

# **Technical note for HM Treasury public service agreement (PSA) 2005-08**

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Updated December 2007



HM TREASURY





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public service agreement  
(PSA) 2005-08**

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ISBN 978-1-84532-398-1

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# FOREWORD TECHNICAL NOTE FOR HM TREASURY PUBLIC SERVICE AGREEMENT (PSA) 2005-08

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## **SPENDING REVIEW 2004**

The following note sets out the technical details of how the PSA for HM Treasury, published in the 2004 Spending Review; Public Service Agreements 2005 – 2008 (CM 6238, July 2004), 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.



# PSA TARGET 1: TREND GROWTH

**Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle\*, by at least meeting the Budget 2004 projection**

## DEFINITIONS AND DATA

**1.1** The trend rate of growth is the rate at which the economy can grow without putting upward or downward pressure on inflation. There are several methods that can be employed to estimate trend growth over past cycles. The Treasury's approach is to measure trend growth as the average annual percentage increase in real non-oil output (ie chained volume measure of non-North Sea Gross Value Added (GVA) at basic prices<sup>1</sup>) over a complete economic cycle. The economic cycle is defined as a period between 'on-trend' points which includes both a period when non-oil output is above its trend level and an adjacent period when it is below its trend level. 'On-trend' points are those when the economy's factors of production are being employed at normal rates of utilisation, as assessed against a panel of cyclical indicators<sup>2</sup>.

**1.2** The Public Service Agreement for 2005-2008 sets HM Treasury's PSA target on trend growth in terms of the Budget 2004 projection for trend growth. Budget 2004 retained the neutral projection of 2¾ per cent (originally set in Budget 2002) for the trend rate of growth between the 'on-trend' point in 2001Q3 and the end of 2006. Following this, demographic effects were expected to lower the contribution of working age population growth by 0.2 percentage points, and therefore the overall rate of trend growth to 2½%<sup>3</sup>. The basis and rationale for this estimate is explained in more detail in the Treasury publication *Trend Growth: Recent Developments and Prospects* (April 2002), and in Budget 2004.

**1.3** Revisions to data on which judgements about the economic cycle and trend growth are made mean that HM Treasury provides its latest assessment of the dating of on-trend points, trend growth over past cycles, and trend growth over the current cycle at each PBR and Budget. The most recent assessment is set out in the 2007 Pre-Budget Report.

\* The latest assessment of the economic cycle can be found in the 2007 PBR on the Treasury's website: <http://www.hm-treasury.gov.uk>.

<sup>1</sup> Chained volume measures are time series which measure output in real terms (ie excluding price effects). Basic prices reflect the amount received by the producer of unit of goods or services minus any taxes payable plus any subsidy receivable on that unit as a consequence of production or sale.

<sup>2</sup> Details of the indicators and method used to date 1997H1 as an on-trend point are set out in "Technical note on cyclical indicators", HM Treasury, December 2005.

<sup>3</sup> In the light of new evidence, HM Treasury has revised the projection for trend growth from 2006Q4 onwards to 2¾ per cent. More information can be found in the "Trend Growth: new evidence and prospects." HM Treasury December 2006 available on the Treasury website.



# 2

## PSA TARGET 2: INFLATION

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**Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank Of England (currently 2 per cent for the 12-month increase in the Consumer Prices Index).**

### DEFINITIONS AND DATA

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**2.1** a) The 2003 Pre Budget Report announced a change in the operational target for monetary policy. The target is 2 per cent as measured by the 12-month increase in the Consumer Prices Index (CPI). The CPI is a National Statistic and is published on a monthly basis in the ONS' publication, Consumer Price Indices <sup>4</sup>. More information on the inflation target is available on the Treasury website.<sup>5</sup>

### MEETING THE TARGET

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**2.2** 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 Government's monetary policy objectives.

**2.3** 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 in either direction. The latest remit for the MPC is available on the Treasury's website in the form of a letter from the Chancellor to the Governor of the Bank of England, 21 March 2007<sup>6</sup>

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<sup>4</sup> <http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=868>

<sup>5</sup> [http://www.hm-treasury.gov.uk/documents/uk\\_economy/monetary\\_policy/ukecon\\_mon\\_index.cfm](http://www.hm-treasury.gov.uk/documents/uk_economy/monetary_policy/ukecon_mon_index.cfm)

<sup>6</sup> [http://www.hm-treasury.gov.uk/documents/uk\\_economy/monetary\\_policy/ukecon\\_mon\\_index.cfm](http://www.hm-treasury.gov.uk/documents/uk_economy/monetary_policy/ukecon_mon_index.cfm)



# 3

## PSA TARGET 3: FISCAL RULES

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

### DEFINITIONS AND DATA

**3.1** 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 Accounts 1995 (ESA95). The public sector current balance measure used for this target is based on this ESA95 definition and is expressed as the average annual current budget as a percentage of GDP from the fiscal year<sup>7</sup> in which the economic cycle begins up to and including the fiscal year in which the economic cycle finishes<sup>8</sup>.

**3.2** Further details are available on the National Statistics website<sup>9</sup>.

**3.3** Figures for net debt and the current surplus are published monthly in a press notice by the ONS. These are available via the National Statistics website. Outturns and forecasts are set out each year in the Budget and Pre-Budget Report.

**3.4** Public sector net debt measures the public sector's gross debt to the private sector and abroad less short-term financial assets such as bank deposits and foreign exchange reserves. Net debt will be maintained below 40 per cent of GDP over the economic cycle. To meet the target with confidence, at the end of every fiscal year of the current economic cycle, public sector net debt must be below 40 cent of GDP.<sup>10</sup>

\* The latest assessment of the economic cycle can be found in the 2007 PBR on the Treasury's website: <http://www.hm-treasury.gov.uk>.

<sup>7</sup> A fiscal year runs from April to March inclusively.

<sup>8</sup> The Treasury's assessment of the economic cycle is published in Pre-Budget and Budget Reports, the latest version of which can be found on the Treasury's website at: <http://www.hm-treasury.gov.uk>.

<sup>9</sup> <http://www.statistics.gov.uk>.

<sup>10</sup> GDP centred on the end of March.



# 4

## PSA TARGET 4: PRODUCTIVITY

**Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint with the Department of Business, Enterprise and Regulatory Reform)**

### DEFINITIONS AND DATA

**4.1** Productivity performance HM Treasury estimates of productivity growth in the UK over the economic cycle are used to assess progress against this target. International comparisons of productivity levels are based on Office for National Statistics (ONS) international comparisons of productivity data on an output per worker and per hour basis. .

**4.2** UK productivity growth over the economic cycle: Productivity growth is generally pro-cyclical, so needs to be measured over the whole economic cycle. Estimates of trend productivity growth are published in the Budget and pre-Budget Report. These estimates are based on ONS data including the Labour Force Survey employment and hours data which helps strip away cyclical distortions. For the latest assessment see Productivity in the UK7: Securing long-term prosperity<sup>11</sup>. The full methodology is outlined in "Trend Growth: new evidence and prospects", (HM Treasury, December 2006)<sup>12</sup>.

**4.3** International comparisons of productivity: The ONS publish international comparisons of productivity for the UK against other G5 countries, on an output per worker and per hour basis, twice per year. Further information on the data used and methodology for compiling international comparisons is presented in the Economic Trends 577, International productivity by Craig Richardson. These data are published on the ONS website<sup>13</sup>.

**4.4** Output gaps: Because productivity growth is generally pro-cyclical, it is sensible to make assessment of the progress in narrowing the productivity gap with other countries in years when they are at similar stages in their economic cycles. The relevant data is provided for France, Germany and the US by the OECD and are published biannually in the OECD Economic Outlook<sup>14</sup>.

**4.5** Competitiveness: The basic measure of improved competitiveness is taken here to be improved productivity.

**4.6** Major Industrial Competitors: These are US, France, and Germany.

<sup>11</sup> [http://www.hm-treasury.gov.uk/media/C/Cproductivity\\_uk7.pdf](http://www.hm-treasury.gov.uk/media/C/Cproductivity_uk7.pdf)

<sup>12</sup> [http://www.hm-treasury.gov.uk/media/3/1/pbr06\\_trendgrowth\\_345.pdf](http://www.hm-treasury.gov.uk/media/3/1/pbr06_trendgrowth_345.pdf)

<sup>13</sup> <http://www.statistics.gov.uk>

<sup>14</sup> [http://www.oecd.org/document/18/0,3343,en\\_2649\\_201185\\_20347538\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,3343,en_2649_201185_20347538_1_1_1_1,00.html)

## MEETING THE TARGET

**4.7** To meet the target two separate aims need to be achieved. Firstly, that trend UK productivity growth increases and secondly, that the productivity gap between the UK and the US, France and Germany narrows. Small changes in the productivity gap should be interpreted with caution as they are subject to measurement error and the risk of future revision. Given the sensitivity of the headline figures to statistical error, the Government only considers changes of at least 5 percentage points as significant. This is particularly the case for international comparisons of productivity on an output per hour basis as these statistics have been classified as “experimental” by the ONS.

### Raising the rate of UK productivity growth over the economic cycle

**4.8** Consistent with the method for measuring progress towards meeting the Government’s long-term objective of increasing the trend rate of output growth, UK productivity growth is monitored by estimating the trend rate over the economic cycle.

**4.9** Baseline timing: Trend productivity growth will be compared between the previous and current 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. The last full economic cycle before this target was adopted ran from 1986Q2 to 1997H1. The latest trend productivity growth estimate is therefore usually compared against average productivity growth over that period, which is estimated to have been 1.95 per cent per annum on an output per hour basis.

**4.10** 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.

**4.11** Demonstrate progress by 2008: Progress will have been made if the underlying rate of trend productivity growth is estimated to have increased between the two periods being compared.

### Narrowing the productivity gap with our competitors

**4.12** The ONS 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.

**4.13** Demonstrate progress by 2008: Performance will be measured between two years in which the UK, Germany, France and the US are assessed as being at a similar point on the economic cycle. It will only be possible to identify the most appropriate period over which to assess PSA performance at the end of the Spending Review period (i.e. 2008). Current analysis suggests that the UK, Germany, France and US were at a similar point in the economic cycle, as measured by the countries’ output gaps as assessed by the OECD, in 1997 and 2000. Data from these years are therefore most appropriate for assessing progress against the PSA

**4.14** Supplementary measures: The Treasury and BERR also consulting on supplementing the headline productivity gap figures with a small set of intermediate indicators grouped under the 5 drivers (competition, investment, innovation, skills and enterprise) which can be used to monitor progress on productivity performance and provide early warning of where more policy action may be needed. These indicators are published annually by HM Treasury and BERR.



# 5

## PSA TARGET 5: EMPLOYMENT

**As part of the wider objective of full employment in every region, over the three years to Spring 2008, and taking account of the economic cycle\*, demonstrate progress on increasing the employment rate. (Joint target with the Department for Work and Pensions)**

### DEFINITIONS AND DATA

**5.1** The Government's long-term goal is employment opportunity for all - the modern definition of full employment. A detailed discussion on achieving employment opportunity for all can be found in "*Full Employment in Every Region*".<sup>15</sup>

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

**5.3** The target will be measured using the seasonally adjusted employment rate (the proportion of the population of working age (16-59 for females and 16-64 for males) who are in employment) in Great Britain, based on the International Labour Organisation (ILO) definition. This is a National Statistic.

**5.4** A definition of employment can be found on page S3 of the Labour Market Trends document published monthly by the ONS<sup>16</sup>. The baseline for this target is Q2 (April-June) 2005<sup>17</sup>. The target is monitored using Labour Force Survey quarterly data, which can be found in table 18(1) of the *Labour Market Statistics* document produced by the ONS<sup>18</sup>.

**5.5** Welfare to Work policies, principally delivered by Jobcentre Plus, will influence the employment rate, as well as wider economic developments. This is why the target is jointly held with the Department for Work and Pensions.

\* The latest assessment of the economic cycle can be found in the 2007 PBR on the Treasury's website: <http://www.hm-treasury.gov.uk>.

<sup>15</sup> [http://www.hm-treasury.gov.uk/media/EAD48/employment\\_372.pdf](http://www.hm-treasury.gov.uk/media/EAD48/employment_372.pdf)

<sup>16</sup> Labour market trends is available via: <http://www.statistics.gov.uk/CCI/nugget.asp?ID=207&Pos=1&ColRank=374>. A more detailed definition can be found via: [http://www.statistics.gov.uk/downloads/theme\\_labour/employment.pdf](http://www.statistics.gov.uk/downloads/theme_labour/employment.pdf)

<sup>17</sup> The baseline was originally set as Spring (March-May 2005, but has been changed to reflect the new delivery timetable of the Labour Force Survey data from the Office of National Statistics (ONS). From May 2006, data is based on calendar quarters (Q1, Q2, Q3 and Q4) which differ from seasonal quarters by one month. See the ONS article as follows for more details: <http://www.statistics.gov.uk/cci/article.asp?ID=1546>.

<sup>18</sup> [http://www.statistics.gov.uk/OnlineProducts/LMS\\_FR\\_HS.asp](http://www.statistics.gov.uk/OnlineProducts/LMS_FR_HS.asp)

## MEETING THE TARGET

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**5.6** Wider economic developments, both macroeconomic and microeconomic, will have substantial effect on the employment rate. The impact of employment policies, other government policies outside the factors of employment rate will be evaluated, taking account of the economic cycle by:

- evaluation and assessment of the effects of individual policy measures;
- best assessments of movements in the overall employment rate measures taking into account of the economic cycle; and
- retrospective modelling and evaluation.

## DATA SOURCES

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**5.7** Assessments of the economic cycle are published by the Treasury in Pre-Budget Reports and Financial Statement and Budget Reports. Estimates are made using National Statistics data. Further information on how the judgment 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<sup>19</sup>; *Trend Growth: Prospects and Implications for Policy*, November 1999; and *Trend Growth: Recent Developments and Prospects*, April 2002.

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<sup>19</sup>, available on the National Statistics website: <http://www.statistics.gov.uk>

# 6

## PSA TARGET 6: THE REGIONS

**Make sustainable improvements in the economic performances of all the English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress 2006. (Jointly with the Office of the Deputy Prime Minister and the Department of Trade and Industry.)**

### MEASURING ECONOMIC PERFORMANCE

- 6.1** The headline measure for the PSA target will be measured using the trend rate of growth in Gross Value Added (GVA) per head.
- 6.2** The ONS publishes regional measurements of GVA per head, with a 12 – 18 month time-lag. This is only currently available on a current price basis. Once GVA data at constant prices are available, we will seek the advice of the ONS on the best way to assess performance against the target. This will include an assessment of the appropriateness of a range of methods including those based on deflation of current price GVA using either a single national or sector based deflators. We will explain which measure we are using and why.
- 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<sup>20</sup> 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** Measurement of trend rates of growth per head will use a similar methodology to that used to estimate national trend GDP growth (see Technical Note to the PSA target, A.1) i.e. by calculating average growth rates between points when the national economy can be identified as being ‘on trend’. For the baseline period, this involves looking at average growth between 1990/91 and 2001.
- 6.5** Trend growth rates, and differences in growth rates, will be measured to the nearest quarter percent based on unrounded data. Trend growth for the baseline 1989 – 2002 period, for individual regions and for the top three and bottom six regions, is available on the Treasury website<sup>21</sup> subject to final confirmation when the ONS release GVA data at end 2004.
- 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. However, given the potential impact of the economic cycle, the timeliness of regional data and the long-term nature of this target and the policy measures, annual results should be viewed with extreme caution.

<sup>20</sup> Annual chain linked national accounts uses annually updated weights in the estimation of economic growth rather than the previous system where weights were updated every five years. The new method increases the relevancy and accuracy of the measurement. See <http://www.statistics.gov.uk/> for more information

<sup>21</sup> [http://performance.treasury.gov.uk/T105\\_10364.pdf](http://performance.treasury.gov.uk/T105_10364.pdf)

**6.7** Supporting indicators, including business surveys, employment statistics, unemployment rates, earnings growth, VAT registrations, and indicators of the five drivers of productivity, will be made available to monitor performance, and will inform updates 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 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.

### **MAKE SUSTAINABLE IMPROVEMENTS IN THE ECONOMIC PERFORMANCE OF ALL ENGLISH REGIONS BY 2008**

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**6.8** 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.

**6.9** 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.

### **REDUCE THE PERSISTENT GAP IN GROWTH RATES BETWEEN THE REGIONS**

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**6.10** 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. 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, weighted by population. As the provisional baseline data shows that trend growth in the three leading regions was 5.25 per cent, and 4.5 per cent in the six lagging regions, the provisional gap in growth rates is 0.75 percentage points.

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

**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, 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 2003-2012 we will explain why.

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.

**6.13** 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 of 0.75 percentage points.

### **DEMONSTRATE PROGRESS BY 2006**

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**6.14** A wide range of Government policies support economic performances across the regions. However, in line with the 2002 Spending Review target, particular measures which support the delivery of this target by addressing key disparities in the key drivers of regional economic growth, are set out in the annex to this Technical Note.

**6.15** We will have met this target if, by the end 2006, we can demonstrate, using monitoring and evaluation regimes established, significant progress in implementing or changing those measures, and these have contributed to meeting the target.

**6.16** The Government fulfilled its commitment to report progress and update the SR04 Technical Note in a technical note to the 2006 Pre-Budget Report.<sup>22</sup>

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<sup>22</sup> *Regional Economic Performance: Progress to date*, HM Treasury, DTI, Department for Communities and Local Government, December 2006, available at [http://www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr06/other\\_docs/prebud\\_pbr06\\_odregionalprogress.cf](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/other_docs/prebud_pbr06_odregionalprogress.cf)



# 7

## PSA TARGET 7: CHILD POVERTY

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**Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. Joint with Department for Work and Pensions.**

**(The Government will also set a target as part of the next Spending Review to halve by 2010-11 the number of children suffering a combination of material deprivation and relative low-income. The target will be met if there is an equivalent proportionate reduction to that required on relative low income between 2004-05 and 2010-11).**

**7.1** Data will be reported in the annual Households Below Average Income (HBAI) statistics published by the Department for Work and Pensions, a National Statistics release. HBAI data for 2010-11 are likely to be available in early 2012.

### RELATIVE LOW INCOME

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**7.2** Progress will be reported against the 1998-99 baseline. The GB baseline figure for 1998-99 is 3.4 million. The target for 2010-11 is 1.7 million. Relative low-income households are defined as households with incomes of less than 60 per cent of contemporary median income.

**7.3** Because of temporary low incomes that are reported, for example in self-employed households, it is never possible to reach zero on low-income measures. Success in the 2020 goal of eliminating child poverty in relative income terms might therefore be judged if the UK's child poverty rate has improved to the point where it is among the best in Europe. A reduction by half in the numbers of children in relative low income by 2010-11 from a 1998-99 base would therefore put the Government more than half way towards this long term vision.

### MATERIAL DEPRIVATION

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**7.4** The Government will also set an additional target in the 2006 Spending Review to halve by 2010-11 the number of children suffering a combination of material deprivation and relative low income by comparison with their number in 1998-99. Material deprivation will be combined with a higher threshold for relative low-income, measured as incomes below 70 per cent of the contemporary median. This higher threshold will capture children in families with high unavoidable costs such as housing or childcare which can adversely impact on living standards and leave people with low disposable income even if income is above the 60 per cent median line. This will capture a significant additional aspect of poverty. This measure might also be expected to capture regional dimensions of poverty for example existing data shows that deprivation is higher in London in part as a result of higher housing and other costs.<sup>23</sup>

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<sup>23</sup> Barnes M et al, *Families and children in Britain*, DWP Research Report No.206.

**7.5** The material deprivation indicator will be based on the suite of material deprivation questions detailed in the document *Measuring Child Poverty*<sup>24</sup>. The precise construction of the material deprivation indicator has yet to be determined as baseline data are not available. The first year of data on material deprivation will be 2004-05. There are insufficient data to estimate with certainty the number of children who were poor on this measure before 2004-05. However existing material deprivation measures do suggest that progress on indicators of this type have been at least as great as on relative income during recent years.<sup>25</sup> In relation to what can be measured robustly and consistently, this target will be regarded as met if, from 2004-05 to 2010-11, there is an equivalent proportionate reduction to that required on the relative low- income target from 2004-05 to 2010-11.

## ABSOLUTE LOW INCOME

**7.6** The Government will also monitor progress against an absolute low-income indicator. Absolute low-income households are defined as those with incomes below 60 per cent of median income held constant in real terms from a 1998-99 baseline. The baseline is the same for relative and absolute low income as absolute income is held constant in real terms from the 1998-99-baseline year. In 2002-03 there were 1.6m children in absolute low income, less than half the number in 1998-99 on a GB basis. The target for absolute low income will be to make further progress so that there are fewer than 1 million children in absolute low income by 2010-11, compared with 3.4m in 1998-99.

**7.7** The government is committed to making progress on all three tiers. The choice of three indicators was the result of a consultation process, the results of which were published in *Measuring Child Poverty*<sup>26</sup>.

## METHODOLOGY

**7.8** Across all three tiers income is equivalised, that is adjusted to take into account variations in both the size and composition of the household, aiming to match current European conventions to ease international comparisons. The modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale will be used; this scale is used with income measured before housing costs. 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).

**7.9** HBAI statistics on relative and absolute low income have been able to cover the UK since 2002-03. Prior to this the data was for Great Britain only. The new target will be UK wide, provided this proves feasible. National Statistics cannot currently estimate a UK baseline figure for 1998-99 but may be able to do so, by 2006. The target will therefore initially be based on the GB figure for 1998-99, but will include Northern Ireland if this proves feasible, in which case the baseline figure will be adjusted to reflect this. Including Northern Ireland is likely to add between 50,000 to 250,000 children to the 1998-99 GB baseline. If any revisions are made to the relevant National Statistics, the baseline figures will be revised consistently with those for later years.

<sup>24</sup> <http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp>

<sup>25</sup> Families and children study annual reports 1999-2001, DWP Research Reports 138, 165, 190 and Berhoud, Bryan and Bardasi (forthcoming), *The Dynamics of deprivation: the relationship between income and material deprivation over time*, DWP Research report.

<sup>26</sup> <http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp>

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## HOUSING COSTS AND QUALITY

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**7.10** The Government will continue to monitor progress against a range of other indicators including income measures on an after housing costs basis and regional data in order to ensure that we monitor the impact of high housing costs on child poverty. The material deprivation indicator addresses the issue of low living standards that are due to high housing costs and other unavoidable expenses such as childcare. The new material deprivation measure gives us an indication of housing quality. The data collected on material deprivation contains a range of measures, which capture housing deprivation including sufficient bedrooms for the number of children, heating your home adequately and being able to keep your home in a decent state of repair.

## CROSS-GOVERNMENT CONTRIBUTIONS TO TACKLING CHILD POVERTY

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**7.11** Reducing the proportion of children in relative low income, material deprivation and relative low income combined, and absolute low income are the key ways the Government will be held to account on its pledge to halve and then eradicate child poverty. The Government's annual publication *Opportunity for All*<sup>27</sup> documents progress against a wider set of indicators, including the proportion of children in workless households, quality of housing, education and health. This reflects the cross-Government contribution to improving life chances for poor children.

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<sup>27</sup> <http://www.dwp.gov.uk/ofa/reports/2003/index.asp>



# 8

## PSA TARGET 8: INTERNATIONAL

**Promote increased global prosperity and social justice by:**

**(i) Working to increase the number of countries successfully participating in the global economy on the basis of the system international agreed and monitored codes and standards.**

### PARTICIPATION IN THE GLOBAL ECONOMY

**8.1** 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 fora 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) and the World Bank assess member countries' compliance through Reports on the Observance of Codes and Standards (ROSCs) and as part of their joint Financial Sector Assessment Programmes (FSAPs). An increasing number of member countries – industrialised, emerging market and developing – have undergone ROSC modules.

**Promote increased global prosperity and social justice by:**

**(ii) Ensuring that 90% of all eligible HIPC countries committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by the end of 2008 and international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development goals. (Joint with the Department for International Development)**

### DEBT RELIEF

### DEFINITIONS

**8.2 Eligible HIPC Countries:** The enhanced Heavily Indebted Poor Countries Initiative (HIPC) was launched in 1999. To be potentially eligible for HIPC debt relief, countries had to be sufficiently indebted, poor, and borrow from the IMF and World Bank on only the most concessional terms (IDA only). In total, there are 40 countries eligible for the HIPC Initiative.

**8.3 Decision Point:** To reach Decision Point, a country must prepare an Interim-Poverty Reduction Strategy Paper (PRSP). To get to Completion Point it needs to develop a full PRSP, and usually make progress in implementing it for one year. The country must also be on track with its IMF programme and have met the Completion Point triggers set out in the Decision Point document. A country is said to have reached Decision Point or Completion Point once the decision has been approved by the Executive Boards of the World Bank and the IMF. In our definition of countries that have reached Decision Point, we are including those that have gone on to reach Completion Point as well as those in the interim period.

**8.4 Committed to poverty reduction:** Countries must remain ‘committed to poverty reduction’ to count towards the target. This means that if, after reaching Decision Point, a country suffers a shock which causes it to disengage entirely with the HIPC process and inadequately focus efforts on reducing poverty, e.g. falls into serious conflict, it will not be counted towards the PSA target.

**8.5 Receive irrevocable debt relief:** Upon reaching Completion Point, eligible countries will receive irrevocable debt relief. Therefore, agreement by the Executive Boards of the World Bank and IMF that a country has reached Completion Point is the point at which they count towards the 90% element of the target.

## ISSUES

**8.6** The best estimates of the progress of countries through the initiative can be found in the International Monetary fund (IMF) and International development Association (IDA) six monthly progress reports *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief (MDRI): Status of Implementation*.<sup>28</sup>

## Sources

**8.7** Progress on debt relief will be measured through the six-monthly progress reports produced by the World Bank and International Monetary Fund, and by day-to-day monitoring of Board discussions. Executive Board documents, including progress reports, Decision Point and Completion Point documents can be found on the IMF website.<sup>29</sup>

## MILLENNIUM GOALS<sup>30</sup>

**8.8** We will measure improvements in the international system by means of four indicators. Success is rated as progress in three out of the four indicators.

**8.9 Indicator One:** Poor countries and development partners are committed to and supporting effective and sustainable poverty reduction strategies.

<sup>28</sup> <http://www.iworldbank.org/debt> or <http://www.imf.org/external/np/exr/facts/hipc.htm>

<sup>29</sup> <http://www.imf.org>. More general information on HIPCs and their progress in this process can be found at <http://www.imf.org/external/np/exr/facts/hipc.htm> and <http://www.worldbank.org/hipc>

<sup>30</sup> More information on the Millennium Development Goals can be found at: <http://www.un.org/millenniumgoals/>

**8.10** This indicator assesses progress in the continued implementation of poverty reduction strategies, as measured by the number of countries presenting acceptable PRS progress reports to the Boards of the World Bank and IMF. Information is taken from the World Bank and IMF Annual Progress Report on Poverty Reduction Strategies. The 2005 PRS Review (by the Bank and Fund) will be an additional source of information. The target is for 75% of all countries implementing PRSs to present satisfactory reports to the Boards.

**8.11 Indicator Two:** Continued progress in closing the global financing gap

**8.12** We expect to see a sustained increase over time in the total net ODA from DAC member countries and multilateral agencies to aid recipients:

- Baseline: US\$ 58.3 billion (2002)
- Source: OECD/DAC

**8.13 Indicator Three:** Improved Effectiveness of EC development assistance

**8.14** This indicator assesses progress against the following. Success requires progress on 2 out of these 3 measures:

- A clear policy framework that puts poverty reduction as its central aim for development cooperation and promotes coherence among EU's policies that affect developing countries;
- Agreement in Council, Commission and European Parliament to implement these objectives, including by increasing the share of EC ODA going to low-income countries;
- Continued reforms and adoption of best development practices during the 2005-2009 Commission.

**8.15 Indicator Four:** Improved institutional effectiveness of 4 International Financial Institutions (IFIs).

**8.16** Effectiveness will be measured against 3 criteria identified through DFID's multilateral effectiveness assessment and institutional strategies. The 4 IFIs to be monitored are: the European Bank for Reconstruction & Development, the World Bank, the Asian Development Bank, the African Development Bank. The target is for 3 out of the 4 agencies to be achieving progress in all three indicators. Source: DFID.

**Promote increased global prosperity and social justice by:**

**(iii) Working with our European Union partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008**

## EUROPEAN ECONOMIC REFORM

### DEFINITIONS AND DATA

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**8.17** Structural economic reforms can 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 overall employment rate, a target for which was set at the Lisbon European Council of 70 per cent employment in the EU by 2010. Productivity is examined 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.

**8.18** In May 2004, enlargement saw the Union expand to include ten new Member States. The Union was further expanded in January 2007 to include Bulgaria and Romania as new Member States. Therefore, in the future, this objective will be assessed using Eurostat data for the EU15 (i.e. pre-enlargement EU), the EU25 (i.e. post-enlargement EU), and the EU 27 (post January 2007 enlargement), where this data is available. Currently Eurostat data for productivity per hour is only available for the EU15. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication.

**8.19** 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 for 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 (halls 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.

**8.20** 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 ILO (International Labour Organisation). 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).<sup>31</sup>

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<sup>31</sup> The Lisbon council conclusions and other relevant documents relating to the Lisbon strategy are available at: [http://europa.eu.int/comm/lisbon\\_strategy/index\\_en.html](http://europa.eu.int/comm/lisbon_strategy/index_en.html)



## PSA TARGET 9: PUBLIC SERVICES

Improve public department by working with departments to help them meet their:

- **PSA targets (Joint with the Cabinet Office); and**
- **efficiency targets amounting the £29bn a year by 2007-08, consistency with fiscal rules.**

### DEFINITIONS AND DATA

**9.1** Data on whether the departmental PSA targets have been met is provided by departmental assessments, once all indicators for a target have fallen due. This information is provided in Autumn Performance Reports and Departmental Reports. The Treasury and Prime Minister's Delivery Unit (PMDU) also have the opportunity to assess targets using published technical notes and information on current progress on all indicators for SR2004 PSA targets, which is provided on the Treasury's website<sup>32</sup>. The data systems underlying performance against PSA targets are externally validated.

**9.2** Data on whether the £20bn figure has been attained will be reported in Departmental Reports for the year 2007/08, based on methodologies set out in departmental efficiency technical notes (ETNs). The target will be assessed in the latter part of 2008. Progress towards meeting the targets can be tracked using data published in the 2005/06 and 2006/07 Departmental Reports.

**9.3** The technical note for PSA target 1.2 sets out the specific target and measurement of the fiscal rules and the requirements to meet them.

### MEETING THE TARGET

**9.4** Departments are responsible for delivering and monitoring their individual 2004 Spending Review (SR2004) Public Service Agreement (PSA) targets.

**9.5** The success of the Treasury and Prime Ministers Delivery Unit (PMDU) in meeting their joint PSA target is measured by the percentage of PSA targets from the SR2004 PSA set assessed as met or partly met by departments. Guidance on using these definitions is provided to departments by the Treasury. While the specific interpretation may differ by PSA, the broad definition of these terms are:

- **Met:** The target is achieved by the target date
- **Partly Met:** Where a target has two or more distinct elements, and some - but not - have been achieved by the target date.

<sup>32</sup> <http://www.hm-treasury.gov.uk/performance/>

**9.6** Success of this joint target is defined as one hundred percent of all other PSA targets being met or partly met, as assessed individually by departments. These assessments are collated as each department reports their final assessment for each PSA target to the Treasury and PMDU. The target will be assessed once ninety per cent of all Spending Review 2004 PSA targets have been finally assessed (99 of 110 PSA targets).

**9.7** Departments are responsible for delivering and monitoring their individual 2004 Spending Review Efficiency Targets.

**9.8** The success of the Treasury in meeting this component of the PSA target is measured by reaching £20bn in annual efficiencies by 2007-08. The methodologies for measuring efficiencies will be set out in efficiency technical notes to be published by departments by end October 2004.

# 10

## PSA TARGET 10: PROCUREMENT

**Deliver a further £3 billion saving by 2007-08 in central government civil procurement, through improvements in the success rate of programmes and projects and through other commercial initiatives.**

### MEETING THE TARGET

**10.1** This target follows on from PSA target 10 for the Spending Review 2002 period (By 2005-06, deliver £3 billion of value for money gains in central government civil procurement through the Office of Government Commerce). It covers commercial expenditure in central civil government Departments, Agencies and Non Departmental Public Bodies in England. The total procurement spend against which value for money gains are achieved is estimated at £13 billion per annum. Measurement will take place over the Spending Review 2004 period (2005-06 to 2007-08). Value for money gains will be measured by OGC, OGCbuying.solutions and individual Departments including 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 2005-06 to 2007-08 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 Procurement Efficiency and Value for Money Measurement and is available on the OGC web site<sup>33</sup>. Further guidance will be issued as appropriate, during the period to which this target relates. OGC will collect annual information to monitor progress against the target.

**10.2** For the Spending Review 2000 period (2003-04 to 2005-06), the Office of Government Commerce achieved an outturn of £4.3 billion value for money gains against a target of £3 billion; in the Spending Review 2000 period (2001-02 to 2003-04), gains were £1.6 billion against a target of £1 billion.

<sup>33</sup> [http://www.ogc.gov.uk/sdtoolkit/reference/ogc\\_library/procurement/vmeasure\\_may04.pdf](http://www.ogc.gov.uk/sdtoolkit/reference/ogc_library/procurement/vmeasure_may04.pdf)



# A

## ANNEX: MEASURES TO SUPPORT PSA TARGET 6 (THE REGIONS)

### INNOVATION

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**A.1** In order to meet this PSA target, while promoting excellence in science and innovation throughout the UK, evidence shows that regions need to do more to exploit their science base, and to adopt new ideas or processes based on the knowledge base outside the region

**A.2** The following innovation measures in particular will contribute to this PSA:

- In response to the Lambert Review of Business-University Collaboration, the Government will task the RDAs to help a broader spectrum of businesses develop more productive links with the university base, including through support for business-focussed research. The RDAs have agreed that business-university collaboration will be one of the measures of RDA performance and the importance of encouraging knowledge transfer and business-university collaboration will be reflected in their regional economic strategies.
- Also in response to the Lambert Review, the Government confirms its support for the Higher Education Innovation Fund (HEIF) as a dedicated third stream of funding for universities in England in order to increase capacity within the university sector for knowledge transfer, and will increase the funding for HEIF to £110 million a year by 2007-08. The Government will work with funding bodies, HEIs and RDAs to develop metrics to underpin the allocation – to HEIs on a national basis – of an enlarged Higher Education Innovation Fund, ensuring that proper account is taken of measures underpinning Regional Economic Strategies and the RDAs’ tasking framework, and that universities and the RDAs work in partnership to deliver this agenda.
- The Government will support the RDAs in developing the right level of capacity to deliver their knowledge transfer role effectively, and encourage them to make best use of national science and technology strategies in shaping their own regional goals. Regional Science and Industry Councils will be key vehicles for collaboration at a regional level. However, collaborations between universities and businesses across regions must also be encouraged where this provides the best economic opportunities. The effectiveness of business-university interaction can be further enhanced by deployment of regional technology advisors to build networks within and between regions, signposting business to the best sources of advice wherever they are located. The Government will work with the RDAs to further develop their capabilities in this area.

- The Research Councils, devolved administrations and the RDAs are currently working together to explore how the funding of research on a predominantly national basis can be better aligned with the development and delivery of Regional Economic Strategies. To help strengthen further the regional contribution to broader UK-wide science and innovation policy and delivery over the next three years, the Research Councils will enhance the scale of their support for developing the RDAs' professional capabilities in science and technology issues, including through secondments of experienced staff into the RDAs and through representation on the advisory boards of the newly-established Regional Science and Industry Councils.

**A.3** DTI will report progress on its policies and measures on a regional basis annually.

## ENTERPRISE

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**A.4** DTI have a range of policies - those which impact upon enterprise nationally, those which focus resources on the most disadvantaged areas, and regional-level policies. These would be expected to benefit all regions and help to address regional disparities. The core policies of the Small Business Service are delivered by the national network of Business Links. These are aimed at: building an enterprise culture; encouraging a more dynamic start-up market; building the capability for small business growth; improving access to finance for small businesses; encouraging more enterprise in disadvantaged communities and under-represented groups; improving small businesses' experience of Government services; and developing better regulation and policy.

**A.5** There is a significant variation in the number of start-ups per head of population and the propensity of people to consider going into business, and hence in the overall stock of companies in regional economies. This is not simply an effect of deprivation – for example, the least deprived sub-regions in the North East and North West showed start-up rates below the most deprived sub-regions of London and the South East. The policies of the SBS and their delivery needs to reflect this.

**A.6** The following measures in particular will contribute to this PSA:

- In line with the principles of the devolving decision making review, responsibility for the delivery of Business Link services will be devolved to the RDAs from April 2005.
- To enable an integrated approach to business support at the regional level, R&D grants and parts of the successor to the Phoenix Fund, focusing on disadvantaged areas, are also being developed to the RDAs.
- SBS is currently working with the Treasury and other departments supporting the Enterprise Insight campaign, which aims to promote enterprise and influence young people's career choices. Regional campaign hubs have been identified as crucial to the success of the campaign. With the SBS support, Enterprise Insight has been working RDAs and other key regional bodies to develop these hubs.
- SBS is also sponsoring pilot projects, which take an innovative approach to raising enterprise awareness through the £1m Enterprise Promotion Fund.

- The Phoenix Fund, which has been highly successful in piloting a range of approach to simulating enterprise in disadvantaged areas and among under-represented communities, will be continued until 2008, with greater regional involvement in development and delivery.

**A.7** DTI will report progress on its policies and measures on a regional basis annually.

## SKILLS

**A.8** DfES is committed to addressing regional skills disparities. The national Skills Strategy published in July 2003 emphasised the importance of getting a better integration of supply and demand for skills at regional level, to support Regional Economic Strategies. That is being carried forward particularly through the Regional Skills Partnerships (RSPs) which are being set up in each region, co-ordinated by the RDA and including as core partners the LSC, Jobcentre Plus, the Sector Skills Development Agency, and the Small Business Service. Through meeting the needs of individuals, DfES policies impact upon skills nationally and regionally, as well as focussing resources on the most disadvantaged areas. As a result, the North East made the greatest recent improvements in the proportion of pupils achieving five good GCSE results (an increase of 2.4 percentage points between 2002 and 2003 compared with 2.1 percentage points for London and the West Midlands and 1 percentage point elsewhere). The effect of DfES policies is that:

- spending varies markedly by region, with funding per head being highest (with the exception of London) in those regions with lower indicators of economic performance;
- skills levels are increasing across all regions.

**A.9** Delivery against Spending Review 2002 DfES PSA targets shows that:

- In relation to the percentage of the economically active adult population with qualification at NVQ 2 equivalent or higher, the difference between the highest and lowest performing regions was 7.3 percentage points in 2001 compared with 5.8 percentage points in 2003.

**A.10** (PSA 11 – Reduce by at least 40% the number of adults in the workforce who lack NVQ 2 or equivalent qualifications by 2010).

- In relation to the percentage of those aged 16 who get qualifications equivalent to five GCSEs at grades A\* -C by region, the difference between the highest and lowest performing regions was 12.1 percentage points in 1998 compared with 9.8 percentage points in 2003.

**A.11** (PSA 5 - Between 2002 and 2006 the proportion of those aged 16 who get qualifications equivalent to five GCSEs at grades A\* - C rises by 2 percentage points each year on average and in all schools at least 20% of pupils achieve this standard by 2004 rising to 25% by 2006).

**A.12** During the SR 2004 period DfES will use the following key policies to tackle regional skills problems:

- Offering a range of services for children, parents and families, through children's centres, extended schools and other Sure Start programmes, to help children learn and achieve, and through family support and childcare, to enable parents to develop skills.
- Using mechanism announced in the Skills Strategy – for example the entitlement to free tuition to gain a first full level 2 qualification, new adult learning grants for priority groups, reform of Information Advice and Guidance Services for adults, joint local delivery plans developed between Jobcentre Plus the LSC – to help adults in low skill areas and low aspirations communities.
- Establishing Regional Skills Partnerships (RSPs) so that adult skills and training, business development and productivity, and labour market services support more effectively employers' skills priorities as set out in the Regional Economic Strategy, and thereby raise regional employability and productivity. This involves strengthening the role of RDAs in developing joint plans for adult skills budgets with the LSC's Regional Directors through the RSPs, in accordance with the statement of principles for future working between RDAs and the LSC drawn up in discussion between the DfES, DTI, RDAs and LSC. The Government agrees that there needs to be a much closer link between the LSC and the RDAs. It will support any region that develops their own mutually acceptable arrangements, in line with the concordat principles, to enable the supply of skills, training and workforce development for adults to be better matched to the needs of the region, within the framework of national targets and priorities set for the LSC and RDAs, including, where the RDA and LSC desire it, joint budgeting and planning of the adult skills budget by the RDA Chief Executive and the Regional LSC Director.
- Encouraging Sector Skills Councils (SSCs) to consider how they will secure a sufficient flow of skilled entrants into their sectors to meet future labour force needs, as part of their wider remit to identify and address the skills needs of employers in their sector. Working with LSC and Jobcentre Plus, this will involve looking at ways of using new streams of supply, such as both active and inactive JCP benefit claimants.
- Developing the Testbed Learning Communities Initiative as a way of raising aspirations and skills development across disadvantaged and low skilled communities, as a contribution to tackling cycles of inter-generational under-achievement. DfES will also work with LSC to develop the ASPIRE programme in the North East for the same purpose. ODPM will ensure that the lessons of those programmes are integrated, particularly within neighborhood renewal activity, with the aim of ensuring that those programmes give stronger support to integrating skills and training within wider support for tackling community disadvantage.

**A.13** DfES is committed to reporting progress against their policies regionally, in two ways:

- In line with DfES's standard reporting cycle providing management information by region for each PSA target, where information is available;
- Monitoring and evaluating the Testbed Learning Communities Initiative, learning lessons from it and applying them across future policy development and making strategic links into regeneration programmes as appropriate. DfES will also draw on the monitoring and evaluation of the ASPIRE programme in the North East for the same purpose.

**A.14** To help unlock the low skills equilibrium of low aspirations and low skills demand in Assisted Areas, the DTI has introduced Selective Finance for Investment in England as a replacement for Regional Selective Assistance and Enterprise Grant Schemes. As well as a new emphasis on productivity gains, this has a stronger skills element to encourage skilled employment opportunities.

## EMPLOYMENT

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**A.15** DWP supports the objective of narrowing regional disparities in employment rates. DWP has a suite of policies and targets to promote employment, particularly amongst disadvantaged client groups and small-scale areas with high concentrations of low employment, which disproportionately impact on regions with the lowest employment rates.

**A.16** Between the first quarters of 2001 and 2004, the Great Britain employment rate has risen from 75 per cent to 75.1 per cent, and the average employment rate of regions below the average has increased from 72.4 per cent to 72.9 per cent.

**A.17** The regions with under-performing economies have proportionately more people on Incapacity Benefit. The Government has already announced the Pathways to Work pilots, and in Budget 2004 announced that these would be extended to elements of the stock as well as the flow on claimants.

**A.18** DWP has also refocused its neighborhood renewal floor target on local authority wards rather than districts, as most concentrations of worklessness are at a very local level.

**A.19** In Building on New Deal: local solutions meeting individual needs the Government also announced plans for giving more freedom and flexibility to local staff, in line with the principles of the Devolving Decision Making Review and the priorities of the regions expressed in their input to the Spending Review.

## TRANSPORT

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**A.20** Transport systems and travel patterns for all modes have social, economic and environmental impacts across the country. Investment in transport therefore has a key role to play in delivering and supporting the objective of improving the economic performance of all the regions and to narrow the gap in growth between them.

**A.21** The Government believes that choices on regional and local transport are best taken when fully informed by regional and local stakeholders. Therefore DfT is looking at the current processes for transport decision-making and examining ways to ensure that these take complete account of regional and local views. This process will help ensure that available resources are efficiently and effectively allocated and secure the best outcomes from the regional perspective.

**A.22** DfT is therefore committed to:

- Reviewing and, where necessary, augmenting the appraisal guidance for transport projects to ensure that the potential impact on economic efficiency, access and employment are sufficiently well-captured. The work will be done over the summer 2004 with revised appraisal guidance issued to stakeholders for consultation in autumn 2004.
- Taking forward earlier work with the RDAs to establish a framework to help determine priorities for surface transport infrastructure of national economic importance by early 2005.
- Setting up pilots for regional advisory boards in the South East and Yorkshire and the Humber regions. These pilots will be used to evaluate how such groups can best advise on spending priorities on the basis of illustrative budgets. The progress made by these two groups will be evaluated in Autumn 2004.
- Examining new ways to integrate regional transport, economic, and spatial development strategies, within the framework of indicative regional budgets, on the grounds that choices in regional transport, housing, planning and economic development cannot be taken in isolation from each other. The Department will be consulting on these proposals later in 2004.
- As outlined in the Aviation White Paper, the department is consulting on the circumstances in which it might be appropriate to impose Public Service Obligations to guarantee a minimum level of air services on regional routes to London, should these become threatened and will aim to issue guidance later in the year. It has also invited Regional Development Agencies to set up Route Development Funds to help develop new business and inbound tourism services to help stimulate regional growth.
- Setting up pilots for regional advisory boards in the South East and Yorkshire and the Humber regions. These pilots will be used to evaluate how such groups can best advise on spending priorities on the basis of illustrative budgets. The progress made by these two groups will be evaluated in Autumn 2004.

**A.23** DfT will provide information about the progress and outcome of these regional initiatives on its website, as well as reporting annually in its Departmental Report on its overall contribution to improving regional economic performance.

## PLANNING

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**A.24** The Planning & Compulsory Purchase Act 2004 provides for a more responsive, transparent and streamlined planning system through the creation of statutory Regional Spatial Strategies (RSS) in place of non-statutory Regional Planning Guidance (RPG). At regional level this facilitates greater ownership of RSS policy and will provide a spatial framework to inform local, regional and sub-regional programmes that have a bearing on land use activities. The new planning arrangements permit greater flexibility and will enable customised solutions to be generated locally.

**A.25** Guidance for RDAs and RPBs on the economic evidence that should be included in the RES to inform the RSS, and in the RSS itself, will be produced by February 2005. Production will be overseen by a cross-departmental Working Group. The requirement to generate sources of independent evidence in the regions, which emanated from the Barker Review on the functioning of the UK's housing market, will both inform and feed into this work.

**A.26** In October 2003 the ODPM published a consultation draft of Planning Policy Statement 11 on regional planning. Planning Policy Statements (PPSs) set out the Government's core policies and principles on different aspects of planning. They should be taken into account by regional planning bodies and planning authorities in preparing regional spatial strategies and local development frameworks, and will be material to decisions on individual planning applications. ODPM are committed to placing a stronger emphasis on economic evidence in the final revision of PPS11 and PPS4 (planning for economic development). This will stress the need for planning policies to be in accordance with the region's Economic Strategy and the need to employ a consistent and agreed methodology for collating economic evidence, which leads to well authenticated and robust policies. ODPM will report progress against its policies and programmes regionally on an annual basis.

## DEVOLVING DECISION-MAKING REVIEW

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**A.27** The Government set out its approach to ensuring that the RDAs are enabled to act as the strategic leaders of economic growth in the regions in Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility. In line with the principles established in this document, SR2004 increased the funding, flexibilities and responsibilities of the RDAs. These changes are balanced by appropriate performance management arrangements for the RDAs. To increase the focus of the RDAs on strategic outcomes, the Government is introducing a new 'tasking framework' for the RDAs, which will ensure that stretching targets are aligned to the priorities identified in the Regional Economic Strategies as well as the most relevant Government Public Service Agreement targets. Moreover, the Government will work together with the RDAs to agree a new RDA performance monitoring framework that is more transparent and efficient, less bureaucratic and places greater reliance on internal and independent audit.

## **NORTHERN WAY**

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**A.28** In addition to these measures, the English RDAs have an ongoing programme of work to develop their own regional economies, including the work being undertaken by the three Northern RDAs to develop the Northern Way and similar work by the two Midland RDAs and SWRDA. We will continue to support the delivery of these programmes, monitoring their success at improving the economic performance of the regions using the leading and supporting indicators set out above; and ensuring that the recommendations of the Northern Way are considered as appropriate within central government Departments.



ISBN 978-1-84532-398-1



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