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## DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's aim is to deliver world-class public services through sustained investment and ongoing reform. The 2004 Spending Review set outcome-focussed targets and spending plans to 2007-08 that built on the increased resources delivered in previous Spending Reviews. It established efficiency targets for all departments, identifying over £21 billion of efficiency gains a year by 2007-08 to be recycled to front-line public services. This Pre-Budget Report confirms that the Government is on course to meet this target, with departments and local authorities reporting annual efficiency gains totalling £4.7 billion by the end of September 2005. The 2005 Pre-Budget Report announces further measures directing resources towards the Government's public service priorities, including:

- **an additional £53 million to expand Youth Opportunity Funds**, enabling young people to run their own projects and secure the amenities and activities they want in each local authority. This will mean an average local authority receiving £500,000 over the next two years;
- **reallocating an additional £305 million in 2006-07 and £508 million in 2007-08 into grant for local authorities**, enabling them to continue delivering high quality public services alongside low council tax increases;
- **providing an additional £85 million to advance the ongoing expansion of the security and intelligence agencies, and extending the availability of the £50 million Counter-Terrorism Pool beyond 2005-06;** and
- **providing an additional £580 million for the special reserve in 2005-06** for military operations in Iraq and the UK's other international obligations.

Budget 2005 announced that the Government will invest £27.5 million to bring private and public sectors together in the delivery of grass roots and community sport. This Pre-Budget Report confirms that a National Sports Foundation will be established from April 2006, providing a one-stop shop for community sport investment through a single web-based point of access for potential investors and applicants for funding. It aims to attract at least £30 million of private sector investment by 2008, funding national and regional initiatives to improve the quality of grass roots sport across the country.

This Pre-Budget Report sets out further details of the preparations for the 2007 Comprehensive Spending Review (CSR). A decade after the first CSR, the 2007 CSR will assess what the sustained increases in spending and reforms to public service delivery have achieved since 1997, and identify what further investments and reforms are needed to equip Britain for the challenges of the years ahead.

**6.1** The Government's goal is to deliver world-class public services through sustained investment matched by far-reaching reform. Modern and efficient public services are at the heart of the Government's vision of a society in which economic prosperity is underpinned by social justice. High-quality education and training, a modern and reliable transport network, an effective criminal justice system and a modern health service provide the essential foundations for a flexible economy and a fair society, which is well placed to prosper in the increasingly competitive global economy. *Globalisation and the UK: strength and opportunity to meet the economic challenge*<sup>1</sup>, published on 2 December, identifies the steps the UK must take to prepare for the profound transformations of globalisation.

<sup>1</sup> *Globalisation and the UK: strength and opportunity to meet the economic challenge*, HM Treasury, December 2005.

**A long-term strategy for public services**

**6.2** In June 1997 the incoming Government launched the first Comprehensive Spending Review (CSR) – a fundamental and in-depth examination of government spending which set the course of public services for the decade ahead. Building on the platform of stability provided by the new fiscal code, the CSR and subsequent Spending Reviews articulated the Government's overarching priorities for the long-term: sustainable growth and employment; fairness and opportunity; modern and effective public services; and a secure and fair world. To achieve these ambitions, since 1997 the Government has established a public services strategy based on three key principles, described in more detail in the sections below:

- *delivering resources to the front line*, with stable public finances and a reformed fiscal and budgetary framework providing the foundation for sustained increases in resources and investment in public assets;
- *ensuring value for money*, to make the most of increased resources and fulfil the Government's obligation to taxpayers to employ resources efficiently and effectively; and
- *reforming the delivery of public services*, to strengthen accountability and improve outcomes for society, including higher standards, reduced inequalities and greater user satisfaction.

**6.3** This strategy of investment and reform has delivered significant improvements in the outcomes achieved across public services. Increased resources for the National Health Service (NHS) have helped save over 160,000 lives from 1996 to 2004 as a result of reductions to mortality rates from cancer and circulatory diseases among people aged under 75. In education, provisional results for 2005 show the biggest year-on-year increase in the proportion achieving five good GCSEs for a decade, with some of the biggest improvements seen in areas of significant deprivation and a history of low achievement. And the risk of being a victim of crime is now the lowest recorded by the British Crime Survey since it began in 1981.

**2007 Comprehensive Spending Review**

**6.4** The Government is determined to build on these firm foundations, driving further improvements to public services to deliver a stronger economy, a fairer society and a more secure world. Looking forward, there are new opportunities and challenges the country must address in the decade ahead, including: demographic change and the rapid increase in the old age dependency ratio; an acceleration in the pace of innovation and technological change; globalisation and the emergence of rapidly industrialising economies such as India and China; global uncertainty with ongoing threats from international terrorism and global conflicts; and further pressures on natural resources together with greater risks from climate change.

**6.5** Recognising that the UK's public services must be equipped to respond to these challenges, in July the Government announced that it intends to conduct a second Comprehensive Spending Review, reporting in 2007. A decade on from the first CSR, the 2007 CSR provides an opportunity for the Government to take stock of the progress it has made against its overarching goals, and to review fundamentally the effectiveness of departmental spending in delivering further advances. Through this work, the 2007 CSR will identify what additional long-term investments and reforms are needed to meet the challenges and opportunities of the years ahead.

## DELIVERING RESOURCES TO THE FRONT LINE

### Reforming the public spending framework

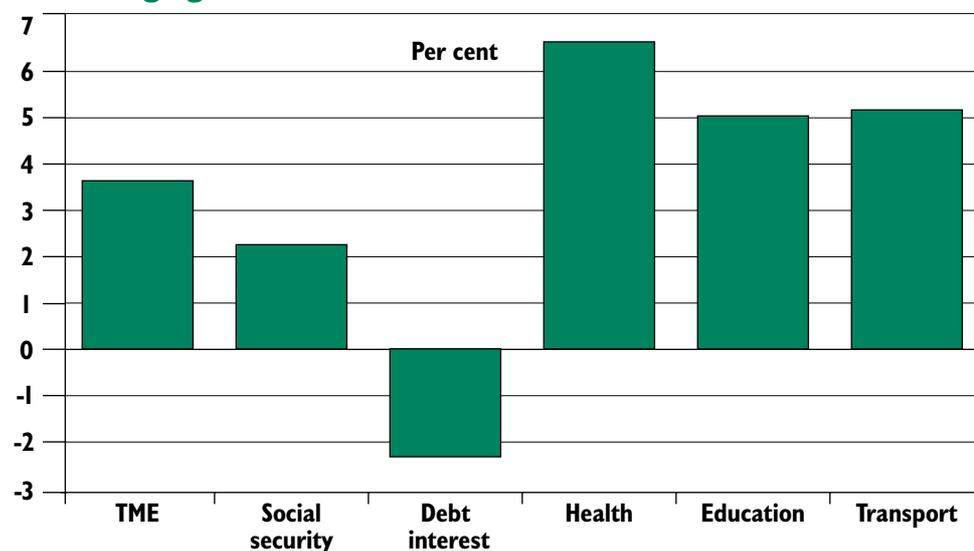
**6.6** The long-term decisions the Government has taken since 1997 – making the Bank of England independent, setting clear fiscal rules and cutting debt – have created a strong platform of economic stability. Building on this stability, the Government has modernised the public spending framework to support the prudent and efficient planning of expenditure over the medium to long-term. Large, potentially volatile, and demand-led expenditure items are classed as Annually Managed Expenditure (AME) and subject to tough scrutiny twice a year as part of the Budget and Pre-Budget Report. At Spending Reviews departments are allocated firm three-year Departmental Expenditure Limits (DELs), enabling them to plan and manage spending over significantly longer time horizons than under the old system of annual planning rounds. These budgets are separated into resource and capital to ensure that essential investment in public assets is not crowded out by short-term pressures. Additionally, the provision of end year flexibility allows departments to carry forward unspent resources for use in future years, helping to avoid wasteful end-year spending surges.

### Increased resources for priorities

**6.7** Prudent management of the economy and the public finances within a reformed fiscal and budgetary framework has allowed the Government to deliver significant increases in resources for its priorities. These increases were made possible by stable and sustainable growth with low debt and debt interest payments and falling unemployment, which released resources to be allocated to front-line public services, as illustrated in Chart 6.1. By the end of the 2004 Spending Review period, compared with 1997:

- public spending on the National Health Service will be around 90 per cent higher in real terms, and as a proportion of GDP total UK health spending is expected to rise from 6.8 per cent in 1996-97 to 9.2 per cent in 2007-08;
- total spending on schools in England will be over 65 per cent higher in real terms; as a percentage of GDP, UK education spending will rise from 4.7 per cent in 1996-97 to 5.6 per cent in 2007-08 – from one of the lowest in the industrial world to among the highest; and
- public expenditure on transport is planned to increase by over 60 per cent in real terms compared with a decade earlier.

**Chart 6.1: Releasing resources for priorities – real annual average growth rate, 1997-98 to 2007-08**



Source: HM Treasury.

**Investment in public assets** 6.8 The health of the public finances has also enabled the Government to tackle the legacy of under-investment in the nation's infrastructure. As discussed in Chapter 3, investment makes a crucial contribution to long-term economic growth, and public capital plays a significant role. Public sector capital underpins both public service delivery and private sector activity, contributing to the productivity and flexibility of the economy. However, the UK suffered a steady decline in public investment as a proportion of GDP between the 1970s and 1990s, with consistently lower levels than in the other G7 economies.

6.9 Since 1997 the Government has taken steps to reverse this trend by establishing investment as a long-term priority. As noted above, the Government's reforms to the public spending framework have helped to address the institutional disincentives against public investment and improve the framework within which investment decisions are taken:

- fiscal rules and departmental budgeting which distinguish clearly between current and capital expenditure;
- medium-term budgeting for departments with full end year flexibility, which supports the management of longer-term investment projects; and
- improved investment appraisal and asset management procedures, supported by the establishment of the Office of Government Commerce in 2000 and the publication of the first National Assets Register in 1997 (updated in 2001), which for the first time anywhere in the world provided government and the public with a complete picture of the country's assets.

6.10 These reforms have supported a steady increase in public sector net investment from less than three quarters of a per cent of GDP in 1997-98 to 2¼ per cent of GDP in 2005-06, which together with private investment has delivered improved capital assets across public services:

- the NHS is undertaking its biggest hospital building programme in history, with 57 new hospital schemes open since 1997, and another 31 under construction;
- 20,000 schools have benefited from building improvements, and the Government has committed to providing twenty-first century facilities for all secondary pupils and rebuilding or refurbishing half of all primary schools; and
- over 2,000 new train carriages have entered service, and significant improvements have been achieved in the quality of the strategic road networks.

## ENSURING VALUE FOR MONEY

**Efficiency 6.11** The Government is determined to make the most of historic increases in investment and fulfil its responsibility to taxpayers by pursuing best value for money across the public sector. Achieving greater efficiency supports the delivery of better public services by enabling the Government to reallocate extra resources to front-line services. The 2004 Spending Review set out the Government's ambition of achieving over £21 billion worth of efficiencies by the end of 2007-08, in line with the recommendations of the Gershon Review. Budget 2005 announced the early delivery of £2 billion of efficiency gains across the public sector, representing a strong start towards this goal.

**6.12** This Pre-Budget Report can confirm that departments and local authorities have reported annual efficiency gains totalling £4.7 billion by the end of September 2005, with further gains achieved since then. The Government is therefore on course to meet the 2004 Spending Review target. Box 6.1 sets out the key areas in which gains are being achieved. Departments are also publishing updated Efficiency Technical Notes, which set out the measures and methodologies for assessing efficiency gains. The following departments in particular have made significant progress up to September 2005:

- the Department of Health has made £1.7 billion efficiency gains, over 25 per cent of its 2007-08 target, including significant gains from better admissions management and reduced drugs costs;
- the Home Office has made total efficiency gains worth £834 million, building on the £600 million of gains reported at Budget 2005, including £300 million from improvements in the police service; and
- local authorities delivered more than £750 million of efficiency gains in 2004-05, and are expected to achieve annual efficiency gains of £1.9 billion by the end of this year, exceeding their target of £1 billion.

**6.13** The Office of Government Commerce (OGC) will continue to support departments in achieving their efficiency targets, actively challenging organisations across the public sector to obtain best value for money and improve their efficiency delivery. Additionally, the OGC has a specific remit to work with central civil government to improve value for money in procurement programmes. Strong progress continues to be made in this area. Following the 2000 Spending Review gains of £1.6 billion and the achievement of nearly £2 billion in 2003-04, the OGC has reported further gains of £2.3 billion in 2004-05. This means that the Treasury's 2002 Spending Review target of £3 billion of value for money gains in central civil government procurement has been exceeded by over £1 billion, a year early.

**Transformational government 6.14** The Government recently published *Transformational Government, Enabled by Technology*,<sup>2</sup> a strategy for transforming public services using technology. It describes how effective use of technology designed around the needs of citizens and businesses can make a real difference to people's daily lives. Building on the 2004 Spending Review efficiency programme, it identifies the scope for greater sharing and standardisation in corporate services, extending the approach to other supporting services where appropriate. The strategy also sets out proposals for introducing greater professionalism in the governance, staffing, supplier management and delivery of IT-enabled change in the public sector. A detailed implementation plan will be published in March 2006.

<sup>2</sup> *Transformational Government, Enabled by Technology*, Cabinet Office, November 2005.

**Box 6.1: Delivering the Gershon efficiency programme**

The efficiency gains of £4.7 billion reported by the end of September 2005 have been achieved through improvements across the public sector in the five key areas identified by the Gershon Review, including through the examples outlined below.

**Procurement – getting better value from goods and services bought by government**

- A £40 million saving from better accommodation contracts has contributed to a £250 million reduction in the cost of support for asylum seekers.
- The introduction of ‘Pulse Line’ technique has enabled quicker turn-around and greater availability of defence equipment such as the Harrier, Tornado, Puma helicopter and the Warrior fighting vehicle. For the Tornado alone, this will deliver average annual savings of £22 million and reduce headcount requirements by 150 posts.
- The Department of Work and Pension’s renegotiated IT contract will deliver average annual savings worth £180 million.

**Productive time – freeing up time for front-line service delivery**

- Better management of patient admissions has reduced the average hospital length of stay, cutting treatments costs by over £300 million so far and freeing-up over 1 million bed days to treat more patients, more quickly.
- The Metropolitan Police Service has achieved efficiency gains in officer time equivalent to £16.7 million from targeted action to reduce sickness levels.
- A new Probation Service computer system will automate the preparation of reports for court, saving 110,000 hours of probation officer time each year.

**Corporate services – reducing running costs in HR, IT support and finance**

- The Department of Health has set up a shared services joint venture company to manage NHS non-customer facing processes, delivering significant operational and efficiency benefits. Over 100 NHS organisations will be contracted by March 2006, with expected annual efficiency gains of at least £15 million by 2008.

**Transactional services – streamlining interactions with customers**

- The Department for Transport is making annual efficiency gains of over £350,000 through online booking of driving tests, with the convenience of being available 24 hours a day. Online bookings are now being made for half of all theory tests and one third of all practical driving tests.

**Policy, funding and regulation – streamlining government machinery**

- The first phase of NHS Arms Length Bodies (ALB) reduction and restructuring has reduced the number of bodies from 38 to 33, with a further reduction to 26 by March 2006. This will reduce operating costs by £60 million this year, rising to £250 million annual savings from March 2008.
- The Department for International Development has improved the efficiency and effectiveness of its aid programme for Ugandan health services by integrating its funding streams with those of the national government rather than funding specific projects. This has led to higher immunisation rates amongst children and increases in trained health workers – a doubling of health sector outcomes achieved with only a modest increase in resources.

**Workforce reduction 6.15** The 2004 Spending Review set out plans for a gross reduction of 84,000 civil service posts by 2007-08. Budget 2005 reported that a reduction of over 12,500 civil service posts would be achieved by the end of March 2005. As shown in Table 6.1, an additional 12,800 posts had been removed by the end of September 2005, and over 5,700 had been reallocated to front-line services. Workforce reductions are being achieved through natural wastage and reallocations to the front line, with departments avoiding compulsory redundancy wherever possible. Civil service numbers published by the Office for National Statistics on 30 September 2005 provide further evidence of the Government's progress on workforce reductions, once factors such as machinery of government changes and other definitional alterations are taken into account.

**Table 6.1: Workforce reductions across departments**

Department	Reductions	Reallocations to front-line roles	Total reduction
Department for Work and Pensions	14,215	4,211	18,426
HM Revenue & Customs	3,246	1,560	4,806
Other departments	7,853	0	7,853
Total	25,314	5,771	31,085

**Lyons relocations 6.16** The 2004 Spending Review announced that the Government accepted the recommendations made in Sir Michael Lyons' report<sup>3</sup> to relocate 20,000 public sector posts out of London and the South East. A total of 6,300 posts have already been relocated by the end of September 2005, representing strong progress towards this target. Plans for an additional 1,500 relocations by the end of 2005-06 are being implemented, so that over 7,800 posts will have been relocated by April 2006. Relocations completed so far include:

- the DTI has moved over 190 posts, including 70 to the Tees Valley and 50 to Cumbria;
- the Home Office has relocated 430 posts to locations including Birmingham, Bristol, Glasgow, Leeds, Leicester, Manchester and Sheffield; and
- DWP has relocated over 600 posts in the first six months of 2005-06, including 80 to Taunton, 60 to Derby and 40 to South Wales.

**Asset management 6.17** The effective management of public sector assets is also central to securing the efficient delivery of public services. Budget 2005 announced that central and local government had established plans for over £14 billion of asset disposals by 2008. With expected asset disposals of £5.7 billion for the period 2004-05 and a similar level in 2005-06, the Government is on course for meeting its objective of £30 billion of disposals by 2010. As described in more detail below, the Government will be further developing its asset management strategy in preparation for the 2007 Comprehensive Spending Review.

**Public sector pay 6.18** Recognising that people are the most crucial asset in the public sector, the Government has targeted much of its increased investment on recruiting more staff for key front-line services. Given that it accounts for around a quarter of all public spending, controlling pay is essential to delivering value for money and keeping inflationary pressures in check. The Chancellor of the Exchequer has written to the public sector Pay Review Bodies emphasising the importance of keeping pay settlements within the Government's inflation target of 2 per cent, as set out in Box 2.3.

<sup>3</sup> *Well placed to deliver? Shaping the pattern of Government service*, Sir Michael Lyons, March 2004.

**6.19** Furthermore, to achieve a more coordinated approach to pay across the public sector, this Pre-Budget Report announces that the Government is establishing a new single gateway for major pay decisions. Reporting to the Chief Secretary to the Treasury, the gateway will set common objectives for pay across government, extending and strengthening existing arrangements for considering the structure of new pay deals. Its aim is to ensure that all new pay structures are evidence-based, represent value for money and are financially sustainable over the long run, including taking account of the pensions implications of new pay decisions.

**6.20** The Government is also determined to modernise outdated and unfair pay systems in the public sector and secure greater flexibility in working practices. It will continue to work closely with key stakeholders such as the Women and Work Commission to ensure the public sector remains at the forefront of good practice on equal pay.

## REFORMING THE DELIVERY OF PUBLIC SERVICES

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**6.21** Recognising that increased resources alone are not enough to transform the performance of public services, the Government has established an ambitious programme of reform designed to raise standards of service, reduce inequalities and increase user satisfaction. Strengthening accountability is an important element of this reform programme, as it ensures that those responsible for delivering public services are responsive to the needs and preferences of the individuals and communities they serve. The successful implementation of this ambitious reform programme is driven by the Government, front-line professionals, communities and individuals, and includes:

- *setting clear goals and establishing national standards*, to raise performance and increase accountability;
- *increasing front-line freedoms and flexibilities*, to give front-line professionals greater operational autonomy and support to provide services that meet their users' needs;
- *promoting engagement with the citizen and the community* – including in the design, delivery and governance of public services – to strengthen local accountability and deliver more responsive services; and
- *empowering users* to promote high standards and personalised services, which meet their diverse needs and preferences, including by exercising choice.

**Clear goals & national standards** 6.22 Outcome-oriented targets and incentives for achievement, supported by high quality regulation and inspection regimes are the primary levers that the Government has used to improve performance and enforce minimum standards across public services. Since their introduction in the 1998 CSR, Public Service Agreements (PSAs) have been central to this approach, setting national goals with unprecedented levels of transparency. As set out in the 2004 Spending Review, PSAs will continue to focus on the Government's highest priority outcomes, within which service providers are given freedom and flexibility to decide how best they should be delivered. As these outcomes are achieved the PSA targets will, where appropriate, become national standards.

**Box 6.2: Public services inspection strategy**

Inspection is an essential component of the Government's central performance framework, providing assurance to the public and driving service improvements. Budget 2005 set out details of the Government's strategy to refocus, rationalise and reduce the inspection of public services, in line with its wider better regulation agenda described in Chapter 3. Strong progress has been made towards the Government's commitment to reduce the number of inspectorates from eleven to four organisations over the next two and a half years:

- the Department for Education and Skills (DfES) has consulted on enlarging Ofsted to include a number of currently separate inspection functions in a new single inspectorate for children and learners;
- the Office for Criminal Justice Reform has issued a policy statement detailing plans for a new inspectorate for justice, community safety and custody which will merge the inspection functions of a number of existing inspectorates;
- the Department of Health is taking forward proposals to merge the Healthcare Commission and the adult social care work of the Commission for Social Care Inspection; and
- the Office of the Deputy Prime Minister has published a consultation paper on the future of local services inspection and proposes to establish a local services inspectorate by 2008, amending the functions of the Audit Commission and incorporating the inspection work of the Benefit Fraud Inspectorate in local authorities.

The merged inspectorates will actively consult on their forward inspection plans, to ensure a coherent programme of activity for inspected bodies that is proportionate to risk, focusing effort on areas where it will bring the greatest benefits and reducing the burden of inspection to a minimum. Furthermore, the inspectorates will have a new legal duty to act as 'gatekeepers' for inspected organisations in their sector. They will monitor and coordinate inspectors' access to them and, if necessary, challenge inspection proposals in order to eliminate unnecessary or overly burdensome activity.

**Front-line freedoms & flexibility** **6.23** The Government recognises that public service professionals, operating within a framework of clear goals and national standards, should have the freedom and flexibility to apply their knowledge and expertise to raise standards and deliver more personalised services that are responsive to local and individual circumstances. In parallel with reforms to increase front-line freedoms, the Government has taken steps to support higher standards of professionalism within public services, including by promoting the spread of best practice through organisational collaborations and informal networks of professionals. Significant achievements in this area include:

- Practice-Based Commissioning in the NHS, where GP practices will be able directly to commission care and services tailored to the specific needs of their patients. This should lead to local innovation resulting in higher quality services for patients, and will mean that patients can benefit from a greater variety of services from a larger number of providers in settings that are closer to home or more convenient for them.
- Proposals announced in the Police White Paper *Building Communities, Beating Crime* for the creation of a National Police Improvement Agency (NPIA), aimed at developing and communicating best practice to build improved policing performance. The NPIA will work closely with police forces, providing support on operational policing and acting as a collective source of expertise.

**Community & citizen engagement** **6.24** Outcome-focused goals and robust national standards work best as part of an overall framework of devolution and local accountability, enabling communities to have a greater say in the design, delivery and governance of the local services they receive. The Government has therefore been increasing opportunities for community engagement, for example through:

- Local Area Agreements, first introduced this year, which enable local authorities to work in partnership with other organisations in the public, private and voluntary sectors to target resources on local priorities; and
- the recently published *National Community Safety Plan 2006-09*, which sets out proposals for making communities stronger and more effective, for example by enabling them to request action from local service providers to tackle persistent problems in their area, and by strengthening the voluntary and community sector as a force for collaborative action through infrastructure programmes such as Futurebuilders.

**Empowering users** **6.25** The outcomes that public services deliver, in health, education and elsewhere, can be as dependent on the actions of the service users themselves as they are on the work of public service professionals. In recognition of this, the Government is committed to delivering more personalised services that are tailored to users' diverse needs and preferences, providing them with real opportunities to influence service design and delivery. For example:

- the recently published schools White Paper, *Higher Standards, Better Schools for All*, sets out the Government's proposals to put parents and the needs of their children at the heart of the system, including through teaching that is tailored to the individual needs of each pupil; and

- the Department of Health is giving NHS patients greater choice over when, where and how they are treated, and increasingly over what treatment they receive. From January 2006 patients will be offered the choice of at least four hospitals and a booked appointment when they need a referral for elective care. By 2008 choice will widen even further, with patients able to choose any healthcare provider that meets NHS standards and can provide care within the price the NHS is prepared to pay.

## Strengthening local and regional government

**6.26** Devolving decision-making supports the delivery of high quality public services by ensuring they reflect and respond to different needs and circumstances. In addition to empowering service users and providers, decision-making needs to be informed by the priorities of local and regional communities. This requires the development of a coherent relationship between central, regional and local government.

**Funding local services** **6.27** The Government is committed to achieving stability and sustainability in the funding of local authorities as the basis for high quality local services. The 2004 Spending Review announced the introduction of full three-year settlements for local authorities. The provisional local government finance settlement will set allocations for 2006-07 and 2007-08. This is an important step towards full three-year settlements which will greatly increase funding certainty and stability for local authorities and enable them to plan and manage their budgets more effectively, thereby supporting the efficient delivery of high quality public services together with greater stability in future council tax levels.

**6.28** The provisional local government finance settlement will announce that direct grant will be increased above previous plans by £305 million in 2006-07 and £508 million in 2007-08. Therefore by 2007-08, local authorities will have seen real terms increases in grant every year since 1997. **To fund this, the Government has reallocated £305 million in 2006-07 and £508 million in 2007-08 of existing funding from central programmes.** This increased funding is supported by other measures to reduce pressures, including strengthening the procedure to ensure that new burdens imposed by central government on local authorities are fully funded. Together these steps will ensure that local authorities will be able to continue delivering high quality public services while ensuring that council tax rises are kept in line with those of the last two years, which have seen the lowest average increases for ten years. It is important that central and local government continue to work together to improve services and minimise pressures on council tax, including by delivering further efficiency savings and taking a responsible approach to local government pay.

**Regional funding allocations** **6.29** The Government published long-term indicative regional funding allocations for transport, housing and economic development in July 2005<sup>4</sup>, giving the regions a more realistic base on which to plan future activities, and the opportunity to have a stronger voice in future spending decisions. The Regional Development Agencies (RDAs) and other regional institutions have been asked to submit advice on their priorities within these allocations in advance of Budget 2006, to ensure that evidence-based decisions can be made that reflect the needs of each region. Additionally, as part of its commitment to improving the availability of regional data, the Government published more comprehensive regional public spending data in the Public Expenditure Statistical Analyses in April 2005.

<sup>4</sup> *Regional funding allocations, guidance on preparing advice*, HM Treasury, Department of Trade and Industry, Department for Transport and Office of Deputy Prime Minister, July 2005.

**Strengthening regional governance** **6.30** The Government is taking further steps to strengthen public scrutiny and accountability for the RDAs. Building on the success of last year's Initial Performance Assessment of the London Development Agency, an Independent Performance Assessment is being rolled out across the RDA network, with all results published by March 2007. This assessment will provide better public information about regional performance. To further improve the evidence base for the RDAs ahead of the 2007 Comprehensive Spending Review, a new evaluation framework will be completed by summer 2006 to enable the RDAs to assess the impact of their programmes rigorously and consistently across the regions.

**6.31** Five years after its creation, the Government has announced a review of the Greater London Authority.<sup>5</sup> The review will consider whether the strategic delivery of public services in the capital, and the lives of Londoners, could be further improved by devolving more powers and responsibilities to the Authority. As part of this review, the Government recently published a consultation paper on proposals for improving arrangements over housing, planning, waste and skills in London. The Government's response to the consultation will be published next spring. In recognition of London's unique governance structure and the strong Initial Performance Assessment of the London Development Agency last year, **the 2005 Pre-Budget Report announces additional autonomy for the LDA by increasing most of its financial delegated limits from £10 million to £50 million.**

### The third sector

**6.32** The third sector, which includes the voluntary and community sector and social enterprises, is already playing an important role in delivering public services, but the Government believes it has the potential to contribute even more. By involving the third sector in the design, delivery and evaluation of public services, central and local government can engage more effectively with communities and citizens, delivering more innovative, responsive and personalised services. Recognising its unique contribution and perspective, the Government will continue to consult with the sector on a range of issues.

**6.33** The Government is committed to supporting the development of the sector's infrastructure and capacity through the £90 million Invest to Save budget, the £150 million Capacity Builders programme and the £215 million Futurebuilders fund, which has already made over 90 investments totalling £35 million since summer 2004. As a further step to realising the full potential of the third sector, **this Pre-Budget Report announces that the Government will develop local area pathfinders, working across departments and with key national partners to identify local authorities who will commit to the full implementation of the Compact Plus principles and explore ways in which the sector can add value to the delivery of local services.** Additionally the Government is:

- building on the recommendations of the recent National Audit Office (NAO) report *Working with the Third Sector*<sup>6</sup> by extending the successful series of seminars with the OGC, NAO and IdeA to promote the benefits for local and central government of procuring services from the third sector, and to share best practice in funding relationships;

<sup>5</sup> *The Greater London Authority: the Government's proposals for additional powers and responsibilities for the Mayor and Assembly*, ODPM, November 2005.

<sup>6</sup> *Working with the Third Sector*, National Audit Office, June 2005.

- incorporating the theme 'Increasing Voluntary and Community Sector Service Delivery' into round eight of the Beacon Council Scheme, which identifies excellence and innovation in local government. This will reinforce the incentives for local government to make full use of the sector in delivering local services; and
- publishing revised funding guidance<sup>7</sup> *Improving financial relationships with the third sector: guidance to funders and purchasers* – including for the first time guidance on best practice in funding full costs, and clarification of the clawback rule which covers the conditions that are placed on grants provided for the acquisition or improvement of assets.

## DELIVERING BETTER OUTCOMES ACROSS PUBLIC SERVICES

**6.34** The Government's strategy for improving public service performance described in the sections above – increasing resources for the front line through greater investment and efficiency, matched by a clear framework for delivery and reform – has driven up standards and improved outcomes across the public services since 1997. This section outlines the progress that has been made in the Government's key priority areas, and sets out details of further measures designed to strengthen front-line services.

### Education and skills

**6.35** The 2004 Spending Review provided for education spending in England to increase by an annual average of 4.4 per cent in real terms, building on the sustained high investment and improved standards achieved in education since 1997. Overall capital investment in schools will rise to £6.3 billion by 2008. While this year's results continue the recent upward trend in educational attainment, there remains more to be done to close the gaps that persist in attainment by gender, ethnicity, and socio-economic background.

**6.36** Personalisation in schools is key to tackling these gaps. The recent schools White Paper<sup>8</sup> discusses the importance of ensuring that schools can deliver teaching that is genuinely tailored to individual learning needs and aspirations. To support schools in providing more personalised teaching and learning:

- the Government is providing an unprecedented level of capital investment in both primary and secondary schools, to deliver twenty-first century buildings that give teachers the facilities they need to deliver personalised learning. Budget 2005 announced additional funding of £150 million in 2008-09, rising to £500 million in 2009-10, to begin a long-term programme to renew at least half of all primary schools. DfES will launch a consultation on the detail of this programme early next year;
- substantial resources are being made available within core schools funding over 2006-07 and 2007-08 to support personalised learning and catch-up support. This includes £335 million for secondary schools, targeted at areas with high levels of under-attainment and deprivation;

<sup>7</sup> *Guidance to Funders, Improving funding relationships for voluntary and community organisations*, HM Treasury, September 2003.

<sup>8</sup> *Higher Standards, Better Schools For All*, DfES, October 2005.

- to provide schools and local authorities with a strong evidence base on which to target their resources on closing attainment gaps, DfES are reviewing the most effective interventions to raise attainment among under-performing groups; and
- the Training and Development Agency is reviewing the framework of professional standards for classroom teachers. It will consult in early 2006 on these revised standards, which will ensure that teachers develop the skills they need to effectively deliver personalised learning.

**6.37** Schools with high intakes of pupils from deprived backgrounds face the greatest challenge in delivering personalised learning and raising attainment. To increase the resources and support targeted towards these schools:

- as announced in Budget 2005, £50 million is being made available over the next two years for schools in deprived areas to invest in home access to Information and Communication Technology for their neediest pupils. Details of this scheme, which will benefit around 80,000 households, will be announced in early 2006;
- building on the success of the Teach First scheme in London, which aims to give top graduates the chance to teach in the most challenging schools, Teach First has now expanded its operations to Manchester, and with the support provided at the 2005 Budget, will roll out to two further cities in 2007-08, and another two in 2008-09. Around 60 graduates a year will be recruited in each city.

**6.38** In Budget 2005 the Government also committed to a programme of additional capital investment in Further Education. As described in Chapter 3, the Government will set out how it intends to use this investment to drive change in the sector, and will respond to Sir Andrew Foster's Review of the key challenges and opportunities facing Further Education colleges. Chapters 3 and 5 also set out the Government's strategy for raising levels of post-16 participation in education and training, including by piloting new Learning and Activity Agreements.

**6.39** The Government has worked with a number of organisations in the field of Holocaust education to develop web-based teaching resources and materials for Holocaust Memorial Day. **This Pre-Budget Report confirms funding of £1.5 million for the Holocaust Educational Trust (HET), matched by funding from other sources, to enable two students aged 16-18 from every school and sixth form college in the UK to participate in visits to Auschwitz-Birkenau.** The visits enable young people to see for themselves the horrors of the Second World War and what can happen if prejudice and racism become acceptable. The additional funding will increase the numbers of students participating in the visits from 400 each year today to over 6,000 in future years.

**Children, young people & parents** **6.40** *Support for parents: the best start for children*, published alongside this Pre-Budget Report and summarised in Chapter 5, sets out the Government's commitment to ensure that every child irrespective of race, gender, background and circumstances, gets the best start in life and the ongoing support they and their families need to allow them to fulfil their potential. It assesses the progress made since 1997 in reforming the delivery of services for children and families, and announces important new measures to build on this progress, as set out in Box 5.1. The document also looks ahead to the key challenges for the future. As part of the Comprehensive Spending Review in 2007, HM Treasury and DfES jointly will take further steps to assess the policy action required to secure continued improvements in outcomes for children and young people, particularly focusing on those from disadvantaged backgrounds.

**6.41** The Government believes that young people should be given more choice and influence over services and facilities that are available to them. In *Youth Matters*<sup>9</sup>, the recent Green Paper for young people, the Government committed to create Youth Opportunity Funds to spend on local projects young people want. These funds will allow young people to establish their own small-scale projects, for example renting space in a community centre to organise events and activities, establishing a neighbourhood council or youth café, or running sports leagues and tournaments. **In this Pre-Budget Report, the Government is able to announce that it can allocate an additional £53 million over 2006-07 and 2007-08 to extend Youth Opportunity Funds, bringing the total available for the funds to £75 million.** This will mean an average local authority receiving £500,000 over the next two years. The Government will expect local authorities to be proactive in involving as wide a group of young people as possible to decide the use of the opportunity funds, giving particular attention to engaging disadvantaged young people.

**Olympics** **6.42** In July 2005 the International Olympic Committee (IOC) announced that London had been awarded the 2012 Olympic and Paralympic Games. The London Olympics Bill will create the Olympic Delivery Authority, which, working to an agreed public sector funding package, will deliver the venues and infrastructure required for the Games and a sustainable legacy for London. The Government is working in partnership with the Greater London Authority, the London Organising Committee of the Olympic Games, the British Olympic Association and many other groups to ensure that this is the best ever Olympic Games. Together, the aim is to provide an unforgettable experience for participants and spectators, and to maximise the potential economic, environmental, cultural and sporting benefits for London and the rest of the UK.

**2018 World Cup** **6.43** Following the success of the London Olympic Bid, with its emphasis on providing a lasting legacy, the Government recently announced its intention to launch a feasibility study into hosting the 2018 World Cup. The study will report next year and help inform any subsequent decision to bid by the Football Association.

<sup>9</sup> *Youth Matters* DfES, July 2005.

**Box 6.3: The National Sports Foundation**

The Government believes there are substantial benefits for individuals and communities from participation in sporting activity. It is therefore determined to encourage and increase participation, particularly among disadvantaged groups, through investment in community initiatives to improve sports infrastructure and by recognising the vital role played by volunteers.

As announced at Budget 2005, a National Sports Foundation will be established from April 2006, bringing public and private sectors together to invest in grass roots sport. The Government has committed £27.5 million over the next two years, and will be encouraging the private sector to match this funding, aiming to raise at least a further £30 million from private investors over this period. From 2006 this funding will be invested in three specific programmes to strengthen grass roots sport:

- *Fit for Sport* – projects to improve both physical and human infrastructure for community clubs. This programme will aim to provide up to ten new multi-purpose pitches over the next five years and an extra fifty new sports coaches for the under fifteens by 2008;
- *2012 Kids* – building on the success of the Olympics, projects to encourage children to take up sport, particularly in schools; and
- *Women into Sport* – projects to increase female participation in sport, including providing coaching and support for female teams.

The Foundation will aim to attract new sources of investment from both large and small private sector firms not traditionally associated with sports sponsorship, ensuring the investment is targeted at community sport development rather than elite and professional sport. To do this, the Foundation will:

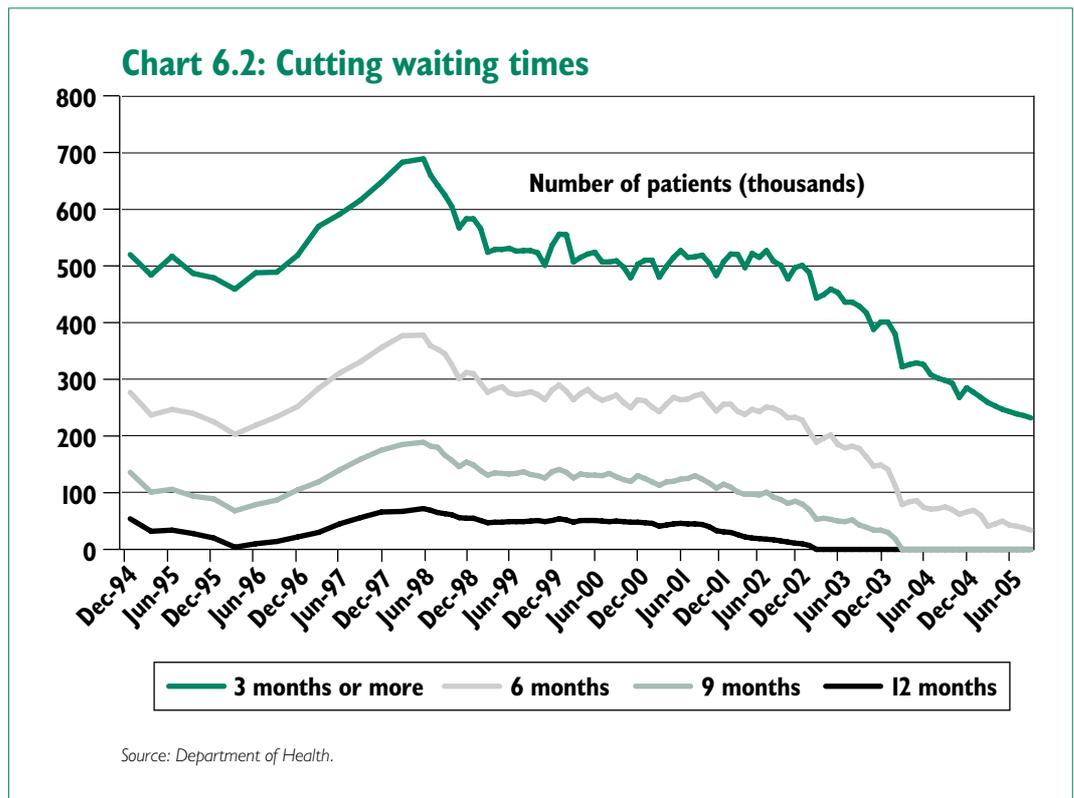
- be a high profile, one-stop shop for private investors and community sport organisations who need project funding, with a single web-based point of access;
- act as broker, bringing together investors and projects to meet the needs of both;
- have a national and regional dimension;
- have a visible, respected and enterprising “Champion” promoting the benefits of investing in the Foundation;
- fund initiatives that focus on increasing participation, particularly projects that promote diversity in sport, or improve the infrastructure of community sporting provision, for example by providing facilities and coaches; and
- capitalise on the nationwide Olympic “feel-good” factor to ensure lasting benefits for community sport.

The Foundation demonstrates the Government’s commitment to further rationalisation and reform of the sporting landscape, simplifying access to funding for sport and communities.

**Health 6.44** Building on the recommendations of the Wanless report<sup>10</sup>, in 2002 the Government announced an annual average real increase in NHS funding of 7.2 per cent over five years. This means that health spending, which was one of the lowest in Europe, will be above the European average by 2008. This increase has helped to improve both the standards of service and the outcomes achieved, for example:

<sup>10</sup>Securing our Future Health, Derek Wanless, April 2002.

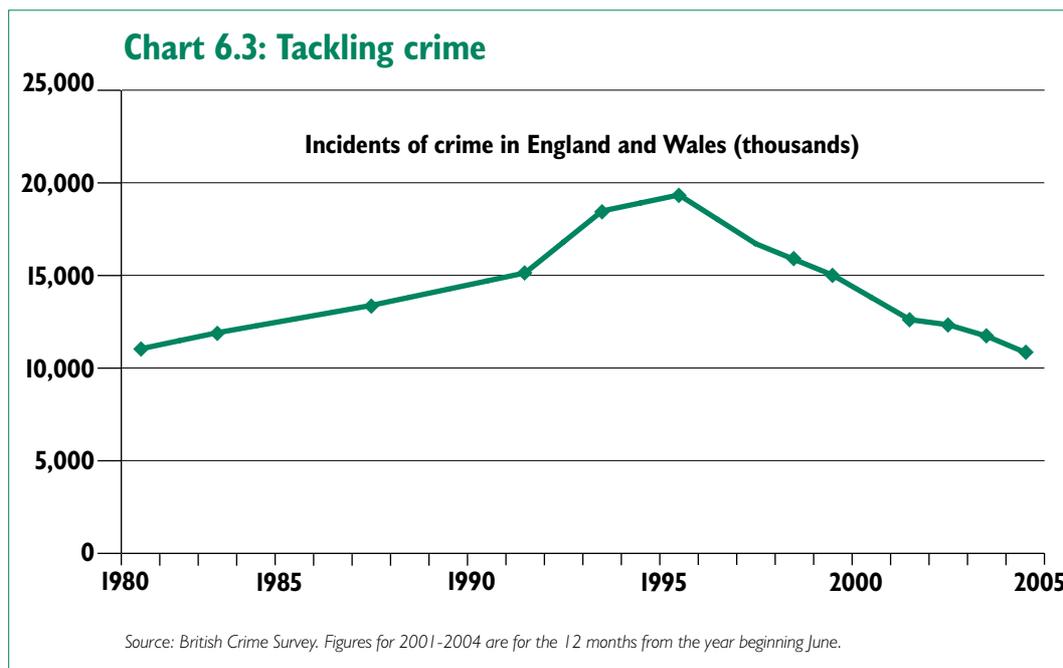
- over 330,000 fewer patients are waiting for treatment compared with March 1997, a decrease of 29 per cent. Maximum waiting times for an operation halved from 18 months in 1997 to nine months in April 2004, and the number of people waiting for over six months has reduced by over 75 per cent;
- over 98 per cent of those attending Accident and Emergency are now seen within four hours, compared with 80 per cent in 2001-02; and
- heart disease and cancer have been significantly reduced, with 99 per cent of people with suspected cancers seen by a specialist within two weeks of an urgent GP referral.



**Transport 6.45** As described in Chapter 3, the Government recognises that reliable, modern and sustainable transport systems are critical to the economic prosperity and productivity of the country. The Department for Transport is making strong progress in several key areas, in particular:

- on road safety, in 2004 the number of people killed and seriously injured fell by 28 per cent, and for children the fall was 43 per cent, compared with the average annual figures between 1994 and 1998;
- the use of local public transport has risen, with further progress toward the target of a 12 per cent rise in combined bus and light rail use from 2000 to 2010. Over the first four years, bus use has risen by 7 per cent and light rail use by 28 per cent; and
- rail performance continues to improve: performance on punctuality and reliability increased by 3 percentage points in the year to June 2005, with progress in all sectors.

**Criminal justice system 6.46** The performance of the criminal justice system continues to improve. As Chart 6.3 shows, crime rose substantially in the 1980s and early 1990s according to the British Crime Survey, the most reliable indicator of long-term trends. By 2004-05 overall crime had fallen by 35 per cent since 1997, from almost 17 million to less than 11 million incidents. The risk of being a victim of crime is now the lowest recorded by the British Crime Survey since it began in 1981. Public confidence in the ability of the Criminal Justice System to bring offenders to justice has improved and the proportion of ineffective Crown Court trials has fallen. 2004-05 also saw an increase in the recovery of criminal assets to £84 million with a proportion being made available to build police capacity.



**Counter-terrorism 6.47** Since 11 September 2001, the protection of the UK and its people from international terrorism has been a top priority for the Government. This has been reflected both by reprioritisation of existing resources and by very substantial increases in departmental budgets. In total, spending on counter-terrorism and resilience across departments will be over £2 billion by 2007-08, compared with less than £1 billion before 11 September 2001. **In the light of the London bombings in July, this Pre-Budget Report announces further resources for the fight against terrorism:**

- an additional £85 million to advance the ongoing expansion of the security and intelligence agencies. This will bring forward planned enhancements of their ability to collect, analyse and act upon intelligence to seek out and disrupt terrorist activity; and
- extending the availability of the £50 million Counter-Terrorism Pool beyond 2005-06, matched by funding from departments, to provide a pool of up to £100 million for newly identified counter-terrorism priorities.

**Special reserve 6.48** Budget 2005 allocated £400 million to the special reserve in 2005-06, as a prudent allowance against continuing international commitments. This provision was intended to be reviewed in time for the 2005 Pre-Budget Report. **In this Pre-Budget Report, the Government provides a further £580 million for the special reserve in 2005-06, to make provision for the costs of Iraq, Afghanistan and the Government's other international obligations.**

## 2007 COMPREHENSIVE SPENDING REVIEW

**6.49** Over the last decade the Government has delivered a strong economy and sound public finances at the same time as sustained increases in resources for public services, leading to significant improvements in outcomes. Looking forward, there are new opportunities and challenges that need to be addressed in order to secure these benefits for the decade to come. To ensure Britain is fully equipped to meet these long-term challenges, on 19 July 2005 the Chief Secretary to the Treasury announced a second Comprehensive Spending Review (CSR) reporting in 2007.

**6.50** A decade on from the first Comprehensive Spending Review, the 2007 CSR will represent a fundamental review of the Government's priorities and expenditure. It will cover departmental allocations for 2008-09, 2009-10 and 2010-11, with allocations for 2007-08 held to the agreed figures already announced at the 2004 Spending Review. To provide a rigorous analytical framework for these departmental allocations, the Government will be taking forward a programme of work over the next year and a half involving:

- an assessment of what the sustained increases in spending and reforms to public service delivery have achieved since the first CSR, to inform the setting of new objectives for the decade ahead;
- an examination of the key long-term trends and challenges that will shape the next decade – including demographic and socio-economic change, globalisation, climate and environmental change, global insecurity and technological change – together with an assessment of how public services will need to respond;
- to release the resources needed to address these challenges, and to continue to secure maximum value for money from public spending over the CSR period, a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the Government's long-term objectives; together with
- further development of the efficiency programme, building on the cross-cutting areas identified in the Gershon Review, to embed and extend ongoing efficiency savings into departmental expenditure planning.

### Assessing performance & setting new objectives

**6.51** The 1998 CSR and subsequent spending reviews in 2000, 2002 and 2004 established the Government's overarching priorities for the long-term: sustainable growth and employment; fairness and opportunity; modern and effective public services; a secure and fair world. To support their delivery these high-level objectives have been translated into a set of detailed, outcome-focussed Public Service Agreements. The CSR presents an opportunity to take stock of the performance of public services against these objectives, and set new ambitions for the decade ahead.

### Long-term trends & challenges

**6.52** Britain will only succeed in the modern global economy if the Government plans and invests not just for the next few years but for the long-term. The CSR will therefore be informed by a detailed assessment of the long-term trends and challenges that will shape public services over the next decade, including:

- demographic change and the rapid increase in the old age dependency ratio as the 'baby boom' generation reaches retirement age;
- the intensification of cross-border economic competition as the balance of international economic activity shifts toward rapidly growing emerging markets such as China and India;

- the acceleration in the pace of innovation and technological diffusion and a continued increase in the knowledge intensity of goods and services;
- continued global uncertainty with ongoing threats of international terrorism and global conflict; and
- increasing pressures on natural resources and global climate from rapid economic and population growth in the developing world and sustained demand for fossil fuels in advanced economies.

**6.53** These trends will have fundamental and far-reaching implications for public services and will require innovative policy responses, coordination of activity across departmental boundaries and sustained investment in key areas. The Government will report on these public spending challenges in 2006.

**Ensuring value for money** **6.54** To release the resources needed to address these future challenges and meet new priorities in the years ahead, the CSR will embed value for money in departmental planning through two interrelated strands of work:

- a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the Government's long-term objectives. Whereas past spending reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives provides an important opportunity – with many past objectives achieved and supporting programmes and spending potentially available for reallocation – for a more fundamental review of the balance and pattern of expenditure across departments.
- These zero-based reviews will be complemented by a rolling forward of the Government's efficiency programme over the CSR period, with a particular emphasis on the cross-cutting areas in the public sector where greater efficiencies can be realised through further integration of functions, sharing of best practice or benchmarking across organisations.

**Public sector pay** **6.55** As part of its focus on securing maximum value for money from public spending over the CSR period, the Government will be working to ensure that public sector pay is set at levels that are fair, comparable with the wider economy wherever possible, and at sustainable levels that do not cause inflationary pressures. As outlined above, the Government has taken steps to deliver a consistent approach across the public sector to pay decisions and a greater awareness of the impact these can have on effective public service delivery.

**Public capital investment** **6.56** As described above, since 1997 the Government has taken steps to reverse the legacy of under-investment in public sector assets and bring public investment back onto a sustainable footing. The priority over this period has been to address the most urgent investment backlogs in public services. The UK now faces a new set of challenges that require long-term commitments from the Government. Recognising that future public investment decisions should be based on a detailed assessment of both the current state of the asset stock and the long-term investment needs of the country, the Government will be giving a renewed focus to capital in the run-up to the CSR.

**6.57** In 2004 the public sector held a total of £766 billion of non-financial assets. The size, quality and fitness-for-purpose of the existing capital stock have a key impact on the quality of public services. Consequently, building on the recommendations of the Lyons Review of asset management, the CSR will place a particular focus on the condition and management of the underlying asset stock as a basis for future capital allocations. In the run-up to the CSR, departments will be required to prepare asset management strategies which:

- review the current state and condition of their asset stock, including an assessment of what the increases in public investment since 1997 have achieved and what remaining investment backlogs are impacting on service delivery;
- take a zero-based approach to investment decisions, analysing capital budgets to identify plans for the disposal of assets that are no longer required, the level of investment needed to sustain present service delivery, and what additional investment is needed to expand the coverage or functionality of the asset base; and
- align future investment plans with departments' overall strategic and policy objectives.

## Analytical studies in the CSR

**6.58** In looking forward to identify future pressures and priorities in key areas, the CSR will be informed by the analysis and conclusions of the long-term reviews already underway into the future of transport, skills, local government and housing, as outlined below.

**Eddington Transport Study** **6.59** A modern and efficient transport system is critical to the economic prosperity and productivity of the country. To ensure the UK's transport system meets future requirements and challenges, Budget 2005 announced that Rod Eddington had been asked to review the long-term impact of transport decisions on economic productivity, stability and growth, as described in Chapter 3.

**Leitch Review of skills** **6.60** Chapter 3 also discusses the interim report of the Leitch Review, *Skills in the UK: the long-term challenge*, published alongside this Pre-Budget Report. The final report, due to be published in spring 2006, will set out the skills profile that the UK should aim to achieve in 2020 in order to maximise productivity and growth over the long term. Its findings will help to inform analysis in the CSR on future skills targets and the roles of government, employers and individuals in paying for and delivering skills improvements.

**Lyons Review of local government** **6.61** The Government is committed to creating a strong and sustainable role for local government. It is vital that any reform of the its funding system is based on a clear and shared understanding of the role of local government. The Government therefore announced on 20 September 2005 an extension of the remit of Sir Michael Lyons' inquiry into local government funding, to include a wider consideration of its role and function. Sir Michael Lyons will publish his final recommendations in late 2006, in time to inform the 2007 CSR.

**Barker Review of housing supply** **6.62** *The Government's Response to Kate Barker's Review of Housing Supply* is published alongside this Pre-Budget Report and summarised in Chapter 3. Delivering the Government's ambitions for a step-change in housing supply will require further investments and reforms. As described in Chapter 3, the Government is today announcing a cross-cutting review to ensure that appropriate infrastructure will be provided to support housing and population growth. The Government will set out its detailed plans for increasing supply – including new investment in social housing alongside further efficiencies and innovation in provision – as part of the 2007 CSR.