

The 2004 Spending Review takes further steps to strengthen the UK economy, to increase productivity and employment and to promote sustainable and balanced growth. In particular, this Spending Review:

- sets a ten year ambition to increase the ratio of UK R&D spending to national GDP from the current level of around 1.9 per cent to 2.5 per cent, with science spending through DfES and DTI over £1 billion higher in 2007-08 than in 2004-05, an annual average growth rate of 5.8 per cent in real terms;
- significantly increases spending on education and skills, with education spending in England set to be £12 billion higher in 2007-08 than in 2004-05 and per pupil funding rising to at least £5,500 by 2007-08, more than double the 1997 figure;
- provides additional resources for housing, with spending on housing over £1 billion a year higher in 2007-08 than in 2004-05, delivering a 50 per cent increase in new social house bulding – an additional 10,000 homes a year – and funding through the Sustainable Communities Plan to deliver 200,000 additional homes in the Thames Gateway and other growth areas;
- builds on the significant investment in transport in the 2002 Spending Review, with spending on transport £2.4 billion higher in 2007-08 than in 2004-05, an average annual rate of 4.5 per cent in real terms over the 2004 Spending Review period;
- takes forward the Government's commitment to balanced growth across the UK, with additional resources and responsibilities for the Regional Development Agencies (RDAs) to support small business, invest in skills, improve business-university links and promote economic development and regeneration in the regions; and
- demonstrates how the principles of sustainable development are being integrated into decision-making and spending priorities.

## RAISING PRODUCTIVITY AND ACHIEVING BALANCED, SUSTAINABLE GROWTH WITH OPPORTUNITY FOR ALL

**4.1** Increased productivity and high levels of employment are central to the Government's objective of prosperity and opportunity for all. This chapter describes the steps the Government is taking in this Spending Review to raise productivity across all regions and countries of the UK support the five key drivers of productivity performance:

- supporting science and innovation to promote the development of new technologies and more efficient ways of working;
- improving competition, which promotes flexible markets and increases business efficiency and consumer choice;
- promoting enterprise by removing barriers to entrepreneurship and developing an enterprise culture;
- raising skills levels to create a more flexible and productive workforce; and
- encouraging investment to increase the stock of physical capital.

This chapter also sets out the steps the Government is taking to support employment opportunity for all and to ensure balanced, sustainable growth.

## SCIENCE AND INNOVATION

**4.2** Stronger investment in the UK knowledge base and research and development (R&D) capacity will be key to growth, productivity and employment in the coming decade. Research must also be translated more effectively into business and public sector innovation.

### Ten-year investment framework for science and innovation

**4.3** Following a consultation launched at the time of Budget 2004, **the Government is publishing alongside this Spending Review a ten-year investment framework for science and innovation. This sets out the Government's long-term objective to increase the ratio of total UK R&D spending to GDP from the current level of around 1.9 per cent to 2.5 per cent over the next decade.** This would put the UK in a position to secure a leading place among the major European countries, and substantially close the gap between the UK and the best performing major economy in this regard, the US.

**4.4** As a first step towards achieving this goal, as a result of this Spending Review, science spending through DfES and DTI will be over £1 billion higher in 2007-08 than in 2004-05. This new funding will be used to:

- increase the responsiveness of the science base to emerging opportunities and tackling weaknesses, **by creating a responsive funding pot for the Director General of the Research Councils of £35 million a year in 2006-07 and 2007-08;**
- improve the skills supply in science, engineering and maths subjects, for example through increasing the value of the teacher training bursary for science graduates from £6,000 to £7,000 from September 2005 and increasing the 'Golden Hello' for new science teachers from £4,000 to £5,000 for trainees entering PGCE courses from September 2005;
- increase knowledge transfer funding for universities and research establishments – **boosting the Higher Education Innovation Fund to be over £110 million a year by 2007-08;**
- **provide an injection of capital for research council institutes of £50 million a year by 2007-08;** and
- increase the proportion of costs paid by Research Councils as a part of improving the ability of universities to fully meet the costs of the research they fund, with additional funding of £80 million over the Spending Review period.

**4.5** The Government's aim of increasing R&D as a proportion of GDP will be achieved only if this commitment from Government to invest substantially in the science base is matched by the private sector and leading charitable funding, and in particular if it is clear that private sector R&D funding is on a new and growing trajectory.

**4.6** The ten-year framework for science also sets out the full Government response to the Lambert Review of Business-University Collaboration. A summary of the Government's response to the Lambert Review is set out in Box 4.1.

**Box 4.1 The Government's response to the Lambert Review**

The Lambert Review of Business-University Collaboration was commissioned by the Chancellor in 2002 and the final report was published in December 2003. The review identified a number of issues that needed to be addressed to remove barriers to collaboration, including the weakness of business investment in R&D, complex negotiations over intellectual property and the need to ensure that research relevant to the needs of business is supported and sustained.

As part of its response to the Lambert Review, the Government is giving the Regional Development Agencies (RDAs) in England an enhanced role in supporting business-university collaboration. The Government will task the RDAs to help a broader spectrum of businesses develop productive links with the university base in each region, including through support for business-focused research capacity. The three Northern RDAs will aim to enhance their plans in this area in response to Lambert to over £100 million by 2010, strengthening university-business collaboration across the North.

The Government has also confirmed its support for the Higher Education Innovation Fund as a dedicated third stream of funding for universities in England. The Spending Review announces increased funding for HEIF of over £110 million a year by 2007-08.

The Government has facilitated the establishment of an Intellectual Property working group comprising representatives from business and universities. Under the chairmanship of Richard Lambert, the working group intends to draw up a range of model collaborative contracts and undertake work to develop an intellectual property protocol. The group aims to have completed its work by spring 2005.

The Government's full response to the Lambert Review is published in the ten-year investment framework for science and innovation.

**Innovation 4.7** Following DTI's *Innovation Report*<sup>1</sup> in December 2003 and the development of a Technology Strategy to focus Government support for business innovation, **this Spending Review allocates additional resources for DTI's knowledge transfer and innovation goals, with a budget for the new Technology Strategy set to rise to at least £178 million by 2007-08.** A new independent business-led Technology Strategy Board will set out the priorities for collaborative R&D programmes and knowledge transfer networks, ensuring that business has a strong input into the pull-through of scientific advances into useful technologies. This will help to maximise the productivity benefits of increased investment in the science base.

## COMPETITION AND REGULATION

**4.8** High levels of competition increase the productivity of the economy, with both businesses and consumers driving better performance. The Enterprise Act has set the framework for a more competitive economy. This Spending Review ensures that the UK competition authorities are firmly established with steady levels of funding, allowing them to embed the new system and deliver high quality outcomes.

**International business 4.9** There are sound economic reasons for government support to encourage inward investment and trade. Market failures such as incomplete information about export opportunities can inhibit activity, particularly among smaller businesses. Greater internationalisation strengthens innovation and competition, provides greater opportunities to exploit economies of scale, exposes the domestic economy to greater competitive pressures and provides access to new technologies.

<sup>1</sup> *Competing in the global economy: the innovation challenge*, Department of Trade and Industry, December 2003.

**4.10** In order to maximise the benefits of international business, this Spending Review announces:

- a doubling of resources by 2007-08 compared to 2004-05 for UK Trade and Investment (UKTI)'s inward investment services, subject to finalising delivery plans, focusing UKTI on encouraging inward investment to the UK as well as export promotion and ensuring that the UK remains the prime location in Europe for foreign direct investment;
- reforms to focus trade development effort where market failure is greatest, so that by 2007-08 the proportion of UKTI assistance for new-to-export firms has increased by at least 30 percentage points; and
- consistent with other initiatives to strengthen regional delivery of business support, an increase in the resources UKTI contributes to the RDAs Single Pot for inward investment.

**Better regulation 4.11** Effective and well-focused regulation can play a vital role in correcting market failures, promoting fairness and ensuring public safety. However, unnecessary or poorly implemented regulation can restrict competitiveness and employment growth, stifle innovation and deter investment. The Government is committed to delivering targeted deregulatory changes to reduce burdens on business and to strengthening policy-making processes to improve the quality of new regulation. Budget 2004 announced that any regulatory proposal likely to impose a major new burden on business would in future require clearance from the Panel for Regulatory Accountability, chaired by the Prime Minister. The Hampton Review, which will report by April 2005, is examining the scope for improving the efficiency of regulatory inspections and enforcement without sacrificing outcomes.

**4.12** This Spending Review announces that the Department for Transport, the Department for Environment, Food and Rural Affairs, the Home Office and the Office of the Deputy Prime Minister will produce three-year strategies for the implementation of new regulations. These plans will be scrutinised by the Cabinet Office Regulatory Impact Unit, helping departments to gain an overview of the volume of regulatory change they plan to introduce and the impact this would have on business. Where possible the Government will seek to minimise this impact, finding non-regulatory alternatives to certain regulations if necessary.

**4.13** Sir Peter Gershon's Efficiency Review also looked at regulatory issues and recommended that departments should develop a more holistic, risk-based approach to private sector regulation and delivery, exploiting economies of scale, for example through the rationalisation of delivery bodies. Departments have responded with plans to improve the efficiency of regulation as part of their overall efficiency plans. For example, Defra plans to rationalise delivery functions following the Haskins Review – realising efficiency gains through the Modernising Rural Delivery Plan and the England Rural Development IT Programme. DTI plan to deliver efficiencies by increasing the effectiveness of their business support products.

## ENTERPRISE

**4.14** A modern, dynamic economy needs a strong entrepreneurial base. A thriving small and medium-sized business sector is key to driving productivity growth and generating prosperity, wealth and employment. The creation and growth of new firms promotes the exploitation of new ideas and opportunities, and competitive pressures drive innovative activity. The Government is committed to the provision of quality small business support tailored to meet varying regional and local needs.

**4.15** The 2002 cross-cutting Review of Government Services for Small Business examined the broad range of public sector business support provision and made key recommendations for improving the effectiveness and coherence of Government services to business. The review highlighted the need to improve small firms' experience of business support services, reduce duplication and simplify provision from the customer's perspective.

**4.16** Budget 2004 announced the transfer of responsibility for the management of the Business Link network from the Small Business Service (SBS) to the RDAs. This is expected to deliver more effective action to tackle local barriers to enterprise, better design and delivery of services and more efficient management of the Business Link network resulting in better value for money. It is anticipated that in turn, this will result in greater coherence in business support delivery from the customer's perspective. **The Spending Review devolves resources to the RDAs to take on responsibility for delivery of Business Link.**

**4.17** The Regional Development Agencies (RDAs) have a central role to play in improving business support. The 2004 Spending Review provides the RDAs with additional resources and responsibilities for the design and delivery of business support at the regional level. RDA flexibility and autonomy with a minimal national role for Government is paramount to the effective devolution of business support, allowing RDAs the freedom to meet fully the needs of their regional business communities.

## SKILLS

**4.18** The Government's aim is to achieve excellence in standards of education and levels of skills and offer everyone the opportunity to develop their learning and realise their potential. This is fundamental to achieving the Government's wider aims of building a productive, competitive economy and an inclusive society.

**Education 4.19** To reflect this priority, the 2004 Spending Review confirms the significant increase in education spending announced in Budget 2004. **Education spending in England will grow by an annual average of 4.4 per cent in real terms across the Spending Review period and total spending on education in England will be £12 billion higher in 2007-08 than in 2004-05.** Average per pupil funding will rise to at least £5,500 by 2007-08; more than double the 1997 figure. This investment will support reforms in the following key areas:

- every school will be able to become a specialist school, alongside up to 200 academies by 2010;
- all secondary school buildings will be transformed to twenty-first century standards in the next 10 to 15 years;
- more schools across the country will be able to offer extended services; and
- in higher education, the level of real-terms student funding per head will be maintained with further progress toward the Government target to increase participation in higher education towards 50 per cent of 18 to 30 year olds by 2010;

**Adult Skills 4.20** Compared to other OECD countries the UK has high numbers of people with no or low skills. The investment announced in this Spending Review will enable the DfES to make progress towards its PSA targets to reduce the number of people within the workforce without a full level 2 qualification and to increase the percentage of 19-year olds in England joining the workforce with a full level 2 qualification. In keeping with this commitment to tackling low skills, this Spending Review also maintains the ambition of the DfES's target to reduce the skills gap by improving the basic skills levels of 2.25 million adults by 2010.

**4.21** The settlement will also enable the delivery of the New Deal for Skills, which sets out the Government's ambitions to help the low and unskilled gain qualifications that allow them to move into work and, through enhancing their skills, improve their longer-term prospects. Specifically it includes improvements to skills and work related information, advice and guidance services, the locations of skills counsellors in jobcentres and the development of a 'skills passport' to provide individuals with a simple, portable way of recording skills and training entitlements. Full details of education spending plans and PSA targets are set out in Chapter 7.

**4.22** The Northern Way Growth Strategy (see Box 4.3) made a number of proposals to Government for devolving decision-making in the 2004 Spending Review. On adult skills, this involves strengthening the role of Regional Development Agencies (RDAs) in developing joint plans for adult skills budgets with the Regional Directors of the Learning and Skills Council (LSC) through the Regional Skills Partnerships, in accordance with the statement of principles for future working between RDAs and the LSC drawn up in discussion between DfES, DTI, RDAs and the 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. **The Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDA and LSC desire it, a "dual key" approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.**

**Investment 4.23** Greater investment in physical capital, both public and private, is key to a productive economy. In 1997, public sector net investment (PSNI) stood at just £4.9 billion – 0.6 per cent of GDP – the lowest level for over a decade. Investment in public services had been on a declining trend since the mid-1970s, resulting in falling standards in the quality of public service assets. The Government is committed to reversing this under-investment in the nation's infrastructure. In this Spending Review, PSNI will increase to 2¼ per cent of GDP by 2007-08. This will lock in the improvements seen in public service assets since 1997 and ensure that the country has the infrastructure needed to drive increases in productivity.

**Housing 4.24** A stable and flexible housing market is essential to a healthy and productive economy. Housing market imbalances between supply and demand are a potential brake on economic development, as the cost and availability of housing influences the geographical distribution and mobility of the labour force and may affect capacity levels in local labour markets. Housing is a key asset for households and consumer spending is closely associated with changes in housing wealth. Reducing volatility in the housing market will therefore help promote macroeconomic stability. Whilst a more balanced housing market also has the microeconomic benefits of improving labour mobility and tackling a source of deprivation and social exclusion.

**4.25** In response to Kate Barker's review of housing supply *Delivering stability: securing our future housing needs*, published at Budget 2004, the Government accepted the need to address volatility in the UK housing market and undertook to begin to address the need for additional investment in social housing and related infrastructure in this Spending Review. Details of the Barker Review and a summary of its recommendations are set out in Box 4.2.

**Box 4.2 Barker Review of housing supply**

The Chancellor and the Deputy Prime Minister jointly commissioned Kate Barker to lead a review of the factors affecting housing supply in the UK. The Barker Review's final report was published at Budget 2004. It set out how the UK has experienced a long-term upward trend in house prices – an average 2.4 per cent per annum over the last 30 years – and house building had fallen to its lowest level since the Second World War. Forty years ago 400,000 homes a year were being built in the UK, since the early 1990s this number has decreased to around 200,000 homes a year, and the social housing stock has also been in decline. A more responsive housing supply and a lower trend in house prices would be desirable to deliver greater macroeconomic stability and greater affordability.

The Review set out a number of recommendations for improving the functioning of the housing market:

- a long-term goal for improved market affordability should be set;
- investment in social housing should be increased over time, to deliver at least 17,000 more social houses a year in the medium term;
- Regional Planning Bodies and Regional Housing Boards should be merged to create a single body responsible for managing regional housing markets, supported by independent advice on the steps required to achieve affordability goals;
- a planning-gain supplement should be introduced to capture some of the development gains that landowners benefit from, and as a fair means of releasing resources to increase housing supply;
- a Community Infrastructure Fund should be established to help to unlock some of the barriers to development; and
- local authorities should be incentivised to deliver growth and new housing development.

**4.26** This Spending Review therefore provides £1.3 billion more for housing in 2007-08 compared to 2004-05. This will deliver a 50 per cent increase in new social house building – an additional 10,000 homes a year. The Review will fund the Deputy Prime Minister's Sustainable Communities Plan to deliver 200,000 additional homes in the Thames Gateway and other growth areas and establishes a new Community Infrastructure Fund of £150 million by 2007-08 to unlock further housing supply. It also announces a trebling in investment to regenerate areas suffering from low housing demand with funding of over £450 million a year by 2007-08 compared to £150 million in 2004-05, enabling an expanded programme in the North and Midlands.

**Transport 4.27** Reliable and modern transport systems are critical to the economic prosperity and productivity of the country. The Ten Year Plan for Transport, published in 2000, provides an unprecedented commitment to delivering improved transport with over £180 billion of sustained funding over ten years and a 45 per cent real terms increase in resources in this decade compared to the previous decade. The 2004 Spending Review provides resources to maintain the sustained investment profile set out in the Ten Year Plan and additional funding to put the rail industry on a sustainable footing. **Spending on transport will be £2.4 billion higher in 2007-08 than in 2004-05, an average annual growth of 4.5 per cent in real terms.**

**4.28** This investment will need to be accompanied by reform to deliver a world-class transport system. Despite the progress being made on improving rail performance, the Government has recognised that to deliver a rail industry and network fit for the next 30 years, deep-rooted structural problems in the industry need to be addressed. The Secretary of State

for Transport announced a fundamental review of the rail industry in January 2004. The review, [which will be published later this month], will propose a comprehensive structural reform package to improve cost control and value for money in the rail industry, and ensure it is capable of delivering significant performance improvements for rail passengers. **This Spending Review provides significant additional funding, to enable these reforms to be taken forward without delay.**

**4.29** The Government believes that choices on regional and local transport investment are best taken when informed by local stakeholders. The second report of the Devolving Decision Making Review<sup>2</sup>, published alongside Budget 2004, announced two pilots for Regional Transport Boards with indicative regional budgets. This is an important step towards greater devolution of decision-making. **The Government is also examining new ways to integrate regional transport, economic and spatial development strategies within the framework of indicative regional budgets.** It will consult on these proposals later in the year, with a view to publishing indicative regional budgets alongside Budget 2005.

## EMPLOYMENT

**4.30** The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. The Government's strategy for extending employment opportunity builds on the strong performance of the UK labour market over recent years. UK unemployment, based on the International Labour Organisation (ILO) definition, stood at 4.8 per cent in the three months to April 2004, while the working age employment rate reached 74.8 per cent. Since spring 1997 the employment level has risen by over 1.8 million while claimant count unemployment has fallen by more than 800,000, remaining consistently below one million since February 2001. Measures to increase employment amongst lone parents have also had a positive impact, with 53.4 per cent of lone parents now in employment. These successes have impacted right across the country, with employment rising and unemployment falling in every region.

**4.31** Since 1997, the Government has invested heavily in modernisation of the Department for Work and Pensions (DWP) with £2.8 billion invested in new IT and a further £2.2 billion invested in the new Jobcentre Plus infrastructure. Reflecting the resulting scope for more efficient use of resources as this investment bears fruit, this Spending Review announces that DWP will be expected to make efficiency savings of 2.7 per cent per annum by 2007-08, and in doing so free up staff and resources to strengthen its customer-facing services allowing increased focus on its new priorities and continued delivery of the current level of employment support.

**4.32** The success of the Government's employment policies means that resources can now be allocated increasingly towards people facing multiple, and more severe, barriers to work and areas with high concentrations of worklessness. This Spending Review sets challenging targets for DWP to raise employment levels for these groups and areas, to ensure that they enjoy the same level of success. To meet these targets over the Spending Review period, DWP is developing a range of services that meet the specific needs of people and areas facing greater barriers to work. Over the 2004 Spending Review period DWP will be developing more effective support for people facing the greatest barriers to work, through measures including:

- a comprehensive evaluation of the Pathways to Work pilots for claimants of incapacity-related benefits;

<sup>2</sup> *Devolving decision making 2: Meeting the regional challenge: increasing regional and local flexibility*, HM Treasury, Office of the Deputy Prime Minister, Department of Trade and Industry, March 2004.

- the rigorous testing of new approaches to supporting those further from the labour market, such as in-work credits and work search premiums, and measures to help people to enter, remain and progress in work through the New Deal for skills;
- steps to address the remaining structural and institutional factors that can act as barriers to labour market participation, including through reforms to Housing Benefit that will provide more consistency and continuity for people as they move into work; and
- new measures to improve retention and advancement in work through the Employment Retention and Advancement Demonstration project.

**4.33** The 2004 Spending Review also supports the development of new ways of focusing resources on those most in need of support. In *Building on New Deal*<sup>3</sup>, the Government announced its plans for a new framework for devolving more responsibility for the allocation of resources to local managers to help them make more efficient use of the funding available to tackle local and national priorities. As part of its Spending Review settlement, DWP will be developing and testing this model in a number of areas.

## BALANCED GROWTH ACROSS THE UK

**4.34** The Government is committed to ensuring that the benefits of improved productivity are spread throughout the country. The 2002 Spending Review introduced a PSA target to make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between regions. This target is re-affirmed for the 2004 Spending Review. In Scotland, Wales and Northern Ireland, the Devolved Administrations have responsibility for economic development.

**4.35** The Government has increasingly sought to ensure that regional institutions contribute to the design of national policies, including priorities to meet the regional economic performance target. To allow the differential regional impact of national policy to be taken into account, the regions were invited to contribute Regional Emphasis Documents to the 2004 Spending Review. The RDAs, Government Offices and Regional Chambers have worked together in each region to identify the areas of public spending that are key to the importance of regional prosperity. Government departments took account of the Regional Emphasis Documents when preparing their Spending Review priorities. A full response to the Regional Emphasis Documents will be published later this month.

### Regional and local decision-making

**4.36** The Government believes that the best way to overcome regional disparities in productivity and employment rates is to allow each nation, region and locality the freedom, flexibility and funding to exploit their indigenous sources of growth. The Regional Development Agencies (RDAs), working in partnership with key regional, sub-regional and local bodies, including Local Authorities, are the strategic leaders of economic development and regeneration in the regions. *Devolving decision making: 2* established clear principles for deciding when delivery and policy design should be devolved to the RDAs. The Government believes policy interventions should be designed and delivered at the level at which the market failure is most effectively tackled and where policy makers are best informed.

**4.37** The 2004 Spending Review applies this principle to provide maximum flexibility for the RDAs. **The Spending Review maintains funding for the RDAs' Single Pot in real terms and devolves new responsibilities to the RDAs from departments with a consequent transfer of around £200 million a year from 2005-06.** These transfers will increase the size of the

<sup>3</sup>*Building on New Deal: local solutions meeting individual needs*, Department for Work and Pensions, June 2004.

Single Pot by 10 per cent from 2005-06 compared to 2004-05. The Single Pot, introduced in 2002, allows the RDAs significant flexibility in managing their own resources to meet their regions' priorities. It will deliver total resources of £2.3 billion in 2007-08.

**4.38** These increases in resources will enable the RDAs to take on new responsibilities, which the RDAs will be tasked to deliver against. Building on the principles set out in the Devolving Decision Making Review, the 2004 Spending Review:

- **devolves responsibility to the RDAs for the delivery of Business Link services from April 2005.** The RDAs will collectively work together with the Small Business Service (SBS) to ensure that there is a mutually consistent framework for the application of Business Link branding across regional services and the national website, with very light central brand management;
- **devolves new responsibilities for the delivery of R&D grants and for parts of the successor to the Phoenix Fund, which focuses on enterprise in disadvantaged areas,** to enable an integrated approach to business support at the regional level;
- as part of the Government's response to the Lambert Review,<sup>4</sup> **enhances the role of the RDAs in supporting business-university collaboration.** The Government will task the RDAs to help a broader spectrum of businesses develop productive links with the university base in each region, including through support for business-focused research capacity;
- as part of the Modernising Rural Development Programme, **devolves additional resources to the RDAs to meet rural socio-economic objectives,** which were previously the responsibility of the Countryside Agency. This is in response to recommendations in the Haskins Review.<sup>5</sup> Rural priorities will be incorporated in the new RDA 'tasking framework'; and
- announces that the **resources UK Trade and Investment (UKTI) contributes to the RDAs' Single Pot for inward investment will be increased** in the 2004 Spending Review period. In addition, **the RDA Chief Executive and UKTI will jointly sign off plans for locally delivered trade development services** to ensure close integration with Regional Economic Strategies.

**4.39** It is increasingly clear that regional choices on transport, housing, planning and economic development cannot be taken in isolation. **The Government is examining new ways to integrate RDAs' Regional Economic Strategies with regional transport and spatial development strategies, within a framework of indicative long-term funding guidelines for each region.** The Government will also consider whether devolution on transport could be accelerated in regions which vote for Elected Regional Assemblies. It will consult on these proposals later in the year with a view to publishing indicative regional budgets alongside Budget 2005.

**4.40** The Government has welcomed the proposal of the three Northern RDAs to develop the idea of a Northern Growth Strategy. This Spending Review announces a number of measures that respond to input from the Northern Way. More details on the Northern Way are set out in Box 4.3.

<sup>4</sup> *Review of Business-University Collaboration: Final Report*, Richard Lambert, 2003.

<sup>5</sup> *Rural delivery review: A report on the delivery of government policies in rural England*, Christopher Haskins, 2003.

**Box 4.3 The Northern Way Growth Strategy**

The three northern RDAs (ONE North East, Northwest Development Agency and Yorkshire Forward), along with other regional partners, have developed the idea of a Northern Way Growth Strategy to establish the North of England as an area of exceptional opportunity with a world class economy and a superb quality of life. The Government has warmly welcomed this proposal, which builds on the North's many assets and aims to harness its untapped potential for economic growth.

The Northern Way recently submitted an interim report and a contribution to the 2004 Spending Review to the Government. Its final report will be published later this year. This Spending Review announces a number of measures that respond to inputs from the Northern Way, and provides the framework for developing, in the final report, an ambitious strategy to boost the North's economic performance. These include:

- **skills** – the Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDA and LSC desire it, a "dual key" approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.
- **innovation** – responding to the Lambert review, the Government will give the RDAs new responsibilities for promoting business-university collaboration. It is important that universities and the RDAs work in partnership to deliver this agenda. The Government will work with RDAs in the development of the new Higher Education Innovation Fund metrics to ensure that this nationally run scheme takes account of regional priorities. In turn, building on current plans to support business innovation through links to the research base, the three Northern RDAs will aim to enhance those plans in response to the Lambert review to over £100 million by 2010, strengthening university/business collaboration and technology transfer across the North. The Government also supports the outline proposals for a single Northern Science and Industry Council;
- **enterprise** – to increase regional flexibility for small business support, the Government is devolving to the RDAs' responsibility for delivery of Business Link services. The Government also endorses the Northern Way's proposal to develop a pan-Northern cluster policy;
- **transport** – the Government is announcing its intention to significantly increase the level of regional involvement in transport policy and investment choices. It will also consider whether devolution could be accelerated for the Northern Way regions; and
- **housing** – to increase regional flexibility, the Government is introducing a housing affordability target that will feed into Regional Spatial Strategies ensuring they take account of market indicators. The Government will also be making it clear that there can be regional variations from national planning policy where this can be justified in the Regional Spatial Strategies.

**4.41** Building on the dialogue with the regions, the Government has already taken steps to ensure that national policies support the drivers of regional growth and address disparities. The 2004 Spending Review confirms further steps, including:

- factoring regional productivity benefits into planning and transport appraisals; and
- piloting Regional Transport Boards.

**Better regional information** **4.42** To ensure that there is accurate regional data available to support the regional policy framework and delivery of the regional economic performance PSA target, **the 2004 Spending Review confirms that Office of National Statistics (ONS) will be implementing in full the recommendations of the Allsopp Review**.<sup>5</sup> The ONS will deliver, with the resources provided in this Spending Review, reliable baseline Gross Value Added estimates by region and a framework that better reflects economic diversity and change. The ONS will also put statisticians in the regions.

**4.43** The Government has also taken steps to improve the quality of regional spending data, in response to the McLean study<sup>6</sup> of regional spending statistics. Building upon the recommendations of the McLean report and the Allsopp review of regional statistics, more and better quality regional spending data was published in Public Expenditure Statistical Analysis 2004 (PESA). The level of public spending in each region is a reflection of a large number of allocation mechanisms, each tailored to the circumstances of the particular spending programme. Achieving greater regional fairness and effectiveness is therefore more complex than reforming any single allocation mechanism. However, the Government is continuing to improve regional spending plans by:

- encouraging departments to ensure that their allocation mechanisms are up to date and reflect the needs of their programmes; and
- intending to publish regional data in future departmental reports as well as PESA.

## SUSTAINABLE DEVELOPMENT

**4.44** The Government's measures to strengthen the economy and increase productivity are located within the wider context of its commitment to sustainable development, ensuring that policy delivers for both present and future generations. Sustainable development means developing and implementing policies that will simultaneously deliver social, economic and environmental progress, at home and overseas. For example, the Government is committed to ensuring that new housing helps reduce market volatility, improves affordability, maintains green spaces and improves energy and water efficiency. Sustainable development means pursuing an energy policy that addresses the threat from climate change while supporting economic growth and tackling fuel poverty. A sustainable approach to health policy focuses on public health, including measures such as housing improvement, encouraging healthier eating and exercise, and sustainable transport modes like walking and cycling. Sustainable development focuses on both the economic prosperity and the liveability of communities – their greenness, attractiveness and safety and the quality of their public services.

**4.45** In this Spending Review every department was asked to consider the economic, social and environmental implications of their policy priorities and objectives, and to integrate these into their spending programmes and policies. This reflects the recent extension of the Regulatory Impact Assessment (RIA) process to cover all policies and proposals that will have a substantial impact on the public sector. RIAs now require Departments to identify not only economic costs and benefits but also any significant environmental and social costs and benefits. In this way sustainable development criteria will be more systematically integrated into the normal processes of policy assessment and decision making. This is an important step towards better and more sustainable policy making.

<sup>5</sup> Christopher Allsopp, *Review of Statistics for Economic Policymaking: First Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician*, 2003.

<sup>6</sup> Nuffield College and Office of the Deputy Prime Minister, *Identifying the flow of domestic and European expenditure into the English regions*, 2003.

**4.46** This commitment to sustainable development is reflected in decisions on new spending and on PSA targets. Box 4.4 summarises the key outcomes of the Spending Review for sustainable development in domestic policy. The international dimensions of sustainable development are discussed in Chapter 6.

**Box 4.4 Key outcomes of the Spending Review for sustainable development**

As a result of this Spending Review:

- the Department for Environment, Food and Rural Affairs (Defra) will expand programmes to improve resource efficiency (including energy efficiency and waste minimisation) of businesses, funded by the recycling of landfill tax revenues;
- Defra will also receive additional resources to further reduce fuel poverty by improving the energy efficiency of the homes of vulnerable people;
- the Office of the Deputy Prime Minister (ODPM) will be taking steps to improve housing affordability, including delivering an extra 10,000 new units of social housing a year by 2007-08;
- As well as preserving or increasing the area of land designated as green belt and raising the density of development to minimise land take, ODPM is committed to ensuring that new housing will be built to high standards in relation to energy and water efficiency, waste and building materials, taking into account the findings of the Sustainable Buildings Task Group (SBTG);
- the Department for Transport will take joint ownership with DTI and DEFRA of a PSA target on tackling climate change;
- the Department of Trade and Industry (DTI) will devote resources, including revenues recycled from the land fill tax to businesses, to supporting research and development in sustainable energy technologies, including those identified in the Renewable Innovation Review (RIR);
- ODPM has a new PSA target to improve the ‘liveability’ of communities, making public spaces cleaner, safer and greener, and there will be a new single Safer and Stronger Communities Fund to empower local communities to improve local quality of life; and
- new PSA targets and resources have been agreed to reduce child poverty, to improve public health and reduce public health inequalities and to ensure more effective targeting of resources across government departments to deprived areas and groups.

**The UK Sustainable Development Strategy**

**4.47** The Government’s headline indicators of sustainable development provide a broad overview of progress towards meeting the Government’s sustainable development objectives. As a result of the 2004 Spending Review all 15 of the headline indicators are now reflected in Public Service Agreement targets spanning 10 government departments. Full details of these targets are set out in Box 4.5.

**4.48** The UK Sustainable Development Strategy is currently being reviewed. The outcomes of the 2004 Spending Review complement that process and will enable the Government to continue to deliver its sustainable development aims.

**Box 4.5: Headline Indicators of Sustainable Development**

Headline Indicators of Sustainable Development	2004 PSA Targets
Economic output	Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle. (HM Treasury)
Investment (per cent of GDP)	Deliver a measurable improvement in the business performance of UK Trade and Investment's international trade customers and maintain the UK as the prime location in the EU for foreign direct investment. (FCO and DTI)
Employment (% working age people in work)	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 with HM Treasury); increase the employment rates of disadvantaged groups (lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications and those living in the local authority wards with the poorest initial labour market position); and significantly reduce the difference between the employment rates of the disadvantaged groups and the overall rate. (DWP)
Education (qualifications at 19)	Increase the proportion of 19 year olds who achieve at least level 2 by 3 percentage points between 2004 and 2006, and a further 2 percentage points between 2006 and 2008, and increase the proportion of young people who achieve level 3. (DfES)
Health (expected years of healthy life)	Reduce substantially mortality rates by 2010 from heart disease and stroke and related diseases by at least 40 per cent in people under 75; from cancer by at least 20 per cent in people under 75; from suicide and undetermined injury by at least 20 per cent; reducing adult smoking rates to 21 per cent or less by 2010. (DoH)
Housing (unfit/non-decent homes)	By 2010 bring all social housing into decent condition with most of this improvement taking place in deprived areas, and for vulnerable households in the private sector, including families with children, increase the proportion who live in homes that are in decent condition. (ODPM)
Crime (vehicle, burglary, robbery)	Reduce crime by 15 per cent, and further in high crime areas, by 2007-08. (HO)
Climate change (greenhouse gases)	Reduce greenhouse gas emissions to 12.5 per cent below 1990 levels and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. (DfT, DTI and Defra)
Air quality (days of air pollution)	Improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1,3 butadiene. (Defra and DfT)
Road traffic	The Department for Transport are developing better measures of inter-urban congestion and will publish a new target by July 2005.

<b>River water quality</b>	<b>The Defra PSA on sustainable farming will now include environmental measures including of diffuse water pollution from agriculture.</b>
<b>Wildlife (farmland birds)</b>	<b>Care for our natural heritage, make the countryside attractive and enjoyable for all and preserve biological diversity by: reversing the long-term decline in the number of farmland birds by 2020, as measured annually against underlying trends; bringing in to favourable condition by 2010 95 per cent of all nationally important wildlife sites. (Defra)</b>
<b>Land use (percentage of new homes on Brownfield sites)</b>	<b>Achieve a better balance between housing availability and the demand for housing in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities. (ODPM)</b>
<b>Waste (more waste reduction)</b>	<b>Enable at least 25 per cent of household waste to be recycled or composted by 2005-06, with further improvements by 2008. (Defra)</b>

