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# SECTION I

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# OVERVIEW: OPPORTUNITY AND SECURITY FOR ALL

In the 2002 Spending Review the Government sets departmental spending plans for the three years from 2003–04 to 2005–06, within the overall envelope for total public spending set in Budget 2002 and consistent with the fiscal rules. This investment will be matched by reform. The Government is setting long-term goals but is also devolving the freedom and flexibility to local decision-makers to deliver these goals. Independent audit and inspection and externally validated reporting will ensure maximum transparency in assessing achievement against these goals. Investment in services will be accompanied by modernisation of delivery mechanisms, showing how strong public services will deliver greater opportunity and security for all, with incentives to produce continued improvement and tough action against failure. The outcome of the Review is set out below under the Government's four key themes:

## **Raising productivity**

To raise the long-term rate of productivity growth in the UK, the 2002 Spending Review takes further steps to strengthen competition, enterprise and innovation, skills, investment and public services productivity in every region and community across the country with:

- **the largest sustained growth and spending on science for a decade, with an extra 1¼ billion by 2005-06 compared to 2002-03**, including an average rise of 10 per cent a year in real terms for the DTI Science Budget;
- **an additional £4 billion a year by 2005-06 of public spending on transport** to deliver the Ten Year Plan for Transport with reforms to the planning regime;
- **a new target to achieve a more sustainable balance between housing availability and demand in all English regions**, backed by the biggest sustained rise in housing investment for 25 years;
- **an ambitious new target to reduce by at least 40 per cent the number of adults in the UK workforce who lack NVQ level 2 or equivalent qualifications by 2010**; and
- **substantial investment to revitalise further education (FE)** in return for committing to stretching new performance targets.

## **Extending opportunity**

To maximise the educational opportunities afforded to all by schools and colleges, and widen access to higher education, remove barriers to work, and meet the needs of children and their parents, the 2002 Spending Review delivers:

- **a £14.7 billion a year increase in spending on UK education by 2005-06 compared to 2002-03, raising education's share of GDP to 5.6 per cent by 2005-06**. With higher direct payments for headteachers, and a new leadership incentive grant for 1,400 secondary schools in deprived areas, this investment will support the transformation of secondary education, a major drive on participation post-16, reform of further education, and improve the basic literacy and numeracy skills of two million adults;

- resources for the development of a network of children's centres to offer health, education and other services to 300,000 extra children by March 2006, and the creation of at least 250,000 childcare places, including in children's centres, which will help meet the Government's lone parent employment and childcare poverty objectives.
- the **nationwide roll out of Jobcentre Plus** by 2006, delivering an enhanced work focused service including an additional two million interviews a year to help people find work.

### **Strong and secure communities**

To improve the quality of life in both urban and rural areas, tackle crime and take forward sustainable development as a key objective, the 2002 Spending Review delivers:

- **around £1.5 billion higher spending on the police** in 2005-06 than in 2002-03. Funding will go direct to Basic Command Units (BCUs) in high-crime areas, empowering the frontline to deliver local crime reduction;
- investment in **new case-working IT, to promote closer working of the different parts of the Criminal Justice System;**
- **investment totalling £500 million over three years for sustainable food and farming**, including funding rising to £200 million in 2005-06 to implement core recommendations of the Curry Report;
- **an increase in the Neighbourhood Renewal Fund to £525 million in 2005-06**, channelling significant additional resources to the most deprived areas in England; and
- **growth in UK NHS spending** of 7.3 per cent in real terms per annum until 2008 accompanied by progressively devolved responsibility for delivery to local organisations, with accountability to the public also reinforced by greater choice for patients.

### **Britain in the world**

To combat terrorism, stamp out poverty, and create a safer and fairer world for all, the Government continues to promote security for Britain's citizens, while ensuring that globalisation works for all the world's people. In particular this Review delivers:

- **the largest planned increase in defence spending in twenty years**, with defence spending plans set to increase by £3.5 billion between this year and 2005-06;
- an **increase in overseas development aid (ODA)**, with the ratio of ODA to national income reaching 0.40 per cent by 2005-06;
- higher spending on **public diplomacy** and on **intelligence and security;**
- a commitment across government to **enhancing resilience** in the face of the threat of terrorism; and
- a continued commitment to **strong international relationships.**

## OPPORTUNITY AND SECURITY FOR ALL

**1.1** On a foundation of economic stability, this White Paper sets out the Government's public spending plans for the years 2003-04 to 2005-06, continuing to meet the Government's fiscal rules, matching resources to reform, and ensuring that in a global economy efficient and strong public services will deliver greater opportunity and security not just for some, but for all.

**1.2** The new global economy has brought vastly increased opportunities for individuals, businesses and countries, but it has also brought with it new insecurities. The task of this Spending Review is therefore not only to redress past decades of chronic and persistent under-investment in education, health, transport and housing, but to confront new challenges in a new global environment, maximising the opportunities of globalisation and minimising its risks.

**1.3** At the heart of this Spending Review are a set of economic reforms to expand Britain's national wealth, so that as a country we can be more productive and prosperous, and make the most of new opportunities in the global economy.

**1.4** These new opportunities are open to those individuals who have the right education, training and skills. But Britain will only be able to compete globally if they are available to as many of our citizens as possible. So the Government's new spending plans seek to expand educational, employment and economic opportunity, and promote stronger communities, in order to enable and empower people to make globalisation work for their families and their future.

**1.5** But while globalisation brings unprecedented opportunities, it also brings new insecurities. So, as we maximise opportunities, we are tackling those insecurities, by investing in defence, foreign affairs, international development, and conflict resolution.

**1.6** This White Paper sets out spending plans to build stronger, more secure communities with public services that deliver for the British people by delivering value for money. The Government is as determined to secure value for money as it is to secure money for the best services – with more money invested, more results are required. So in each area of public service delivery, the Government is tying resources to reform and results:

- first, setting demanding, long-term targets for each department as a condition of new resources (new Public Service Agreements, published alongside this document, set out these commitments in full);
- second, independent audit and inspection to monitor progress against these targets;
- third, transparency about what is being achieved, through monitoring and reporting of performance against these targets; and
- fourth devolving power from the centre to front line staff, giving them the power and flexibility to deliver, rewarding success and tackling failure.

With these new disciplines, this Spending Review puts in place new investments to secure the Government's key priorities:

- Raising Productivity;
- Extending Opportunity;
- Strong and Secure Communities;
- Britain in the World

## SUSTAINABLE PUBLIC SPENDING

### Meeting the fiscal rules

**1.7** The new macroeconomic framework is designed to maintain economic stability, an essential platform for individuals, businesses and Government to plan effectively for the long term. The monetary policy framework aims to deliver low and stable inflation, while the fiscal policy framework is designed to achieve sound public finances over the medium term, and to support monetary policy over the economic cycle.

**1.8** The Government sets policy to meet two firm fiscal rules:

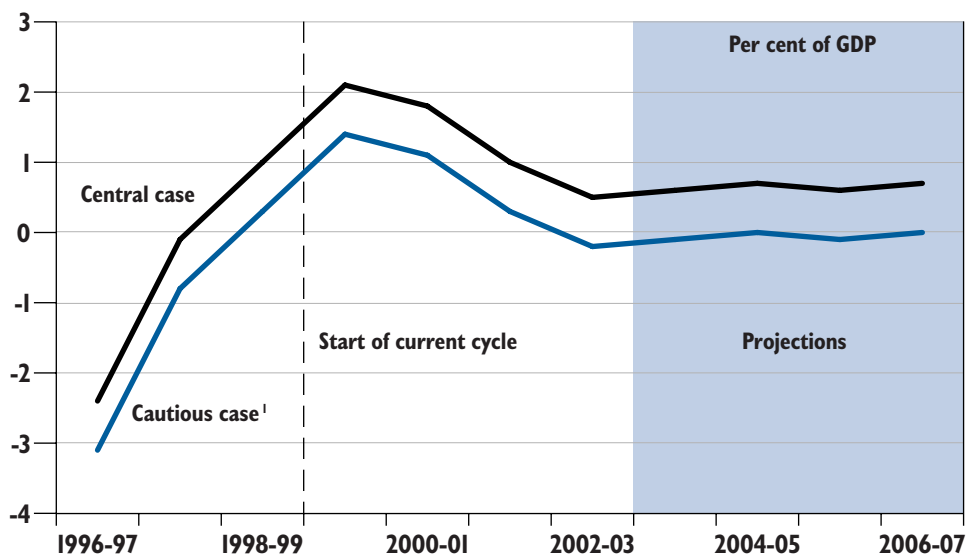
- **the golden rule:** over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- **the sustainable investment rule:** public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal,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

### The public spending envelope

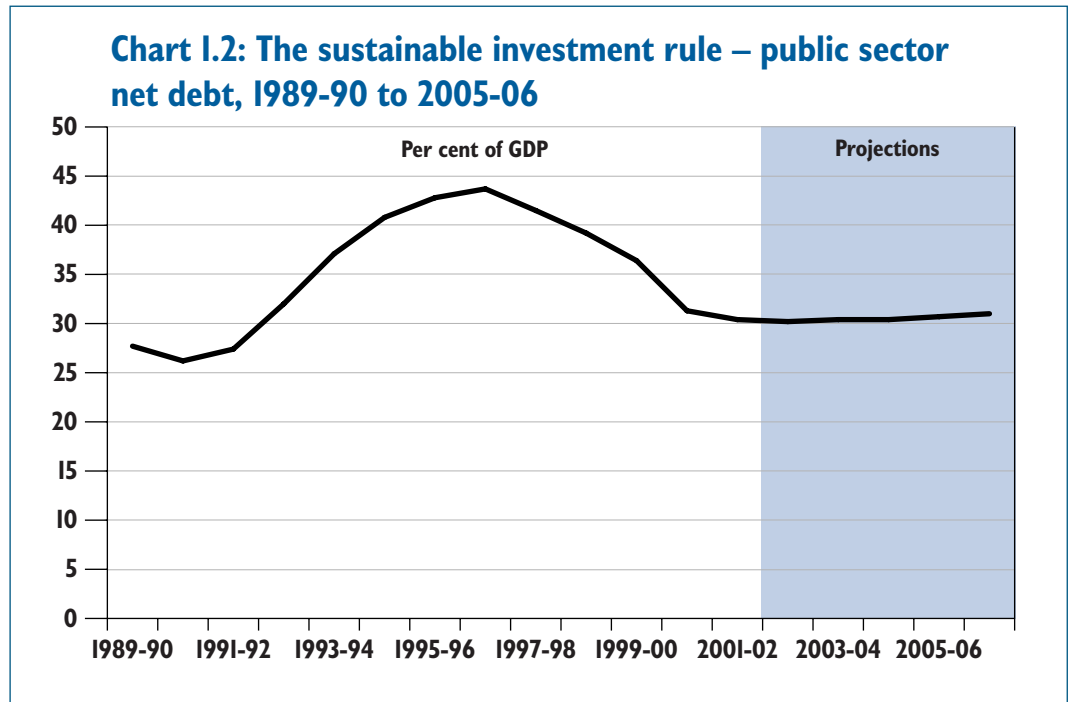
**1.9** Forecasts of the public finances are deliberately based on prudent assumptions for key economic variables, including the trend rate of growth and the level of unemployment and interest rates, which are audited by the National Audit Office (NAO) to ensure that they are reasonable and cautious. Furthermore, because there is always uncertainty about the position of the economy in relation to trend output, the fiscal rules are considered against a cautious case in which the level of trend output is assumed to be one percentage point lower than in the central case.

**1.10** As illustrated in Charts 1.1 and 1.2, based on cautious assumptions, the Budget projections upon which the Spending Review is based, demonstrated that the Government is on track to meet both its fiscal rules over the economic cycle, including in the more cautious case.

**Chart 1.1: The golden rule – cyclically-adjusted surplus on current budget, 1996-97 to 2006-07**



<sup>1</sup> Cautious case assumes trend output 1 percentage point lower in relation to actual output than in the central case.



**I.II** A fully updated assessment of economic and fiscal prospects will be published as usual in the 2002 Pre-Budget Report in the autumn.

### The public spending envelope

**I.I2** Total public spending is measured, consistent with National Accounts, by Total Managed Expenditure (TME). TME is split into Departmental Expenditure Limits (DEL), firm three year limits for departments' programme spending; and Annually Managed Expenditure (AME), spending that is not easily subject to firm multi-year limits. AME includes spending items which it would not be reasonable to expect departments to control within fixed budgets, typically because they are large, potentially volatile, and demand led. Examples include social security benefit expenditure and public service pension payments.

**I.I3** Budget 2002 set a firm overall 'envelope' for total public spending for the three-year period of the 2002 Spending Review allowing:

- current spending to rise in total by 3.3 per cent a year in real terms in 2004-05 and 2005-06, 2½ per cent a year excluding spending on health; and
- public sector net investment to rise from its 1.8 per cent of GDP target in 2003-04 to 2.0 per cent of GDP by 2005-06, continuing to address the legacy of under-investment in Britain's public infrastructure, while meeting the sustainable investment rule.

**I.I4** Table 1.1 shows Total Managed Expenditure (TME), as set in the Budget, split into its component parts. This Spending Review sets firm and fixed three-year budgets for each department in DEL. The level of spending available for public services in DEL, within the fixed envelope for total spending set in the Budget, is determined by the amount needed for programmes in Annually Managed Expenditure (AME).

**Table I.1: Total public spending**

£ billion	Estimate	Projections		
	2002–03	2003–04	2004–05	2005–06
<b>Departmental Expenditure Limits<sup>1</sup></b>	<b>239.7</b>	<b>263.5</b>	<b>279.8</b>	<b>301.0</b>
<b>Annually Managed Expenditure</b>	<b>178.7</b>	<b>191.2</b>	<b>201.7</b>	<b>210.4</b>
<b>Total Managed Expenditure</b>	<b>418.4</b>	<b>454.6</b>	<b>481.5</b>	<b>511.4</b>

*1 Net of depreciation*

**AME forecasts**

**I.15** The Spending Review shows the first full forecasts of AME for 2004-05 and 2005-06. Forecasts for AME for 2002-03 and 2003-04 have been revised in line with updated National Audit Office audited assumptions on unemployment and interest rates, transfers from DEL and classification changes within unchanged Total Managed Expenditure from the Budget (see Table A2 in Annex A).

**Releasing resources for priorities**

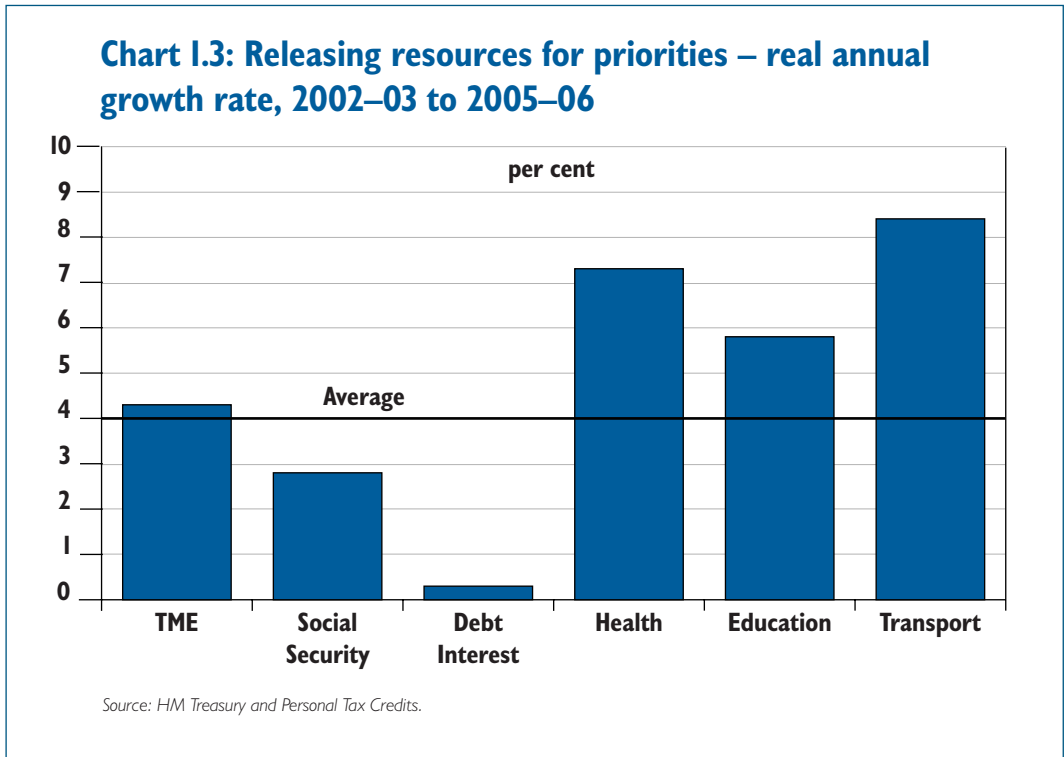
**I.16** The Government’s prudent management of the public finances has enabled extra funding to be released for key public services. As set in Budget 2002, consistent with the fiscal rules, total public spending (TME) will increase by an average of 4.3 per cent a year in real terms between 2002-03 and 2005-06. Within this, savings in AME can allow for greater spending on public services in DEL. In particular:

- over the next three years, social security payments and tax credits are forecast to grow by 2.8 per cent a year in real terms. This compares to over 4 per cent between 1991-92 and 1996-97.
- debt interest payments have fallen by over £6.5 billion since 1997-98, and will grow by only 0.3 per cent in real terms over the period of this Spending Review.

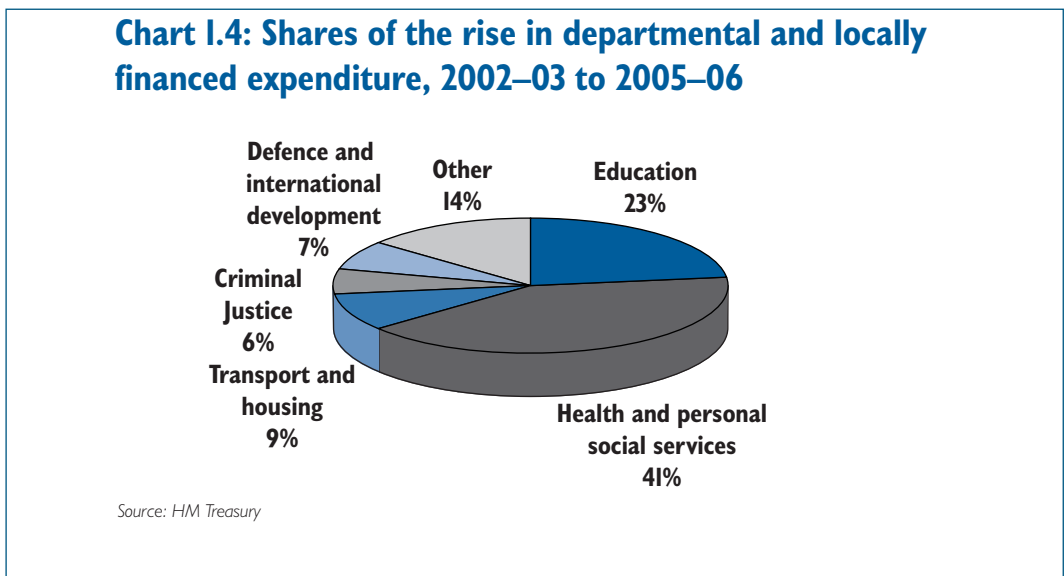
**I.17** In total, social security, tax credits and debt interest payments will account for only 24 per cent of additional public spending over the three years to 2005-06, compared with 57 per cent between 1991-92 and 1996-97.

**I.18** Chart 1.3 compares real terms growth in debt interest and social security over the next three years with the growth in health, education and transport spending. The containment of debt interest and social security has released funds so that, within the fiscal rules, UK education spending can grow by 5.7 per cent, UK health by 7.3 per cent and UK transport by 8.4 per cent.

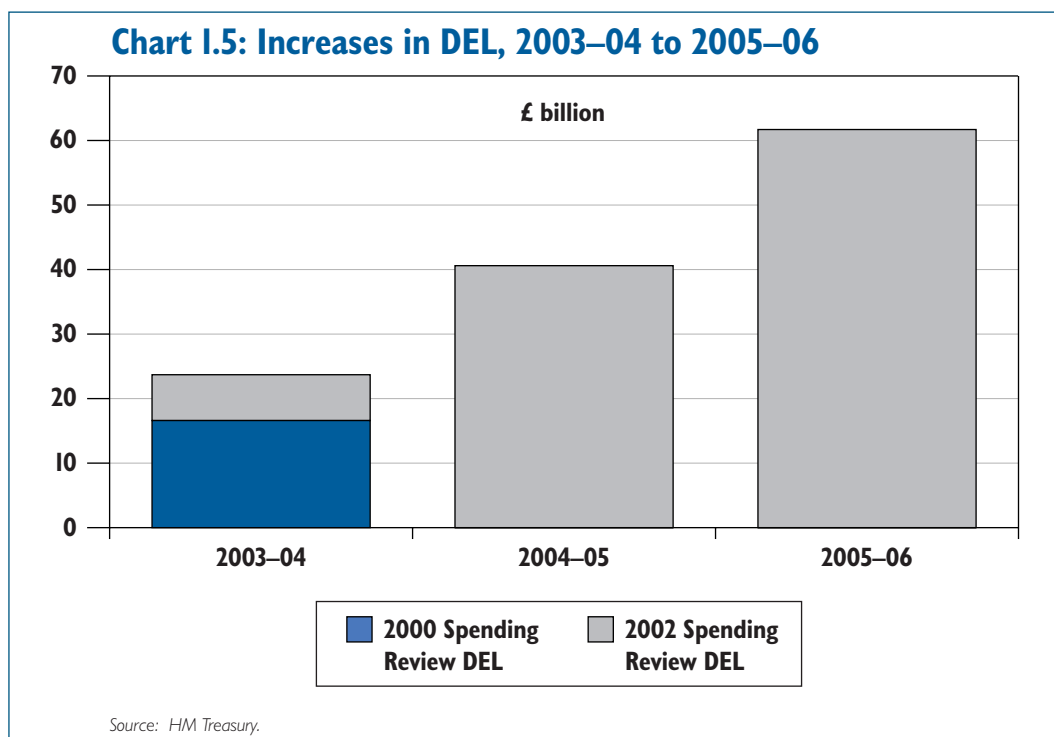
**I.19** This means that, within total public expenditure growth of 4.3 per cent a year in the three years to 2005-06, spending in AME is growing at 3 per cent allowing DEL to grow at 5.2 per cent. Total DEL is £61 billion a year higher in 2005-0006 compared to 2002-03 (see Table A4 in Annex A).



**I.20** Taking into account, locally-financed expenditure (LFE), financed directly from revenues raised by local government, spending on key priorities of education, health, personal social services, transport, housing and criminal justice will account for 78 per cent of the extra total spending on DEL and LFE.



**I.21** The Budget added £4 billion to the previously set DEL plans for 2003-04, of which £2.4 billion was committed to spending on Health. In addition to the £4 billion Budget allocation in DEL, a further £3.7 billion has been transferred from AME to DEL within unchanged total spending since Budget 2002, reflecting both savings in AME programmes and classification changes.



## Resource and capital budgets

### Resource budgeting

**1.22** Resource budgeting is a central part of the Government's drive to provide world-class public services. The 2002 Spending Review completes the transition to full resource budgeting. Spending plans and budgets in this Review are set on a full resource basis. This is a progression from the numbers in Budget 2002, which were presented on a 'near-cash' basis. Table 1.2 shows the adjustments made to DEL and AME to move from the Budget basis to full resource budgeting, so that comparisons can be made on a consistent basis. The resource budgeting adjustments are offsetting and have no impact on overall TME, nor on the fiscal rules (which continue to be measured in accordance with National Accounts).

**Table 1.2: Public expenditure aggregates**

	£ billion			
	Estimate 2002–03	2003–04	Projections 2004–05	2005–06
<b>Total Managed Expenditure</b>				
Budget 2002	418.4	454.6	481	511
Change since Budget 2002	0	0	0	0
<b>2002 Spending Review</b>	<b>418.4</b>	<b>454.6</b>	<b>481</b>	<b>511</b>
<i>of which:</i>				
<b>Departmental Expenditure Limits (DELs)<sup>1</sup></b>				
Budget 2002 – near cash basis	229.5	249.0	–	–
Budget 2002 – resource-based allocation <sup>2</sup>	239.7	259.9	279.8	301.0
Change since Budget 2002	0.0	3.5 <sup>3</sup>	–	–
<b>2002 Spending Review</b>	<b>239.7</b>	<b>263.4</b>	<b>279.8</b>	<b>301.0</b>
<b>Annually Managed Expenditure</b>				
Budget 2002 – near cash basis	188.9	205.5	–	–
Budget 2002 – resource-based estimates <sup>2</sup>	178.7	194.7	201.7	210.4
Change since Budget 2002	0.0	3.5 <sup>3</sup>	–	–
<b>2002 Spending Review</b>	<b>178.7</b>	<b>191.2</b>	<b>201.7</b>	<b>210.4</b>
<i>Memo: 2002 Spending Review TME</i>				
<i>as a per cent of money GDP</i>	<i>39.9</i>	<i>41.1</i>	<i>41.4</i>	<i>41.9</i>

<sup>1</sup> Figures for DEL and AME beyond 2003/4 were not published in Budget 2002.

<sup>2</sup> Full resource budgeting basis, to allow comparison with Spending Review figures which are on the same basis. Also adjusted for reclassifications between DEL and AME.

<sup>3</sup> Does not sum to £3.7 billion set out in paragraph 1.21 because of transfers between DEL and AME.

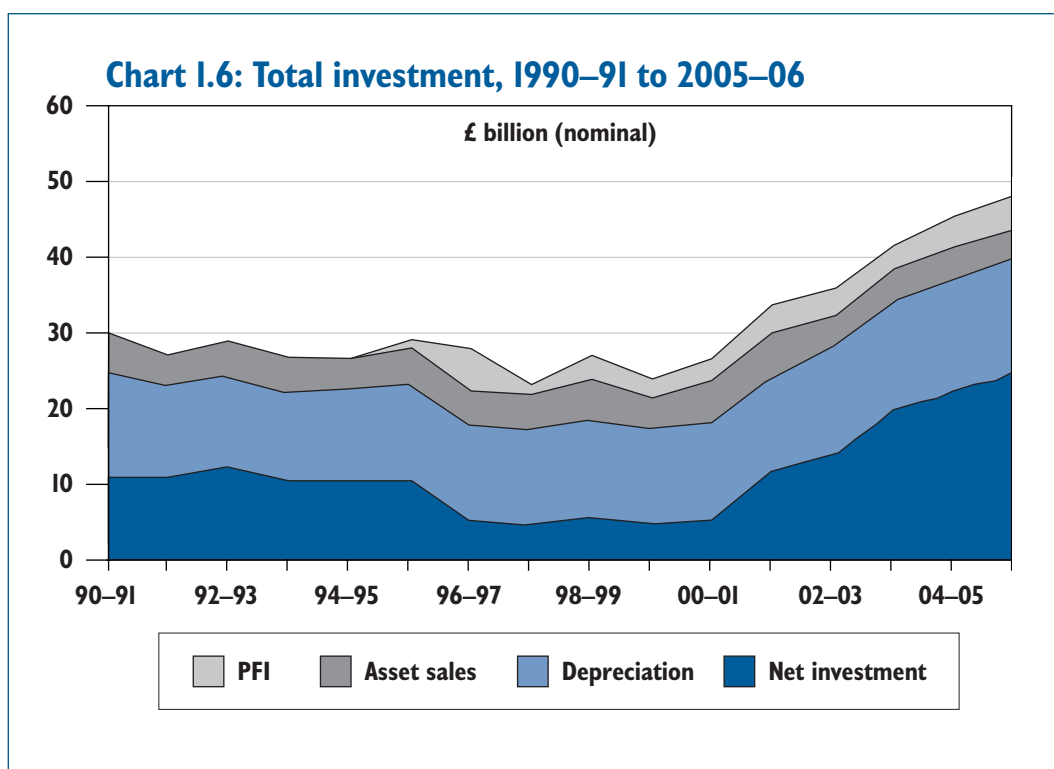
**I.23** Resource budgets provide a far better measure of the costs of running services, because they capture the full cost of the activity. Departmental Expenditure Limits will, for the first time, including charges for economic costs such as using and holding capital and future liabilities. Annex B provides more information about the impact of resource budgeting on spending numbers, and a full reconciliation of the DELs both on a RAB and a near cash basis.

**Capital budgets** **I.24** Within total DEL, budgets are divided into resource and capital spending. Resource expenditure is spending needed for the day-to-day running of an organisation. It includes salaries, rent, and buying of goods and services. Capital expenditure is defined as spending on the purchase of items that are expected to be used for a longer period. It includes new buildings, equipment and IT systems. In this Spending Review, current DEL is set to grow by 4.8 per cent a year and capital DEL by 9.4 per cent a year in the three years to 2005-06.

**I.25** The increase in capital DEL reflects the Government's commitment to reversing two decades of under-investment in the nation's infrastructure. In the last Spending Review, the Government committed to increasing public sector net investment (PSNI), to 1.8 per cent of GDP. In this Spending Review, PSNI will increase to 2.0 per cent of GDP by 2005-06 – rising to almost £25 billion by 2005-06, compared to £5 billion in 1996-97. PSNI measures new capital spend in the private sector, less depreciation on the existing asset base, and so is a measure of how much the public sector capital stock is increasing or decreasing.

**I.26** In November 2000, HM Treasury announced that the approach to project appraisal and capital approval was being reviewed and that a revised version of *Appraisal and Evaluation in Central Government* – ‘the Green Book’ – would be issued. The review has now concluded, and a consultation paper will be issued soon, together with a consultation draft of the new ‘Green Book’, and associated documents.

**I.27** Chart 1.6 shows how 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 by 2005-06, compared to £23 billion in 1997-98. This will allow us to move away from the old patch and mend solution to maintaining our public services, to reducing damaging maintenance backlogs and delivering real improvements to the capital stock.



## PUBLIC SPENDING FRAMEWORK

**I.28** Increased investment will only result in improved public services if resources 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 aims to deliver:

- consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;
- the judgement 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.

**I.29** In order to meet these objectives, the Government has introduced a series of important reforms to the public expenditure framework, including since 1997:

- setting firm and fixed Departmental Expenditure Limits for the following three years, reviewed every two, allowing departments to plan with greater certainty over the medium term;
- Public Service Agreements (PSAs) which set out what increased investment will buy in terms of public service improvements. This shifts the focus away from resource inputs to actual outcomes;
- longer-term budgets for health of five years and transport with a ten-year plan, to allow for longer-term planning and stable growth in these areas;
- full end-year flexibility (EYF), allowing unspent funds to be carried forward from one year to the next, preventing wasteful end-year surges; and
- central funds, including the Invest to Save Budget and the Capital Modernisation Fund, which support innovative policies.

### Public Service Reform

**I.30** The Government is committed to ensuring that both existing and new spending is targeted to deliver value for money and achieve the outcomes that the public want and expect. The quality of public services depends not just on how much the Government spends but also on how effectively it spends it. New resources must be matched with reform to deliver results, in which the modernisation of public service delivery is crucial. Effective public service delivery requires the devolution of power to service providers to encourage flexibility and creativity, particularly in meeting consumer demands and responding to local circumstances. However, discretion for public service providers must be constrained by clear long-term goals and proper accountability arrangements. The principles underpinning this 'new localism' aim to ensure that public service providers have the discretion to innovate and improve the services they provide, constrained by the need to reach high minimum standards. Successful public services will increasingly involve a new focus on responding to and satisfying the demands of the customer.

**I.31** The first principle is that there should be clear long-term goals set by the Government. Public Service Agreements (PSAs) were introduced in December 1998 following the Comprehensive Spending Review, setting out measurable targets for the full range of public

services detailing the outcomes departments aim to deliver with the money allocated to their expenditure programmes. As part of the 2000 Spending Review, departments agreed new PSAs, refining targets and including floor targets which set out minimum outcomes that should be achieved in every area. PSAs are central to the Government's strategy for improving public services. They set out the key outcomes that the Government is committed to achieving in return for investment, and link funding to the delivery of improvements in services and outcomes for consumers.

**I.32** In this Spending Review, the number of headline PSA performance targets has been reduced from around 160 in the 2000 Spending Review to around 130. Most targets have been rolled forward in line with the new spending plans, with adjustments where necessary to reflect experience. In some cases separate targets have been combined under a new headline target where they cover closely related areas. Some of the existing targets have not been included because they are an input into one or more PSA targets, rather than outcomes in themselves. These will normally be included in the department's Service Delivery Agreement. A small number of headline targets will not be carried forward as either new PSA or SDA targets, where they have already been, or soon will be, met or superseded by new targets or events. The Treasury will publish details on its website of how all the headline 2000 Spending Review PSA targets translate into the new PSAs.

**I.33** The Public Service Agreements for 2003 to 2006, which are published as an integral part of the Government's spending plans, are founded upon the Government's commitment to achieving long-term improvements in such vital areas as educational attainment, health and health inequalities, crime and modern and integrated transport. PSA targets include:

- **Education:** raise standards in schools and colleges so that the proportion of those aged 16 who get qualifications equivalent to five GCSEs at Grade A\* to C rises by two percentage points a year and in all schools at least 20 per cent of pupils achieve this standard by 2004 rising to 25 per cent by 2006;
- **Health:** reduce the maximum wait for an outpatient appointment to three months and the maximum wait for inpatient treatment to six months by the end of 2005, and achieve progressive further cuts with the aim of reducing the maximum inpatient and day case waiting time to three months by 2008;
- **Crime:** reduce crime and the fear of crime; improve performance overall, including by reducing the gap between the highest crime Crime and Disorder Reduction Partnership areas and the best comparable areas; and reduce vehicle crime by 30 per cent from 1998-99 to 2004; domestic burglary by 25 per cent from 1998-99 to 2005; and for robbery in the ten Street Crime Initiative areas by 14 per cent from 1999-2000 to 2005;
- **Housing:** by 2010, bring all social housing into decent condition with most of this improvement taking place in deprived areas, and increase the proportion of private housing in decent condition occupied by vulnerable groups;
- **Transport:** secure improvements in rail punctuality and reliability with a 50 per cent increase in rail use in Great Britain from 2000 levels by 2010;
- **Children:** 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; and

- **Regions:** 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.

**Independent auditing and inspection**

**I.34** The second principle is that there must be independent and effective arrangements for audit and inspection to hold departments and agencies accountable for performance against these targets. These arrangements should separate responsibility for setting standards from responsibility for assessing whether they are being achieved:

- in health, through the new independent Commission for Healthcare Audit and Inspection which will monitor and publish information about performance and use of resources, including an annual report to Parliament. It will also carry out local inspections and oversee independent complaints procedures;
- in education, through publication of results for individual schools, which gives clear accountability for attainment. School level floor targets mean no school should fall below a particular attainment level;
- in local government, the Comprehensive Performance Assessment (CPA) will for the first time bring together all the available evidence on how a local authority is performing (for example, inspection reports, performance indicators, plans), covering both the services for which it is responsible and the local authority's community leadership role. This will provide the basis for an audit and inspection programme that is proportionate to the authority's performance and focussed on those areas where there is most need for improvement;
- in social care, the work of the Social Services Inspectorate and the National Care Standards Commission will be integrated in a single independent inspectorate for social care services, which also publishes the performance 'star' ratings for local councils with social services responsibilities;
- in housing, a single housing inspectorate will be established to drive up performance for all types of social landlord, replacing the current separate inspection regimes;
- in the police, the role of the new Police Standards Unit in the Home Office will be consolidated and developed, working alongside Her Majesty's Inspectorate of Constabulary; and
- in the Criminal Justice System (CJS), development of a modernised inspection regime for the CJS.

**Maximum local flexibility and discretion to innovate**

**I.35** The third principle, is that service deliverers should have maximum local flexibility and discretion to innovate, respond to local conditions and meet differing consumer demands within this framework of targets and accountability arrangements. There are clearly exceptions where devolution is not practical, for example in the defence field, where national coordination is necessary. In general though, national standards can only be delivered effectively by devolution and delegation, which gives local service providers responsibility and accountability for delivery, and the opportunity to design and develop services around the needs and priorities of their communities. An important element of these flexibilities is that they are given in return for delivering good outcomes, so that service providers who demonstrate their ability to perform well are rewarded with additional freedoms. For example:

- in local government, as well as giving freedoms to local authorities who demonstrate their effectiveness through the new CPA process, individual local authorities will continue to be able to negotiate local PSAs that offer freedom and flexibilities in return for a commitment to stretching PSA targets;
- local health service organisations that perform well will be given increased freedom to develop innovative ways to improve patient care; and
- further education colleges that sign up to tough new performance targets will be guaranteed a real increase in funding of at least 1 per cent a year over the next three years. Also, Learning and Skills Councils will be given more flexible three-year funding arrangements, with 100 per cent end year flexibility;
- power will be ceded to local voluntary, charitable and community organisations who deliver public services, through working with them in delivery and involving them in service design. A new investment fund will help them overcome barriers to public service delivery;
- in housing, regional bodies will be set up to provide advice on housing investment and planning, moving fast towards a single regional budget for investment in housing. This will allow a much more strategic, flexible approach to housing policy;
- This Spending Review increases the funding for the Regional Development Agencies, giving them more scope to pursue their own priorities as they allocate the Single Pot according to their assessment of regional needs;
- in the police, increased delegation to Basic Command Units in order to increase local accountability for delivery and flexibility to respond to local circumstances

**Transparency I.36** The fourth principle is transparency about what is being achieved, through monitoring and reporting of performance against targets. This should be assured through the publication of regular externally validated performance information. The details of all new targets are given in the 2003–2006 PSAs published separately alongside these spending plans. As in 2000, the new PSAs focus on key strategic objectives, and set out for every major government department an aim, a number of objectives and the targets against which success will be measured, including tough targets on improving value for money. The departments report annually on performance against these targets in their departmental reports. In addition, to ensure maximum transparency and accountability in performance of departments in delivering their targets, the Government will update progress against targets regularly on the Internet.

**I.37** All departments with a PSA will publish Technical Notes in autumn 2002 setting out how performance against targets will be measured and what data will be used. The data systems on which the reporting of performance against PSA targets is based will be externally validated by the Comptroller and Auditor General at least once during the three years of each PSA, drawing on the work and recognising the independence and authority of the Audit Commission, the Office for National Statistics and the Statistics Commission.

**I.38** Alongside publication of department's achievement against PSA targets, there must also be processes to ensure that locally, service providers can be held accountable for the outcomes they are delivering for local people. For example :

- local authorities' performance across the range of its responsibilities will be set out clearly in the published results of the the Comprehensive Performance Assessment;

- the new independent health inspectorate will publish its assessments of performance locally and nationally;
- Primary Care Trusts will report to local residents on the basis of performance indicators audited by the inspectorate
- the publication of school examinations will provide local people with detailed local information about achievement, including whether the poorest performing schools have succeeded in reaching floor target levels of attainment.

### Putting the Principles into Practice

**I.39** The principles set out above provide a framework for delivery. Alongside devolution of power and flexibility, and on the basis of transparency around what is achieved, public service providers who perform well should be rewarded with more resources and greater flexibility about how to use them. At the same time, problems in failing institutions should be addressed early and decisively.

**Rewarding success** **I.40** Where success is achieved it will be rewarded, and the Government will ensure that incentive structures operate to support continuous improvement. Thus:

- The Comprehensive Performance Assessment (CPA) system will help local authorities identify their strengths and weaknesses, provide good performers with more freedom, ensure poor performers take action to address their problems and encourage all local authorities to adopt a culture of continuous improvement;
- further education colleges that deliver good outcomes for their students will be able to expand as Learning and Skills Councils request increased provision from them;
- a new leadership grant will support secondary schools in deprived areas. Where there are weaknesses in leadership or management, the grant will be conditional on the adoption of a package of leadership reform measures by the school; where leadership is strong the money will be free for heads to spend on the school's priorities;
- over the 2002 Spending Review period, new links will be made between police Basic Command Units' performance and funding; and
- in housing, high performing local authority Arms Length Management Organisations will be able to access increased funding for capital investment.

**Intervening to tackle failure** **I.41** Where service providers in central government, local government and other parts of the public sector are not meeting the required standards, the Government will intervene to ensure that tough action is taken against failure. Thus:

- new powers in the Education Bill will speed up action to address failing schools, including making it easier for them to be taken over by successful schools or other education providers;
- in further education, colleges that do not provide good standards of teaching will find that the Learning and Skills Councils purchase from other providers; and

- in local government services, the government will intervene to ensure that failing authorities take effective action to improve their performance.
- in the Police Reform Bill currently before Parliament the Government is seeking new powers which will require police authorities to take remedial action when forces do not perform;

## ENSURING DELIVERY

**I.42** Achievement of stretching targets is dependent upon departments having systematic delivery plans in place, setting out and describing the links between the requisite actions of all departments and their delivery agents. These plans should define the accountability arrangements, set out the resources to be deployed, explain the timetable for delivery with milestones and trajectories, and identify how risks will be identified and managed. The Prime Minister's Delivery Unit and HM Treasury will be working with departments to support them in producing delivery plans for all their PSA targets by October 2002. Each department will publish a summary of its delivery plans in the form of a Service Delivery Agreement in autumn 2002.

**I.43** As part of its commitment to increase investment in the country's infrastructure, the Government has also set out to ensure that departments make the most of the existing asset base and get good value for money from new spending. Reforms in this area include:

- the setting of separate capital and resource DELs, to ensure that long-term investment is not sacrificed to short-term pressures;
- creating a National Asset Register listing all assets held by central government departments, an initiative unique to the UK, to promote better management of existing assets and to help departments to judge whether individual assets are still required; and
- the introduction of full resource accounting and budgeting, enabling departments to recognise, for the first time, the full economic costs of holding assets and giving them greater incentives to manage assets and liabilities more effectively.

### Departmental Investment Strategies

**I.44** To make the most of both new investment and existing assets, there also needs to be a coherent long-term strategy against which investment decisions are taken. Departmental Investment Strategies (DIS) set out each department's plans to deliver the scale and quality of capital stock needed to underpin its objectives. The DIS includes information about the department's existing capital stock and future plans for that stock, as well as plans for new investment. It also sets out the systems that the department has in place to ensure that it delivers its capital programmes effectively. Draft strategies have informed allocations made in this Spending Review. Final strategies will be published later this year.

## SPENDING PLANS

Table 1.3 below shows the allocations made to each department in the Spending Review in DEL and by function. The table shows total allocations for the years 2002-03 to 2005-06 and, in the final column, the annual average real growth of each programme over the three years. Further detail and comparative information is set out in Annex A.

**Table 1.3: Departmental Expenditure Limits**

	£ million				Annual average growth rate (per cent)
	2002-03	2003-04	2004-05	2005-06	
<b>Departmental Expenditure Limits:</b>					
Education and Skills	23,170	25,600	27,750	31,140	7.6
Health	58,000	63,930	70,260	77,250	7.3
of which: NHS	55,750	61,300	67,440	74,390	7.4
Transport	7,660	10,690	11,200	11,640	12.1
Office of the Deputy Prime Minister	6,030	6,730	7,230	7,570	5.2
Local Government	37,650	40,710	42,800	45,890	4.2
Home Office	10,680	12,280	12,730	13,530	5.6
Lord Chancellor's Departments	2,860	3,080	3,290	3,370	3.1
Attorney General's Departments	470	490	520	540	2.5
Defence	29,330	30,920	31,760	32,780	1.2
Foreign and Commonwealth Office	1,350	1,450	1,500	1,570	2.8
International Development	3,370	3,700	3,840	4,590	8.1
Trade and Industry	4,740	5,110	5,130	5,540	2.8
Environment, Food and Rural Affairs	2,520	2,900	2,890	2,940	2.7
Culture, Media and Sport	1,330	1,420	1,500	1,590	3.5
Work and Pensions	7,020	7,530	7,800	7,820	1.1
Scotland	18,210	19,720	20,880	22,320	4.4
Wales	9,420	10,270	10,940	11,770	5.1
Northern Ireland Executive	6,420	6,810	7,180	7,630	3.3
Northern Ireland Office	1,170	1,110	1,140	1,190	3.5
Chancellor's Departments	4,260	4,430	4,640	4,810	1.4
Cabinet Office	1,610	1,830	1,900	1,930	3.6
Invest to Save Budget	45	50	40	30	–
Capital Modernisation Fund	900	1,160	850	1,000	–
Policy Innovation Fund	40	50	50	50	–
Reserve	1,450	1,500	2,000	2,500	–
<b>Total Departmental Expenditure Limits</b>	<b>239,710</b>	<b>263,470</b>	<b>279,820</b>	<b>300,990</b>	<b>5.2</b>
Education (England)	44,960	49,310	52,720	57,780	6.0
Education (UK)	53,720	58,570	62,870	68,430	5.7
NHS (UK)	68,070	74,850	82,190	90,490	7.3
Transport (UK)	11,960	15,350	15,830	16,410	8.4
Housing (England)	4,850	5,460	5,730	5,900	4.2
Criminal Justice (England and Wales)	14,703	16,385	17,229	18,336	5.0