SR2002) target is the trend growth of 2.5 per cent used in SR2000.

**1.4** Trend growth greater than 2.5 per cent for the current economic cycle and any subsequent cycles up to 2004, will constitute having met the target. The exact timing for when such an assessment will depend on the timing of the end of the economic cycle.

**1.5** The current projection for trend growth, and an explanation of how trend growth is estimated looking forward is set out in HM Treasury publication Trend Growth: Recent Developments and Prospects (April 2002). This sets out the explicit rate of 2.75 per cent looking forward as the neutral assumption for trend growth over the medium term in the Budget forecasts to 2006/07. While we cannot estimate trend growth for the current period until we have completed an economic cycle, the projection of trend growth looking forward provides an indication of the expected outturn. Because of the uncertainty surrounding any estimates, trend growth looking forward is rounded to the nearest quarter percentage point.

**1.6** Estimates of trend growth, particularly for periods after 1996, are likely to be affected by the introduction from Blue Book 2003 of annual chain linking to estimate economic growth. This may imply that in assessing performance against the target an adjustment factor will be needed to put outturn and baseline on a comparable basis.



**Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Bank of England's Monetary Policy Committee (currently 2.5 per cent RPIX).**

**2.1** The target measure of inflation is the Retail Prices Index excluding mortgage interests payments. This is a National Statistic and available on a monthly basis. The most recent remit, related at the time of Budget 2002 and unchanged since the original remit in 1997, states that the operational target for monetary policy is the 12-month increase in the Retail Prices Index excluding mortgage interest payments of 2.5 per cent. The target applies at all times. If inflation deviates by more than one percentage point in either direction from target, an explanatory Open Letter is required to be sent from the Governor of the Bank of England to the Chancellor, setting out:

- The reasons why inflation has moved away from the target by more than one percentage point;
- The policy action the Monetary Policy Committee (MPC) is taking to deal with it;
- The period within which the MPC expects inflation to return to target; and
- How this approach meets the Bank's monetary policy objectives.

**2.2** The thresholds for the Open Letter do not define a target range. Their function is to define the points at which the Chancellor expects an explanatory letter because the actual inflation rate is appreciably away from its target.



**Over this economic cycle, maintain: public sector net debt below 40 per cent of GDP; and the current budget in balance or surplus.**

**3.1** Public sector net debt measures the public sector's gross debt to the private sector and abroad less short-term financial assets such as deposits and foreign exchange reserves. This target requires that at the end of every fiscal year of this economic cycle, public sector net debt is below 40 per cent of GDP.

**3.2** The surplus on the current budget is defined in the National Accounts as net saving (the difference between current receipts and current spending, including depreciation) plus receipts of capital taxes (i.e. inheritance tax). This definition is based on the European System of Accounts 1995 (ESA95). The public sector current balance measure used for this target is based on this ESA95 definition and is expressed in terms of an average over the economic cycle.

**3.3** Further details are available on the National Statistics web site. Figures for net debt and the current surplus are published monthly in a press notice by the Office for National Statistics. Outturns and forecasts are set out each year in the Budget and Pre-Budget Report.



**Promote increased global prosperity and social justice by: - Working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards.**

**4.1** Successful participation in the global economy implies that an economy is open to and benefits from substantial trade and capital flows – as measured by the value of exports and imports, and gross capital flows, including in particular foreign direct investment. But in order to ensure that openness contributes to growth, stability and poverty reduction, it is also necessary to ensure that a sound institutional framework is in place. The Treasury therefore works through the international financial institutions and other for a to promote a framework of internationally agreed standards and codes; covering fiscal and monetary policy frameworks, corporate governance and financial regulation. The international Monetary Fund (IMF) assesses member countries' compliance through Reports on the Observance of Codes and Standards (ROSCs) and as part of joint IMF / World Bank Financial Sector Assessment Programmes (FSAPs). An increasing number of member countries – industrialised, emerging market and developing – have undergone ROSC modules. As of August 2002, 293 ROSCs have been produced by the IMF and the World Bank for 83 countries, of which 217, covering 66 countries, had been published. Further information is available on the International Monetary Fund Web site.

**- Ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals. (Target is shared with the Department for International Development.)**

**4.2 Millennium Development Goals:** The Millennium Development Goals (MDGs), previously known as the International Development Targets, were selected from the series of United Nations (UN) conferences held in the 1990s that were reaffirmed at the UN Millennium Summit in 2000 by a consensus of all 189 UN member countries. The goals and associated indicators are neither exclusive nor comprehensive. Rather they represent a core set of goals covering the three dimensions of sustainable development – enhancing economic growth, promoting human and social development, and protecting the environment. The goals are summarised below:

**Goal 1. Eradicate extreme poverty and hunger**

Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day;

Target 2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger

**Goal 2. Achieve universal primary education**

Target 3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

**Goal 3. Promote gender equality and empower women**

Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.

**Goal 4. Reduce child mortality**

Target 5. Reduce by two thirds, between 1990 and 2015, the under-five mortality rate

**Goal 5. Improve maternal health**

Target 6. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

**Goal 6. Combat HIV/AIDS, malaria and other diseases**

Target 7. Have halted by 2015 and begun to reverse the spread of HIV/Aids.

Target 8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

**Goal 7. Ensure environmental sustainability**

Target 9. Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Target 10. Halve by 2015 the proportion of people without sustainable access to safe drinking water.

Target 11. By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

**Goal 8. Develop a global partnership for development**

**Relief of Unsustainable Debt:** The Heavily Indebted poor Countries Initiative (HIPC) was launched in 1996, but significantly enhanced in 1999. Countries that are sufficiently indebted, poor, and borrow from the IMF and World Bank on only the most concessional terms are potentially eligible for debt relief. The UK is at the forefront of the debate on international debt relief and participates fully in the enhanced Heavily Indebted Poor Countries (HIPC) initiative agreed at Cologne in 1999 that makes provision for the cancellation of around 100 billion US dollars of debt. Under the HIPC initiative a country receives interim debt relief on payments due when it reaches Decision Point and subsequently the debt is irrevocably cancelled at Completion Point.

**4.3** To reach Decision Point a country must prepare an Interim-Poverty Reduction Strategy Paper (PRSP). To get to Completion point they need to develop a full PRSP, and implement in one year. These documents are drawn up by the country, with the participation of civil society, in order to show how debt relief and other resources will be targeted on reducing poverty. The country must also be on track with its IMF programme for which there will be a range of conditions, for example on macroeconomic stability or public sector management. Further information is available on the International Monetary Fund web site.

**4.4** Of the 42 countries classified as HIPC, four are currently expected to have a sustainable burden of debt after traditional debt relief and one has, so far, not opted to apply for debt relief. Of the remaining 37 countries, 26 have now reached Decision Point with \$62 billion in debt relief committed compared with the \$100 billion total. Six of these countries: Bolivia, Mozambique, Tanzania, Uganda, Burkina Faso and Mauritania have reached Completion Point and will have the totality of their debts owed to the UK irrevocably cancelled.

**4.5** Out of 11 countries yet to reach Decision Point (pre-DP), eight are affected by conflict and this makes their progress in the HIPC initiative difficult. With respect to the Public Service Agreement, countries that have yet to reach Decision Point are not deemed eligible. While the UK Government, working with other countries and the international community will do all it can to promote peace, the resolution of such conflicts is largely contingent upon the actions of the countries themselves. However, for those countries that are committed to poverty reduction and have reached their Decision Point the Department for International Development and Her Majesty's Treasury will work towards ensuring that three-quarters reach Completion Point by 2006.

**4.6** Moreover, the UK goes beyond the terms agreed under the HIPC initiative and always provides 100 per cent debt relief on all qualifying debts owing to the Department for International Development, the Export Credit Guarantee Department – which accounts for the bulk of the debt – and the Commonwealth Development Corporation. In addition, for those HIPC yet to reach Decision Point the UK operates a unilateral 'Hold-in-Trust' policy. For these countries yet to secure debt relief because of civil wars, external conflict or the absence of a poverty reduction programme any debt payments made are held in trust until they can be returned to fund poverty reduction.

- Work with international partners to make progress towards the United Nations 2015 Millennium Development Goals [joint target with DfID].

## Definitions

**4.7** DFID's full Technical Note sets targets for 2006 and measures progress towards the MDGs for 16 focus African countries, 4 focus Asian countries and the following regions: Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.

**4.8** In addition to measuring progress against the MDGs we will also measure the progress of the international community in delivering effective support for poverty reduction. We will monitor the key indicators in DFID's SDA. These indicators are:-

- Countries accessing IDA resources and their key donors are committed to and supporting effective and sustainable poverty reduction strategies.

Effective and sustainable poverty reduction strategies will be assessed against the processes used, the ex-initial quality of PRSs and results. The processes and initial quality of PRSs will be assessed against the good practice indicators included in the 2002 PRS Review. The results will be assessed against PRS's own targets and narrative in the annual reviews of the PRS.

- Improved effectiveness of EC development assistance measured by:-
  1. The establishment of clear and measurable outcomes-based objectives for poverty reduction that support the November 2000 Development Policy declaration and the means to monitor and evaluate them;
  2. Agreement in the Council, Commission and European Parliament to implement these objectives, including by increasing the share of EC ODA going to low-income countries in each annual budget process;
  3. Ensure successful completion of the commission reform process in external relations by their target date of 2003
- Work towards the achievement of the agreed target for EU average aid to reach 0.39% by 2006 and promoting greater aid effectiveness among donors

EU average aid is net official development assistance (as defined in the Statistics on International Development glossary) as a proportion of combined Gross National Incomes (GNI). Both aid and GNI figures relate to the 15 EU Member States and do not include those countries joining the EU after 2003.

- Improved institutional effectiveness of 12 multilateral agencies.

Effectiveness will be measured against agencies own corporate performance benchmarks. DFID's International Director's Delivery Plan will set the benchmarks against which to measure change. The 12 agencies to be monitored are: the European Bank for Reconstruction & Development, the World Bank, the Asian Development Bank, the African Development Bank, the International Committee of the Red Cross, the UN Development Programme, the UN Children's Fund (UNICEF), the UN Food Programme, the World Health Organisation, the Food & Agriculture Organisation of the UN, The Office of the United Nations High Commissioner for Refugees (UNHCR) and the UN Educational, Scientific & Cultural Organisation (UNESCO); this list encompasses those multilaterals where DFID's average annual spend (from International Division resources) is expected to be at least £10 million.

## Sources

### MDGs

**4.9** The UN Department of Economic and Social affairs has the remit to report annually on global progress towards the MDGs. Their first report fed into the Secretary General's report to the UN General Assembly on the implementation of the Millennium Declaration, which was published in September 2002. This showed that progress towards the goals is mixed both between and within regions and across the different goals and targets. Many countries have made progress but much of the world, generally the poorest countries, would not meet the targets if current trends continue. In particular, extraordinary efforts will be needed in Sub-Saharan Africa if this region is to reach the targets. At the country level the UN Development Programme is responsible for producing MDG progress reports. The aim is to produce a report for each developing country by 2004. Further details of progress against MDGs can be found in DFID's 2000/01 Statistics on International Development.

### POVERTY STRATEGIES

**4.10** Effectiveness of international donor support to Poverty reduction Strategies will be monitored through the 2005 PRSP Review to be undertaken jointly by the World Bank and the IMF. This will be reinforced by the 2003 Evaluation of PRSPs to be undertaken by the World Bank and the IMF and by DFID's own monitoring, including through the Multilateral Organisations Performance Assessment Network (a joint monitoring network with other shareholders of the MDBs which includes assessment of the role of the UN in supporting (PRSPs). The 2002 PRSP Review, including UK, developing country and civil society inputs to it, will be taken as the benchmark.

### INSTITUTIONAL EFFECTIVENESS OF OTHER MULTILATERAL AGENCIES

**4.11** All sources will be agencies corporate sources, including Annual Reports. Some (but not all) sources will be publicly available.

**Demonstrating progress towards the Lisbon goals by 2006, by working with our European Union partners to achieve structural economic reform in Europe.**

**4.12** Structural economic reforms, agreed and developed by the European Council, help to increase productivity and raise employment rates in the EU. With this in mind, at the Lisbon European Council in March 2000, the Union “set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world capable of sustaining economic growth with more and better jobs and greater social cohesion.” To indicate progress against this objective, employment and productivity indicators are used. Employment is measured by the employment rate, and a target of 70 per cent employment in the EU by 2010 was set by Member States at the Lisbon European Council. On current estimates<sup>1</sup> the rate was 62.4 per cent for 1999 and 64.1 per cent for 2001. Productivity is examined here using two measures: output per worker and output per hour worked. The measures used in this assessment are of actual productivity as opposed to trend productivity; consequently they are dependent upon the economic cycle and may not accurately represent underlying structural changes, since the data have not been adjusted for cyclical variation. There will be a review of progress by 2004.

**4.13** The **productivity** measures used in the EU, as listed in the structural indicators agreed by the European council, are output per worker and output per hour. These are compiled by Eurostat using information from National Accounts and validated by national statistical agencies. Output per worker is measured as the gross domestic product expressed in purchasing power standard (to control for changes in exchange rates) per person employed. Purchasing power standard is used to eliminate distortions caused by exchange rates. The definitions of persons employed match those of the International Labour Organisation (ILO). Output per hour is measured as the gross domestic product expressed in purchasing power standard per hour worked. Hours worked are estimations based upon Eurostat and OECD data for average hours worked per person employed per country. Eurostat collect this data following Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the community (ESA 95) (OJ No L 310, 30. 11. 96).

**4.14** The **employment** measure used in the EU is employed persons aged 15-64 as a share of the total population aged 15-64 (total). The employed population consists of those persons who, during the reference week, did any work for pay or profit to at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are also included. The survey covers persons aged 15 years and over, living in private households. Persons living in collective households (hall of residence, medical care establishments, religious institutions, collective workers’ accommodation, hostels, etc.) and persons carrying out obligatory military service are not included. Eurostat collect this data following Council Regulation (EEC) No. 577/98 of 9 March 1998.

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<sup>1</sup> Data from Eurostat website, accurate as of 19 March 2003:

<http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat>

**4.15** Both sets of data available online from Eurostat, on an annual and quarterly basis at:

<http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=1-em011-EN&mode-download>

The Lisbon council conclusions are available at:

<http://ue.eu.int/en/Info/eurocouncil/index.htm>

<http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=1-em011-EN&mode-download>

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**Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Target is shared with the Department for Trade and Industry.)**

## Definitions and Data

**5.1 Productivity:** Two measures of productivity are used in our assessment: output per worker and output per hour. Output per worker is calculated by dividing GDP by total LFS employment, while the methodology for calculating output per hour is set in Economic trends 570, "Introducing new and improved labour productivity data" by Chris Daffin. Further information on both measures, including the precise definitions, the data used and the methodology for compiling international comparisons is also detailed in Economic trends 577, "International comparisons of productivity" by Craig Richardson. These definitions are published on the National Statistics web site at <http://www.statistics.gov.uk/themes/economy/Articles/NationalAccounts/productivity.asp>

**5.2 Output Gaps:** In order to take into account countries' economic cycles in our assessment, it is necessary to use output gap data. These are provided for France, Germany and the US by the OECD and are published biannually in the OECD Economic Outlook, Annex, Table 11.

**5.3 UK Productivity Growth Over the Economic Cycle:** Estimates of trend productivity growth for the UK are published in the Budget and Pre-Budget Report. These are based on LFS employment and hours data. For the latest assessment see table B3, Annex 3: the Economy, Budget 2002, April 2002. The full methodology is outlined in Trend Growth: Recent Developments and Prospects (HM Treasury, April 2002). Note that these estimates are based on National Statistics data.

**5.4 Competitiveness:** the basic measure of improved competitiveness is taken here to be improved productivity. The Government also monitors competitiveness indicators on an annual basis in order to benchmark UK performance against our major competitors.

**5.5 Meeting the Target:** When measuring the target, two issues are relevant: that average UK productivity growth has increased over the economic cycle and that the productivity gap between the UK and the US, France and Germany has narrowed. It should also be noted that estimates of both productivity growth and the productivity gap are subject to measurement error.

**5.6 Raising the Rate of UK Productivity Growth over the Economic Cycle:** This part of the target stipulates that UK productivity growth must increase over the cycle. Consistent with how progress towards meeting the Government's long-term objective of raising trend output growth is measured, estimates of trend productivity growth will be used.

**5.7 Baseline Timing:** Trend productivity growth is compared between two economic cycles; the first to occur before the PSA period and the second after. The UK economic cycle is defined as a period during which the economy, starting from a point when it is judged to be “on-trend”, moves first through a phase when it is above (below) trend, followed by a phase when it is below (above) trend, before turning to an “on-trend” point. The last point when the economy is judged to be “on-trend” is 2001 Q3.

It should be noted that, if the depth and/or length of a cycle changes markedly over time, then it may not be possible to make a reliable or timely assessment. Should this be the case, then it shall be reported why it is not possible to produce an assessment on the basis outlined above, at that time, and whether an assessment on an alternative basis can be made.

**5.8 Demonstrate progress by 2004:** Progress will have been made if the rate of trend productivity growth is estimated to have increased between the two cycles being compared.

**5.9 Narrowing the gap:** National Statistics publish international comparisons of productivity (ICP) data. These can be used to assess whether the UK has made progress in closing the productivity gap with the US, France and Germany. It will be necessary to take into account the comparator countries’ economic cycles. This will be done using the Organisation for Economic Cooperation and Development estimates of output gaps.

**5.10 Demonstrate progress by 2006:** The assessment of performance against target will report each country’s outcome, relative to the UK, on both measures of productivity: per hour and per worker.

**Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Target is shared with the Department of Trade and Industry and the Office of the Deputy Prime Minister.)**

**6.1 Measuring Economic Performance:** This part of the PSA target will be measured using the trend rate of growth in Gross Value Added (GVA) per head in each region. Measurement of trend rates of growth per head will use a similar methodology to that used by the Treasury to estimate national trend GDP growth (see technical note to HM Treasury's PSA target (1)), i.e. by calculating average growth rates between points when the economy can be identified as being "on trend". Current data limitations mean that we can only presently produce approximate estimates of the trend rate of growth of GVA per head in the regions. Other regional economic indicators (see below) will also be used to assess regional economic performance, until such time as we can produce robust estimates of regional trend growth rates of GVA per head.

**6.2** The Office for National Statistics (ONS) publishes regional measurements of GVA per head. The ONS figures are published on a current price basis and estimates of real GVA are currently not available. Further analysis will be undertaken to see if robust, cost effective, estimates of real GVA can be produced.

**6.3** Estimates of trend growth, particularly for periods after 1996, are likely to be affected by the introduction from Blue Book 2003 of annual chain-linking to estimate economic growth. This may imply that in assessing performance against the target an adjustment will be needed to put outturn and baseline data on a comparable basis.

**6.4** Trend growth rates will be measured to the nearest quarter per cent. The assessment will take as the baseline the trend rate of growth in each region over the period 1989-2002. We will initially estimate the baseline over the period 1989-2001 and if necessary revise the estimates as new data becomes available. The baseline data will be appended to this technical note in 2004.

**6.5** To measure performance against the target, trend growth rates in (adjusted) GVA per head for each region will be estimated for the period 2003-2008. Annual GVA per head data required to estimate trend growth rates will only be available after a 12 month lag and so performance against this part of the target will be reported in 2010. If the timing of the economic cycle is such that we are not able to produce an estimate of regional trend growth rates over the period 2003-08 we will explain why.

**6.6** In order to provide interim assessments of progress, annual GVA data for each region will be compared with previous year's data to provide an assessment of progress each year. More timely supporting indicators, namely business surveys, employment statistics, unemployment rates, earnings growth and VAT registrations (plus any other relevant indicators which become available at the regional level) will be used to provide interim assessments of performance at six-monthly intervals. Improvements in the majority of these indicators (taking into account cyclical influences) will be considered as evidence that the target is being met. An overall assessment of progress will also be made at the end of the Spending Review period (i.e. in 2006) with the latest data for GVA and other indicators then available. Where the indicators are not National Statistics, the indicators will be checked internally and agreed between the three Departments.

**6.7** The target for making sustainable improvements in economic performance will have been met successfully if for every region the trend rate of growth in GVA per head measured over the period 2003-2008 is higher than the baseline.

**6.8** **Measuring the Gap in Growth Rates:** the gap in growth rates will be measured by comparing the average growth rate of regions that currently have above average GVA per head with the average growth rate of regions that currently have below average GVA per head. In practice, this measurement involves comparing a single average growth rate for London, South East and East with a single average growth rate for North East, North West, Yorkshire and the Humber, West Midlands, East Midlands and South West.

**6.9** As well as comparing the growth rates between these aggregations of regions, the gap in growth rates for individual regions will also be scrutinised.

**6.10** Trend growth in GVA per head will be the same measure used for the first part of the target. The assessment will use the same baseline data as the first part of the target and will use initial estimates based on the period 1989-2001.

**6.11** In order to meet the target, it will also be necessary to ensure that trend growth in GVA per head is higher for all regions over the period of measurement compared to the baseline.

**6.12** Given the longer-term nature of this part of the target, the gap in average growth rates will be measured using the trend GVA per head growth rates for each region estimated for the period 2003-2012. Annual GVA per head data required to estimate trend growth rates will only be available after a 12-month lag and so performance against this part of the target will be reported in 2014. If the timing of the economic cycle is such that we are not able to produce an estimate of regional trend growth rates over the period 2003-12 we will explain why.

**6.13** As with the first part of the target, annual progress against the target will be monitored, in this case by comparing the gap in annual GVA growth rates from one year to the next. However, given the differences in regional economic cycles, the timeliness of regional data and fluctuations of annual data, annual results should be viewed with extreme caution. More timely supporting indicators will be used to provide interim assessments of progress, as described in the first part of the target.

**6.14** While the underlying aim will be to reduce the gap for each of the six regions, this part of the target will be met (i) if over the period 2003-2012 there is a reduction compared to the baseline in the absolute gap between the average trend growth rate in the three regions which currently have above average GVA per head and the average trend growth rate in the other six regions; and (ii) if each individual region's trend rate of growth over the period 2003-2012 has increased compared to the baseline.

**6.15** As an interim measure, we will be considered to be meeting the target if over the period from 2003 to 2008, the absolute gap between the average trend growth rate in the three regions which currently have above average GVA per head and the average trend growth rate in the other six regions has not increased compared to the baseline.

**6.16 Measures (instruments) to improve performance:** In order to achieve progress against defined measures to improve performance by 2006, the key measures will need to be defined by the time the conclusions of the 2004 Spending Review are published (i.e. July 2004). At the same time, appropriate regimes will need to be identified to enable the monitoring and evaluation of progress against the key measures defined, e.g. the monitoring regimes might use the Regional Outcome Indicators developed by the Regional Coordination Unit. Progress will be reported using the monitoring and evaluation regimes at six monthly intervals and at the end of 2006. The identification of measures and monitoring regimes will be based on analysis and research carried out between now and July 2004, building on existing analysis and research.

**6.17** Measures bringing improvements in the economic performance of the regions may take a variety of forms. Some may be explicitly regional or sub-regional, including the activities and strategies of the Regional Development Agencies and the European Structural Funds programmes; some may be national; and others may be local, including those aimed at neighbourhood renewal and raising enterprise and employment rates in deprived areas.

**6.18** The measures may be either existing measures or new measures.

**6.19** Many of the measures are likely to be the responsibility of the three Departments responsible for this target but others may fall to other parts of Government such as DfES, DEFRA and DWP. Progress against measures in the latter category will be considered to have been achieved if we can show we have brought influence to bear on those with lead responsibility, for example through developing further the regional dimension to spending reviews.

**6.20** We will have met this part of our target if (i) by the time the conclusions of the 2004 Spending Review are published we have identified the key measures; and (ii) by end 2006 we can demonstrate, using monitoring and evaluation regimes established, significant progress in implementing or changing those measures which are the responsibility of our three Departments; and we can show that we have brought influence to bear, for example through developing further the regional dimension to spending reviews, to secure the implementation of measures for which other Departments have responsibility.

**6.21** We will revise this section of the technical note during 2004 to incorporate directly the key measures we identify and say what will constitute demonstration of significant progress.



**Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (Target is shared with the Department for Work and Pensions.)**

**7.1** This target applies to Great Britain. Employment policy is devolved for Northern Ireland.

The target will be measured using:

1. Seasonally adjusted employment rates (the proportion of the population of working age, (16-59 for females and 16-64 for males) who are in employment), based on International Labour Organisation (ILO) definitions, in Great Britain.
2. Seasonally adjusted unemployment rates, (the proportion of economically active people aged 16 and over who are unemployed on the ILO measure), based on ILO definitions, in Great Britain.

A full definition of unemployment and employment can be found on page S3 in the Labour Market Trends “pink pages” (see: <http://www.nationalstatistics.gov.uk>). Both of these are national statistics.

**7.2** Judgements on the economic cycle are published by HM Treasury in Pre-Budget Reports and Financial Statement and Budget Reports. Estimates are made using National Statistics data. Further information on how the judgement on the economic cycle is made and the method used to estimate trend growth over the economic cycle is available in Fiscal Policy: Public Finances and the Cycle (March 1999), Trend Growth: Prospects and Implications for Policy (November 1999) and Trend Growth: Recent Developments and Prospects (April 2002).

**7.3** The baselines will be Spring (March-May) 2003. The data for setting the baseline will be released in July 2003 and the target will be monitored using Labour Force Survey quarterly data.

**7.4** Welfare to Work policies, principally delivered by Jobcentre Plus, will influence the employment and unemployment rate, as well as wider economic developments. This is why this target is jointly shared with DWP.

**7.5** We will attempt to measure the impact of employment policies, other government policies, and exogenous factors on the employment rate, taking account of the economic cycle, by:

- Evaluations and assessment of the effects of individual policy measures
- Best assessments of movements in the overall employment rate measures taking account of the economic cycle, using economic models
- Retrospective modelling and evaluation



**Reduce the number of children in low-income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020. (Target is shared with the Department for Work and Pensions.)**

**8.1** The target for 2004 will be monitored by reference to the number of children in low-income households by 2004-05. Low-income households are defined as households with income below 60 per cent of median, as reported in the annual Households Below Average Income (HBAI) Statistics published by DWP, available at <http://www.dwp.gov.uk/asd/hbai.html>. HBAI outturn data for 2004-05 will be available in early 2006.

**8.2** HBAI Statistics cover Great Britain. Progress will be reported against the 1998-99 baseline figures and methodology. The baseline is 4.1<sup>1</sup> million after housing costs and 3.1 million before housing costs. Progress is measured against both baselines. In addition to this relative measure HBAI also looks at the number of children in low-income households in both absolute and persistent terms.

**8.3** A child is defined as any individual aged under 16 or an unmarried 16 to 18 year old on a course up to and including 'A' level standard (or 'Highers' in Scotland).

**8.4** Reducing the number of children in low-income households by 2004 is just one of the targets the Government has set to ensure it is on track to eradicate child poverty within 20 years. Progress towards this and other targets, including worklessness, quality of housing, education and health, are set out in the Government's annual report into poverty and social exclusion 'Opportunity for all,' available at: <http://www.dwp.gov.uk/publications/dwp/2002/oppalfourth/index.htm>

**8.5** For the longer term, DWP will publish preliminary conclusions of their consultation on indicators (set out in 'Measuring Child Poverty') by Spring 2003 after a full analysis of the responses and technical implications. Work stemming from this consultation will ensure that improvements to measurement underpin better policymaking and promote greater accountability as we make progress towards our longer-term goals.

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<sup>1</sup> DWP statisticians revised the grossing regime used for HBAI results in the 2003-04 publication. This resulted in a revision to the 1998-99 estimate for the number of children living in households with incomes below 60 per cent of the median on an after housing cost basis, with the number falling by 100,000 from 4.2 million to 4.1 million



**Improve public services by working with departments to help them meet their PSA targets, consistent with fiscal rules. (Target is shared with the Cabinet Office.)**

**9.1** Departments are responsible for delivering their individual 2002 Spending Review (SR2002) Public Service Agreement (PSA) targets.

**9.2** The success of HMT and Prime Ministers Delivery Unit (PMDU) in meeting their joint PSA target is measured by the percentage PSA targets assessed as met by departments.

**9.3** Data on whether the departmental PSA targets have been met is provided by departmental assessments, and collated to establish the level of progress against all departmental targets. This is the key measure for HMT/PMDU performance against their joint PSA target. The data systems underlying performance against PSA targets are externally validated.

**9.4** The data underlying this PSA target depends on the collation of the data of the other PSA targets to which this target refers.



**By 2005-06, deliver £3 billion of value for money gains in central civil Government procurement through the Office of Government Commerce.**

**10.1** This target covers commercial expenditure in civil central Departments, Agencies and Non Departmental Public Bodies in England. This expenditure is estimated at £13 billion per annum. Measurement will take place over the financial years 2003-04 to 2005-06. Value for money gains will be measured through individual Departments for example by negotiating an improved deal with a supplier; aggregating demand across Departments to exert greater leverage on suppliers; reducing process or transaction costs; improving project and contract and asset management. The target is aggregate i.e. the sum of value for money gains during 2003/04 to 2005/06 should total £3 billion. Individual departments' gains may also be included in their own efficiency gains data. Detailed methodological guidance has been issued to Departments by the Office of Government Commerce. It is called 'Value for Money Measurement' and is available on the OGC web site. Further guidance will be issued as appropriate, during the period to which this target relates.