

Opportunity and security for all:

Investing in an enterprising, fairer Britain
New Public Spending Plans 2003 - 2006

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Chapter 1

Overview: Opportunity and Security for All

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

Raising productivity

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

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

Extending opportunity

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

- a £14.7 billion a year increase in spending on UK education by 2005-06 compared to 2002-03, raising education's share of GDP to 5.6 per cent by 2005-06. With higher direct payments for headteachers, and a new leadership incentive grant for 1,400 secondary schools in deprived areas, this investment will support the transformation of secondary education, a major drive on participation post-16, reform of further education, and improve the basic literacy and numeracy skills of two million adults;
- resources for the development of a network of children's centres to offer health, education and other services to 300,000 extra children by March 2006, and the creation of at least 250,000 childcare places, including in children's centres, which will help meet the Government's lone parent employment and childcare poverty objectives.
- the nationwide roll out of Jobcentre Plus by 2006, delivering an enhanced work focused service including

an additional two million interviews a year to help people find work.

Strong and secure communities

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

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

Britain in the world

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

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

OPPORTUNITY AND SECURITY FOR ALL

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

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

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

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

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

conflict resolution.

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

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

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

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

SUSTAINABLE PUBLIC SPENDING

Meeting the fiscal rules

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

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

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

The public spending envelope

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

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

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

Chart 1.2: The sustainable investment rule - public sector net debt, 1989-90 to 2005-06

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

The public spending envelope

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

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

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

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

Table 1.1: Total public spending

	Estimate	Projections		
£ billion	2002-03	2003-04	2004-05	2005-06
Departmental Expenditure Limits¹	239.7	263.5	279.8	301.0
Annually Managed Expenditure	178.7	191.2	201.7	210.4
Total Managed Expenditure	418.4	454.6	481.5	511.4

1 Net of depreciation

AME forecasts

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

Releasing resources for priorities

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

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

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

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

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

Chart 1.3: Releasing resources for priorities - real annual growth rate, 2002-03 to 2005-06

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

Chart 1.4: Shares of the rise in departmental and locally financed expenditure, 2002-03 to 2005-06

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

Chart 1.5: Increases in DEL, 2003-04 to 2005-06

Resource and capital budgets

Resource budgeting

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

Table 1.2: Public expenditure aggregates

		£ billion			
		Estimate	Projections		
		2002-03	2003-04	2004-05	2005-06
Total Managed Expenditure					
	Budget 2002	418.4	454.6	481	511
	<i>Change since Budget 2002</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
	2002 Spending Review	418.4	454.6	481	511
<i>of which:</i>					
Departmental Expenditure Limits (DELs)¹					
	Budget 2002 - near cash basis	229.5	249.0	-	-
	Budget 2002 - resource-based	239.7	259.9	279.8	301.0

	allocation ²				
	<i>Change since Budget 2002</i>	0.0		3.5 ³	- -
	2002 Spending Review	239.7	263.4	279.8	301.0
Annually Managed Expenditure					
	Budget 2002 - near cash basis	188.9	205.5	-	-
	Budget 2002 - resource- based estimates ²	178.7	194.7	201.7	210.4
	<i>Change since Budget 2002</i>	0.0		3.5 ³	- -
	2002 Spending Review	178.7	191.2	201.7	210.4
<i>Memo: 2002 Spending Review TME</i>					
	<i>as a per cent of money GDP</i>	39.9	41.1	41.4	41.9

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

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

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

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

Capital budgets

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

1.25 The increase in capital DEL reflects the Government's commitment to reversing two decades of under-investment in the nation's infrastructure. In the last Spending Review, the Government committed to increasing public sector net investment (PSNI), to 1.8 per cent of GDP. In this Spending Review, PSNI will increase to 2.0 per cent of GDP by 2005-

06 - rising to almost £25 billion by 2005-06, compared to £5 billion in 1996-97. PSNI measures new capital spend in the private sector, less depreciation on the existing asset base, and so is a measure of how much the public sector capital stock is increasing or decreasing.

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

1.27 Chart 1.6 shows how total UK investment in public services, which includes PSNI, depreciation, recycled proceeds from asset sales and investment under the Private Finance Initiative (PFI) will rise to over £46 billion by 2005-06, compared to £23 billion in 1997-98. This will allow us to move away from the old patch and mend solution to maintaining our public services, to reducing damaging maintenance backlogs and delivering real improvements to the capital stock.

Chart 1.6: Total investment, 1990-91 to 2005-06

PUBLIC SPENDING FRAMEWORK

1.28 Increased investment will only result in improved public services if resources are allocated and used efficiently. A modern and effective framework for the planning and control of public spending is needed to improve the quality and cost-effectiveness of public services. The Government's public spending framework aims to deliver:

- consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;
- the judgement of success by policy outcomes rather than resource inputs;
- strong incentives for departments and their partners in service delivery to plan over several years and plan together where necessary; and
- the proper costing and management of capital assets to provide the right incentives for public investment.

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

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

Public Service Reform

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

1.31 The first principle is that there should be clear long-term goals set by the Government. Public Service Agreements (PSAs) were introduced in December 1998 following the Comprehensive Spending Review, setting out measurable targets for the full range of public services detailing the outcomes departments aim to deliver with the money allocated to

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

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

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

- **Education:** raise standards in schools and colleges so that the proportion of those aged 16 who get qualifications equivalent to five GCSEs at Grade A* to C rises by two percentage points a year and in all schools at least 20 per cent of pupils achieve this standard by 2004 rising to 25 per cent by 2006;
- **Health:** reduce the maximum wait for an outpatient appointment to three months and the maximum wait for inpatient treatment to six months by the end of 2005, and achieve progressive further cuts with the aim of reducing the maximum inpatient and day case waiting time to three months by 2008;
- **Crime:** reduce crime and the fear of crime; improve performance overall, including by reducing the gap between the highest crime Crime and Disorder Reduction Partnership areas and the best comparable areas; and reduce vehicle crime by 30 per cent from 1998-99 to 2004; domestic burglary by 25 per cent from 1998-99 to 2005; and for robbery in the ten Street Crime Initiative areas by 14 per cent from 1999-2000 to 2005;
- **Housing:** by 2010, bring all social housing into decent condition with most of this improvement taking place in deprived areas, and increase the proportion of private housing in decent condition occupied by vulnerable groups;
- **Transport:** secure improvements in rail punctuality and reliability with a 50 per cent increase in rail use in Great Britain from 2000 levels by 2010;
- **Children:** reduce the number of children in low-income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020; and
- **Regions:** make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.

Independent auditing and inspection

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

- in health, through the new independent Commission for Healthcare Audit and Inspection which will monitor and publish information about performance and use of resources, including an annual report to Parliament. It will also carry out local inspections and oversee independent complaints procedures;
- in education, through publication of results for individual schools, which gives clear accountability for attainment. School level floor targets mean no school should fall below a particular attainment level;
- in local government, the Comprehensive Performance Assessment (CPA) will for the first time bring together all the available evidence on how a local authority is performing (for example, inspection reports, performance indicators, plans), covering both the services for which it is responsible and the local authority's community leadership role. This will provide the basis for an audit and inspection programme that is proportionate to the authority's performance and focussed on those areas where there is most need for improvement;
- in social care, the work of the Social Services Inspectorate and the National Care Standards Commission will be

- integrated in a single independent inspectorate for social care services, which also publishes the performance 'star' ratings for local councils with social services responsibilities;
- in housing, a single housing inspectorate will be established to drive up performance for all types of social landlord, replacing the current separate inspection regimes;
- in the police, the role of the new Police Standards Unit in the Home Office will be consolidated and developed, working alongside Her Majesty's Inspectorate of Constabulary; and
- in the Criminal Justice System (CJS), development of a modernised inspection regime for the CJS.

Maximum local flexibility and discretion to innovate

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

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

Transparency

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

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

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

- local authorities' performance across the range of its responsibilities will be set out clearly in the published

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

Putting the Principles into Practice

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

Rewarding success

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

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

Intervening to tackle failure

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

- new powers in the Education Bill will speed up action to address failing schools, including making it easier for them to be taken over by successful schools or other education providers;
- in further education, colleges that do not provide good standards of teaching will find that the Learning and Skills Councils purchase from other providers; and
- in local government services, the government will intervene to ensure that failing authorities take effective action to improve their performance.
- in the Police Reform Bill currently before Parliament the Government is seeking new powers which will require police authorities to take remedial action when forces do not perform;

ENSURING DELIVERY

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

1.43 As part of its commitment to increase investment in the country's infrastructure, the Government has also set out to

ensure that departments make the most of the existing asset base and get good value for money from new spending. Reforms in this area include:

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

Departmental Investment Strategies

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

SPENDING PLANS

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

Table 1.3: Departmental Expenditure Limits

	£ million	Annual average				growth rate	(per cent)
	2002- 03	2003-04	2004- 05	2005- 06			
Departmental Expenditure Limits:							
Education and Skills		23,170		25,600	27,750	31,140	7.6
Health		58,000		63,930	70,260	77,250	7.3
of which: NHS		55,750		61,300	67,440	74,390	7.4
Transport		7,660		10,690	11,200	11,640	12.1
Office of the Deputy Prime Minister		6,030		6,730	7,230	7,570	5.2
Local Government		37,650		40,710	42,800	45,890	4.2
Home Office		10,680		12,280	12,730	13,530	5.6
Lord Chancellor's Departments		2,860		3,080	3,290	3,370	3.1
Attorney General's Departments		470		490	520	540	2.5

Defence	29,330	30,920	31,760	32,780	1.2
Foreign and Commonwealth Office	1,350	1,450	1,500	1,570	2.8
International Development	3,370	3,700	3,840	4,590	8.1
Trade and Industry	4,740	5,110	5,130	5,540	2.8
Environment, Food and Rural Affairs	2,520	2,900	2,890	2,940	2.7
Culture, Media and Sport	1,330	1,420	1,500	1,590	3.5
Work and Pensions	7,020	7,530	7,800	7,820	1.1
Scotland	18,210	19,720	20,880	22,320	4.4
Wales	9,420	10,270	10,940	11,770	5.1
Northern Ireland Executive	6,420	6,810	7,180	7,630	3.3
Northern Ireland Office	1,170	1,110	1,140	1,190	3.5
Chancellor's Departments	4,260	4,430	4,640	4,810	1.4
Cabinet Office	1,610	1,830	1,900	1,930	3.6
Invest to Save Budget	45	50	40	30	-
Capital Modernisation Fund	900	1,160	850	1,000	-
Policy Innovation Fund	40	50	50	50	-
Reserve	1,450	1,500	2,000	2,500	-
Total Departmental Expenditure Limits	239,710	263,470	279,820	300,990	5.2
Education (England)	44,960	49,310	52,720	57,780	6.0
Education (UK)	53,720	58,570	62,870	68,430	5.7
NHS (UK)	68,070	74,850	82,190	90,490	7.3
Transport (UK)	11,960	15,350	15,830	16,410	8.4
Housing (England)	4,850	5,460	5,730	5,900	4.2
Criminal Justice (England and Wales)	14,703	16,385	17,229	18,336	5.0

Foreword

Foreword by the Prime Minister

On a foundation of economic stability, the 2002 Spending Review sets out this Government's spending plans, matching resources to reform, and ensuring that in a global economy strong and efficient public services will deliver greater opportunity and security not just for some, but for all.

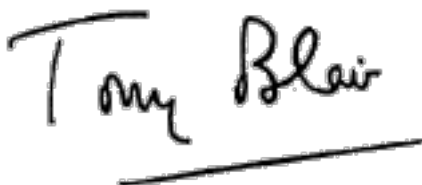
The new global economy has brought vastly increased opportunities for individuals, businesses and countries, but it has also brought with it understandable insecurities. So this Spending Review not only addresses past decades of chronic and persistent under-investment in public services, but confronts new challenges in a new global environment, maximising the opportunities of globalisation while minimising its risks. The plans set out in this Review therefore invest in the Government's key priorities:

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

The 2002 Spending Review seeks to ensure economic and employment opportunities for all. By tackling crime and drugs, and investing in housing and regeneration, it seeks to promote stronger, more secure communities, where rights are matched by responsibilities. By focusing so strongly on education, training and childcare, it seeks to remove the barriers which prevent people realising their full potential. And by investing in defence, foreign affairs, international development, and conflict resolution, it seeks to tackle the ever-growing insecurities of today's world.

This Government is as determined to secure value for money as we are to secure money for the best services - with more money invested, more results are required. So in each area of public service delivery, we are tying resources to reform and results. Demanding targets have been set for each department, with independent audit and inspection to monitor progress. Power is being devolved from the centre to front-line staff, giving them the power and flexibility to deliver. And we will reward success and turn round failing services and organisations.

In this way, we will build a more productive, prosperous Britain, with opportunity and security for all.



Tony Blair

Chapter 2

Raising Productivity

The Government is committed to raising the long-term rate of productivity growth in the UK, narrowing the productivity gap. Productivity in the UK has historically lagged behind that of many other advanced industrial countries - with a gap of 38 per cent in comparison to the US, 18 per cent compared to France and nine per cent compared to Germany. Narrowing this gap is key to delivering higher living standards, better public services and greater opportunity for all.

The 2002 Spending Review therefore takes further steps to address historic weaknesses in five areas that can drive the rate of productivity growth - strengthening competition, enterprise and innovation, skills, investment and public services productivity in every region and community across the country. In particular, the Spending Review:

- provides for the largest sustained growth in spending on science for a decade, with some £1^{1/4} billion additional spending by 2005-06 compared to 2002-03, including an average 10 per cent a year real terms increase in the Department of Trade and Industry's Science Budget;
- increases public expenditure on transport through the Department for Transport by an average of over 12 per cent a year in real terms, from £7.6 billion in 2002-03 to £11.6 billion in 2005-06. This investment will be matched by reform to ensure more strategic transport planning and speedier, more effective delivery of transport infrastructure projects;
- sets a new target to achieve a better balance between housing availability and demand for housing in all English regions, while protecting valuable countryside around the UK's towns, cities and in the greenbelt and the sustainability of existing towns and cities, backed up by planning reforms and new resources for investment in housing;
- allocates the Office of the Deputy Prime Minister additional resources to drive forward the reforms set out in the Government's Planning Green Paper;
- sets an ambitious new target to reduce by at least 40 per cent the number of adults in the UK workforce who lack National Vocational Qualification (NVQ) level 2 or equivalent qualifications by 2010; and
- makes substantial investment to revitalise further education (FE) by offering FE colleges additional resources in return for committing to stretching new performance targets.

2.1 Raising the sustainable rate of UK productivity growth is a key part of the Government's overall economic strategy. Improving productivity is vital to delivering higher living standards, tackling poverty and releasing further resources to build world-class public services.

2.2 Historically, the UK has a poor track record on productivity. Macroeconomic instability and microeconomic failures have inhibited enterprise and innovation, stifled effective competition and discouraged firms and individuals from investing for the long term. This has led to a substantial productivity gap between the UK and many other advanced industrial economies. Measured in terms of output per worker, productivity in the US is around 38 per cent higher than in the UK. Productivity in France and Germany is 18 and nine per cent higher respectively.

2.3 The Government is taking forward a comprehensive strategy for raising long-term productivity growth across the countries and regions of the UK, in order to close the productivity gap. This strategy was first fully set out in *Productivity in the UK: the evidence and the Government's approach*, published by HM Treasury in November 2000. The Government's approach centres around maintaining macroeconomic stability to allow firms and individuals to invest for the future, and implementing microeconomic reforms to address the barriers that prevent markets from functioning effectively. These reforms address historic weaknesses in five key areas that can affect the rate of productivity growth:

- strengthening **competition** to encourage firms to innovate, minimise costs and provide better quality goods and services to the consumer;
- promoting **enterprise and innovation** to unlock the potential of new technologies and working practices, supporting entrepreneurship and risk-taking across the country;
- encouraging **investment** to improve the UK's stock of physical capital across the economy;
- improving the **skills** base to maximise the contribution of human capital to growth; and
- improving the **productivity of public services**.

2.4 Public expenditure has a central role to play in supporting productivity growth, helping to create an environment in which businesses, entrepreneurs and individuals can flourish. In particular, individual spending programmes play a key role in enforcing the UK's competition regime; supporting start-up and small businesses, particularly in deprived areas; facilitating science and innovation through the Science Budget; developing skills through the education and training systems; and investing in the UK's transport infrastructure and housing stock.

2.5 In addition to creating the right environment for business to raise productivity, government itself must also strive for greater efficiency. Public services account for a substantial proportion of the economy, and productivity within the public sector therefore has an important and direct impact on the performance of the economy as a whole. The 2002 Spending Review invests in the modernisation of public services, matching additional resources with a clear programme of reform to improve public services over the three years to 2005-06.

Working across the regions

2.6 The Government is committed to ensuring that the benefits of improved productivity are spread across the countries and regions of the UK, and that measures to raise productivity are designed and implemented at the level at which they have most effect - in many cases regionally and locally. Analysis shows that a successful regional and sub-regional economic policy must be based on building on the indigenous strengths of each country, region and locality.¹ The Government is therefore taking forward a wide-ranging agenda to create a strong institutional framework for delivery and formulation of regional and local economic policy.

2.7 The Regional Development Agencies (RDAs) are central to this framework. The RDAs operate as the strategic driver of economic development in their region, working in partnership with key regional, sub-regional and local bodies. They exert strategic influence over the type, scale and combination of services delivered in their region. They are active in areas key to economic growth - employment, entrepreneurship, skills and regeneration - and are tasked with producing an overarching Regional Economic Strategy, in response to their detailed analysis of their region's particular strengths, weaknesses and needs.

Box 2.1: Key PSA targets - raising productivity and sustainable growth across the countries and regions of the UK

Raising productivity

- **Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany.**
- **Make sustainable improvements in the economic performance of all English regions and over the long term, reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.**
- **Reduce the gap in productivity between the least well-performing quartile of rural areas and the English median by 2006, and improve the accessibility of services for rural people.**

Enterprise and innovation

- **Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.**
- **Improve the relative international performance of the UK's science and engineering base, the exploitation of the science base, and the overall innovation performance of the UK economy.**

Investment

- **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 greenbelt - and the sustainability of existing towns and cities - through specific measures to be set out in the Service Delivery Agreement (SDA).**
- **All local planning authorities to complete local development frameworks by 2006 and to perform at or above best value targets for development control by 2006, with interim milestones to be agreed in the SDA. The Department to deal with called-in cases and recovered appeals in accordance with statutory targets.**
- **Reduce congestion on the inter-urban trunk road network and in large urban areas in England below 2000 levels by 2010.**

Skills

- **Reduce by at least 40 per cent the number of adults in the UK workforce who lack NVQ level 2 or equivalent qualifications by 2010.**

Modernising public services

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

2.8 The 2002 Spending Review provides the RDAs with substantial additional resources and new responsibilities in respect of skills, transport, tourism, planning and housing. In addition, to enhance the ability of RDAs to foster enterprise in their region, the Government will pilot and evaluate different RDA-led approaches to achieving improved coordination of business support activities, and regional management of Business Link services in one or two regions (see Chapter 15). The Government will also pilot regional pooling of adult learning budgets between local Learning and Skill Councils (LSCs) and RDAs (see Chapter 6). Full details of the RDA settlement are set out in Chapter 23.

COMPETITION

2.9 A competitive environment in which firms and individuals are encouraged to start up in new markets and challenge existing players is vital to the adoption of new technologies, ideas and working practices. It is also the best way of ensuring that consumers receive a fair deal.

2.10 The Government is committed to supporting competition in markets across the UK. The Enterprise Bill takes forward the Government's programme of competition reform, including giving full independence to the Office of Fair Trading (OFT) and the Competition Commission, together with a new proactive role for the OFT to keep markets under review. To enable it to fulfil this challenging new role, the Government has increased the resources for the OFT by 50 per cent from the level allocated in the 2000 Spending Review for 2002-03, from £34 million to £52 million. **The 2002 Spending Review consolidates this step-change in funding, and allocates an additional £3 million in each of the three years to 2005-06, raising the OFT's annual budget to £55 million.**

ENTERPRISE AND INNOVATION

2.11 A dynamic environment with opportunities for enterprise and innovation is vital to improving economic performance. New businesses entering the marketplace increase competitive pressures; facilitating the introduction of new ideas and technologies. The Government is therefore committed to supporting enterprise and innovation throughout the economy, including in Britain's most disadvantaged areas.

Promoting enterprise across the UK

2.12 In common with many European countries, the UK has failed to achieve levels of entrepreneurship seen in the US. The Spending Review therefore takes further steps, building on measures announced in the June 2001 Enterprise

Statement and Budget 2002, to support newly established businesses, minimise regulatory barriers, support enterprise in disadvantaged communities and extend enterprise education in schools and colleges.

Supporting small business

2.13 The Small Business Service (SBS) is currently consulting on a national strategy for start-ups, helping small firms to better understand what government can do for them and what is required to meet regulatory obligations. **A new information pack will be made available for new and would-be entrepreneurs, giving them the best possible start in business.**

Minimising regulatory barriers

2.14 Effective and well-focused regulation can play a vital role in correcting market failure, promoting fairness and ensuring public safety. Unnecessary or poorly implemented regulation, however, can restrict competition, stifle innovation and deter investment. Building on the measures set out in Budget 2002, this Spending Review takes further steps to reduce regulatory burdens facing small businesses, by:

- **enabling HM Customs and Excise to promote take up of the new VAT flat-rate scheme**, which offers compliance costs savings worth up to £1,000 a year for small firms;
- **providing the Inland Revenue with additional resources to support implementation of Patrick Carter's recommendations for electronic filing of pay as you earn (PAYE) returns**, and to expand the support it gives to businesses in the switch to using new technology; and
- **providing additional resources for the Advisory, Conciliation and Arbitration Service (ACAS) and the Department of Trade and Industry (DTI)** to expand best practice activities encouraging partnership in the workplace, including in small firms.

Enterprise in disadvantaged areas

2.15 Increasing enterprise is key to improving the UK's poorest neighbourhoods. Therefore, as part of the Government's overall neighbourhood renewal strategy the SBS is working to ensure that the most disadvantaged groups have equal opportunities to start up and become involved in business. The SBS's Phoenix Fund, which was established in 1999, has already supported over 150 organisations to promote enterprise in the most disadvantaged communities. Building on this success, the Spending Review provides for **the extension of the Phoenix Fund with a further £50 million over two years**. Further details of the Government's neighbourhood renewal strategy are set out in Chapter 4.

Enterprise and education

2.16 The Davies review of enterprise and education identified a range of ways to strengthen the links between the education system and business, as an important step in developing an enterprise culture across the UK. The Government agrees with the central conclusion of the review that building a deeper and wider entrepreneurial culture must start in schools and colleges. The Spending Review therefore allocates **the Department for Education and Skills (DfES) additional resources in line with recommendations made by the review, rising to £60 million a year by 2005-06**. **This additional funding will ensure that every child has some experience not just of work but also of business and enterprise before they leave school. The Government will publish its full response to the Davies review, including plans for large scale pilots of enterprise activities for young people, in the autumn.**

Strengthening research and stimulating innovation

2.17 Innovation is a key catalyst for productivity growth. Creative ideas can act to open up additional markets and opportunities for firms, through the development of new and improved products and services. New technologies and processes also allow efficiency gains, enabling businesses to reduce their cost base and provide a better deal for consumers.

2.18 A strong science base is a prerequisite for research and successful innovation. To ensure that the UK's science and engineering base continues to improve and opportunities for research and innovation are maximised, the Spending Review **provides for the largest sustained growth in spending on science for a decade, with some £1^{1/4} billion additional spending by 2005-06 compared to 2002-03**. This includes an average 10 per cent a year real terms increase in the DTI's Science Budget and additional resources for DfES investment in science research in universities. This investment represents the largest sustained growth in the Science Budget in the last decade, taking forward the

conclusions of the cross-cutting review of science and research (see Chapter 25) and the Roberts review. Extra resources and reforms to the balance of the funding system will enable university research efforts to move onto a sustainable long-term footing. At the same time, additional funding will enable the UK to move into promising new areas of research.

The Roberts review

2.19 In Budget 2001, the Chancellor and the Secretaries of State for Trade and Industry and for Education and Skills asked Sir Gareth Roberts to undertake a review of the supply of scientists and engineers in the UK. Sir Gareth reported on 15 April 2002, setting out a range of recommendations to address issues throughout the supply chain for scientists and engineers - in schools, in universities and in relation to employment in R&D.² The Spending Review takes forward the key recommendations of the review, including:

- improving prospects for the recruitment, retention and training of science and mathematics teachers, including through **paying more to good science and mathematics teachers and through the introduction of a National Centre for Excellence in Science Teaching, in partnership with the Wellcome Trust;**
- **provide additional support to science, mathematics and technology teachers (and teachers of other subjects) through introducing a new programme to pay undergraduates and postgraduates to assist with classroom teaching;**
- **modernising science and technology laboratories in schools and universities;**
- **increasing Research Council PhD stipends to an average of over £13,000 a year by 2005-06 and the salaries of Research Council-funded postdoctoral researchers by an average of around £4,000; and**
- **targeted funds for improving universities' capacity to recruit and retain first-rate academics.**

2.20 However, as the Roberts report made clear, ensuring a supply of scientists and engineers for the future will also require business and the private sector to play a central role. While Government can help to create the right environment throughout the school, further and higher education systems, employers have a crucial role to play in improving the prospects and attractiveness of careers in science and research.

Supporting knowledge transfer

2.21 Knowledge transfer activities are vital to ensuring that successful innovation can be spread widely across the economy. Universities, public sector research establishments and NHS trusts have embraced the knowledge transfer agenda and levels of commercialisation activity are increasing. To build on this success, **funding available to universities and the public sector science base for knowledge transfer activities will be increased to allow the development of expertise to facilitate technology transfer, and to provide for investment in the early stages of promising research opportunities.**

Broadband

2.22 Effective use of Information and Communications Technology (ICT) can be an important driver of productivity and future success for firms. The Government has therefore set a PSA target to make the UK the best place in the world for e-business, with an extensive and competitive broadband market, judged using international comparative measures of business uptake and use of information and communication techniques. Effective e-business is primarily a challenge for firms, but Government has an important role to play in creating the right framework. It also has important, but tightly defined roles, as a purchaser of ICT in its own right for public services and in helping firms and others make the most of new technology. To take forward this agenda, the Government recently launched a regional broadband unit, which will combine teams in the Department of Trade and Industry and the Office of Government Commerce, focused on promoting broadband take-up in the regions and supporting public sector broadband procurement. In recognition of the particular importance of broadband access for schools, the Spending Review allocates DfES **new resources to develop PFI procurement of ICT, including broadband, in an effective coordinated and aggregated manner.**

INVESTMENT

2.23 Prospects for long-term economic growth are closely related to levels of public and private investment. The UK has long suffered from under-investment and is today significantly less capital intensive than its main competitors. The 2002 Spending Review takes forward the Government's commitment to reverse this legacy of under-investment, providing substantial new resources to improve the nation's infrastructure and to support efficient private sector investment.

Investing in transport

2.24 Good transport links are vital for strong economic performance - connecting businesses and individuals to wider markets and opening up new opportunities for employment, production and distribution. The Government's Ten-Year Plan for Transport sets out plans for public and private investment of more than £180 billion up to 2010, creating a modern transport network across the UK. The 2002 Spending Review **continues the investment necessary to deliver the Ten-Year Plan, increasing public expenditure on transport through the Department for Transport (DfT) by an average of over 12 per cent a year in real terms, from £7.6 billion in 2002-03 to £11.6 billion in 2005-06.** The Secretary of State for Transport will publish a first report in the autumn on progress to date in delivering the objectives of the Ten-Year Plan. A full review of the impact of the plan and its policies, which will also roll the plan forward into the next decade, will be published at the time of the 2004 Spending Review.

2.25 Additional resources will be accompanied by wide-ranging reform: stronger regional transport planning to connect local implementation with national strategy; and speedier, more effective delivery of major transport infrastructure projects. The newly-established DfT, working together with the Highways Agency, Strategic Rail Authority, Transport for London (TfL), local authorities, the private sector and other delivery agencies, will be responsible for driving forward the Government's agenda for reform and delivery, including through:

- **a review of transport planning by the DfT and the Office of the Deputy Prime Minister (ODPM) by July 2003** - proposing reforms to improve consultation, approval procedures and compensation mechanisms for faster delivery of transport infrastructure projects;
- **giving RDAs powers, in formulating their regional economic strategies, to propose new multi-modal studies of regional transport;**
- **achieving significantly shorter timescales for the delivery of highway schemes** - working towards an average of four to six years from proposal to implementation for new scheme proposals from 2004-05;
- **implementing an accelerated timetable for the rollout of piloted road network management tools from 2003;**
- ensuring the establishment of **a focused and well-structured replacement for Railtrack;**
- **implementing the London Underground modernisation plans** to deliver unprecedented levels of investment across the network. In addition to the Ten-Year Plan, around £1 billion a year is being made available to support the delivery of the improvements to the London Underground that will be achieved through the Public-Private Partnership; and
- consulting shortly on the Government's strategy on the long-term need to **increase airport capacity in the South East.**

Improving the housing stock

2.26 The quantity and quality of housing available across the country has a significant effect on consumer welfare, labour mobility, social inclusion and business location decisions. The Government is therefore committed to tackling the problems associated with housing shortages, low demand and abandonment - using the planning system and public investment to make the housing market more responsive to changes in demand and better integrating decisions on housing with those on economic development, land-use planning and transport. The 2002 Spending Review sets a new PSA target for the ODPM to achieve a better balance between housing availability and the demand for housing in all English regions, while protecting valuable countryside around the UK's towns, cities and in the greenbelt and the sustainability of existing towns and cities.

2.27 The ODPM will shortly set out a comprehensive strategy for addressing housing market imbalances across the country, bringing together land-use planning measures and new investment to tackle the problems faced by areas of both high and low demand. In areas of high demand, the Government will be taking steps to **increase the availability of land for housing development while protecting valuable countryside around the UK's towns, cities and in the greenbelt and the sustainability of existing towns and cities. In addition, the Spending Review provides substantial resources for the provision of new affordable housing to rent and to own in London and the South East.** To address the very different issues faced by low demand areas, the Spending Review provides for **a new fund to enable nine pathfinder projects to implement programmes of improvement and selective clearance in areas where housing markets have collapsed or are at risk.** Substantial new investment in housing will be accompanied by fundamental reforms to housing institutions, in particular through the establishment of new regional mechanisms to bring together all decisions on planning and housing investment and make the right connections with transport and regional economic growth, and a new unified housing inspectorate.

Modernising the planning system

2.28 New house building, as well as wider private sector decisions on investment and location, is fundamentally affected by the land-use planning system. The Government's recent Green Paper on land-use planning, *Delivering a Fundamental Change*,³ set out a wide range of reforms to improve the speed, flexibility and responsiveness of the current system - strengthening regional plans, simplifying local plan-making, and helping local authorities meet tough new targets for processing planning applications.

2.29 Delivering this challenging agenda will require local authorities to have access to substantial additional funding. The Government is therefore **allocating additional resources to the ODPM to drive forward the reforms set out in the Government's Planning Green Paper**. These resources are conditional on local authorities demonstrating rapid progress towards performance targets. ODPM will shortly set out final proposals for reform of the land-use planning system, in advance of legislation. Further details on housing and planning are set out in Chapter 9.

SKILLS

2.30 The quantity and quality of skilled labour available in the economy is a key driver of economic performance and productivity growth. The Government is committed both to improving the skill levels of young people entering the workforce and to providing opportunities for those already in the workforce to continue to acquire new skills.

2.31 Standards within the education system have risen significantly in recent years. For example, between 1997 and 2001 the proportion of 11 year olds reaching expected levels in reading and maths increased by 12 per cent and nine per cent respectively. The Government is building on this progress by setting demanding targets over the three year period to 2005-06, including new minimum attainment targets in schools to help ensure that the education system meets the needs of all.

2.32 Alongside improving standards in schools, it is also vital that greater numbers of young people stay in education and training after the age of 16. The UK has one of the lowest post-16 participation rates of any developed country - the rate among 17 year olds is 68 per cent in the UK, compared with 77 per cent in the US, 90 per cent in France and 92 per cent in Germany. To begin to address this gap, the Government will:

- **roll out the successfully piloted Educational Maintenance Allowances**, providing young people staying in education after 16 with support of up to £1,500 a year, depending on household income;
- **make substantial investment to revitalise further education (FE)** by offering FE colleges additional resources in return for committing to stretching new performance targets, and by improving quality, diversity and leadership across the sector; and
- **continue the Government's programme of investment in the higher education (HE) sector** to sustain excellence in teaching and research, to ensure the continued international competitiveness of university science and to make progress towards the Government's target of 50 per cent of young people entering HE.

2.33 While improvements in the skills of young people help to lay the foundations for long-term improvements in the UK skills base, their effects will be gradual. The 2002 Spending Review therefore continues the Government's commitment to improving the skills of those already in the workforce:

- stretching the **adult basic skills target to help 1.5 million adults between 2001 and 2007**;
- setting **an ambitious new target to reduce by at least 40 per cent the number of adults in the UK workforce who lack NVQ level 2 or equivalent qualifications by 2010**; and
- helping to ensure that **providers in the FE sector have the incentives and the capacity to respond to the needs of local employers**. The Government will review the barriers to employer engagement in FE, including a fundamental review of funding for adult learning, and will also enhance the role of RDAs in planning and guiding skill development. In addition, the Government will pilot regional pooling of adult learning budgets between local LSCs and RDAs.

2.34 Further details of measures to support education and training are set out in Chapter 6.

PRODUCTIVITY OF PUBLIC SERVICES

2.35 The productivity of public services is a major component of the productivity of the economy as a whole and an important indicator of both the value for money received by taxpayers and quality improvements enjoyed by service users. Departmental spending on public services currently exceeds £200 billion per year, and it is vital that additional

investment is matched by effective reform to deliver better and more productive public services.

2.36 The introduction of resource accounting and active management of the assets register has increased the efficiency with which public sector assets are used. As the next step in its reform agenda, the Government is committed to modernising the structures and practices which condition the delivery of public services. Reforming the service delivery environment is key to delivering the improvement in the productivity of public services which citizens demand and which public service workers are striving to deliver.

2.37 Chapter 1 sets out the Government's principles for public services reform and how the Government proposes to use the additional resources allocated to the public services to implement specific reform across a wide range of services. A full analysis of public services productivity, setting out the evidence and the Government's approach, will be published alongside the 2002 Pre-Budget Report.

2.38 The Government's principles have begun to deliver in areas in which they have been applied. The challenge is now to put them in place across the public sector as a whole. As a result of the cross-cutting review of the Public Sector Labour Market (Chapter 27), departments will undertake better workforce planning to strengthen the link between performance and pay, drive efficiency and productivity, and ensure investments result in better services. The Spending Review therefore allocates resources to policies which will increase the productivity of public services by applying the Government's principles in an active and targeted way.

e-government

2.39 One of the most powerful drivers for higher productivity in public services is IT. E-services offer significant benefits to users - they are quicker, more convenient and can be designed around the customer. At the same time, government can provide these services more efficiently by using technology to connect the whole delivery process, as well as improving the interface with the public. The Government is therefore spending nearly £3 billion over the three years to 2005-06 in order to further develop e-services, including nearly £1 billion to improve efficiency within the criminal justice system, nearly £500 million to support local government e-services and more than £200 million to develop HM Customs and Excise services.

2.40 A high level of take-up is the best measure of successful e-services. In time, high take-up will enable resources to be reallocated to other priorities. In return for additional resources, delivery organisations are therefore being asked to agree stretching targets for the take-up of e-services.

Box 2.2: The Invest to Save Budget

The Invest to Save Budget provides venture capital for the public sector to encourage innovative and joined-up ways of delivering public services. It gives financial backing to social entrepreneurs and builds an evidence base around their successes and failures. The fund has allocated over £300 million to 335 innovative partnership projects across the public and voluntary sectors. For example:

- **Info4local** - providing local authority employees with a single access point to information from the rest of government. The service has been estimated to save its 16,500 subscribers an average of 50 minutes per week; and
- **Watermark** - providing the public sector with a mechanism to monitor and reduce its consumption of water services, reducing environmental impact and cutting water bills by around 30 per cent.

Over the three years to 2005-06, Spending Review plans include £120 million to fund more public service innovation, with an emphasis on building services around the customer and offering a choice of delivery channels.

Public enterprises

2.41 As well as public services, the performance of public enterprises also has an important role to play in raising productivity in the UK. The challenge for government is to better fulfil its role as shareholder of these businesses. To help achieve this, the Government will bring forward proposals in the 2002 Pre-Budget Report to improve government's capability as a shareholder by:

- pooling government's experience and the resources dedicated to the shareholder role;
- enhancing government's corporate finance capability; and

- ensuring that the right framework is in place for public enterprises to succeed commercially.

¹*Productivity in the UK: (3) - The Regional Dimension*, HM Treasury (2001).

²*SET for success: the supply of people with science, technology, engineering and mathematics skills*, HM Treasury (2002).

³*Planning: delivering a fundamental change*, DTLR (2001).

Chapter 3

Extending Opportunity

- A central objective of the 2002 Spending Review is to build a fairer, more inclusive society that increases opportunity for all. From a secure start in life, as many citizens as possible must be equipped with the right education, training and skills to enable them to make the most of the opportunities of the new global economy. This Review takes forward reforms to ensure that barriers to work are removed, and measures taken to address inequalities. The Government is investing in this Spending Review:
- to improve the standard of education at all levels. Spending on education and skills in England will rise by a real annual average growth rate of six per cent in the three years of the Review period;
- to narrow the educational attainment gap. The Government is setting new school-level Public Service Agreements (PSA) floor targets for 11 and 14 year olds. There will be a new focus on tackling deprivation through reform of local authority funding systems and a new leadership grant for secondary schools in poorer areas;
- to increase opportunities for adults, extending the existing PSA target to improving the basic skills of 1.5 million adults between 2001 and 2007;
- to create at least an additional 250,000 childcare places by 2006, and to develop a childcare market in which every parent can access affordable, good quality childcare, through targeted assistance to a wide range of providers, financial help for lower and middle income parents, and more effective delivery of services including through the creation of children's centres;
- to broaden access to services which help parents to improve their parenting skills. An allocation of £25 million from the new fund being created to modernise the voluntary sector will fund services delivered in partnership with the voluntary sector to offer early help to parents experiencing difficulties; and
- to tackle worklessness through the national rollout of Jobcentre Plus by 2006.

3.1 The global economy offers new opportunities to those individuals who can access education, training and skills. Britain will only be able to compete globally if the nation ensures that these opportunities are available to all citizens, enabling everyone to realise their potential. This includes maximising the educational opportunities afforded to all by schools and colleges, pathways to skilled work and widening access to higher education. It means developing childcare provision, integrated with early years education, family support and health services, which better meet the needs of children and their parents, and remove barriers to work which confront lower and middle income parents. It entails continuing to implement a long-term employment strategy, which delivers a modern, dynamic and flexible labour market, with more people in work than ever before. The 2002 Spending Review will result in further progress in all these areas, and demonstrate the Government's commitment to building a fairer, more inclusive society.

OPPORTUNITY AND SECURITY THROUGH EDUCATION

3.2 Education is crucial to building a prosperous and inclusive society. The Government aims to raise standards and narrow the educational attainment gap to break the cycle of poverty and disadvantage, and to enable everyone to contribute to the country's prosperity. Children in poorer areas in general have lower attainment than those from better off areas. The gap grows as the child grows older. Overall, for pupils with high attainment in primary school, the difference between the median outcomes of pupils in the poorer and better off areas was as much as 12 GCSE points in 2000 (equivalent to two B grades).

3.3 This Spending Review reinforces this Government's commitment to education and skills by increasing spending in

England by an average of six per cent above inflation per year in the three years to 2005-06. The new plans provide for UK education spending to rise to 5.6 per cent of GDP by 2005-06, fulfilling the Government's manifesto commitment to increase the share of national income devoted to education over this Parliament. Building on the successful reforms of the last few years, new measures will help ensure that everyone has access to educational opportunities to enable them to fulfil their potential and transform their life prospects.

Box 2.1: Key PSA targets

Education and skills

- **By 2006, significantly reduce the number of primary schools in which fewer than 65 per cent of pupils achieve level 4 or above in English and maths by age 11.**
- **By 2007, significantly reduce the number of secondary schools in which fewer than 60 per cent of pupils achieve level 5 in English, maths, ICT and science by age 14.**
- **Improve the basic skills of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with a milestone of 750,000 by 2004.**

A secure start in life

- **In fully operational programmes, achieve by 2005-06: an increase in the proportion of children aged 0 to five with normal levels of personal, social and emotional development for their age; a six percentage point reduction in the proportion of mothers who continue to smoke during pregnancy; an increase in the proportion of children having normal levels of communication, language and literacy at the end of the foundation stage and an increase in the proportion of young children with satisfactory speech and language development at age two years; and a 12 per cent reduction in the proportion of young children living in households where no one is working.**

Employment

- **Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle.**
- **Reduce the number of children in low-income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010, and eradicating it by 2020.**

Fairness for all

- **By 2006, working with all departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion.**
- **In the three years to 2006, taking account of the economic cycle, increase the employment rate and significantly reduce the difference between the overall employment rate and the employment rate of ethnic minorities.**
- **By 2006, working with all departments, bring about measurable improvements in race equality across a range of performance indicators, as part of the Government's objectives on equality and social exclusion.**

Investing in schools

3.4 In schools the Government's priority is to deepen improvements in primary schools, and to transform secondary education. To help deliver schools reforms, the Government is substantially increasing the School Standards Grant, with an extra £325 million in 2003-04 rising to £375 million thereafter.

3.5 The Spending Review aims to turn around every failing school. Tough new targets are being set for the number of schools where 11 and 14 year olds do not reach the standard expected for their age. In addition to the SSG increase, 1,400 secondary schools in the most challenging areas will receive a further annual payment of £125,000 from the new leadership incentive grant. This will support good leadership in raising achievement levels. And it will enable schools to replace weak leadership, attract the best teachers and improve school facilities.

3.6 Funding for schools via local education authorities will rise by an annual real terms average of 3.4 per cent from

2002-03 to 2005-06 and there will be a significant further boost to modernise school buildings and ICT facilities, with spending on school buildings in 2005-06 over six times higher than the level recorded in 1996-97.

3.7 The Government will expand its City Academy programme to offer further help to schools facing severe difficulties, particularly in parts of London. The Excellence in Cities programme will be extended which will mean more learning mentors and Learning Support Units to help pupils at risk of falling behind.

3.8 There will be support for schools to develop as 'extended schools' to provide services such as health and social care, family learning and childcare; and a new programme to address behavioural problems as early as possible based on new multi-disciplinary Behaviour Education Support Teams bringing specialist educational and medical support to clusters of schools needing help, and learning mentor and learning support unit provision to individual schools not covered by existing programmes.

Investing in further education and adult skills

Increasing post-16 participation

3.9 The rate of participation of young people in learning after 16, is too low. Following this Review the Government will pursue a major drive to increase participation in learning after 16 and ensure that, for the first time, *all* young people will know that they have a real opportunity to develop the skills crucial to both their and to Britain's future.

3.10 A lack of financial support is one of the biggest barriers to staying in education after 16 faced by many young people. Following successful pilots the Government is introducing **Education Maintenance Allowances** (EMAs) nationally from September 2004. EMAs will provide support of up to £1,500 per year depending on household income. For many young people from low-income families they will make staying in education after 16 a realistic choice for the first time. The Government will also increase core funding for further education by one per cent a year in real terms in return for tough new performance targets.

3.11 Opportunities have also been denied to young people by the lack of a real, credible, alternative to either a traditional academic route after 16 or low-paid, low-skilled work. The Government will therefore expand vocational pathways into skilled work, giving more young people the opportunity to train to world-class standards and to gain the skills to allow them to develop a career rather than just get a job. To drive progress in this area a new target is being set to ensure that by 2004 at least 28 per cent of young people start a modern apprenticeship by age 22. A wider vocational target for 2010 will be announced in the 2002 Pre-Budget Report.

Opening up opportunities for adults

3.12 Seven million adults have their opportunities for learning and employment reduced because they lack basic literacy and numeracy skills. Tackling this remains a key priority for the Government. Building on 'Skills for Life', the successful strategy established in 2001, the Government has extended the existing PSA target to improve the basic skills of 1.5 million adults between 2001 and 2007.

3.13 The Government will also act to help those adults who have been let down by the education system in the past, not only by improving basic skills, but also by working to ensure progression beyond this for as many of our workforce as possible. It has therefore set an ambitious new target to reduce by at least 40 per cent the number of adults in the UK workforce lacking NVQ level 2 or equivalent qualifications by 2010.

3.14 To support this ambition the Government will also take a radical look at structures, funding and accountabilities for the provision of skills and training from April 2003 Learning and Skills Councils will be given 3 year budgets and 100 per cent end year flexibility. And pilots will operate in one or two regions whereby budgets for adult learning are pooled between local LSCs and RDAs and co-ordinated in partnership.

Investing in Higher Education

Widening access to higher education

3.15 Despite a significant expansion of higher education over the past two decades, too few young people from disadvantaged backgrounds are severely under-represented in higher education. Nearly 80 per cent of the children of higher professional families go into higher education, while the corresponding figure for children of unskilled manual

workers is just 14 per cent. This denies many young people the enhanced career opportunities and earning potential that graduates stand to gain. This Spending Review will allow continued efforts to widen and diversify participation in pursuit of the Government's ambition to increase participation in higher education towards 50 per cent of those aged 18 to 30.

3.16 The Government will ensure that more young people have the right qualifications and skills to enter higher education. Children from low-income backgrounds are especially likely to fail to get five good GCSE passes or continue in education after 16. In schools the Government's priority is to improve the performance of all children and make further progress in narrowing the attainment gap. The introduction of EMAs nationally from September 2004 will encourage more young people to stay in education after age 16 and in turn ensure rising applications to higher education institutions. The 2002 Spending Review will also substantially increase funding to universities. £1¹/₄ billion more for science will be available by 2005-06, together with real terms increases in total funding for teaching, and targeted pay incentives. Universities will have enhanced funds to reach out to students from poorer backgrounds and ensure that they have the support they need to thrive in higher education.

A SECURE START IN LIFE

Childcare vision

3.17 The Government's vision for childcare is one in which every parent can access affordable, good quality childcare. This will mean:

- **developing a thriving supply of childcare**, through targeted assistance to a wide range of providers, many of whom could be based within primary and secondary schools. The Government will also support the creation of the childcare places needed to meet its 2010 objectives of 70 per cent of lone parents in employment, and halving child poverty;
- **providing financial help to lower and middle income parents for whom the cost of childcare is a barrier to work**. The childcare tax credit component of the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) provides working parents with generous support towards the costs of approved childcare. This assistance will continue - in an improved, more flexible form - as part of the Working Tax Credit from April 2003, and the Government is committed to keeping the level of support under review; and
- **transforming the way services are delivered to ensure over time the Government better meets the needs of children and their parents, particularly for the most vulnerable, reflecting the early lessons of Sure Start**. The Government's longer-term aim is to establish a children's centre in every one of the 20 per cent most disadvantaged wards. These centres will bring together good quality childcare with early years education, family support and health services. These centres will also act as service hubs within the community for parents and providers of childcare services for children of all ages.

Childcare Review

3.18 The recent inter-departmental Childcare Review emphasised the importance of childcare to our objectives of extending employment opportunities and tackling child poverty. Childcare also plays a role in meeting other key objectives, including boosting productivity and closing the gender pay gap.

3.19 The review also highlighted significant benefits to children (particularly young children and those from disadvantaged backgrounds) when good quality childcare is delivered alongside early years education, family support and health services. It also highlighted the need to transform the way in which policy is made and services are delivered to reflect an integrated approach. In response, the Government has decided to bring together the responsibility for childcare, early years and Sure Start within a single inter-departmental unit. The findings of the Childcare Review will be published as a report in the autumn.

3.20 In support of the Government's vision and incorporating the findings of the Childcare Review, **the new budget for the Integrated Unit will rise to £1.5 billion by 2005-06 and within this, funding for childcare will more than double in real terms between 2002-03 and 2005-06**. This will:

- ensure the **creation of at least 250,000 childcare places by 2006, including childcare provided directly in children's centres**. New funding will be directed towards sustaining provision in the most disadvantaged areas, and will support the growth of full day care and out of school clubs, and provide grants for new childminders.

- **support the creation and operation of children's centres in disadvantaged areas**, building, where possible, on Sure Start facilities and other existing provision. By March 2006 an additional 300,000 children will have access to health, education and other services.

3.21 This will complement the greater role that schools will be able to play, following the Education Bill, as bases for wider community and family services, including childcare for older children.

3.22 As well as joining up existing services and merging the relevant units within central government, the Government also intends to simplify funding arrangements, streamline targets and enhance local authorities' role in supporting delivery.

Sure Start

3.23 Sure Start, which will also become the responsibility of the new unit, works with parents-to-be, parents and children to promote the physical, intellectual and social development of babies and young children - particularly those who are disadvantaged - so that they can flourish at home and when they get to school. Local programmes, supported by the community and voluntary, statutory and private organisations, provide integrated health care, well-being services and early years education to all those families with young children living in Sure Start areas. Over the coming three years, more than 500 programmes will be reshaping existing services and filling gaps in provision to improve outcomes for young children and their parents in disadvantaged areas. Together, these programmes will reach 400,000 young children including around one third of all children under four living in poverty. To secure these benefits for future children the Government has also committed to support Sure Start in the longer term.

3.24 In order to ensure effective provision in other areas, the Government is funding 50 programmes in rural areas and small pockets of deprivation. Working closely with existing services, these 'rural and pockets programmes' will provide integrated services for a further 7,500 children. To extend the benefits of Sure Start across much wider areas, the Unit will also be piloting district programmes, which will integrate best practice in the care of under fours and their parents into mainstream services.

SUPPORTING PARENTS AND FAMILIES

3.25 Good parenting and strong family relationships are key factors in providing children with the best possible start in life, helping to balance some of the risks they face as they grow up and achieve their full potential. Being a parent is an important but difficult job - the circumstances in which parents bring up their children can make all the difference.

3.26 In the 2001 Pre-Budget Report document *Tackling Child Poverty*, the Government recognised that more needs to be done to support parents, so that parents can in turn provide better support for their children. In this Spending Review the Government is providing resources to fund additional support for parents and families, particularly to prevent problems from developing into crises.

3.27 The cross-cutting reviews of under fives and young people in the 1998 and 2000 Spending Reviews set in train a number of cross-governmental preventive services for children and young people such as Sure Start and the Children's Fund. The Children at Risk review builds on this work and highlights the need to improve support for parents and families (see Chapter 28). In particular:

- the provision of family support needs to be better coordinated at a local level;
- co-locating services can improve access to key services and provide more effective support for parents;
- the voluntary and community sector is well placed to reach families that need support; and
- parents need more and better access to sources of information.

3.28 The Government is determined to broaden further access to services which help parents to improve their parenting skills. It is important to intervene early before problems become serious. **The Government will therefore make funding available to sponsor services designed and delivered in partnership with the voluntary and community sectors over three years**, which will offer early help to parents experiencing difficulties within the family.

National Framework for Parenting Support

3.29 In the 1998 and 2000 Spending Reviews, the Government introduced a range of programmes that aim to provide support for parents at a national level. In the 2002 Spending Review the Government will build on this work by

developing a National Framework to map and improve the support that is available for parents and families at local level. The framework will outline a range of parenting support options that might be needed at different stages in a child's life, with an emphasis on preventing problems from developing into crises.

Targeted support for vulnerable parents and families

3.30 The Government has already introduced a number of specific programmes that aim to provide support for parents at the same time as their children, working with the voluntary and statutory sectors, and the local community. Examples include Sure Start, the Children's Fund, and parenting orders. The cross-cutting reviews on Children at Risk and Tackling Health Inequalities (see Chapters 28 and 29) made a number of recommendations for improving the outcomes of children and their families. In this Spending Review, the Government is providing further support for those parents with particular needs.

Children looked after by local authorities

3.31 The Government has begun a review of placement choice and fostering with a focus on helping local councils to commission and deliver effective placements and services for looked-after children in their care, with a special emphasis on fostering services. The review will concentrate on the issues that are putting pressure on fostering services and will look at the role and status of foster carers; support, training and rewards; the role of family and friends care; and the need for therapeutic provision.

Support for family relationships

3.32 Supporting marriage and stable relationships is also an important part of the Government's commitment to support families. The Lord Chancellor's Department provides support for several national relationship support organisations, such as Relate and One plus One, to help couples trying to save their marriages or other relationships (see Chapter 11). Where relationships do break down, the Children and Family Courts Advisory and Support Service (CAFCASS) helps families deal with the consequences of breakdown with the least possible damage, especially to children, and the Government has allocated additional funding to strengthen its activities.

OPPORTUNITY THROUGH EMPLOYMENT

3.33 The Government has set itself a long-term employment objective that by the end of the decade there will be more people in work than ever before.

3.34 The Government has established and maintained a stable macroeconomic environment, rather than the damaging cycle of boom and bust, which led to people becoming detached from the labour market. But macroeconomic stability alone is not enough to ensure employment opportunity for all - the modern definition of full employment. That is why the Government is pursuing a clear and targeted set of microeconomic reforms to improve the functioning of the labour market - tackling structural unemployment, improving work incentives and addressing the specific problems faced by particular groups and areas.

3.35 Since 1997 the Government has developed a threefold strategy:

- Welfare to Work policies to prevent the unemployed and inactive becoming detached from the labour market, and to help them move into employment;
- a specific focus on those areas that suffer from particularly high levels of employment disadvantage, with associated PSA floor targets, to ensure that those living in these areas and communities share in the overall employment gains that the country at large has experienced and prospered from; and
- reforms to sharpen work incentives and support families with children, including the introduction of the new Working Tax Credit and Child Tax Credit.

3.36 This strategy is delivering a modern, dynamic and flexible labour market, with employment at a record high, unemployment at levels not seen since the 1970s, and long term youth unemployment all but eradicated.

3.37 But the Government fully recognises that significant challenges remain. There are still 1.5 million people unemployed (on the International Labour Organisation definition) and over 4 million on inactive benefits. Of those on inactive benefits, 2.9 million have been in receipt of them for more than two years.

3.38 That is why the Government has set out to tackle worklessness, not just among the unemployed but also among the inactive. The centrepiece of this strategy is bringing together the Employment Service and Benefits Agency into one unified, work-focused organisation: Jobcentre Plus. **The 2002 Spending Review confirms funding for a national network of fully integrated offices delivering an additional two million work-focused interviews a year.** Offices will be equipped with modern technology providing high-quality information and job vacancies as well as a team of personal advisers to provide people looking for work with advice and support.

3.39 In addition, the Spending Review provides funding for a number of additional employment initiatives, including:

- extending the Employment Zone approach to lone parents and New Deal returners, and testing new approaches with multiple providers in the same area;
- a demonstration project to test ways of helping people to retain work and advance up the job ladder;
- additional support for those areas and groups, such as the sick and disabled, that face the most serious barriers to work or are most detached from the labour market; and
- enhanced outreach for ethnic minorities.

FAIRNESS FOR ALL

Gender

3.40 The Government is committed to building a fairer, more inclusive society in which everyone can contribute to, and benefit from, rising prosperity. This Review includes resources to support a number of measures that will be of particular benefit to women.

3.41 In addition, the Department for Trade and Industry (DTI) has a new PSA target to bring about measurable improvements in gender equality across a range of indicators by 2006, as part of the Government's objectives on equality and social exclusion. The Department for Work and Pensions (DWP) has also been set a new PSA target to reduce the gap between the overall employment rate and that of disadvantaged groups by 2006.

Ethnicity

3.42 There are long-standing ethnic inequalities in educational attainment, employment opportunities and life chances generally. The Government is determined to tackle these. This Review:

- sets a revised race equality PSA to ensure that by 2006, the Home Office work with all departments to bring about measurable improvements in race equality;
- includes a PSA target (shared between the DWP and the Department of Trade and Industry) to raise the employment rate of ethnic minorities and reduce the difference between their employment rate and that for the population as a whole;
- provides additional resources targeting the effects of deprivation on educational attainment through reformed Local Authority funding systems (and increased direct payments to schools) to help meet new school-level floor targets, which will benefit ethnic minority pupils;
- **provides £14 million over three years to extend outreach work** to help jobless ethnic minorities access the range of support that is available to help them move into work; and
- provides additional resources for the Advisory, Conciliation and Arbitration Service (ACAS), which will enable it to promote equalities in UK workplaces. ACAS recently took over responsibility for Equality Direct and for the Race Relations Employment Advisory Service, which aims to address a range of equality issues in the workplace.

3.43 The Performance and Innovation Unit study on improving the labour market opportunities of ethnic minorities will report in the autumn. The report will make recommendations in a number of policy areas reflecting both the diverse nature of the issues involved and the differing labour market experiences and needs of different ethnic groups.

Disability

3.44 The Government is determined to increase the opportunities for people with disabilities, including those with longstanding health problems, to lead independent and fulfilling lives. This Review:

- includes a **new PSA target for the DWP, reflecting the Government's commitment to improve disability rights** and remove barriers to the participation of disabled people in society, as well as to improve the employment rate of disabled people;
- provides additional resources for the Disability Rights Commission to oversee and enforce the rights of disabled people;
- provides increased funding for employment support, to help those sick and disabled people who are able to work to realise their full potential; and
- from 2003-04 to 2005-06, delivers an average six per cent increase in funding per year after inflation for social services, benefiting the many disabled adults and children that receive support from social services.

Chapter 4

Strong and Secure Communities

The 2002 Spending Review underlines the Government's commitment to improving the quality of life in both urban and rural areas. The Government's aim is to promote cohesive communities, with strong local services, where crime is tackled effectively. The National Strategy for Neighbourhood Renewal aims to ensure that within the next 10 to 20 years, nobody is seriously disadvantaged by where they live. In this Review, the Government:

- targets crime and the causes of crime, with a particular focus in those areas with the highest crime rates, through the Crime and Disorder Reduction Partnerships. Challenging crime reduction targets - including cutting vehicle crime by 30 per cent by 2004, domestic burglary by 25 per cent by 2005, and robbery in the ten Street Crime Initiative areas by 14 per cent by 2005 - are backed up with resources and reform to drive up performance levels across the Criminal Justice System;
- delivers extra resources for police forces and promotes effective delegation to Basic Command Units at the front-line, as part of the ongoing programme of police reform, with an addition of around £1.5 billion for the police in England and Wales by 2005-06 compared with 2002-03;
- confirms the Government's commitment to transforming the poorest neighbourhoods, by tackling problems of poverty, crime and unemployment. The Neighbourhood Renewal Fund will be increased to £525 million in 2005-06, with improved floor targets to drive up the quality of public services in deprived areas;
- allocates an extra £1 billion a year to housing by 2005-06 compared to 2002-03 to bring all social housing into a decent condition by 2010, with a particular focus on the most deprived areas. This spending will also be extended to some private housing currently occupied by the most vulnerable;
- builds on the vision set out in the Local Government White Paper, and provides an average increase in general grant of 3.9 per cent a year in real terms over the three years to 2005-06. It also sets out a new commitment to localism, with devolution of policy responsibility to those who deliver services at the frontline; and
- promotes further the Government's objectives on sustainable development to ensure policies deliver social, environmental and economic progress. Departments considered sustainability issues in preparation for the review, and this work is underpinned with 15 headline indicators to monitor progress.

TACKLING CRIME AND THE CAUSES OF CRIME

4.1 The Government is committed to both tackling the incidence of crime, by increasing the resources and performance of the police and the rest of the Criminal Justice System, and addressing the causes of crime through investment and reform in education, health, regeneration and Welfare to Work. Low levels of crime contribute greatly to the strength and security of communities. Crime has fallen overall by 22 per cent since 1997, and the Government is committed to achieving further progress.

4.2 The Government's aim is to reduce crime and the fear of crime. The new PSAs set objectives to improve performance overall, including by reducing the gap between the highest crime Crime and Disorder Reduction Partnership areas and the best comparable areas; and reduce:

- vehicle crime by 30 per cent from 1998-99 to 2004;

- domestic burglary by 25 per cent from 1998-99 to 2005;
- robbery in the ten Street Crime Initiative areas by 14 per cent from 1999-00 to 2005;

and maintain that level.

4.3 In support of the Government's determination to tackle crime and strengthen communities, spending on the police will increase by around £1.5 billion a year by 2005-06 compared to 2002-03. New resources will deliver better rewards for key front-line posts and more flexible deployment, and there will be more effective delegation of decisions about how funds are used on the front line (the Basic Command Unit). Additional investment will underpin the programme of reform of the police already underway, aimed at driving up performance in forces and Basic Command Units. The Government will improve the performance of all police forces, and significantly reduce the performance gap between the best and worst performing forces; and significantly increase the proportion of time spent on front line duties.

4.4 The Police Reform Bill is seeking new powers to require police authorities to take remedial action when forces do not perform, and the Police Standards Unit will publish comparisons between police forces' performance linking resources to performance against key outcomes, including reducing crime and bringing offenders to justice. There will be new links between funding and performance for police Basic Command Units. And local police commanders and local Crime and Disorder Reduction Partnerships will be held accountable to local residents. They will make clear information available to households on their performance each year.

4.5 Tackling crime, including reducing re-offending, requires the effective operation of all elements of the Criminal Justice System (CJS), encompassing the police, Crown Prosecution Service, criminal courts, prison and probation services. Following the 2002 Spending Review a CJS IT Joint Budget will be established to promote closer working and streamlined case management. There will also be a modernised new CJS inspection regime.

4.6 The Government is committed to effective sanctions, which deter other offenders and reduce reoffending. The Government will reform sentences and sentence delivery and ensure that there is clear information available to, and partnership with, sentencers on what sentences - custodial and non-custodial - work for what crimes. Offenders will be better equipped to lead law abiding lives including rehabilitation in prison and the community, and enabling prisoners to access mainstream services so that the causes of their offending are addressed and re-offending is reduced. Prisons' performance will be benchmarked over a seven-year period, with contracting-out if they fail.

4.7 Wider social and environmental programmes, including interventions to tackle child poverty and deprivation, are also key to delivering sustained reductions in crime. The Spending Review will tackle the causes of crime, including through improved services to treat children and young people with mental health problems; an extension of multi-disciplinary Behaviour and Education Support Teams to support schools and a continued commitment to reduce truancy; and substantial increases in funding for the Neighbourhood Renewal Fund; and new resources to fund additional support for parents and families in partnership with the voluntary and community sectors. There are also new resources to secure steps towards doubling the number of drug addicts in treatment, and reducing drug-related crime.

A NEW COMMITMENT TO LOCALISM

Devolution and delegation

4.8 The Government is committed to shifting more responsibility for policy delivery away from central departments, and to allowing local flexibility in policy implementation. Devolution and delegation to more local levels means that those with the best knowledge of what is needed have the freedom to implement the most appropriate policies for their area, leaving scope for creative and innovative solutions that are focused on local needs.

4.9 The Government has already taken important steps towards greater devolution and delegation to more local levels, for example:

- at regional level through giving the Regional Development Agencies freedom to allocate their Single Pot according to their own priorities to meet their agreed targets;
- at local level through giving local authorities freedoms and flexibilities in return for the delivery of high quality services; and
- at the front-line through funding being paid direct to schools, health Primary Care Trusts and Police Basic

VISION FOR LOCAL GOVERNMENT

4.10 The Government is committed to a vision of local democracy with effective local authorities providing quality public services and acting as effective leaders of the communities they serve.

4.11 The government's vision is set out in the Local Government White Paper, *Strong Local Leadership - Quality Public Services*.¹ The key elements are:

- a national framework of standards and accountability for the delivery of high quality services and effective community leadership;
- devolution to local councils to encourage diversity and creativity, giving them the freedom they need to respond to and meet their communities' needs;
- building local capacity in recognition of the need for flexibility at the front line to exploit the opportunities that are being opened up and deliver improved services and effective leadership; and
- more choice for customers, with access to an alternative supplier where performance falls below acceptable standards.

4.12 The 2002 Spending Review takes forward the Government's vision for local government by providing an average increase in the Office of the Deputy Prime Minister's local government programme of 4.2 per cent a year above inflation over the three years to 2005-6. It also provides an 10.7 per cent annual average real increase in local authority investment through capital support and PFI from 2002-3 to 2005-6.

4.13 As well as providing local authorities with a 3.9 per cent a year increase in revenue in real terms over three years to 2005-06, the details of which are in Chapter 9, the 2002 Spending Review creates over three years a new £135 million fund to support capacity building and intervention in failing authorities. This money will help ensure the right tools are available to councils to enable them to raise their performance. The Review also provides continued support to help authorities use new technologies to improve services and deliver them in more customer-focused and cost effective ways.

Local Public Service Agreements

4.14 To ensure this investment delivers the improved services upon which local people rely, the Government has decided to launch a second round of Local Public Service Agreements. These three-year agreements were developed in the 2000 Spending Review in close partnership with the Local Government Association and offer councils freedoms and flexibilities in exchange for commitment to stretching targets, with reward money if targets are met.

4.15 Local PSAs are currently being rolled out to county councils and unitary authorities with 57 agreements already signed. The first round will be completed in 2003 and the new round will start in 2004. The Government will work with local government to explore how the concept of Local PSAs can be developed to be even more effective in giving councils the freedom to deliver higher quality services.

4.16 To ensure proper co-ordination between central government departments and local government in areas where they share responsibility for outcomes, central and local government have developed a set of Shared Priorities and these have informed the new National Public Service Agreement (PSA) for local government. The new PSA - which was developed with the involvement of the Local Government Association - brings together those targets in departmental PSAs where local authorities and their partners are critical to delivering service improvements. It is a further example of the new, more effective partnership between central and local government.

Comprehensive Performance Assessment

4.17 To help local people assess how their authority is performing against these shared objectives, the government is introducing a Comprehensive Performance Assessment (CPA) process as outlined in the White Paper. These assessments will for the first time bring together in an understandable way all the available information about how a council is performing. As well as improving accountability to local people, the assessments will shape the government's relationship with the council. High performing councils will be given the extra freedoms and flexibilities they have demonstrated they deserve. They will also face a reduction in the burden of inspection. Authorities that are performing less well will be required to draw up an action plan for improvement, while failing authorities that are unable or unwilling to tackle their

problems will face intervention.

4.18 As well as promoting transparency and accountability about local authority performance, the government is committed to empowering councils to enable them to deliver for their communities. It wants to see local authorities innovate and deliver for local people and is keen to reduce the burden of controls councils face and to give them greater autonomy about how they raise and spend their resources. The Government is taking action to make this vision a reality as set out in Box 4.1.

Box 4.1 Flexibilities and freedom for local authorities

- **The system whereby councils had to obtain permission from Whitehall before undertaking any borrowing is to be replaced (subject to legislation) by a new prudential borrowing regime where councils will be able to borrow where it is prudent to do so.**
- **Local authorities have been given access to a wider range of investments instruments and draft legislation has been publishing proposing further flexibilities.**
- **The receipts-taken-into-account mechanism has been abolished, giving councils more scope to benefit from management of their property portfolios.**
- **Draft legislation has been published that would give councils the power to charge for the discretionary services that they provide and also give them the power to trade**
- **The Government has made clear that it will not impose capping on high performing authorities, a first step towards the longer term goal of dispensing with the power to cap local authority budgets altogether.**
- **The Government is acting to deliver the promised 50 per cent reduction in plans authorities are required to produce with clear principles for reducing the number of plans published on 11 July 2002 and with the Department of Health showing the way forward by cutting its plan requirements from nine to two.**
- **The Government is cutting the number of major area-based initiative funding channels.**
- **The new Local Services Inspectorate Forum (which brings together the main inspectorates for local government services) is developing plans for more co-ordinated and proportionate inspection in connection with the Comprehensive Performance Assessment process and is committed to delivering a significant reduction in the inspection burden on local authorities.**

Ring-fenced grants

4.19 The Government recognises that local authorities must have the freedom to address local priorities, and in the course of the 2002 Spending Review process, has given careful consideration to the issue of ring-fenced grants, financial support given to local authorities which has to be used in a specified way. The Government recognises that excessive ring-fencing is inefficient and reduces the scope for local choices. However, some of the existing ring-fenced funds are supported by local authorities as a means of ensuring that the necessary funds are available to meet a specific obligation or need. Other ring-fenced funds have played (and continue to play) a key role in supporting reform and delivering improvement in priority areas. The debate on ring-fencing, therefore, needs to recognise that ring-fencing can serve important and positive purposes.

4.20 However, the Government is determined to minimise the overall level of ring-fencing to promote local flexibility. It remains committed to testing any new ring-fenced grants against the criteria set out in the Local Government White Paper and will end existing ring-fenced grants where they are no longer necessary. The process of examining individual ring-fenced grants will take place in autumn 2002 as departments make final decisions within their own programmes about the balance between grants to local authorities and other priorities. However, as an indication of the Government's commitment to the agenda of minimising ring-fenced funding, it has been decided as part of the 2002 Spending Review that by 2005-06 around £2 billion of existing ring-fenced grants will be transferred into Standard Spending Assessments. This is made up of well over £1 billion of Department for Education and Skills (DfES) grants and £0.8 billion of Department of Health (DH) grants.

THE VOLUNTARY AND COMMUNITY SECTORS

Empowering local government and cutting bureaucracy

4.21 The voluntary and community sector, as well as social enterprises, have a key role to play in fostering stronger communities. Not only do these organisations often grow out of a determination to provide high quality support to particular groups, they are often uniquely well placed to enable individuals to actively participate in their local communities.

4.22 The significant value added that the voluntary and community sector can bring to service delivery includes:

- greater understanding of specific client groups;
- greater ability to reach marginalised groups, especially in deprived areas;
- greater innovation and flexibility in the design and delivery of services; and
- creation of social capital through the pro-active engagement of local communities.

4.23 Building on the Deakin Commission Report and the Compact on Relations between the Government and the Voluntary and Community Sector in England of 1998, the cross-cutting review of the role of the voluntary sector in public services conducted in the 2002 Spending Review (see Chapter 30) has produced a multi-faceted strategy to increase opportunities for partnerships at central and local levels. The Government will continue to draw on the experience and expertise of the sector, and identify and eliminate barriers to fuller participation by the sector in providing services, and will give special attention to strengthening the voluntary sector in disadvantaged and rural areas.

BETTER, SAFER NEIGHBOURHOODS

4.24 The Government is committed to tackling the gap between the quality of life that most people experience and that experienced by those living in deprived areas. Deprived areas are characterised by high levels of poverty, crime, ill health and unemployment and poor local environments and transport provision. The Government's National Strategy for Neighbourhood Renewal aims to ensure that within the next 10-20 years, nobody is seriously disadvantaged by where they live. The 2002 Spending Review provides the resources for regeneration and renewal at regional, local and neighbourhood level to take further steps towards this goal.

Neighbourhood renewal and regeneration

4.25 The 2002 Spending Review strengthens and takes forward the Government's National Strategy for Neighbourhood Renewal. This strategy gives clear responsibility for tackling deprivation to core public services like schools, health, environmental services and the police. The 2000 Spending Review therefore set specific PSA targets ('floor targets') for key government departments aimed at levering up the performance of public services in deprived areas towards the national average. The 2000 Spending Review also committed the Government to reviewing the funding formulae used by departments to ensure that more resources were devoted to deprived areas (see Chapter 23).

4.26 In this Spending Review, the floor targets are being rolled forward and strengthened, and some new targets have been added, including individual school-level floor targets for secondary schools. This puts in place deprivation-related targets for education, employment, crime, health, housing, enterprise, road accidents and regional growth. DEFRA will examine the extent and nature of rural deprivation to establish how floor targets can be delivered.

Box 4.2: PSA floor targets

Full details of the floor targets can be found in the Public Service Agreements of the relevant departments. The 2002 Spending Review has delivered substantial improvements to the set of floor targets, for example-

- an extension of the crime targets to cover a wider range of crimes;
- new school floor PSA target for achievement at 11 and 14;
- raise standards in schools and colleges so that between 2002 and 2006 the proportion of those aged sixteen who get qualifications equivalent to 5 GCSEs at grades A* to C rises by 2 percentage points each year on average and in all schools at least 20 per cent of pupils achieve this standard by 2004 rising to 25 per cent by 2006;
- extension of the floor target on housing conditions to cover the private as well as social housing sector;
- a new target to reduce the gap between the Crime and Disorder Partnership areas with the highest crime and the best comparable areas;
- a new target to reduce over the long term the persistent gap in economic growth rates between different

regions; and

- a new target to tackle the significantly higher incidence of road accidents in disadvantaged areas.

In addition, a range of other new PSA targets will also have significant impacts on disadvantaged communities, for example the targets to:

- reduce the number of children in low-income households by at least a quarter by 2004;
- achieve a more sustainable balance between housing availability and the demand for housing in all English regions;
- improve life outcomes of adults and children with mental health problems through improvements in access to services; and
- increase significantly take-up of cultural and sporting opportunities by new users from priority groups.

4.27 This Spending Review also further increases the Neighbourhood Renewal Fund by £125 million to £525 million by 2005-06.

4.28 Key challenges lie ahead during the Spending Review period in making progress in narrowing the gap between outcomes for those living in the most disadvantaged neighbourhoods and the rest of the country. This work will be overseen by the Deputy Prime Minister, drawing together his Office's responsibilities for regions, local government, neighbourhoods and tackling social exclusion. Departments' core funding needs to play its part in improving outcomes in the poorest communities, meaning that an increased proportion of main budgets needs to be allocated to the most deprived neighbourhoods. As with all PSA targets, Departments will be held accountable for how they deliver on the floor targets for disadvantaged areas and groups. This refocusing of main budgets on deprived neighbourhoods needs to be accompanied by rationalisation of existing area based initiatives as far as possible, and by effective local joint working between area based programmes that remain. At a local level, the key challenge for Local Strategic Partnerships (LSPs) is to become effective in driving forward local neighbourhood renewal strategies, in order to meet the floor targets and deliver real improvements in outcomes in the area. As well as the role played by local communities, key to the success of LSPs will be the active participation and cooperation of all local deliverers of public services.

Improving local environments

4.29 The safety and cleanliness of the local environment are of key importance to people wherever they live. As problems like street crime, anti-social behaviour and litter are often more acute in deprived areas, tackling them also makes an important contribution to neighbourhood renewal. Chapter 31 describes how the Spending Review has taken forward the Government's policies on improving local environments.

4.30 A number of large mainstream budgets impact on the safety and cleanliness of local neighbourhoods. These funding streams will deliver additional investment over the period covered by the 2002 Spending Review. Local transport capital expenditure - which includes funding for home zones, cycling and local safety schemes - is set to double in real terms from 2001 to 2011 as part of the Ten-Year Transport Plan. Funding for police and local authority delivered services is also being increased in real terms.

4.31 A review of the powers and responsibilities that regulate the quality of public spaces and the local environment has also been announced. This review will focus on primary and secondary legislation and statutory guidance, covering issues such as litter, graffiti, fly-tipping, derelict land and highways maintenance (see chapter 24).

4.32 To drive up performance, improvements to the way that the quality of the local environment is measured are also being developed. A new system for measuring street and local environmental cleanliness will be piloted in the autumn, for consideration as a statutory Best Value performance indicator in due course.

RURAL COMMUNITIES

Rural areas

4.33 The Spending Review has examined the impact of Government policy on rural areas and identified steps to raise the quality of rural life, reflecting the Rural White Paper principle that national policies should deliver equitably in rural areas.

Improving rural productivity

4.34 To secure thriving rural businesses and raise employment the Government will:

- improve the quality and availability of advice and support to rural businesses;
- improve rural work force skills, particularly in disadvantaged areas;
- widen the availability of rural information and communication technology (ICT), including broadband, through advice and more effective public sector procurement;
- extend the local availability of information on the job market; and
- encourage enterprise amongst disadvantaged rural communities by developing community enterprise and community development finance.

4.35 The Government will invest an additional £200 million by 2005-06 compared to 2002-03 for sustainable farming - a total of £500m for sustainable farming over three years - to deliver the core recommendations of the Curry Report.

4.36 Despite improvements in public transport, small or remote rural communities often experience difficulty in accessing services. The Government will maintain support for rural transport and review how this can secure transport that is more responsive to rural needs. The new PSA target (see Box 4.3) will stimulate efforts to improve the accessibility of key public services, including transport, health, childcare, further education and benefits. The Government will also:

- sustain a rural Post Office network and introduce the universal banking service. The Post Office will explore whether their range of services can be further developed;
- help small service providers to improve entrepreneurial and marketing skills and encourage community enterprise.

4.37 The provision of flexible and effective community support services in rural areas is particularly reliant on the contribution of the rural voluntary sector. The Government has increased resources to strengthen its capacity.

4.38 In education, in addition to national commitments to raise attainment and skills, rural communities will particularly benefit from:

- support for 'extended schools' and Curriculum Online;
- Educational Maintenance Allowances, which can help overcome a key barrier to post-16 education, namely the cost of transport; and
- work to establish networks of providers of further education which have greater flexibility to meet local needs.

4.39 The Government's spending plans for the NHS which were announced in the Budget will ensure that improved health services are delivered to rural communities services through NHS Direct (e.g. home delivery of prescriptions), improved access to primary care outside normal working hours, more multi-purpose GP premises and greater use of ICT links to hospitals.

4.40 The availability of affordable housing is particularly important in rural areas. The Government will ensure the resourcing of social and affordable housing in rural communities. The Government will be establishing new regional bodies to handle housing investment and planning decisions, and relate these properly to regional economic strategy and infrastructure issues. This will help to ensure that strategies reflect rural housing needs and that affordable housing is provided where the beneficiaries will have access to services and jobs (see also Chapter 9).

SUSTAINABLE DEVELOPMENT

4.41 The aim of the Government's Sustainable development Strategy is ensuring a better quality of life for everyone, now and for generations to come. The 2002 Spending Review promotes been a means of promoting the Government's sustainable development objectives, developing evidence-based policies that will deliver social, environmental, and economic progress at home and overseas. Guidance to departments on sustainable development was issued and made public in November 2001. Each department produced a Sustainable Development Report as part of the Review, identifying the social, economic and environmental implications of its policy priorities, and furnishing an important part of the evidence base for the Review. All public spending decisions have an impact on sustainable development, and the full range of costs and benefits were taken into account in this Review.

4.42 Through the 2002 Spending Review the Government has taken full account of the principles set out in the UK sustainable development strategy *A Better Quality of Life*. Government action alone cannot deliver sustainable development, but it has an important role to play, setting the overall agenda, establishing goals and targets and intervening directly where appropriate. Recognising this, a number of departments highlight sustainable development in their strategic Aims and Objectives (which provide the framework for PSAs).

Box 4.3: PSA targets linked to indicators of sustainable development

Headline Indicators PSA Targets

Economic output (GDP)	Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006 (HM Treasury)
Investment (per cent of GDP)	Deliver measurable improvement in the business performance of Trade Partners UK's of British Trade International customers; and maintain the UK as the prime location in the EU for foreign direct investment (FCO and DTI)
Employment	Demonstrate progress by spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (HMT and DWP)
Education (qualifications at 19)	Raise standards in schools and colleges so that: the proportion of those aged 16 who get qualifications equivalent to 5 GCSEs at Grade A* to C rises by 2 percentage points a year; and in all schools at least 20 per cent of pupils achieve this standard by 2004, rising to 25 per cent by 2006 (DfES)
Health (expected years of healthy life)	Reduce substantially the mortality rates from the major killer diseases by 2010: from heart disease by at least 40 per cent in people under 75; from cancer by at least 20 per cent in people under 75 (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 increase the proportion of private housing in decent condition occupied by vulnerable groupss. (ODPM)
Crime: (vehicle, burglary, robbery)	<p>Reduce crime and the fear of crime; improve performance overall, including by reducing the gap between the highest crime Crime and Disorder Reduction Partnership areas and the best comparable areas; and reduce:</p> <ul style="list-style-type: none"> • vehicle crime by 30 per cent from 1998-99 to 2004 • domestic burglary by 25 per cent from 1998-99 to 2005 • robbery in the ten Street Crime Initiative areas by 14 per cent from 1999-2000 to 2005; and maintain that level. (HO and CJS)
Climate change (greenhouse gases)	Improve the environment and the sustainable use of natural resources, including through the use of energy saving technologies, to help reduce greenhouse gas emissions by 12.5 per cent from 1990 levels and moving towards a 20 per cent reduction in carbon dioxide emissions by 2010. (DTI and DEFRA)
Air quality (days of air pollution)	Improve air quality by meeting our National Air Quality Strategy objectives for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1-3 butadiene. (DEFRA and DfT)
Road traffic	Reduce congestion on the inter-urban trunk road network and in large urban areas in England below 2000 levels by 2010. DfT)
River water quality	The Government does not have a specific PSA target to measure river water quality. However, monitored river lengths have a baseline assessment called the River Quality Objectives (RQO), which is the level of water quality that a river should achieve in order to be suitable for its agreed uses.

The government set a target to increase River Quality Objectives compliance in England and Wales from 82 per cent in 1997 to at least 91 per cent in 2005 (by 2000, RQO)

compliance had increased to 90.4 per cent).(DEFRA)

Wildlife (farmland birds)	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. (DEFRA)
Land use (Percentage of new homes on Brownfield sites)	Achieve a more sustainable balance between housing availability and the demand for housing in all English regions, while protecting the countryside and the sustainability of existing towns and cities through specific measures to be set out in the Service Delivery Agreement. (ODPM)
Waste (more waste reduction)	Enable 25 per cent of household waste to be recycled or composted by 2005-6. (DEFRA)

4.43 The Government uses fifteen headline indicators to identify the main factors in delivering and sustaining a better quality of life. Departmental priorities directly and indirectly take account of these indicators, and Box 4.3 shows how the PSA targets agreed with departments in the 2002 Spending Review relate to them. Many of the policies set out in this review will contribute to improvements in the indicators over time. The Government is committed to taking action to promote sustainable development by adjusting its policies, and working with others where they have a role to play, to ensure that performance against these indicators moves in the right direction over time.

4.44 The 2002 Spending Review also recognises the UK's vital role in contributing to sustainable development across the globe. The Department for International Development has primary responsibility for this work, but other departments also contribute to boosting quality of life overseas. The Department for Culture, Media and Sport will develop a sustainable tourism strategy, looking for the first time at the sustainable development implications of both domestic and international tourism.

4.45 The countryside is an asset, and one that generates value through tourism. To protect it, rural conservation programmes will be expanded. Access to the countryside will be extended with extra funding to complete new access and rights of way improvements under the Countryside and Rights of Way Act 2000.

¹*Strong Local Leadership - Quality Public Services*, Department for Transport, Local Government and the Regions, London, December 2001, Cm5237.

Chapter 5

Britain in the World

Following the events of 11 September, it is even more important that the Government continues to build on Britain's proud tradition as an outward-looking nation, by working both bilaterally and multilaterally, to provide security and opportunity for all. Recent events serve to remind UK citizens of the dangers and insecurities that can still affect the UK. Only by being strong in the world, and by working closely with its international allies, can the UK combat terrorism, tackle poverty and create a safer and fairer world for all.

The Government continues to work hard to promote security for Britain's citizens, while ensuring that globalisation works for all the world's people. In particular, the Spending Review will:

- deliver the largest planned increase in defence spending in twenty years, with defence spending plans set to increase by £3.5 billion between this year and 2005-06. This includes more than £1 billion in capital investment and £0.5 billion of other resources for new capabilities to enable the UK to continue its leading role in the campaign against international terrorism;
- provide for higher spending on the Foreign and Commonwealth Office's diplomatic network and programmes, public diplomacy and on intelligence and security, backed up by a commitment across government to enhancing resilience in the face of the threat of terrorism;
- increase the UK's aid budget by an average of more than eight per cent a year above inflation. The UK's ratio of aid to national income will reach 0.40 per cent by 2005-06 - the highest ratio in over 20 years and more than double the current G7 average;
- enable the UK to increase further its contributions towards meeting the Millennium Development Goals. In support of this, the UK will be directing 90 per cent of bilateral aid to the poorest countries of the world by 2005-06;
- continue to demonstrate a commitment to strong international relationships, working hard with international partners in organisations such as NATO, the European Union, United Nations, G7 and G8, the IMF and the World Bank;
- provide additional funding for the BBC World Service including funding for programming in south-west Asia and Africa and further capital investment; and
- enable the British Council to deliver Connecting Futures, promoting international understanding, and to expand its network of Knowledge and Learning Centres in key cities.

RESPONDING TO A DANGEROUS WORLD

5.1 The terrorist attacks of 11 September shocked the whole world. But they affected Britain particularly strongly, because of the numbers of British citizens killed, because of Britain's close links with the USA and because of the Government's immediate commitment to supporting a multinational response to combat the threat of international terrorism. The UK's traditional outward-looking stance and network of global interests gave it a leading role in that response. The Government is committed to developing further Britain's ability to play a leading role in promoting peace and prosperity around the world, and in combating global poverty, conflict, and terrorism.

The threat of terrorism

5.2 The events of 11 September showed that international terrorism could pose a direct threat to the lives and wellbeing of British citizens. But there is also an indirect threat from failed states which can harbour or foster terrorism, and from

failures of governance. The unresolved tensions in the Middle East and in South Asia show that regional difficulties can have global impacts. The range of issues that affect Britain is wide. In recent years the UK has been much concerned with Africa and the Balkans; in 2001 the focus of attention broadened to include Afghanistan. But the example of the Balkans shows the possibility of progress resulting from a coordinated international response and deliberate and careful involvement, working across departmental and national boundaries. Since the last Spending Review, democracy has been restored in Yugoslavia, and in the last twelve months UK armed forces have led a mission to help avert civil war in the Former Yugoslav Republic of Macedonia (FYROM). The UK has many tools for international engagement, including diplomacy, defence capability, peacekeeping and other military operations, aid, trade, intelligence, and public diplomacy. This Spending Review provides extra resources for each of these.

Security for Britain and British interests

5.3 The last Spending Review included the first planned real-terms increase in defence spending since the end of the Cold War, to continue implementation of the Strategic Defence Review (SDR). The Ministry of Defence's analysis since 11 September shows that the thrust of the SDR - towards more mobile, more deployable, more effective armed forces - was right, though its implementation so far has been only partly completed. In this Spending Review the Government is adding significantly to spending on defence. In the largest sustained real increase in defence spending plans in twenty years, the defence budget will be raised by £3.5 billion between 2002-03 and 2005-06. The extra funding includes money specifically for new capabilities recommended by the SDR "New Chapter" which will be published shortly. The New Chapter will encompass both enhanced deployable capabilities to act swiftly against overseas threats and improvements in home defence.

5.4 The Government is ensuring that domestic security is given a high priority, and strengthening society's defences has been a key theme of this Spending Review. Consequently, measures for improving the UK's resilience to, and capability to deal with, a terrorist attack or a civil contingency have been prioritised by departments. Business continuity arrangements have been reviewed and planning has been mainstreamed as a routine activity.

Role of intelligence agencies

5.5 Britain's security and intelligence agencies play a vital role in ensuring national security. They have done much valuable work both before and since 11 September. This Spending Review ensures that they are well funded to carry on their work in the future.

Total spending on the Single Intelligence Vote will be £291 million higher in 2005-06 than in 2002-03.

Box 5.1: Key PSA targets - Britain in the World

- **By 2006 ensure that a minimum of 90 per cent of high readiness forces are at their required states of readiness with no critical weaknesses.**
- **Reduce tension in South Asia, the Middle East, the Balkans and elsewhere through action with our international partners.**
- **Reduce the number of people whose lives are affected by violent conflict and potential sources of future conflict, where the UK can make a significant contribution (*joint target between MoD, DfID and FCO*).**
- **Progress towards the Millennium Development Goals in 20 key countries across Africa and Asia (see box 14.1).**
- **A greater impact of EC external programmes on poverty reduction, including through working for agreement to increase the proportion of European Union ODA to low income countries from 38 per cent to 70 per cent.**
- **Strengthen European security through an enlarged and modernised NATO, an effective European Union crisis management capacity and enhanced European defence capabilities (*joint target between MoD and FCO*).**
- **Measurable improvement in the business performance of Trade Partners UK's customers; maintain the UK as the prime location in the European Union for foreign direct investment (*joint target between FCO and DTI*).**

CREATING A SAFER WORLD FOR ALL

Fostering strong relationships abroad

5.6 The UK's important role in diplomacy has been seen in our support for the Bonn process leading to the Transitional Administration in Afghanistan, in our links with both India and Pakistan, in our role in the G7/G8 and in the Government's initiatives to promote African development (see paragraph 5.18). This Spending Review provides increased funding for the FCO, to sustain its global network of posts, to provide for new and enhanced targeted programmes of spending on priority international issues, and for public diplomacy. A global reach through the FCO network ensures that the UK has a local presence in any area where a crisis may suddenly emerge. The FCO will undertake programmes aimed at making a success of European Union enlargement and, as enlargement proceeds, for advancing UK interests through closer engagement with the EU's new neighbours in the former Soviet Union.

Box 5.2: Afghanistan

The challenges facing Afghanistan remain considerable and the UK has committed itself for the long-term to working with the Afghan authorities to help build a democratic and representative society. In the last few months, the UK has worked to support capacity building for the Interim and Transitional Administrations, and to give practical backing to the political process under the Bonn Agreement. It has also pledged to commit £200 million over five years for Afghanistan, on top of the £60 million disbursed since September 11. The UK was the first donor to contribute to the Afghanistan Reconstruction Trust Fund and the Government has also given contributions directly to UN agencies and non-governmental organisations (NGOs) to meet Afghanistan's continuing humanitarian needs.

5.7 Britain's public diplomacy institutions are widely respected and highly effective. For example, the BBC World Service's Afghan services have been recognised as the key source of independent information for the Afghan people during and after the period of the Taleban regime. The settlement means that spending on the World Service will be £38 million higher in 2005-06 than in 2002-03, which will enable it to continue to attract record numbers of listeners across the world. It is also developing an important on-line presence to complement its broadcasting. The new plans also provide for spending on the British Council to be £28 million higher in 2005-06 than in 2002-03, which will support the Council in redirecting its efforts more towards education and towards developing countries, including opening the first of a planned network of Knowledge and Learning Centres. It will engage increasingly with target audiences in countries of strategic interest, particularly young people in the Middle East and South Asia. The FCO is committed to building on this success by developing a more strategic approach to public diplomacy, particularly focusing on the needs identified in the countries and regions of concern after 11 September. There will be a further shift in emphasis towards emerging priorities and areas of opportunity.

Conflict prevention

5.8 The Government is continuing and developing the conflict prevention pools created in the 2000 Spending Review. The pools fund a wide range of programmes designed to deter future conflicts and build societies where conflict is less likely. Examples of the conflict prevention pools at work are to be found in Afghanistan, in Sierra Leone, in Nepal, and in many other countries. They have also helped fund effective peace-building operations, e.g. in Sierra Leone, which recently held free elections and where thousands of former guerrillas have been disarmed, demobilised and reintegrated into society; and in FYROM, where civil war has been averted and civil rights for minorities enhanced. Both interventions, combining peacekeeping activity with development and diplomatic support, have proved much less costly - to local people, to the UK and to the wider world - than the protracted conflicts in Bosnia and Kosovo.

Building capacity

5.9 The Government continues to help build capacity in other countries and institutions, for example, through supporting the implementation of the Brahimi report on UN peacekeeping, so that the UN's global peacebuilding and conflict prevention mechanisms are significantly enhanced to prevent and respond to complex emergencies. Building on successful engagement in Sierra Leone, the Government is also promoting African peacekeeping capacity, by working on

a regional basis with individual countries and international donors. This includes the provision of training assistance to develop key capabilities for peacekeeping operations.

WORKING TO REDUCE GLOBAL POVERTY

5.10 The UK Government remains firmly committed to its long-term goal of helping to tackle global poverty and achieve the internationally agreed Millennium Development Goals (MDGs), such as halving poverty and achieving universal primary education, by 2015. The Government is also working to try and achieve further progress on other development issues, such as aid effectiveness, over the rest of the year.

Increasing overseas aid

5.11 In order to achieve the MDGs, the UK Government is committed to the UN target of official development assistance (ODA) to gross national income (GNI) of 0.7 per cent. The UK has continued to make progress towards the target since 1997, reversing the decline in aid spending. By 2005-06 the UK's ODA will be £4.9 billion and the ODA/GNI ratio will reach 0.40 per cent ensuring that the UK more than fulfils the Monterrey pledge (see below). This places the UK well above the current G7 country average of 0.18 per cent and the OECD average of 0.22 per cent.

5.12 The Government continues to raise development issues on a regular basis with counterparts in other countries. The UN Financing for Development Conference in Monterrey, Mexico in March was the first UN Conference to deliver a significant increase in development aid. The Monterrey Consensus, the conference outcome document, recognises the need for a new deal based on the mutual rights and responsibilities of all countries, including government, business and non-governmental organisations. At the European Union Economic and Finance Ministers' meetings at the beginning of March, European Union Member States agreed collectively to raise their aid budgets by an estimated \$7 billion a year by 2006 so that a European Union average of 0.39 per cent is reached by 2006. The US also pledged additional aid volumes of \$10 billion between 2004 and 2006 and an additional \$5 billion each year thereafter. The UK will look to take forward this momentum at the World Summit on Sustainable Development in Johannesburg in August, the Commonwealth Finance Ministers' Meeting in London in September and the Annual meetings of the IMF and World Bank in Washington in the autumn.

5.13 The Zedillo report for the United Nations concludes that achieving the MDGs will require an additional \$50 billion every year until 2015. In order to proceed with the urgency that the scale of the challenge demands, and recognising the duties of the richest countries to the least developed nations. The UK has proposed for discussion an international development financing facility that can raise, through borrowing against long term donor commitments, additional resources above the amounts committed at Monterrey. The UK will continue to raise and discuss this and other financing mechanisms internationally, to raise the resources needed to meet the Millennium Development Goals.

5.14 The effectiveness of aid is important and the UK has demonstrated this by, among other things, untying 100 per cent of its aid - i.e. removing the link between aid and the awarding of contracts. Research suggests this can increase the effectiveness of aid by between 15 and 30 per cent and the UK plays a leading role in encouraging donors and international institutions to do more in this area. At their Summit in July, G7 Finance Ministers reiterated the call made at Monterrey for a Global Development Compact between developed and developing countries, based on mutual accountability for results. This included agreement that developed countries have a responsibility to improve development cooperation in support of country-owned poverty reduction and growth strategies, to provide appropriate aid and debt relief, and to expand market access.

Delivering debt relief

5.15 As well as pushing for increases in overseas aid, the UK remains at the forefront of the international debate on debt relief and continues to be a leading advocate of the Heavily Indebted Poor Countries (HIPC) initiative. Twenty six countries have now qualified for debt relief, and six of these countries have had debt irrevocably cancelled. Total debt relief committed under the HIPC initiative now stands at \$62 billion, a significant step towards the \$100 billion announced at Cologne in 1999. Of the remaining HIPC countries with unsustainable debts, the majority are affected by conflict, making progress in the HIPC initiative difficult. To assist post-conflict countries, the IMF agreed to supply emergency post-conflict assistance on concessional terms. The UK has already pledged £2.5 million and was the first country to make a contribution to the fund.

5.16 The global economic slowdown and collapse in commodity prices has hit HIPCs particularly hard, and many are

now forecast to reach Completion Point with an unsustainable burden of debt. In November 2000 the UK was instrumental in securing agreement from the International Monetary and Financial Committee (IMFC) and Development Committee to consider these factors in providing additional debt relief or topping up at Completion Point. This relief is mostly financed through the HIPC Trust Fund, and with over \$300 million committed the UK is the second largest bilateral contributor to the fund. To finance any further topping up that may be required, and to address the existing shortfall in the fund, the UK secured agreement, at the G8 Summit in Kananaskis in June, for additional funding for the HIPC Initiative of up to \$1 billion to address debt sustainability in the poorest countries. The UK will check progress against this, and other issues, at the annual meetings of the IMF and the World Bank in the autumn.

Unproductive expenditure

5.17 To complement efforts in reducing unsustainable debts, the UK successfully led efforts in the OECD to introduce a multilateral agreement to ensure that new export credit lending to HIPC countries is used only for productive purposes, ensuring that unsustainable debt burdens do not re-emerge. Furthermore, the UK has a unilateral ban on export credits for unproductive expenditure in those 63 poor countries who can only borrow from the World Bank on highly concessional terms. This policy means that Britain's export credits will only support productive enterprise that assists social and economic development.

5.18 The UK has also been leading the way in pressing for a strong G8 response to the New Partnership for African Development (NePAD), an African-led initiative, and to the wider needs of Africa. NePAD members have committed to improved political and economic governance, and the promotion of peace and poverty reduction. Developed countries, in return, have committed to reward such countries with improved market access, increased aid, and assistance with conflict resolution and peacebuilding. As part of the UK's call for increased resources to Africa DfID will have, for the first time, a £1 billion annual bilateral programme to Africa by 2005-06.

Global health fund

5.19 The link between health and poverty in developing countries is clear and the Government has already taken a leading role in developing the Global Fund to fight HIV/AIDS, malaria and tuberculosis. International commitments now stand at \$2.1 billion, of which the Government has so far pledged \$200 million over five years. Budget 2002 announced a new tax measure to encourage R&D into drugs and vaccines to treat specific diseases threatening lives in poor countries, and a new relief that will help to encourage industry to make appropriate donations of medical equipment and supplies to developing countries. These initiatives are in addition to bilateral commitments worth over £1 billion, which have been agreed by DfID since 1997, to help improve the provision of basic healthcare in developing countries. The UK will continue to push for a coordinated approach to address the problems of health in developing countries.

Education

5.20 Education is another key development priority, and the World Bank recently announced a plan to fast track support for countries that are committed to education for all. The plan was welcomed by the UK and by the G7 at their recent summit in Kananaskis, where the UK and other G7 members also committed themselves to significantly increase their support to education. As well as the £700 million committed to universal primary education by DfID since 1997, the Government also launched, in the year of Her Majesty's Jubilee, a Commonwealth Education Fund to strengthen the capacity of low-income Commonwealth countries to deliver good quality primary education. The UK Government will provide an initial £10 million grant, and will match pound for pound, including tax relief, contributions from businesses and Comic Relief's Sport Relief in 2002-03.

Trade

5.21 Trade managed correctly can be a powerful tool to reduce poverty and raise living standards. The UK Government is committed to making trade work for developing countries, including through implementation of the measures agreed at the World Trade Organisation's Doha meeting in 2001 increased market access for poor countries, securing reform of the EU's Common Agriculture Policy and building the capacity of developing countries to negotiate and participate in the global trading system.

Working with international partners

5.22 The UK continues to foster strong international relations, playing an active and constructive role in international fora such as the G8, European Union, NATO, United Nations, IMF, World Bank and the Commonwealth, as well as building relations with bilateral partners such as the USA.

G7 and G8

5.23 The UK recognises the importance of multilateral action and continues to use the G7 and G8 to push for progress on development and other international issues. Defeating terrorism is also a top priority for the UK and the G8. By coordinating effectively with the G8 and through the IMF, the UK has pushed forward international efforts to upgrade security and combat the financing of terrorism. At the recent summit in Kananaskis, the G8 also agreed a ten-year programme for nuclear safety in the former Soviet Union.

5.24 In June, the UK also gained agreement among G7 Finance Ministers to tackle banking secrecy and promote effective exchange of information in the international financial system, to ensure greater transparency in the world economy.

The IMF and the World Bank

5.25 The Chancellor's role as Chair of the International Monetary and Financial Committee and UK Governor ensures that the UK continues to play a central role in the activities of the IMF and World Bank. The UK has worked closely with partner countries to strengthen IMF surveillance of the international economy, support poverty reduction in low-income countries, strengthen the frameworks for the prevention and resolution of financial crises, implement internationally-agreed codes and standards for good economic policymaking, and combat money-laundering and terrorist financing. The UK is working to ensure the continuous implementation of wide-ranging reforms to the international financial architecture, to ensure a more stable global economy. As part of these reforms, the UK is working with others to create a more effective system of crisis resolution, including through a potential new restructuring mechanism for sovereign debt.

5.26 Multilateral development institutions (i.e. the World Bank and IMF, regional development banks, and agencies of the United Nations) play a central role in development. In addition to managing significant aid resources themselves, these organisations enhance the effectiveness of all development assistance by placing poor countries in control of their own development, coordinating national aid programs and attracting investment from the private sector. The UK will remain a key partner in these institutions, and will continue to be a major donor. The UK will also work with them and with other donors to improve their effectiveness and their capacity to respond to new development challenges. For example, contributors to the International Development Association (IDA), the branch of the World Bank that supports poverty reduction in the poorest countries, reached agreement in June on a substantial increase in IDA's funding. This agreement will unlock nearly £9 billion for the poorest countries over the next three years.

Chapter 6

Department for Education and Skills

This Government is committed to improving opportunity for all through education. As a result of the 2002 Spending Review:

- annual spending on education and skills in England will rise by £12.8 billion between 2002-03 and 2005-06;
- in real terms, spending on education and skills in England will rise by an average of 6 per cent a year in the three years to 2005-06;
- UK education spending will rise to 5.6 per cent of GDP by 2005-06 from 4.6 per cent in 2000-01, fulfilling the Government's manifesto commitment to increase the share of national income devoted to education during this parliament;
- capital investment in education will rise from approximately £680 million a year in 1996-97, £3.7 billion in 2002-03, to £7 billion a year by 2005-06, of which £1.2 billion is through the Private Finance Initiative.

This investment will support reform in the following key areas:

- transformation of secondary education, through a new comprehensive system with a focus on improving standards and narrowing the attainment gap;
- devolution of freedom and responsibility to the front line to deliver reform, with a large rise in direct payments to schools through the School Standards Grant. From next year, total payments will rise by £10,000 to at least £50,000 for a typical primary school and by £50,000 to at least £165,000 for a typical secondary school;
- £175 million per year for an additional new grant to support leadership in at least 1,400 secondary schools in challenging areas, worth £125,000 to individual schools;
- to increase staying-on rates after age 16, national roll-out of Educational Maintenance Allowances from September 2004, paid at up to £1,500 a year;
- a drive to expand Modern Apprenticeships and work-relevant qualifications;
- 1 per cent real terms growth in funding every year to 2005-06, for further education colleges prepared to commit to performance targets;
- New targets to improve the basic skill levels of 1.5 million adults by 2007 and significantly reduce the number of adults in the UK workforce lacking NVQ level 2 or equivalent qualifications by 2010; and
- A major package for science and research, worth an extra £1¹/₄ billion by 2005-06 together with new DTI resources.

OBJECTIVES AND PRIORITIES

6.1 Education is a top priority for the Government. Raising attainment and skills is fundamental to building a successful, competitive economy and a fair, prosperous and inclusive society, in which everyone can realise their full potential.

6.2 Over the past five years, the Government has made considerable progress in raising standards and extending opportunities. The number of 11 year olds reaching the expected level in English and maths has improved by 10 and 12 percentage points respectively since 1998, and the gap in attainment between rich and poor areas of the country has narrowed. Fifty per cent of 16 year-olds are now getting five or more GCSEs at grades A* to C compared to 46.3 per cent in 1997. Record numbers of students are entering and graduating from higher education institutions, and over 125,000 adults with basic skills deficits have improved their literacy and numeracy skills since last year. The foundations have

also been laid for future improvements: there are more teachers than at any time since 1982 and fewer failing schools. Since 1997 more than 20,000 schools have benefited from building improvements and all schools have received money for repairs.

6.3 The investment in this Spending Review will support the next phase of reform. The Government will promote excellence at every level in the education system, and take ambitious steps to narrow the achievement gap which lies behind the UK's high rates of child poverty and social exclusion.

6.4 Reform will be guided by the devolution of power to service providers to encourage flexibility and creativity, particularly in meeting consumer demands and responding to local circumstances. Reforms to the funding of schools, plus a radical look at funding and arrangements for skills training, will delegate freedoms to the front-line. New support for leadership in schools will empower good head teachers and support improvements where there are management weaknesses. These changes will be backed up by clear long-term goals and proper accountability arrangements. The Spending Review is accompanied by tough new targets for the number of schools where 11 and 14 year olds do not reach the standard expected for their age, for education and training after the age of 16, for improvements in the skills of the adult workforce, and for individual further education colleges and other providers.

REALISING REFORM

Ensuring the best possible start in life

6.5 The Government's vision for children is one in which every parent can access affordable, good quality provision. This Spending Review provides resources **to create at least 250,000 childcare places including those provided directly within children's centres to advance the Government's lone parent employment and child poverty objectives**, through targeted assistance to providers in areas of market failure.

6.6 There will also be support for the creation and operation of children's centres in disadvantaged areas. Building, where possible, on existing Sure Start facilities, and other provision, by March 2006, an additional 300,000 children will have access to health, education and other services.

6.7 In addition to joining up existing services, it is also the intention to simplify funding arrangements, streamline targets and support local and national government to focus on delivering this vision, by giving local authorities an enhanced role in supporting delivery, and by bringing the responsibility for childcare, early years education and Sure Start together in a single inter-departmental unit.

6.8 All four year olds are now guaranteed a free early years education place and **by September 2004 there will be a free place for all three year olds whose parents want one**. 66 per cent of three year olds already have access to a free place.

6.9 In schools, the Government's priority is to deepen improvements in primary schools, and to transform secondary education. Further substantial investment will be made available in a way that devolves flexibility and responsibility to the front line, supporting heads and giving them freedom to manage.

Schools funding reform and floor targets

6.10 The opportunity for all children to be able to reach their potential is vital to their lifetime employability and to the country's productive potential. To signal the central importance of overcoming the barrier formed by poverty and other aspects of deprivation, the government has set **new school-level floor targets for 11 and 14 year olds**, backed by a catch-up target for those leaving primary school without adequate skills.

6.11 There is strong evidence that the quality of leadership and middle management in schools is vital for school performance. To back good leadership and help schools in challenging circumstances, the **Government is spending £175 million a year from 2003-04 on a new leadership incentive grant for at least 1,400 secondary schools** in Excellence in Cities areas, Education Action Zones and excellence clusters and other areas which face similar challenges. Where there are weaknesses in leadership or management, the annual £125,000 grant will be conditional on the adoption of a package of leadership reform measures by the school; where leadership is strong the money will be free for heads to spend on the school's priorities.

6.12 In a further move to empower leadership and deliver reform, **the School Standards Grant - money paid direct to heads - is being considerably expanded, with extra funding from 2003-04 of £325 million revenue capital rising to**

£375 million thereafter. This means that in 2003-04 a typical primary school will gain a £10,000 increase over the present year, to at least £50,000. A typical secondary school will receive at least £165,000, an increase of £50,000. Heads will be increasingly responsible for deciding how best to manage the balance of teachers, school assistants and teaching inputs such as Curriculum Online so as to maximise the effectiveness of their school, avoid excessive staff workloads and ensure that all pupils gain from enriched education, tailored to their individual needs and aptitudes. As both the school standards grant and the new support for leadership are being announced on the basis of three-year forward budgets, heads can now plan change and improvement against a firm income base.

6.13 There will be a considerable increase in Education Standard Spending - an average annual real terms rise of 3.4 per cent from 2002-03 to 2005-06. In addition, specific new funding will support better quality and wider options for pupils in science, maths and enterprise - taking forward the key recommendations of the Roberts and Davies reviews. Further details are set out in Chapter 2.

6.14 The Government agrees with the central conclusion of the Davies Review that building a deeper and wider entrepreneurial culture must start in schools and colleges. The Spending Review allocates additional resources rising to £60 million a year by 2005-06, to give every child the chance to spend, on average, five days over their school career engaging in quality enterprise activities. The Government will publish its full response to the Davies Review in the autumn.

6.15 There will also be a significant further boost to modernise school buildings and Information and Communication Technology (ICT) facilities. Spending on school buildings in 2005-06 will be over six times higher than the level recorded in 1996-97. New public-private partnerships will help ensure that broadband and ICT facilities are developed on a more strategic basis.

Children at risk

6.16 Schools lie at the heart of services for children in every area. The cross-cutting review of children at risk (see Chapter 28) underlined the need for mainstream services to work in a more integrated way, and to focus on identifying problems early, and acting more quickly to support children before difficulties become entrenched. The extra investment in education in this Spending Review will therefore support the development of extended schools, particularly in disadvantaged areas, providing services such as health and social care, family learning and childcare. It will also enable extension of programmes to address behavioural problems as early as possible, with multi-disciplinary Behaviour and Education Support Teams bringing specialist educational and health service support to clusters of schools; and for learning mentors and learning support.

A major drive on participation after age 16

6.17 In the past, too few young people have aspired to continue in learning after the formal school-leaving age, either because of a lack of financial support or because the curriculum has not met their needs. A quarter of young people drop out of education or training after the age of 16, one of the highest rates in the OECD. This Spending Review supports a major drive on post-16 participation. Following successful pilots - in which participation rose by on average 6 percentage points - **Education Maintenance Allowances will be rolled out nationally from September 2004, providing up to £1500 per year, depending on household income.** The Government will expand vocational opportunities and develop pathways into skilled work, setting a new PSA target that **by 2004 28 per cent of young people will start a Modern Apprenticeship** - with a wider vocational target to be announced in the Pre-Budget Report that includes learning programmes in further education preparing young people for skilled employment or higher education.

Reforming further education

6.18 Effective delivery requires devolution of responsibility matched by accountability. This Spending Review announces **a 1 per cent real terms increase in core funding for further education colleges in return for improved performance monitored by tough new targets, including on engagement with local employers.** The Government will also take a radical look at structures, funding and accountabilities for the provision of skills training, with piloting of regional budget pooling.

6.19 HM Treasury has given all government departments three-year budgets with 100 per cent end-year flexibility, and these freedoms should be fully devolved to the front line to support strategic planning and flexibility to meet consumer needs. The presumption is in favour of devolution unless there are strong reasons to the contrary. From 2003, a step-change in the funding system for post-16 learning will be made, with three year budgets and 100 per cent end-year flexibility cascaded direct to local Learning and Skills Councils (LLSCs). The Government expects the benefits of these

new arrangements to be passed on to colleges, allowing them to plan provision on the basis of local strategic priorities and employer needs, rather than just on the basis of short-term affordability.

6.20 More fundamentally, as the Performance and Innovation Unit (PIU) report *In Demand* has highlighted, existing funding for adult learning could be developed to provide greater incentives for employers and individuals to engage in training, and there is scope for better coordination at the regional and local level. Consulting widely, in particular with employers, the Government will therefore undertake a fundamental review of the funding for adult learning, to look at better incentives, and how to encourage institutions to be more responsive to employer needs. The review will also consider how current funding arrangements could be reformed to enable Regional Development Agencies (RDAs) to play a full and effective role in developing and implementing regional skills strategies. The review will be completed in time for any new arrangements to be introduced from April 2004. In the immediate future, in order that the regional dimension to skills is strengthened, **from April 2003, pilots will operate in one or two regions whereby budgets for adult learning are pooled between LLSCs and RDAs and co-ordinated in partnership.**

Higher education

6.21 This Spending Review will further the goal of boosting the UK's international competitiveness in research, while continuing progress towards the target of 50 per cent of young people entering higher education. With real terms increases in total funding per student and targeted pay incentives, institutions will be resourced to improve teaching and tackle pressing problems in recruiting and retaining key staff. Together with increases in the DTI Science Budget, there will also be a significant spending boost for science, with major investment in laboratories and equipment and new resources for leading-edge research (see Chapter 25).

Adult skills

6.22 Seven million adults have poor basic skills, which hamper their ability to take an active part in everyday life and reduces their opportunities for learning and employment. By 2004, the Government will have helped 750,000 of these adults to achieve a basic standard of literacy and numeracy. This Spending Review allows the Government to stretch this target further, **to help a total of 1.5 million adults with basic skills between 2001 and 2007.**

6.23 Raising the wider skills of the workforce is critical to a more productive economy. The Government has therefore set itself the ambitious target to reduce by at least 40 per cent the number of adults in the UK workforce lacking NVQ level 2 or equivalent qualifications by 2010.

Box 6. New PSA targets include:

- By 2004, 85 per cent of 11 year olds achieve level 4 or above and 35 per cent achieve level 5 or above, with this level of performance sustained to 2006;
- By 2007 90 per cent of pupils to reach level 4 in English and maths;
- By 2007, significantly reduce the number of secondary schools in which fewer than 60 per cent of pupils achieve level 5 by age 14;
- By 2004, at least 28 per cent of young people to start a Modern Apprenticeship by age 22, with a wider vocational target to be set in the 2002 Pre-Budget Report;
- Improve the basic skills of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with a milestone of 750,000 by 2004; and
- Reduce by at least 40 percent the number of adults in the UK workforce who lack NVQ level 2 or equivalent qualifications by 2010, with 1 million adults in the workforce to achieve level 2 between 2003 and 2006.

SPENDING PLANS

6.23 The new spending plans provide for spending on education and skills in England to rise by an average of 6 per cent a year in real terms between 2002-03 and 2005-06. English local authority spending will grow by an average of 3.4 per cent a year in real terms before transfers. Capital investment in education and training in England will rise from £680 million in 1996-97 to £7 billion a year by 2005-06 - of this £1.2 billion will be through the Private Finance Initiative.

6.24 By 2005-06, UK education spending is forecast to rise to 5.6 per cent of GDP compared to 4.6% in 2000-01.

Table 6.1: Key figures

	£ million			
	2002-03	2003-04	2004-05	2005-06
Department for Education and Skills				
Resource budget	20,890	22,338	23,964	26,805
Capital budget	2,303	3,302	3,836	4,379
Total Departmental Expenditure Limit¹	23,167	25,595	27,754	31,137
Local Authority Education SSA ²	22,503	23,928	25,285	26,828
Total education (England)³	44,961	49,313	52,717	57,777
Near-cash spending in DfES DEL ⁴	23,183	25,599	27,755	31,137

¹ Full resource budgeting basis, net of depreciation.

² Standing spending assessment: subject to spending decisions by local authorities.

³ DfES DEL, SSA and Educational Maintenance Allowances in AME, excluding administration costs and non-education and skills programmes.

⁴ Consistent with previous control basis.

Table 6.2: UK education spending

	£ million			
	2002-03	2003-04	2004-05	2005-06
Total UK education spending¹	53,720	58,571	62,871	68,430
Cash spending (estimated) on UK education	53,730	58,620	62,921	68,482
UK education as a proportion of GDP(per cent)²	5.1	5.3	5.4	5.6

¹ UK figures are subject to the decisions of the devolved administrations.

² To ensure consistency with national accounts, the proportion of GDP is calculated using near-cash numbers.

Table 6.3: Education investment

	£ million			
	2002-03	2003-04	2004-05	2005-06
Total education investment	3,013	4,061	5,023	5,753
<i>Of which:</i>				
Central government own investment	2,303	3,302	3,836	4,379
Investment grants	710	759	1,187	1,374

Chapter 7

Department of Health

In Budget 2002, the Chancellor announced the biggest ever sustained spending growth in the history of the NHS:

- £40 billion extra resources in the UK by 2007-08 compared to 2002-03;
- annual average growth of 7.3 per cent above inflation; and
- spending on social services in England growing at an annual average rate of 6 per cent above inflation over the next three years.

These resources are linked to a package of reforms:

- resources and responsibility for delivery will be progressively devolved to local organisations, with the greatest freedoms and flexibilities going to the highest performing organisations;
- a new set of performance improvement incentives will underpin this process;
- accountability will be strengthened by the Department of Health's focus on setting standards and holding the NHS to account, and by two new, fully independent health and social services inspectorates;
- greater choice for patients will also reinforce accountability to the public.

Delivery priorities are set out in a new Public Service Agreement.

DELIVERING THE NHS PLAN

7.1 In Budget 2000, the Chancellor announced significant, sustained increases in investment in the NHS over the period 2000-01 to 2003-04. Alongside the new resources the Secretary of State for Health published the NHS Plan, which set out key delivery priorities, including reducing waiting times, tackling health inequalities and improving cancer, heart disease and mental health services. The new resources and priorities were underpinned by a programme of reforms to ensure delivery. This programme of investment and reform is now underway, leading to improvements in health outcomes and quality of care for patients. Death rates from cancer and heart disease are declining. Maximum waiting times for hospital treatment have fallen from 18 months to 15 months. Numbers of doctors and nurses are rising, with 39,000 more nurses, 5,000 more consultants and 1,500 more GPs since 1997. Investment in new equipment and buildings is beginning to deliver modern facilities for patients. The challenge now for the NHS is to sustain this progress over the long term.

The Wanless Review of long term health trends

7.2 To ensure that the NHS can sustain this progress and is able to deliver a publicly- funded, comprehensive and high quality service available on the basis of clinical need and not ability to pay, in his 2001 Budget the Chancellor commissioned Derek Wanless to undertake an independent review of the long-term trends and resource needs that will affect the health service in the UK over the next 20 years. His final report, published at the time of Budget 2002, describes a fully engaged scenario for the health service of the future, in which public expectations for their health are high, life expectancy rises more quickly, health status improves dramatically and people have confidence in the health system. The report highlights the importance of a more productive and flexible workforce, more effective use of technology, policies to promote better disease prevention and putting in place improved incentives to ensure more efficient use of resources.

7.3 The report concluded that over the next 20 years health care spending would have to rise substantially to deliver this fully engaged scenario. Over the short term, the review recommended the fastest rises within the 20 year period, to allow for improvements to address the legacy of under-investment. Over the long term the fully engaged scenario is projected

to be both the least expensive and to involve the best health outcomes of the three scenarios set out in the review, reflecting the potential for improved use of resources.

7.4 In Budget 2002, the Chancellor accepted the recommendations of the review. To help deliver the fully engaged scenario, NHS spending will grow by 7.4 per cent annually in real terms over the next five years: the largest sustained spending growth in the history of the NHS. By 2007-08, UK health spending is projected to reach 9.4 per cent of GDP compared with the current European Union unweighted average of around 8 per cent.

7.5 These resources will help deliver the key priorities set out in the Department of Health's new Public Service Agreement (PSA). The priorities include maximum waiting times for hospital treatment, with a new maximum target of three months by 2008. Existing priorities are restated on introducing booked appointments by 2005 to increase patient choice and targets to tackle health inequalities, reduce mortality rates from cancer and heart disease and tackle drug abuse. A tough new target has been set to cut waiting times for accident and emergency treatment. New standards are also being introduced to help older people live independently at home.

Value for money

7.6 The Government is committed to improving the performance of the NHS. The new PSA includes a value for money target which will require the NHS to improve its cost efficiency and treat even more patients than before. The Government is also committed to improving the quality of health services and to reflect this, for the first time, the value for money target includes a quality element. Reductions in unit costs and improving quality will contribute around 1 per cent respectively to the overall value for money target of at least 2 per cent a year.

Expanding capacity

7.7 To deliver the PSA priorities, the NHS needs to continue expanding capacity. As a result of the new plans, compared with September 2001, by 2008 there will be on a headcount basis an additional 15,000 GPs and consultants, 30,000 more therapists and scientists, and 35,000 more nurses, midwives and health visitors in the NHS. More surgery will take place in new freestanding diagnostic and treatment centres. By 2008, an extra 42 major hospital schemes will be operational with 13 more under construction. The extra investment will allow an increase in treatment capacity equivalent to over 10,000 beds.

Reforms to deliver the NHS Plan

7.8 But expanding capacity is not enough by itself to deliver the higher standards for patients required by the PSA objectives and to make progress towards the fully engaged scenario. The Secretary of State for Health published *Delivering the NHS Plan* at the time of the Budget, bringing together a programme of reforms already in progress and a series of new measures, that will underpin the Budget resources and PSA priorities. The reforms focus on devolving responsibility for delivery to frontline organisations and strengthening accountability for delivery. In addition, the Department of Health will be announcing new standards and measures to help more older people live at home independently.

Devolving responsibility for delivery

7.9 Resources and responsibility for delivery will be progressively devolved to local organisations, with the greatest freedoms and flexibilities going to the highest performing organisations. By 2004 local primary care trusts will hold 75 per cent of NHS resources and, within the framework of national standards, will be able to use their resources to commission care from a range of providers to provide patients with high quality care in both community and hospital settings.

7.10 A new set of performance improvement incentives will underpin the devolution of resources and responsibilities, including a system of financial flows that will reward efficient use of resources through payment by results. High performing organisations will also benefit from less monitoring and inspection, improved access to capital and increased delegated authorities.

Strengthening accountability

7.11 The role of the slimmed-down Department of Health will be to set standards and hold the NHS to account for delivery. Following the abolition of the old NHS regional offices and almost 100 health authorities, day-to-day

management of the NHS will become the responsibility of the 28 new strategic health authorities, who will hold local services to account, build capacity and support performance improvement.

7.12 Accountability will be strengthened by the establishment of two new, streamlined inspectorates of health and social services. The new inspectorates will be independent of government. Their responsibilities will include value for money audit and inspections, publishing an annual report to Parliament on performance and use of resources in the NHS, validating performance information for local patient prospectuses to be published by all primary care trusts, publishing star ratings for all NHS organisations and independent scrutiny of patient complaints.

7.13 Accountability to the public will also be reinforced by greater choice for patients. As capacity expands, NHS patients for the first time will have choice over where and when they are treated, with booked appointments for all hospital admissions. Patients and their GPs will receive the independently validated information they need about hospital performance to help them make informed choices.

WORKING TOGETHER WITH SOCIAL SERVICES

7.14 Social services resources in England will increase by an annual average of 6 per cent above inflation over the next three years – the largest ever sustained increase. These increases will be matched with reforms to deliver higher standards of care.

7.15 To help more older people live independently at home with a high quality of life, the Department of Health will be announcing tough new standards on access to social care. New models of housing will also be developed, including sheltered housing and supported accommodation. Extra resources will help to ensure that fees paid to care homes are fair.

7.16 In order to ensure that older people receive care in the most appropriate settings, a new cross-charging system announced by the Department of Health following the Budget will incentivise local social and NHS services to work more effectively together. Under the new arrangements, social services departments will be subject to a charge if an older person remains in hospital after they are clinically fit for discharge, when the cause is lack of rehabilitation and ongoing social care. There will be matching charges on NHS hospitals. Details of the scheme are being discussed with stakeholders prior to the introduction of legislation.

7.17 There will be continued investment to improve the life chance of children in care, focused on increasing their educational attainment and reducing the gap between youth offending rates of children in care and their peers. To support this programme, the Government has begun a review of placement choice and fostering with a focus on helping local councils commission and deliver effective placements for looked-after children, with a special emphasis on fostering services.

7.18 There will also be investment in new and improved child and adolescent mental health services, as part of a cross-cutting government commitment to improve support for children at risk and their families.

BETTER FOOD STANDARDS

7.19 The Food Standards Agency (FSA) is a UK-wide body, operating at arm's length from ministers, whose priorities are to improve food safety standards and help people improve their dietary health.

7.20 To help ensure that the FSA can deliver these priorities, resources will grow by an average of 3 per cent a year above inflation over the next three years. A Service Delivery Agreement (SDA) setting out precise targets that the FSA will deliver with these resources will be published in the autumn. The SDA will be built around four key inter-related aims: increased consumer confidence, better food safety and standards, improved consumer choice and diet and more effective and efficient ways of working.

SPENDING PLANS

7.21 These new spending plans provide for NHS funding in the UK to be £40 billion higher in 2007-08 than in 2002-03, representing an average increase of 7.4 per cent a year, after inflation (7.3 percent on a full resource budgeting basis) over

the same period. Spending on social services will increase at an average rate of six per cent a year, in real terms, from 2002-03 to 2005-06.

Table 7.1: Key figures

	£ million					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
National Health Service (England)						
Resource budget	53,883	58,852	64,510	70,569	77,277	84,744
Capital budget	2,195	2,821	3,379	4,359	5,159	6,129
Total NHS (England)¹	55,752	61,300	67,444	74,394	81,838	90,200
Personal Social Services (England)						
Funded by the department	2,125	2,503	2,681	2,720		
Local Authority PSS SSA ²	9,231	10,023	10,715	11,856		
Total PSS (England)^{1,3}	11,356	12,526	13,396	14,576		
Food Standards Agency						
Resource budget	120	125	138	141		
Capital budget	1	3	1	1		
Total FSA¹	119	127	137	140		
Total resource budget	56,040	61,382	67,221	73,312		
Total capital budget	2,283	2,921	3,487	4,477		
Total Departmental Expenditure Limit^{1,4}	57,995	63,929	70,262	77,254		
Near-cash spending in DEL	55,743	61,627	67,827	74,489		

¹ Full resource budgeting basis, net of depreciation.

² Standard Spending Assessment: subject to spending decisions by local authorities.

³ Prior to transfers of grants from Department of Health (DH) DEL to SSA of £248 / 813 / 813m for years to 2005-06, and transfers from Department for Work and Pensions to Personal Social Services in respect of care leavers and residential allowance.

⁴ Includes DH DEL of £57,875 / 63,802 / 70,125 / 77,114m and FSA DEL.

⁵ Consistent with previous control basis.

Table 7.2: UK NHS spending

	£ million					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08

Total UK NHS spending¹	68,065	74,849	82,193	90,489	99,373	109,359
UK NHS estimated cash spending ²	65,364	72,085	79,271	87,198	95,893	105,573

¹ Full resource budgeting basis, net of depreciation. UK spending is subject to the decisions of the devolved administrations.

² Consistent with previous control basis.

Table 7.3: UK health spending as a proportion of GDP

	Per cent of GDP					
	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08
Total UK health spending	7.7	8.0	8.3	8.7	9.0	9.4
<i>of which</i>						
Gross UK NHS spending ¹	6.6	6.9	7.2	7.5	7.8	8.2
Non-NHS health spending ²	1.2	1.2	1.2	1.2	1.2	1.2

¹ The NHS budget is net of certain receipts. To measure total health spending in line with the national accounts, total NHS spending is gross of these receipts and is on a near-cash basis.

² Includes an additional 1.1 per cent of GDP for private spending on health, as assumed in the Wanless Report, as well as minor changes for charity spend and national accounts classifications. Total assumption for non-NHS spending is 1.15 per cent so some totals may not sum due to rounding.

Chapter 8

Department for Transport

The Government is committed to improving the performance of transport networks to deliver higher productivity and growth and a better experience for all users of our transport system. This Review reaffirms the Government's commitment to provide the resources to deliver the improvements set out in the Ten-Year Plan for Transport, Transport 2010, and identifies the reforms necessary to achieve this. These include:

- spending on UK transport rising at an average rate of 8.4 per cent a year after inflation;
- the Department for Transport's own budget rising at over 12 per cent a year on average in real terms, such that spending will be over £4 billion higher in 2005-06 than in 2002-03;
- increased purchasing power to spend on track and infrastructure renewals and maintenance from Railtrack's successors, lower cost of capital and ability to finance renewals over asset life, thanks to its restructuring and refinancing;
- delivery of new strategic road schemes through the Targeted Programme of Improvements;
- continuing increases in funding for local authority transport delivery following the step change made in the last Spending Review;
- reforms to create a more integrated system of transport planning and implementation, providing better value for money and more cost-effective delivery of this huge investment programme;
- some £370 million from unallocated capital within the Ten-Year Plan has been brought forward into the Spending Review to accelerate delivery; and
- in addition, new funding, of around £1 billion a year, is being added to the Ten-Year Plan to support the delivery of the improvements to the London Underground to be provided through the Public-Private Partnership.

THE TEN-YEAR PLAN FOR TRANSPORT

8.1 The Ten-Year Plan for Transport is key to the delivery of the Government's transport objectives, and came into effect in April 2001. It represents an integrated approach to transport policy to tackle the problems of congestion and pollution, and to deliver improvements for passengers, motorists and business while addressing concerns over safety and a better environment. By providing an unprecedented commitment to sustained levels of new investment over a decade, it provides the stable long-term framework needed to bring about real improvements to the UK transport system. Delivering the Plan, and the necessary reforms to achieve this, is now the main task for the period covered by these spending plans.

Delivery targets

8.2 The Ten-Year Plan identifies a number of key targets for delivery. These are reflected in the Department for Transport's Public Service Agreement (PSA) targets agreed as part of this Review.

Box 8.1: Key PSA targets

Reduce congestion on the inter-urban trunk road network and in large urban areas in England below 2000 levels by 2010.

Secure improvements in rail punctuality and reliability with a 50 per cent increase in rail use in Great Britain from levels of 2000 by 2010.

Secure improvements to the accessibility, punctuality and reliability of local public transport (bus and light rail), with an increase in use of more than 12 per cent by 2010 compared with 2000 levels.¹

Cut journey times on London Underground services by increasing capacity and reducing delays. (Specific targets will be agreed with the Mayor after the Public-Private Partnership has been established.)

Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent and the number of children killed or seriously injured by 50 per cent, by 2010 compared with the average for 1994-98, tackling the significantly higher incidence in disadvantaged communities.

Improve air quality by meeting our National Air Quality Strategy objectives for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1-3 butadiene (joint target with the Department for Environment, Food and Rural Affairs).

Progress to date

8.3 One year into the Ten-Year Plan, improvements are already being delivered:

- bus passenger numbers are now rising again after years of decline;
- 96 major local road and public transport schemes have already been approved - including new light rail lines in several of our larger cities;
- hundreds of new rail services have been introduced, and 4,000 units of new rolling stock are in service or on order;
- 55 strategic road schemes are now being progressed through the Targeted Programme of Improvements, and around 100 more will be added as the programme of multimodal studies moves towards completion over the next two years;
- construction of the first new major railway for over 100 years, the Channel Tunnel Rail Link, is proceeding on time and on budget;
- the London Underground is carrying more people than ever before and performance is improving;
- the allocation for local authorities has doubled, which is funding thousands of smaller schemes all over the country; and
- output figures for the construction industry are showing a 50 per cent increase for road and rail infrastructure combined during the first year of the Plan. This represents the largest increase in new work for a single year on record.

Reviewing the Ten-Year Plan

8.4 The Secretary of State for Transport will publish a first report in the autumn on progress so far in delivering the objectives of the Plan. This report will also set out what will be delivered by 2006 to meet the Plan's overall objectives.

8.5 The Government's priority is to ensure the increased investment delivers the real improvements the Plan identified. To that end a full review of the impact of the Plan and its policies, which will also roll the plan forward into the next decade, will be published at the time of the next Spending Review.

Delivery and reform

8.6 Action is already underway, in advance of the full review, to ensure that the reforms necessary to deliver the Plan are in place as quickly as possible. Taking forward these reforms, the newly-established Department for Transport (DfT) will play a central role in delivery of the Government's objectives for the economy, society and the environment.

8.7 On the ground, delivery of the Ten-Year Plan and its objectives is the responsibility of a large number of agencies, both public sector and private. An integrated approach to prioritisation of investment and management of delivery is essential to ensure that the maximum benefits of this very considerable investment will be realised.

Integrating national and local priorities

8.8 The Department for Transport will continue to review and strengthen the mechanisms for delivery of Ten-Year Plan outcomes and related targets. This will include strengthening the connections between national objectives and local delivery, ensuring that progress against the Government's objectives for transport can be effectively monitored.

8.9 The increased funding for local authorities under the Ten-Year Plan will enable them to provide local solutions to their local transport problems, and thereby contribute to national objectives. Authorities set their own objectives and targets in Local Transport Plans. These need to be consistent with the Government's national objectives, and collectively deliver the necessary contribution towards national congestion and public transport objectives. The Department for Transport will therefore work with authorities to establish local targets linked to the relevant national ones. As a step towards this the DfT will be publishing local congestion benchmarks relating to different areas and reflecting differing local needs.

Investing in the railways

8.10 Railtrack's successor will be able to finance investment in renewing the network over the life of the assets concerned and will have a lower cost of capital. This substantially increases the purchasing power of the Ten-Year Plan levels of support for the railways. Together with the Strategic Rail Authority and the Rail Regulator, the Department will also be working with Railtrack's successor to ensure that this substantial increase in buying power is deployed cost effectively to the long-term benefit of customers and in a way which delivers value for money to the taxpayer.

Reducing delivery times

8.11 The long lead times for delivery of transport infrastructure are a significant obstacle to early progress. Streamlined delivery will be targeted through:

- the Department for Transport and Highways Agency working towards an average delivery timescale for new road schemes of no more than four to six years from 2004-05, improving on the current target of an average of five to seven years;
- the Department and the SRA working with the industry to develop special purpose vehicles to deliver major rail projects;
- a joint review, by the DfT and the Office of the Deputy Prime Minister, of the statutory planning processes for transport; and
- rapid deployment of successfully piloted highway and traffic management tools to improve performance on and make better use of the existing road network.

Integrated planning

8.12 To deliver an integrated approach to transport and land-use planning, the Department, its Agencies and the Office of the Deputy Prime Minister will work closely together to link-up the development of long-term housing strategy and the modernising planning agenda with proposals for new and enhanced transport provision. It is essential that the proposed pattern and location of development in growth areas is fully integrated with proposals for the management and enhancement of the transport systems which support existing and planned development.

Improving transport efficiency

8.13 Sustainable distribution initiatives offer the prospect of increased efficiency in the logistics sector across all transport modes, improving productivity and reducing the external costs imposed on other users and the environment. The department's work on identifying and promoting best practice will be stepped up, building on efficiency improvements to date. To enable progress to be monitored the DfT will develop a sustainable distribution indicator to capture the wider impacts of road-, rail-, and water-based initiatives on the wider impacts of distribution services.

Value for money

8.14 The Department for Transport will continue to improve its ability to deliver value for money by:

- further developing its analytical and modelling tools;
- enhancing its internal business skills and capabilities so as to make the most of the key commercial links affecting delivery; and
- developing its integrated approach to investment appraisal, establishing a methodology to assess value for money across transport programmes and modes, and by location.

Transport and communities

8.15 Local transport investment has a strong role to play in improving the safety and quality of local environments,

particularly in deprived areas. This will be delivered through Local Strategic Partnerships, the Neighbourhood Renewal Unit and neighbourhood renewal strategies. Improved accessibility planning and coordination between public transport providers will take account of health inequalities and the potential benefits of infrastructure improvement projects for deprived areas. This joined-up approach will best take advantage of the linkages that exist between this expenditure and other relevant funding streams including the Neighbourhood Renewal Fund, providing best value for money and sustainable improvements in the longer term.

SPENDING PLANS

8.16 The Review provides an average annual growth of over 12 per cent in real terms over the next three years, with expenditure in 2005-06 £4 billion higher than in 2002-03, including around £1 billion a year to support the delivery of the improvements to the London Underground to be provided through the Public-Private Partnership.

8.17 This increasing level of support exceeds the funding profile set out in the Ten-Year Plan for the next three years to 2005-06. In addition, the reforms set out above will increase the purchasing power and cost effectiveness of this level of spending, enabling more to be delivered in return for the major public investment it represents.

Table 8.1: Key figures

£ million
2002-03 2003-04 2004-05 2005-06

Department for Transport

Resource budget	4,960	7,632	7,749	8,650
Capital budget	2,948	3,369	3,811	3,391
Total Departmental Expenditure Limit¹	7,661	10,692	11,197	11,640
Near-cash spending in DfT DEL ²	7,843	10,829	11,333	11,774
UK transport spending (estimated) ³	11,962	15,347	15,827	16,406

¹ Full resource budgeting basis, net of depreciation.

² Cash spending measured on an accruals basis, i.e. when spending is incurred.

³ Consistent with previous control basis.

Investment

8.18 A proportion of the public investment provided by this Review is delivered through capital grants to the private sector, mainly in the rail industry. These are now shown as resource in the departmental budget due to the move to private sector standards of financial reporting, but are investments in creating assets for the public. Total transport investment as defined in national accounts is therefore set out in Table 8.2 for clarity.

Table 8.2: Transport investment

£ million

	2002-03	2003-04	2004-05	2005-06
Total transport investment	3,917	6,032	6,300	6,438

Of which:

Central government own investment	2,948	3,369	3,811	3,391
Investment grants	969	2,663	2,489	3,047

¹The change in the local public transport target from 2002 is a re-presentation of the bus and light rail targets to allow local flexibility so that decisions can be based on local circumstances. A target of more than 12 per cent is consistent with

the previous two separate PSA targets as it is the result of adding the outcomes of the two previous targets together.

Chapter 9

Office of the Deputy Prime Minister

The Government is committed to securing a decent home for everyone, a better quality of life in the UK's villages, towns and cities, and to delivering in partnership with strong and flexible regional institutions. This Spending Review provides for:

- a step change in the delivery of the Government's housing objectives, including more resources for affordable housing to rent and to own, expanding provision for key workers, the launch of a new fund to turn around areas of low housing demand and abandonment, and further investment to improve housing conditions, underpinned by fundamental institutional reform;
- a radical culture change in land-use planning services, building on the recent Green Paper *Planning: Delivering a Fundamental Change* to accelerate the plan making and development control processes and improve the quality of decisions; and
- strengthening action to deliver the National Strategy for Neighbourhood Renewal and social inclusion through improved PSA floor targets, extra resources in main programmes and an increased Neighbourhood Renewal Fund.

To achieve this ODPM will have £1.5 billion a year more to spend on its main programmes in 2005-06 than in 2002-03, a growth rate after inflation of 5.2 per cent. Spending on housing will have increased by over £1 billion a year between 2002-03 and 2005-06, a growth rate of 4.2 per cent after inflation. In addition, ODPM will have £8.2 billion more to spend on local government programmes in 2005-06 than in 2002-03, a growth rate of 4.2 per cent after inflation.

A BETTER QUALITY OF LIFE FOR ALL

The ODPM

9.1 The new Office of the Deputy Prime Minister (ODPM) brings together the Deputy Prime Minister's responsibilities for regional government and social exclusion with the local government, planning, housing and neighbourhood renewal responsibilities of the former Department for Transport, Local Government and the Regions. This new department at the centre of government will work with other departments to drive forward important priorities for the whole of the Government, particularly neighbourhood renewal, social inclusion and regional prosperity. It will promote effective devolved decision making to regional and local levels. Its own programmes will be directed at raising the quality of life in urban areas and other communities and will deliver investment and reform of housing and the planning system.

Public Service Agreement targets

9.2 New Public Service Agreement (PSA) targets have been agreed, which with supporting Service Delivery Agreement (SDA) targets will provide better delivery of services and a higher quality of life. They commit the department to achieving a better balance between housing availability and demand, while protecting the countryside, and improvements in housing conditions in the social and private sectors. The ODPM will also deliver improvements by local authorities in the delivery and value for money of local services, notably planning services.

Key reforms

9.3 The ODPM will take forward key reforms tackling the mis-match between housing supply and demand in different regions, while protecting valuable countryside around the UK's towns, cities and in the greenbelt and the sustainability of existing towns and cities. In particular, from 2003-04 it will establish strong bodies in each region to bring together

housing investment and planning, with better consideration of economic and other infrastructure issues. To support work on improving housing conditions, the ODPM will establish a single housing inspectorate to drive up standards in housing provision. It will also be ensuring that social landlord institutions and their financing are able to provide vulnerable tenants with the services they deserve.

9.4 The Government's recent Green Paper *Delivering a Fundamental Change* sets out the Government's agenda for reform of the land-use planning system. It proposes changes to key targets for planning authorities to ensure more timely decision-making, the removal of a whole layer of plan-making and strengthened strategic regional planning to enable better decisions on issues such as the location of new housing and transport infrastructure. In addition, a review of transport planning will be carried out by the Department for Transport and the ODPM by July 2003 - proposing reforms to improve consultation, approval procedures and compensation mechanisms for faster delivery of transport infrastructure projects.

A decent home for all

9.5 Decent housing is important both to individual households and to economic growth. It impacts on individuals' disposable income, their ability to access employment, their health, and their inclusion in society. This is why the Government is committed to ensuring that everyone should have the opportunity of a decent home and is setting itself targets to improve the condition of both the social and private sector housing stock, and to achieve a more sustainable balance between housing availability and the demand for housing in all English regions while protecting the countryside and the sustainability of existing towns and cities.

Resources for housing

9.6 This Spending Review provides substantial new investment for housing, with annual average growth of 4.2 per cent after inflation. Much of the increase will be used to tackle the severe problem of housing supply and demand facing different regions. The settlement provides for a substantial increase in investment in affordable housing to rent and own in London and the South East. Building on the £25 million awarded from the Capital Modernisation Fund this year to establish nine pathfinder projects in areas experiencing low demand, significant extra resources are being allocated over the Spending Review period to enable their market renewal strategies, once approved, to be implemented - benefiting over 400,000 properties currently blighted by low demand and abandonment. Investment through local authorities' Arms Length Management Organisations to improve social housing stock conditions will also rise substantially.

Delivering reform of land use planning

9.7 The Government has embarked on an ambitious programme of reform of the land use planning system. Good planning can improve people's quality of life, promote economic prosperity, high quality urban design and sustainable development. But the present system is complex, remote, hard to understand, slow and difficult to access. The Government is committed to delivering fundamental change, driving forward the reforms in the recent Planning Green Paper.

Resources for planning

9.8 This Spending Review delivers a significant increase in resource for local planning authorities through a new three-year incentive grant which will be paid to reward improved performance by local authorities against targets. The Review also delivers resources for central government to speed up appeals and casework on called-in applications.

Tackling deprivation and social exclusion

9.9 The 2000 Spending Review set out the Government's aim to narrow the gap between the most deprived neighbourhoods and the rest of the country, so that within 10-20 years no one should be seriously disadvantaged by where they live. The ODPM leads the delivery of this agenda, bringing the Neighbourhood Renewal Unit, Social Exclusion Unit and Regional Coordination Unit together with policy responsibility for local and regional government.

9.10 This strategy is underpinned by PSA floor targets, which set out how the gap will be narrowed across key service delivery areas (including employment, crime, education, health, transport and housing). **Spending Review 2002 rolls forward and strengthens existing floor targets and adds new floor targets, emphasising the role of main budgets in**

delivering neighbourhood renewal. Local Strategic Partnerships will continue to drive forward neighbourhood renewal at a local level, including working with local service deliverers to decide how the floor targets will be met.

9.11 Alongside the allocations to Departments to help them meet the floor targets, **the Spending Review delivers ongoing funding for the most deprived neighbourhoods from the Neighbourhood Renewal Fund, increasing to £525 million in 2005-06.** The 2002 Spending Review also provides ongoing funding for the 39 New Deal for Communities partnerships, as part of a £2 billion ten year programme.

Regional policy and regional government

9.12 ODPM will lead delivery of the Government's ambitious plans for regional assemblies, and through the Government Offices will support a strengthened relationship between central government, regions and localities.

Regional Development Agencies

9.13 ODPM is the largest single contributor the Regional Development Agencies' Single Pot, with RDAs making contributions to ODPM objectives on regional growth, regeneration, urban policy and social inclusion. The 2002 Spending Review gives ODPM a significant real terms increase in funding for RDAs, and also allows the recycling of savings from the wind-down of the Single Regeneration Budget into the Single Pot. This will give the RDAs significantly more flexibility in their funding arrangements. As part of the Spending Review, £200 million of existing RDA funding will be transferred from capital to current spending in National Accounts.

Table 9.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Office of the Deputy Prime Minister					
	Resource budget	4,558	4,726	5,066	5,310
	Capital budget	1,491	2,018	2,183	2,278
	Total Departmental Expenditure Limit¹	6,030	6,726	7,230	7,568
of which					
Housing					
	Funded by the department in DEL	3,285	3,987	4,339	4,588
	Major Repairs Allowance in AME	1,561	1,473	1,394	1,312
	Total housing (England)	4,846	5,460	5,732	5,900
	Other ODPM	2,745	2,739	2,891	2,980
	Near-cash spending in ODPM DEL ²	5,517	6,167	6,666	6,998

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Table 9.2: Housing investment

		£ million			
		2002-03	2003-04	2004-05	2005-06
	Total housing investment	2,737	3,326	3,796	4,140
<i>Of which:</i>					
	Central government own investment	1,195	1,519	1,659	1,778
	Investment grants	1,542	1,807	2,137	2,362

LOCAL GOVERNMENT

Strong local leadership - Quality public services

9.15 The Government is committed to a vision of local democracy with effective local authorities providing quality services and strong local leadership. **The 2002 Spending Review provides an average increase in the ODPM's local government programme of 4.2 per cent a year above inflation** over the next three years. It takes forward the vision by:

- giving local government a revenue settlement with an average increase of 3.9 per cent a year above inflation over the three years to 2005-06;
- supporting Local PSAs - where authorities are successful, establishing a fund to provide reward grants of £635 million over three years; and providing funds for a second round of Local PSAs starting in 2004;
- continuing the Neighbourhood Renewal Fund which will provide £400 million in 2003-04, £450 million in 2004-05 and £525 million in 2005-06 to the most deprived areas to help tackle deprivation, deliver improved performance and encourage closer partnership working;
- providing a total of £787 million over three years to support better service delivery in local government. Of this:
 - £511 million over three years will support continued development of Local Government On-Line to help local authorities grasp the opportunities offered by electronic government (see below);
 - £141 million over three years will provide pump-priming grants for the second round of Local PSAs and for completing the first round; and
 - £135 million over three years will be for capacity and building intervention in failing local authorities; and
- providing an 11.5 per cent annual average real increase in local authority investment through capital spending and PFI from 2002-03 to 2005-06.

Reducing the burden

9.16 The Government is also acting to create a streamlined performance management framework that leaves scope for innovation and imposes a reduced burden on local authorities. It has announced principles that will aim to halve the number of plans authorities are required to complete for central government and it will also be reducing the number of major area-based initiative funding channels by around a half. At the same time the Local Services Inspectorate Forum is developing a more coordinated and proportionate approach to inspection that will significantly reduce the inspection burden on local authorities.

Local Government On-line

9.17 A draft national strategy for local government online (*Egov@local*) was published in March 2002. The Government is now committing £215 million in 2003-04, £189 million in 2004-05 and £107 million in 2005-06 to take forward implementation. This includes £10 million in each year for e-voting. The strategy sets out a vision to provide electronic services that local communities want and will use in ways that will promote inter-operability and connectivity between the different parts of government and ensure value for money.

Local Government Spending Plans

Improved revenue and capital funding

9.18 New spending plans provide for real increases in Standard Spending Assessments of 4.6 per cent in 2003-04, 2.7 per cent in 2004-05 and 4.1 per cent in 2005-06 (although the exact figures may alter as a result of transfers each year). Further support will be provided through departmental programmes, in the form of specific grants, credit approvals to fund capital spending and capital grants. In addition the Government will support local authority PFI investment of £1.9 billion in 2003-04, £2.3 billion in 2004-05 and £2.7 billion in 2005-06.

9.19 The Standard Spending Assessment system for distributing resources to local government is the subject of a separate review. The Government is currently consulting on a range of options for the new system.

Table 9.3: Office of the Deputy Prime Minister - Local Government

£ million

2002-03	2003-04	2004-05	2005-06
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Local Government

Resource budget	37,376	40,385	42,473	45,539
Capital budget	274	324	324	349
Total Departmental Expenditure Limit¹	37,649	40,708	42,797	45,888

¹ Full resource budgeting basis, net of depreciation.

Table 9.4: Local Government Standard Spending Assessments

	£ million			
	2002-03	2003-04	2004-05	2005-06
Education	22,503	23,928	25,285	26,828
Personal Social Services	9,231	10,023	10,715	11,856
Police	3,577	3,995	4,195	4,395
Fire	1,521	1,583	1,653	1,703
Highway maintenance	1,955	2,005	2,055	2,105
Environmental, protective and cultural services	8,961	9,435	9,703	10,024
Capital financing ¹	2,224	2,648	2,838	3,323
Total Standard Spending Assessments²	49,972	53,616	56,443	60,233

¹ Capital Financing figures for 2002-03 include the PFI Special Grant.

² All Standard Spending Assessments are for local authorities' revenue spending.

Chapter 10

Home Office

The Government is tackling crime and strengthening communities in this Review by:

- **£2.9 billion more to the Home Office in 2005-06 than in 2002-03, and £2.5 billion more than the out-turn for 2001-02;**
- **providing around £1.5 billion more for the police in 2005-06 than in 2002-03;**
- **average growth rate of five per cent in total Criminal Justice System spending over 2002-03 to 2005-06 in real terms;**
- **targeting reductions in vehicle crime, domestic burglaries and robbery, and reducing the gap between the highest crime local areas and the best comparable areas;**
- **implementing measures to improve the performance of all police forces;**
- **new funding for a package of drug-testing and treatment measures to tackle drug-related crime; and**
- **investing nearly £1 billion over three years in case-management IT across the Criminal Justice System.**

10.1 The Home Office works to build a safe, just and tolerant society, in which the rights and responsibilities of individuals, families and communities go hand in hand, and the protection and security of the public are maintained. This is reflected in the targets to which the Home Office committed itself in the 2000 Spending Review, and in the further development of those targets in the 2002 Spending Review.

Public Service Agreement

10.2 The Home Office's new Public Service Agreement (PSA) includes new targets to:

- reduce crime and the fear of crime; improve performance overall, including by reducing the gap between the highest Crime and Disorder Reduction Partnership areas and the best comparable areas, and reduce:
 - vehicle crime by 30 per cent from 1998-99 to 2004;
 - domestic burglary by 25 per cent from 1998-99 to 2005;
 - robbery in the ten Street Crime Initiative areas by 14 per cent from 1999-2000 to 2005; and maintain that level;
- improve the performance of all police forces, and significantly reduce the performance gap between the best and worst performing forces; and significantly increase the proportion of time spent on frontline duties; and
- focus the asylum system on those genuinely fleeing persecution by taking speedy, high quality decisions and reducing significantly unfounded asylum claims.

Reform

10.3 The Police Reform Bill is seeking new powers to require police authorities to take remedial action when forces do not perform, the Police Standards Unit will publish comparisons between police forces' performance, and there will be new links between funding and performance for police Basic Command Units. Prisons' performance will be benchmarked over a seven year period, with contracting-out if they fail. There will be a tough new Criminal Justice System (CJS) inspection regime.

Performance

10.4 Crime has fallen by 22 per cent since 1997, including burglary down 39 per cent and vehicle crime down 26 per cent, according to the British Crime Survey. Robberies have risen, but this is being tackled effectively, including through the Street Crime Initiative. The average time taken to deal with persistent young offenders has reduced from 142 days to

63 days. The number of offences for which an offender is brought to justice has fallen, but this is being tackled. Police numbers are now at record levels and investment in new technology like the DNA database is starting to pay dividends.

THE CRIMINAL JUSTICE SYSTEM

10.5 The Criminal Justice System (CJS) encompasses the police, Crown Prosecution Service, criminal courts, prison and probation services. Policy responsibility for the CJS is shared by three ministers: the Home Secretary, the Lord Chancellor and the Attorney General. In the 1998 Comprehensive Spending Review (CSR), the Government undertook the first ever review of the performance and management of the CJS as a whole. The CSR, and subsequently the 2000 cross-departmental review, have improved the operation of the CJS by setting clear, shared objectives and targets.

Strengthening the Criminal Justice System

10.6 To improve performance and promote closer working across all elements of the Criminal Justice System, the Government:

- will publish a Criminal Justice White Paper to modernise the criminal justice system;
- will provide additional investment in modern, flexible, secure information technology across the CJS, as part of a new cross-departmental CJS IT Joint Budget, to promote closer working between the different parts of the CJS and streamline case management; and
- promote a tough new inspection regime for the CJS. The aim is to have an inspection regime, which is focused on reporting, auditing and driving up performance and value for money and able coherently to look across the various services and agencies in the CJS.

Reforming the police

10.7 The 43 police forces in England and Wales deliver vital services in catching offenders, protecting the public and reducing crime. The Home Office settlement provides for a significant real terms increase in police spending, including delivery of reform of police pay and conditions - better rewards for key frontline posts, and more flexible deployment of officers.

10.8 Alongside continued investment, the police are embarking on a programme of reform. The Police Reform White Paper set out a new framework to ensure high standards in policing. The new Police Standards Unit is helping to improve performance in forces and Basic Command Units. Building on these reforms, the Spending Review ensures:

- published comparisons of police forces linking resources to performance against key outcomes, including reducing crime and bringing offenders to justice;
- more effective delegation to the front line - £50 million each year directly allocated to Basic Command Units in high-crime areas for use, in consultation with Crime and Disorder Reduction Partnerships, on local priorities; and a new link between performance of Basic Command Units and funding, enabling the channelling of funds to where there will be the greatest returns in improved performance; and
- effective accountability to local residents - local police commanders and local Crime and Disorder Reduction Partnerships will make clear information available to households on their performance each year.

Reducing re-offending

10.9 Effective sanctions, which deter other offenders and reduce re-offending, are a vital response to criminal behaviour. To ensure the prison and probation service deliver these sanctions effectively and improve value for money consistently, the Government will:

- reform sentences and sentence delivery and ensure that there is clear information available to, and partnership with, sentencers on what sentences - custodial and non-custodial - work for what crimes, and on value for money, so that the use of prison is focused effectively on those who need to be there; and sanctions are effectively targeted to reduce re-offending;
- ensure that offenders are better equipped to lead law abiding lives - coupling more effective sentence management, rehabilitation in prison and the community, and enable prisoners to access mainstream services so that the causes of their offending are addressed and re-offending is reduced;

- separate responsibilities for setting standards, contracting strategy and performance monitoring from the operational management of the correctional services; and
- benchmark the performance of prisons over a seven-year period, with contracting-out if they fail.

Organised crime

10.10 The Government has in place a cross-Departmental Asset Recovery Strategy for recovering the criminal assets of drug-traffickers and serious criminals. The Government has set a target to double the amount of criminal assets seized to £60 million by 2004. The new Assets Recovery Agency will be key to achieving this target. Recognising the importance of seizing criminal assets to securing disruption of serious criminal activity, this Spending Review has put in place new incentives for the Home Office to deliver on substantially increased asset seizures.

CRIME REDUCTION

10.11 In addition to providing substantial new resources for the CJS, the Government is pledged to be tough on the causes of crime. Evidence suggests that social and environmental programmes, including interventions to tackle child poverty and deprivation, are key to delivering sustained reductions in crime. The cross-departmental review of crime reduction in 2000 concluded that such programmes should take more account of their potential for delivering crime reduction benefits. This conclusion was taken forward in the 2000 Spending Review decisions on investment and targets, and further progressed in this Spending Review. There will be improved services to treat children and young people with mental health problems; an extension of multi-disciplinary Behaviour and Education Support Teams to support schools and a continued commitment to reduce truancy; and substantial increases in funding for the Neighbourhood Renewal Fund. There will also be new resources to fund additional support for parents and families in partnership with the voluntary and community sectors, which will offer early help to parents experiencing difficulties within the family.

10.12 Crime is very concentrated in particular local areas. There will be a new target to ensure that the police and their local partners allocate resources effectively and deliver on crime reduction in those areas most blighted by crime, and narrow the gap with the best performing comparable Crime and Disorder Reduction Partnership areas.

ILLEGAL DRUGS

10.13 Tackling the drugs threat continues to be a key priority, not only for the Home Office but also for HM Customs and Excise, the Department of Health, the Department for Education and Skills and others. The Spending Review provides new resources for increasing drug abuse testing and securing steps towards delivery of the key targets of doubling the number of addicts in treatment, and reducing drug-related crime.

IMMIGRATION, NATIONALITY AND ASYLUM

10.14 Migration has always been a source of labour and skills in the UK, and brings substantial benefits. Migrants fill skills gaps, meet labour shortages, introduce innovations and enterprises, and bring capital to invest in the UK. The Government has already introduced the Highly Skilled Migrant Programme, developed a scheme for innovators to enter the UK, and has made it easier for employers to fill vacancies in shortage occupations. The Government is currently consulting on reforms to the Working Holiday-Makers and Seasonal Agricultural Workers schemes, to make the schemes more inclusive and to better meet the employment needs of the UK economy. This Spending Review boosts the capacity of Work Permits UK to provide support and assistance to small businesses to fill skills shortages.

10.15 The 2000 Spending Review provided substantial additional resources for asylum. The system has become more effective: 60 per cent of initial decisions are now delivered in two months and over 11,000 failed asylum-seekers were removed last year, a higher figure than in any other EU country. But further improvement is needed:

- the Nationality and Immigration White Paper and the Bill currently before Parliament, set out a major programme of reform. That will focus the asylum system on those genuinely fleeing persecution by taking speedy, high quality decisions, deterring unfounded asylum applications, and by opening routes for economic migrants; and
- a new PSA target to reduce significantly unfounded asylum applications has been agreed. This will now ensure the fundamental focus of the whole system is on deterring unmerited asylum applications, so that those

genuinely fleeing persecution can be processed quickly. Those coming legitimately to the UK will be given the support they need to integrate and contribute to the economy and society;

- a new single asylum budget will be established, including asylum funding in both the Home Office and Lord Chancellor's Department, to promote effective end-to-end planning and management across the whole asylum system.

SPENDING PLANS

10.16 Home Office spending will grow by an average of 5.6 per cent a year over the next three years in real terms, based on a provisional allocation for asylum costs in 2002-03, and total CJS spending by an average of five per cent a year in real terms.

Table 10.1: Key figures

	£ million			
	2002- 03	2003- 04	2004- 05	2005- 06
Home Office				
Resource budget	10,158	11,685	12,022	12,722
Capital budget	715	808	948	1,053
Charity Commission	26	29	30	31
Total Departmental Expenditure Limit¹	10,675	12,275	12,727	13,532
Local authority police SSA ²	3,577	3,995	4,195	4,395
Near-cash spending in HO DEL ³	10,332	11,916	12,336	13,116

¹ Full resource budgeting basis, net of depreciation. 2002-03 DEL does not include full expected spending on asylum.

² Standard Spending Assessment: subject to spending decisions by local authorities.

³ Cash spending measured on an accruals basis, i.e. when spending is incurred.

Table 10.2: Criminal Justice System

	£ million			
	2002-03	2003-04	2004-05	2005-06
Criminal Justice System				
Resource budget	13,985	15,544	16,216	17,211
Capital budget	893	1,035	1,231	1,344
Total CJS in England and Wales¹	14,703	16,385	17,229	18,336

¹ Full resource budgeting basis, net of depreciation.

Chapter 11

Legal Departments

Spending overall on the Legal Departments will rise by £600 million by 2005-06, compared with 2002-03, an average increase of 3.0 per cent per year in real terms. Reflecting the Government's priorities, funding to improve the Criminal Justice System (CJS) will grow annually at 5 per cent in real terms.

With other agencies of the Criminal Justice System, the Lord Chancellor's Department (LCD) and the Crown Prosecution Service (CPS) will improve the delivery of justice by:

- increasing the number of crimes for which an offender is brought to justice to 1.2 million by 2005-06, including a reduction in the proportion of ineffective trials;
- CPS and Crown and Magistrates' Courts linked into joined-up CJS IT; and
- stricter enforcement of court fines.

The Lord Chancellor's Departments will also:

- provide support for children in family courts;
- improve consumer choice by improving information to the citizen, and by promoting competition; and
- modernise the law in relation to housing.

Strategic objectives and key priorities for the Review period

11.1 The Lord Chancellor's Department aims to ensure effective and accessible justice; to protect the rights of citizens; and to modernise the law and the constitution. The Crown Prosecution Service aims to bring offenders to justice, and to promote public confidence in the rule of law, through independent review of criminal cases, and a fair and thorough presentation at court.

New Public Service Agreement

11.2 As part of the settlement, LCD and the CPS will have tough new Public Service Agreement (PSA) targets reflecting the Government's determination to improve the Criminal Justice System, and LCD will share with the Home Office a new target to speed up asylum applications and appeals.

Box 11.1: Key PSA targets

Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.2 million by 2005-06; with an improvement in all CJS areas, a greater increase in the worst performing areas and a reduction in the proportion of ineffective trials.

Improve the level of public confidence in the Criminal Justice system, including increasing that of ethnic minority communities and increasing year on year the satisfaction of victims and witnesses, whilst respecting the rights of defendants.

Focus the asylum system on those genuinely fleeing persecution by taking speedy, high quality decisions and reducing significantly unfounded asylum claims (*joint with the Home Office*), including by:

- first turnabout of manifestly unfounded cases;

- ensuring by 2004 that 75 per cent of substantive asylum applications are decided within 2 months; and that a proportion (to be determined) including final appeal, are decided within 6 months; and
- enforcing the immigration laws more effectively by removing a greater proportion of failed asylum-seekers.

KEY REFORMS WILL BE DELIVERED IN THE FOLLOWING AREAS

Improving the delivery of justice in the Criminal Courts

11.3 Working with the other agencies in the Criminal Justice System, LCD and the CPS will contribute to increasing the proportion and number of recorded crimes for which an offender is brought to justice by promoting the swift and efficient disposal of cases.

11.4 Progress has been achieved in reducing unnecessary delay, and the Government has delivered on its PSA target to halve from 142 to 71 days by March 2002 the time taken from arrest to sentence for persistent young offenders. There has been a significant shortening in the period between the arrest of a defendant and their first court appearance, and defendants now normally appear in court at the next available sitting.

11.5 Priority needs now to be given to ensuring the more effective disposal of cases, and reducing the proportion of cases that are unnecessarily discontinued. The Government wants to see pre-trial and trial processes which are more tightly managed, less wasteful and more responsive to the needs of victims, witnesses and the wider public.

CIVIL AND FAMILY JUSTICE

Just and timely resolution of civil disputes

11.6 Working with the Law Commission, the Government will ensure that the civil law is simple, fair and up-to-date. Where possible to avoid unnecessary legal disputes, alternative dispute resolution (ADR) processes such as arbitration and mediation are promoted, together with complaints and ombudsman schemes. All government departments and agencies will use ADR where appropriate and when the other party accepts it.

11.7 Recent reforms to civil justice have led to faster cases, more out-of-court settlements and fewer ill-founded claims. The Government will continue to promote a cost effective and integrated approach to civil justice, and to examine the scope for further reform. It will also seek to ensure that when people have a judgment made in their favour, that judgment is properly enforced. The performance of county court bailiffs on warrant enforcement has improved steadily since 1998-99 and they now collect 84.6p in every £1 of correctly directed warrants.

Support for children

11.8 Where marriages or other relationships do not work, the Family Courts help deal with the consequences with the least damage possible, especially to children in the household.

LEGAL SERVICES

Improving consumer choice

11.9 The Government will improve consumer choice in legal services by improving the information available to the citizen.

11.10 New ways of delivering information on legal services are being developed such as the Just Ask! web site which aims to be the first port of call for people wishing to find legal information. The Government will promote further initiatives to ensure that people have readily available information and advice about the law and the legal system,

including the quality of legal services, dispute resolution services and effective enforcement procedures. It will also build on progress made in interactive government internet services such as Money Claims On-line which allows people to make claims for up to £100,000 and if the case is undefended, apply for a judgement and warrant of execution. LCD are developing partnerships with agencies such as Citizens Advice Bureaux to help people who do not have access to IT.

11.11 The consumer will also benefit from initiatives to promote competition in legal services through the liberalisation of the domestic and international markets.

11.12 Domestically, the Government is keen to remove restrictions that are not in the public interest and welcomes moves by the legal profession to respond to issues raised by the Office of Fair Trading's report on competition in the market for professional services. The Government will also reduce regulatory barriers to international trade in legal Services by working through the General Agreement on Trade in Services (GATS) 2000. The objective remains to work with European Union partners to reduce barriers to cross-border trade, while maintaining the fundamental basis of the English common law of contract.

Private funding of legal services

11.13 Fundamental changes have been introduced to the funding regime for civil litigation. Most personal injury cases are no longer eligible for public funding; and success fees in conditional fee agreements (commonly called 'no-win, no-fee' agreements) and after the event insurance premiums are recoverable from a losing opponent. LCD is working with the market on more effective and accessible private legal services with more private funding through improved costs rules, the development of conditional fees agreements, litigation insurance and other market-led options for funding civil litigation. The market has responded well to the changes, delivering a diverse range of litigation funding products to meet the needs of most personal injury cases.

11.14 LCD will continue to work to make the new arrangements work better to provide more certainty and stability on litigation costs, to encourage the further development of innovative products to fund litigation.

Legal services funded by the state

11.15 State funded services have an important role in promoting social justice and tackling social exclusion. Legal aid - both criminal and civil - is now provided through contracts with quality assured providers by the Legal Services Commission which administers civil aid through the Community Legal Service (CLS) and criminal aid through the Criminal Defence Service (CDS).

11.16 The CLS has sought to improve access to justice by setting up partnerships between funders and providers of legal help and advice to deliver services that meet local needs and priorities. New ways are being developed to provide legal services, such as advice by telephone, and legal services which are becoming available in places such as libraries or doctors' surgeries.

11.17 The Criminal Defence Service (CDS) now provides legal advice and representation to those charged with a criminal offence. Through contracts, solicitors' firms provide defence services ranging from advice at the police station to representation at the magistrates' court. The Legal Services Commission is piloting a Public Defender Service (PDS) which will provide greater flexibility and choice in the delivery of criminal defence services.

ASYLUM APPEALS

Speeding up asylum appeals

11.18 LCD is working with the Home Office to deliver a more efficient asylum system. LCD is increasing its asylum processing capacity from 4,000 asylum cases per month to 6,000, and is setting up dedicated listing offices in major hearing centres to manage cases directly and to reduce unnecessary adjournments. The Nationality, Immigration and Asylum Bill makes provision for a more streamlined appeals process.

HOUSING LAW

Modernising the law in relation to housing

11.19 The Commonhold and Leasehold Bill will lay out a system of home ownership fit for the 21st century by

introducing commonhold tenure. This will give people living in flats a way to own the freehold of their property without the disadvantages associated with long-term leases or 'flying freeholds'.

11.20 The Government is taking forward its commitment to electronic conveyancing. A legal framework will be created to allow a full electronic conveyancing system in which investigation of title will be almost entirely online and changes in ownership will happen on registration. The system will provide instantaneous electronic transfer of funds and show the participants how each element in a chain of transactions is progressing.

CONSTITUTIONAL ISSUES

Human rights, modernising the constitution and freedom of information

11.21 The Prime Minister has transferred new responsibilities to LCD, including the following, which the department will take forward:

- the Human Rights Act, which came fully into effect on 2 October 2000, to give further effect in the UK to the fundamental rights and freedoms guaranteed under the European Convention on Human Rights;
- the Government's manifesto commitment to further reform of the House of Lords; and
- the Freedom of Information Act, passed in November 2000, which gives the public a right of access to the information held by public authorities. The Act which will be implemented across the public sector by January 2005 will affect more than 70,000 organisations, from government departments and local authorities to schools and health authorities.

Table 11.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Lord Chancellor's Departments					
	Legal aid (all resource)	1,748	1,819	1,874	1,929
	Other resource budget	1,106	1,271	1,404	1,414
	Capital budget	74	77	101	117
	Total Departmental Expenditure Limit¹	2,855	3,082	3,293	3,373
	Near-cash spending in LCD DEL ²	2,843	3,098	3,309	3,388
Law Officers' Departments					

Resource budget	470	497	523	543
Capital budget	10	6	14	16
Total Departmental Expenditure Limit¹	466	488	520	541
Near-cash spending in Law Officers' DEL ²	461	483	514	535

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 12

Ministry of Defence

This Government is continuing to deliver a modern and flexible capability able to meet today's challenges, promoting international peace and security and combating international terrorism by:

- **raising the defence budget by £3.5 billion between now and 2005-06, providing 1.2 per cent annual average real growth - the largest planned increase in defence spending in twenty years;**
- **enabling the Ministry of Defence to continue to deliver the 1998 Strategic Defence Review and the Strategic Defence Review New Chapter;**
- **providing the Armed Forces with new investment in battle-winning technologies, enabling them to stand shoulder-to-shoulder with our allies in the war against international terrorism;**
- **acting as a force for good at home and continuing to make an effective contribution to global conflict prevention;**
- **modernising and reforming the way in which the Ministry of Defence organises and manages its support to the front line to enable it to deliver military capability more efficiently and at lower unit cost; and**
- **re-directing resources for new investment in defence priorities by continuing to dispose of surplus assets in the defence estate through rationalisation and improved asset use.**

INVESTING IN DEFENCE FOR THE 21ST CENTURY

Largest increase in defence spending plans for 20 years

12.1 The 2002 Spending Review provides the biggest planned increase in the defence budget for twenty years. This provides an average of 1.2 per cent a year real growth for the Ministry of Defence over the next three years. Defined on an historically comparable near-cash basis, the Ministry of Defence's budget will grow by 1.7 per cent on average a year in real terms. This will enable the Ministry of Defence to continue to deliver the 1998 Strategic Defence Review (SDR) and will provide for substantial new investment in the SDR "New Chapter". This will provide our Armed Forces with the latest technology and network centric capabilities, enabling them to act together with our allies in the war against international terrorism and to achieve greater precision and control of military operations. It will enable our Armed Forces to continue to achieve success in the tasks they undertake now and will enable them to respond to the range of contingencies envisaged in the SDR.

12.2 Challenging PSA targets have been agreed covering the success of military operations (including those providing support to civil communities), and improving the effectiveness of our contributions to conflict prevention. Targets relating to the readiness at which our Armed Forces are able to respond to crises and the delivery of more capable, battle-winning technology, equipment and systems for the future have also been agreed.

Building strong defences for the future

12.3 The 1998 SDR set out a radical modernisation programme of the UK Armed Forces. The objective was to provide more capable, more flexible and better equipped forces to fulfil the Government's commitment to strong defence and to support foreign policy objectives. Despite the demanding commitments which our Armed Forces have fulfilled with distinction in the last few years, the implementation of the SDR is now well advanced and the Government is on track to meet its objectives.

Modernisation and reform of front line forces

12.4 Following the events of 11 September 2001, the Defence Secretary commissioned work on a "New Chapter" to the SDR to ensure that the UK has the right forces and the right capabilities to meet the additional new strategic challenges facing the UK. This work is now complete. While the New Chapter has confirmed that the original conclusions of the SDR, taken together with lessons learnt from our subsequent experiences in Kosovo and Afghanistan, remain valid, the Government has concluded that further, additional, funding is necessary to ensure that our Armed Forces have the equipment and capabilities they need to respond to the challenges of a changing world. The Government has therefore made available over £1 billion of new capital and £0.5 billion of new resources for new network-centric capabilities and other equipment which will enable the conclusions of the SDR New Chapter to be delivered. The Secretary of State for Defence will announce further details shortly.

Modernisation and reform of business processes

12.5 An additional £578 million over three years is also being made available to modernise the Ministry of Defence's business information systems, especially in the Defence Logistics Organisation, to improve support to the front line. This will enable the Ministry of Defence to operate more effectively and will help it to meet its efficiency targets.

Getting better value for defence spending

12.6 The Ministry of Defence continues to look at ways of making defence spending more cost-effective. Procurement techniques are continuing to be over-hauled and, together, the Defence Procurement Agency and the Defence Logistics Organisation will continue to take forward Smart Acquisition to provide the Armed Forces with the equipment it needs on time, to budget and to meet capability requirements more effectively. The Defence Logistics Organisation faces a huge challenge to modernise its working methods so that capability requirements can be met more effectively and at a significantly lower unit cost. A target has been agreed with the Ministry of Defence to deliver 21/2 per cent output efficiencies per annum. This target is underpinned by an output based measurement system that will also provide greater incentives for management improvements. Resources freed up by this will be re-invested in defence.

Table 12.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Ministry of Defence					
	Resource Budget	31,376	33,016	33,755	34,690
	Capital Budget	5,549	6,009	6,327	6,880
	Total Departmental Expenditure Limit¹	29,326	30,921	31,756	32,779
	Near-cash spending in MoD DEL ²	24,196	25,579	26,479	27,389

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 13

Foreign and Commonwealth Office

This settlement recognises the importance of public diplomacy, provides funding to engage regionally and worldwide in pursuit of the UK's interests. The settlement:

- provides for an increase in FCO spending (excluding conflict prevention) of £219 million a year between 2002-03 and 2005-06, equivalent to an average growth rate of 2.8 per cent a year after inflation. This is the FCO's highest growth rate since the end of the Cold War;
- establishes a Global Opportunities Fund of £120 million over three years to promote global security and sustainable development significantly increasing programme spending in key areas; and
- additional funding for the BBC World Service including funding for programming in south-west Asia and the Arab world, services in Africa and further capital investment.

EUROPEAN ENLARGEMENT, WORLDWIDE ENGAGEMENT

13.1 The events of 11 September marked a major shift in foreign affairs, to which the Foreign and Commonwealth Office (FCO) has responded. The 2002 Spending Review recognises these changes, as well as the need to support Britain's long-term and global interests to ensure that Britain remains an effective international actor.

13.2 New Public Service Agreement targets have been agreed with the FCO. These reflect the twin themes of European Enlargement and Worldwide Engagement, and notably include a contribution to reducing opium production in Afghanistan by 70 per cent in five years and eradicating opium production within ten years; strengthening the EU's crisis management capability and enhancing European defence capability; improving international quality of life by promoting democracy and the rule of law, good governance, and the security of long-term energy supplies.

13.3 As a leading member of the UN, the European Union, the G8, NATO, the OECD and the Commonwealth, the UK plays a major role in preventive diplomacy, economic reform and international development - key strands in promoting international peace and security. The FCO has played a leading role in driving the EU and UN counter-terrorism agendas and making international institutions more effective. Recent notable achievements include chairing the UN's Counter-Terrorism Committee to raise counter-terrorist standards worldwide and a key role in stabilising Afghanistan after the fall of the Taleban.

FCO for the 21st century

13.4 The 2002 Spending Review for the first time requires the FCO to deliver **2.5 per cent annual efficiency savings** across all of the activities funded through the FCO budgets. In this Review period, FCO will reap the benefits of increased investment in IT and an evolving staffing mix, to improve its flexibility and responsiveness. To part-fund this, the FCO are on track to deliver £100 million from asset sales to be recycled into modernisation initiatives.

13.5 The FCO also promotes a range of UK interests overseas including assistance to exporters through British Trade International, as well as providing consular assistance and protection to UK citizens abroad. With increased funding in the 2000 Spending Review, the BBC World Service has been renewing transmitters and investing in on-line technology, as well as producing new programming. As a result, the BBC World Service audience has grown to 159 million per week, the highest ever, and surveys indicate that up to 71 per cent of Pashto and 62 per cent of Persian households in

Afghanistan were listening to the BBC.

13.6 Since the 2000 Spending Review, the British Council has continued to refocus its activities on transitional economies and the developing world. With funding from the Review, the Council is piloting new Knowledge and Learning Centres in three cities, and the Centre for English Language Learning Support. When fully operational, the Council expects these pilot centres to reach 30,000 young people a year on site.

Public Diplomacy

BBC World Service

13.7 This settlement provides substantial funding for the BBC World Service's programming proposals, including for South-West Asia and the Arab world, Africa, China and Europe, improved FM reception worldwide, and additional investment in the World Service's successful on-line services.

British Council

13.8 The settlement provides the British Council with funding to refocus its activities on transitional countries and the developing world. The centrepiece of the new work is "Connecting Futures" which will increase mutual understanding and dialogue between young people in the UK and the Arab and Islamic world. The British Council will also increase its support for the Prime Minister's Initiative to recruit more fee-paying international students to the UK.

Global Opportunities Fund

13.9 The Spending Review creates the "Global Opportunities Fund" (GOF) of £120 million over three years to facilitate international engagement with middle income and transitional countries as well as developing countries. The GOF provides substantial new funding for projects that promote global security and sustainable development. In promoting multiparty democracy, the FCO will use the specialist skills and experience of the Westminster Foundation for Democracy.

European Enlargement

13.10 The GOF also provides additional resources to increase UK engagement with the EU applicant states, tailored to the individual circumstances of each country. In supporting their transition to the EU, we will strengthen the UK's relationships with our new partners. Engagement will take several forms, with new funding for technical assistance and public diplomacy in the applicant states.

13.11 Enlargement's success will also depend on promoting reform amongst the EU's new eastern and southern neighbours. Additional resources are provided in the Review to foster human rights, promote the rule of law and tackle corruption, and facilitate judicial reform. This will help to combat international crime, promote economic growth and improve the quality of life for their citizens.

SPENDING PLANS

13.12 Over the Spending Review, FCO spending will increase by an average of 2.8 per cent per year after inflation. This means that by 2005-06, FCO spending will have increased by £219 million over 2002-03. Spending by the British Council will increase by an average of 3.1 per cent per year after inflation - an increase of £28 million in 2005-06 compared to 2002-03. The BBC World Service's spending will rise by an average of 3.4 per cent per year after inflation and will be £38 million higher in 2005-06 than in 2002-03.

Table 13.1: Key figures

	£ million			
	2002-03	2003-04	2004-05	2005-06
Foreign and Commonwealth Office				

Resource Budget	1,327	1,446	1,503	1,581
Capital Budget	112	132	136	143
Total Departmental Expenditure Limit¹	1,347	1,452	1,502	1,572
BBC World Service ¹	201	220	225	239
British Council ¹	157	170	175	185
Conflict prevention ¹	68	74	74	74
Near-cash spending in FCO DEL ²	1,262	1,364	1,411	1,477

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 14

Department for International Development

This Government is committed to international poverty reduction:

- over the next three years, the UK's aid budget will grow by an average of over
- 8 per cent a year in real terms, taking the UK's aid budget to nearly £4.9 billion by 2005-06;
- UK Official Development Assistance will rise by £1.5 billion to 0.40 per cent of Gross National Income (GNI) by 2005-06. This will mean the UK will exceed the average European Union (EU) ODA/GNI target agreed earlier this year;
- the Department for International Development's Public Service Agreement is tied to achieving demonstrable progress on reducing poverty and improving education and health outcomes in Africa and Asia by 2006; and
- the Government will ensure that 90 per cent of its bilateral development resources go to the world's poorest countries and overall that resources are 100 percent untied and directed where they will be used most effectively.

INTERNATIONAL POVERTY REDUCTION

UK aid budget

14.1 The Department for International Development (DfID) is responsible for Government efforts to promote the reduction and elimination of poverty in developing countries. DfID's budget will increase to nearly £4.6 billion by 2005-06 compared to £3.4 billion in 2002-03; with the **UK's Official Development Assistance (ODA) to GNI ratio rising to 0.40 per cent** in the same period. This will be **the highest UK ODA ratio since 1981** and will take the **UK well above the current G7 ODA/GNI country average of 0.18 per cent and the OECD average of 0.22 per cent**. The UK Government is committed to the UN target of ODA/GNI of 0.70 per cent.

Public Service Agreement

14.2 DfID has agreed a new Public Service Agreement (PSA) to 2005-06 to ensure that their spending results in demonstrable improvements in the lives of the poorest people. The PSA is built around the Millennium Development Goals and sets targets for 2006. It focuses, in particular, on DfID's key partners in Africa and Asia and sets targets for improvements to health and education, but also for further progress on conflict prevention, on debt relief and on improving trade access - a critical issue for developing countries.

Box 14.1 Millennium Development Goals and DfID's Key PSA Targets

DfID's Public Service Agreement is set around the Millennium Development Goals and, in particular, concentrates on poverty reduction and improved health and education outcomes in 20 key countries across Africa and Asia.

The Millennium Development Goals are global targets for achievement by 2015 set at the United Nations Millennium Summit in September 2000:

- **Eradication of extreme poverty and hunger, including halving the proportion of the world's people living in extreme poverty;**
- **Achievement of universal primary education, with every child completing a full course of primary education;**
- **Promotion of gender equality and empowerment of women;**
- **Reduced child mortality, reducing the death rate of children under five by two-thirds;**
- **Improved maternal health, reducing maternal mortality rates by three-quarters;**
- **Combating HIV/AIDs, malaria and other diseases;**
- **Ensuring environmental sustainability; and**
- **A global partnership for development.**

Improving aid effectiveness

14.3 The UK's growing development budget has been complemented by an increasing emphasis on aid effectiveness. DfID has improved the focus of its spending by shifting the way it delivers its aid in line with best practice. There has been a move away from small projects in favour of aid to support poverty-focused reform programmes in recipient countries. DfID is also aiming to work more closely with other donors to cut the costs of aid for recipient countries and ensure coherence in the support offered. Since April 2001 all UK aid has been untied; aid funds are no longer required to be used to purchase goods and services from UK suppliers. Research suggests that removing the link between aid and awarding of contracts can improve the effectiveness of aid by between 15 and 30 per cent. The Government is also working to encourage other donors to implement best practice, and to improve the effectiveness of multilateral aid.

Bilateral spending

14.4 On the bilateral side, the new resources being added to DfID's budget will be targeted at the very poorest, particularly in Africa, which has the highest number of poor countries, and Asia, which has the highest concentration of poor people. **By 2005-06, 90 per cent of DfID's bilateral assistance will be spent on low income countries.** This is up from 67 per cent in 1997-98. **For the first time, the UK will also have in place a £1 billion annual bilateral spending programme in Africa by 2005-06.** This will enable increased resources to be directed towards the continent where achievement of the Millennium Development Goals is most at risk.

14.5 The £1 billion annual programme will enable the UK to support the New Partnership for African Development (NePAD), an African-led development compact based on improved partnership and mutual accountability. NePAD members have committed to improved political and economic governance, and the promotion of peace, security and poverty reduction. Developed countries, in return, have committed to support such countries with improved market access, increased aid and assistance with conflict resolution and peace building.

14.6 Much of the planned increased bilateral spending in Africa and Asia will be targeted on health and education improvements - core areas of the MDGs. Since 1997 DfID has committed £700 million to Universal Primary Education, mainly in Africa and Asia. The World Bank has recently announced a plan to fast track support for countries that are committed to education for all. This plan was welcomed by the UK and by the rest of the G7 at the Kananaskis G7/G8 Summit in June. At the Summit the UK and other G7 countries also committed themselves to increase significantly their support to education. Furthermore, the UK Government has also launched this year a Commonwealth Education Fund to mark Her Majesty the Queen's Golden Jubilee. This Fund will combine public and private money to support primary education in Commonwealth countries over the next four years.

14.7 On health, the UK has played an influential role in establishing a new international Global Health Fund to help fight HIV/AIDS, TB and Malaria, especially in the poorest countries. International commitments now stand at \$2.1 billion; of which the Government has so far pledged \$200 million over five years. Budget 2002 announced a new tax measure to encourage Research and Development into drugs and vaccines to treat specific diseases threatening lives in poor countries, and a new relief that will help to encourage industry to make appropriate donations of medical equipment and supplies to developing countries. These initiatives are in addition to bilateral commitments worth over £1 billion which have been agreed by DfID since 1997 for developing and delivering strategies for improved healthcare in developing countries.

14.8 The UK, as well as pushing for increases in overseas aid, also remains at the forefront of the international debate on debt relief and continues to be a leading advocate of the Heavily Indebted Poor Countries (HIPC) initiative. Twenty-six countries have now qualified for debt relief. Social expenditure in these countries has increased by \$1.7 billion in 2001-

02, equivalent to 1.2 per cent of GDP. On average, health and education spending account for 65 per cent of the use of HIPC debt relief. As discussed in Chapter 5 (5.15), the UK secured commitment to international funding of \$1 billion to address debt sustainability for HIPC countries suffering from a collapse of commodity prices.

Multilateral Institutions

14.9 Multilateral institutions have a crucial role to play in the development agenda and the best-performing multilateral programmes deliver aid very effectively. DfID's total multilateral programme spending has increased 35 per cent since 1997. DfID works with the multilaterals at both headquarters and field level to set or influence reform agendas. DfID funds non-discretionary commitments, in particular the UK's share of European Union programmes and subscriptions to United Nations (UN) agencies. However, DfID has also used resources to strengthen and support the most effective multilateral agencies, and those most willing to reform.

14.10 Contributors to the International Development Association (IDA)- the branch of the World Bank which provides highly concessional assistance for the poorest countries and is one of the most effective forms of development expenditure - reached agreement in July 2002 to a substantial replenishment of its funding. Contributors will provide nearly £9 billion for the poorest countries over the next three years. As part of the agreement, IDA will provide grants equivalent to 18-21 per cent of total support: this will be focused on post-conflict countries; the fight against HIV/AIDS; and, following a UK initiative, on helping to ensure poor countries do not face a return to unsustainable levels of debt. Grant finance at this level will lead to a loss of loan reflows in future years which the UK believes should be covered by additional support from donors. The UK is strongly committed to preserving and increasing IDA. We will therefore provide a total of up to £1 billion to the new replenishment. Of this, £100 million will help cover the costs of grants during the current period, and will be conditional on contributors agreeing, during the IDA Mid Term Review in January 2003, a responsible scheme for putting aside extra funds for grants in future replenishments.

Cross-cutting work on conflict prevention

14.11 In the 2000 Spending Review, the Government set up two conflict prevention pools for Africa and global conflict prevention. These pooled budgets have brought together the work on conflict prevention of three departments - DfID, the Ministry of Defence and the Foreign and Commonwealth Office - across Whitehall in order to improve the effectiveness of the UK's response to conflict prevention. The largest share of the Africa pool's funding in the past year was directed to Sierra Leone and the Great Lakes region. Examples of improved joint working and a strengthened UK approach in the past year include a closely co-ordinated programme for security sector reform in Sierra Leone and support for the Special Protection Force in Burundi.

SPENDING PLANS

14.12 The UK Government is committed to the UN target ratio of ODA to GNI of 0.70 per cent. The UK has continued to make progress towards it since 1997 and by 2005-06 the UK's ODA/GNI ratio will reach 0.40 per cent, up from 0.26 per cent in 1997. This is the highest level since 1981 and is equivalent to an increase in UK ODA of £1.5 billion since 2002-03. The spending plans for the Department for International Development provide for total spending for their budget to increase by £1.2 billion between 2002-03 and 2005-06.²

Table 14.1: Key figures

	£ million			
	2002-03	2003-04	2004-05	2005-06
Department for International Development				

Resource budget	3,374	3,709	3,846	4,599
Capital budget	14	11	18	14
Total Departmental Expenditure Limit¹	3,371	3,699	3,843	4,592
Memo: Conflict prevention	50	50	60	60
Near-cash spending in DfID DEL ²	3,339	3,560	3,674	4,443

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Table 14.2: Official Development Assistance

	£ million			
	2002- 03	2003- 04	2004- 05	2005- 06
Total UK Official Development Assistance¹	3,420	3,669	4,131	4,902
Official development assistance as a proportion of GNI (per cent)	0.32	0.33	0.35	0.40

¹ To ensure consistency with national accounts, the proportion of GNI is calculated using near-cash numbers.

²In line with international definitions UK ODA excludes some elements of DfID's budget (for example, pensions) and includes some items outside DfID's budget (for example investments by the Commonwealth Development Corporation).

Chapter 15

Department of Trade and Industry

The Government is committed to maintaining scientific excellence and encouraging innovation and entrepreneurship, in order to generate higher levels of sustainable productivity growth and prosperity in a modern economy. As a result of this Review spending on trade and industry (including all science spending) will be £800 million a year higher in 2005-06 than in 2002-03, representing an average 2.8 per cent a year real growth. Over the same period, Department of Trade and Industry (DTI) spending will grow by 3 per cent a year. This will deliver:

- a substantial increase in the Science Budget, which will rise by an average 10 per cent per year in real terms from 2002-03 to 2005-06, to improve the sustainability of the science research effort; to increase the volume of research universities are able to undertake; and to take forward the key recommendations of Sir Gareth Roberts' review of the supply of scientists and engineers;
- increased commercialisation of science research and funding to stimulate innovation across business and industry;
- further support for enterprise and the regions, including electronic delivery of government services to business, increased funding and powers for the Regional Development Agencies and more resources for the Phoenix Fund to help start-ups and small firms to grow in disadvantaged communities; and
- extra resources to empower consumers and enable the Competition Commission and the Office of Fair Trading to develop as world-class competition authorities.

15.1 The Department of Trade and Industry's (DTI) overarching aim is to deliver prosperity for all by driving up productivity and competitiveness through world class science and innovation, successful enterprise and business, and fair, competitive markets. To achieve this, the DTI focuses on key drivers of productivity growth: science and innovation, enterprise and competition; while the Department for Education and Skills (DfES) is responsible for improving performance on a further key driver, skills. The extra funding provided in this Spending Review reflects the importance the Government attaches to this agenda, matched by ambitious Public Service Agreement (PSA) targets focusing on raising productivity by improving the UK's performance on each of these key drivers.

15.2 DTI has an ambitious PSA target, shared with HM Treasury, to demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. DTI has targets for the key drivers for the period to 2005-06, set out in Box 15.1. DTI's Public Service Agreement also includes targets to secure competitive energy markets; to boost energy efficiency and related innovation to contribute towards the sustainable use of resources; to reduce barriers to international trade; and to maintain the UK as the prime location in the European Union for foreign direct investment.

15.3 DTI is investing in improving its evidence base to guide strategy, policy making and programme management, identifying how Government can contribute most effectively to productivity growth through the key drivers. DTI will continue to take forward the Government's 'less but better' strategy for reforming state aids internationally, as set out in the White Paper *Realising Europe's Potential* (Cm 5318).

Box 15.1: Key PSA targets

- Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. *Joint target with HM Treasury.*
- Improve the relative international performance of the UK's science and engineering base, the

exploitation of the science base, and the overall innovation performance of the UK economy.

- **Place empowered consumers at the heart of an effective competition regime, bringing UK levels of competition, consumer empowerment and protection up to the level of the best by 2006, measuring the effectiveness of the regime by peer review and other evidence, to ensure a fair deal for consumers and business, working in collaboration with the relevant regulatory agencies.**
- **Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.**
- **Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. *Joint target with the Office of the Deputy Prime Minister and HM Treasury.***

INVESTING IN SCIENCE, INNOVATION, ENTERPRISE AND COMPETITION

Investing in scientific excellence

15.4 In advanced economies such as the UK, sustainable productivity growth and rising prosperity are increasingly driven by the economy's ability to create and exploit new forms of knowledge. The 2000 Spending Review provided a 7 per cent per year real terms increase in the Science Budget. The 2002 Spending Review builds on this by raising the annual average real terms increase in the Science Budget to 10 per cent per year between 2002-03 and 2005-06. The Government will set out shortly a comprehensive Science, Engineering and Technology Strategy, which will recognise the roles and responsibilities of other funders and users of research; and will show how extra resources and reforms will improve the sustainability of the research base, and will embed technology-based innovation within the Government's growth agenda.

15.5 Infrastructure: building on investment totalling £1.75 billion in the 1998 and 2000 Spending Reviews (jointly funded by the Government and the Wellcome Trust), the Government is now creating a dedicated capital funding stream worth £500 million per year by 2005-06 to tackle the effects of underinvestment in research infrastructure, of which £300 million will be provided by DTI.

15.6 Research funding: Research Councils are being provided, by 2005-06, with an extra £120 million a year over 2002-03 funding to make a greater contribution to the indirect costs of research projects, and an additional £400 million a year by 2005-06 compared with 2002-03 for investment in new areas of scientific development (such as proteomics and brain science).

15.7 Commercial exploitation: universities and public sector research establishments are responding to the challenge of knowledge transfer. An expanded Higher Education Innovation Fund, incorporating University Challenge and Science Enterprise Challenge, will benefit from annual funding of £90 million by 2005-06 (including £20 million from DfES).

15.8 Roberts review: human ingenuity is a key factor in creating new products, services, and processes. The UK's research and development (R&D) and innovation performance is therefore critically dependent on a strong supply of highly skilled scientists and engineers. In the 2002 Spending Review the Government is therefore taking forward the key recommendations of Sir Gareth Roberts' review of the supply of scientists and engineers, including improving significantly the pay and training offered to Research Council funded PhD students and postdoctoral researchers. These measures will lead to new resources of £100 million per year by 2005-06. Further details are in Chapters 2 and 25.

Innovation and knowledge transfer

15.9 The potential economic benefits of basic research in the form of higher productivity can be fully realised only if the knowledge and skills created in the science base translate into new products, services and processes. This Spending Review provides increased resources to stimulate knowledge transfer within the business sector and between business and the science community, including through support for collaborative research and development. Overall, resources will rise from £338 million in 2002-03 with an additional £50 million a year by 2005-06.

Sustainable energy

15.10 The Government is investing in innovation to meet its Kyoto obligations on climate change. It will make progress towards the 2010 targets of reducing carbon dioxide emissions by 20 per cent, and 10 per cent of electricity to be generated from renewable sources. In November 2001, the government announced an extra £100 million fund to support the development of renewable technologies. This Spending Review builds on that funding for renewables, providing an additional £38 million for energy policy objectives in 2005-06, compared with 2002-03.

Promoting enterprise for all

15.11 Small businesses account for over half of private sector employment and 45 per cent of economic activity. The sector is also a valuable source of competition and innovation, thereby promoting productivity growth. However, many small businesses, particularly new enterprises, face barriers to growth, such as lack of finance or poor information. This Spending Review provides funding to allow more firms to secure the finance they need to grow. Drawing on the conclusions of the cross-cutting review of government services to small business (see Chapter 26) and building on the Capital Modernisation Fund project, business.gov, this Spending Review provides funding which is £40 million higher by 2005-06 than 2002-03 to enhance e-delivery of services and to help small businesses to deal with government as simply and quickly as possible.

15.12 The Government is particularly committed to encouraging enterprise in disadvantaged areas and among groups of people under-represented in business. This Spending Review provides £50 million over 2004-05 and 2005-06 to extend the Phoenix Fund for a further two years in order to stimulate enterprise in deprived communities.

Regional economic development

15.13 The Regional Development Agencies (RDAs) are the key strategic drivers of economic development in the English regions, with an important role in delivering the DTI's objectives for regional productivity growth. In the 2000 Spending Review, the RDAs were given both extra resources and new financial autonomies through the 'Single Pot' (see Chapter 23) to meet regional needs. This Spending Review provides a further boost, resulting in a real terms average annual increase in funding of 4.5 per cent between 2002-03 and 2005-06. As lead sponsoring department, DTI's funding for the RDAs has been increased from £159 million in 2002-03 to £283 million by 2005-06. This additional funding will further equip the RDAs to take forward the enterprise agenda, engage industry with innovation, develop key sectors and clusters, support the economic rejuvenation of coalfield communities and stimulate workforce development among local employers. The Small Business Service (SBS) and the RDAs will pilot and evaluate different RDA-led approaches to achieving improved coordination of business support services at the local level and ensuring that local Business Link services promote Regional Economic Strategies. Examples of such approaches include piloting the setting up of RDA business support boards to coordinate business support activities, and piloting regional management of Business Link services in one or two regions. The SBS will work closely with pilot RDAs. These pilots should start by April 2003 and if possible, earlier. In the light of the evaluation of these approaches and the results of the SBS drive to improve the delivery of services from Business Link Operators over the next year, the Government will consider what further changes in the organisation and management of Business Link Operators might be appropriate. The RDAs are also being asked to give greater recognition to regional enterprise strategies in the context of their Regional Economic Strategies.

Consumers and competition

15.14 Strong competition regimes and informed consumers are critical to a dynamic and vibrant market place. The Government has increased the resources for the Office of Fair Trading (OFT) by 50 per cent from the level allocated in the 2000 Spending Review for 2002-03, from £34 million to £52 million. The Spending Review consolidates this step-change in core funding, and allocates an additional £3 million in each of the three years to 2005-06, raising the OFT's annual budget to £55 million. These resources will enable the OFT to enhance the expertise of its staff, assess the impact on competition of existing and proposed regulations, and strengthen its enforcement and market investigation activities. In addition, the Spending Review will enable the national roll-out of a new 'Consumer Direct' helpline and web-based service, with funding rising to £16 million in 2005-06.

Improving employment relations

15.15 Constructive relations between employers and employees can make a valuable contribution to improved

productivity performance. But recent years have seen a rising trend in applications to employment tribunals, resulting in costs to employers, employees and government. The 2002 Spending Review expands the capacity of the Employment Tribunal Service and the Advisory, Conciliation and Arbitration Service (ACAS) to deal with workplace disputes effectively and efficiently, with an average increase of 4.7 per cent per year in real terms over the next three years. Importantly, this Spending Review will also enable ACAS and DTI further to spread best practice in employment relations, including among the small business community.

British Trade International

15.16 British Trade International (BTI) was created in 1999, bringing together the Government's support for export promotion (Trade Partners UK) and inward investment (Invest UK) into one organisation. BTI aims to foster business competitiveness by helping UK firms to secure overseas sales and investments, and to attract high quality foreign direct investment into the UK. The 2002 Spending Review provides increases in BTI's resources rising to £13 million in 2005-06 compared with 2003-04, which will enable it to help more small and new-to-export firms to break into foreign markets.

Post Office

15.17 At 31 March 2002, Consignia plc held £1.8 billion of investments on its balance sheet, representing accumulated past dividends and cash generated by the business. On 13 June 2002, the Secretary of State for Trade and Industry announced that these investments would be put in a reserve, to back the investment required in the mails business to implement the renewal programme and to support the nationwide network of post offices. The Government has agreed that the reserve can be used to clear the Post Office network's debts from past losses and to fund losses over the current year. Subject to Government approval of a new strategic plan, further amounts from the reserve will be made available, to help turn around the business and to support the rural Post Office network. This package represents a substantial commitment to the network.

Liabilities Management Authority

15.18 The Spending Review also provides funding for the establishment, subject to legislation, of the Liabilities Management Authority, which will enable the planning, management and funding of nuclear liabilities and decommissioning on a long-term basis. The White Paper *Managing the Nuclear Legacy - A strategy for action* (Cm 5552) provides further details

15.19 The new spending plans for trade and industry are shown in Table 15.1. Spending on trade and industry will rise by an annual average of 2.8 per cent in real terms between 2002-03 and 2005-06.

Table 15.1: Key figures

£ million			
2002- 03	2003- 04	2004- 05	2005- 06

Trade and Industry

Resource budget	4,555	4,800	5,084	5,564
Capital budget	292	424	167	104
Total Departmental Expenditure Limit^{1,4}	4,726	5,106	5,129	5,542
Department of Trade and Industry ¹	4,580	4,952	4,975	5,386
Other bodies ²	146	154	154	156
Near-cash spending in Trade and Industry DEL ³	4,494	4,868	4,904	5,299

¹ Full resource budgeting basis, net of depreciation.

² Includes BTI, Office of Fair Trading, the Office of the Telecommunications Regulator (OFTEL), the Office of Gas and Electricity Markets (OFGEM), Postcomm, and the Export Credits Guarantee Department (ECGD).

³ Consistent with previous control basis.

⁴ Figures exclude coal health liabilities which have moved from DEL to Annually Managed Expenditure.

Chapter 16

Department for Environment, Food and Rural Affairs

The Government is committed to sustainable development, a better environment in the UK and internationally, enabling a thriving rural economy and delivering a sustainable future for food and farming. This Spending Review delivers an additional £421 million in 2005-06 compared with 2002-03, representing an average increase of 2.7 per cent per year in real terms. This includes:

- investment totalling over £500 million over the three years of the Review in sustainable food and farming, including funding rising to £200 million a year in 2005-06 to implement the core recommendations of the Curry Commission, such as a new 'broad and shallow' agri-environmental scheme and significant extra spending on animal health; and
- spending on flood and coastal defences rising by over £150 million in 2005-06, compared with 2002-03.

SUSTAINABLE DEVELOPMENT

16.1 Many of the Government functions and policy levers needed to deliver sustainable development were brought together by the creation of the Department for Environment, Food and Rural Affairs (DEFRA) in June 2001. DEFRA is taking a joined-up approach to improving the environment both here in the UK and internationally. The commitment to sustainable development is seen in DEFRA's Public Service Agreement (PSA) which includes the following new targets:

- promote sustainable development across government and the country as a whole as measured by achieving positive trends in the Government's headline indicators of sustainable development (see Box 16.1); and
- reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006, and improve the accessibility of services for rural people.

Box 16.1: Promoting sustainable development - DEFRA's PSA target

- All departments have a role to play in delivering sustainable development, but DEFRA has a particular responsibility, providing leadership across government and the wider public sector, and in the private and voluntary sectors.
- This leadership role is reflected in DEFRA's new PSA target. Whether taking the lead in UK preparations for the World Summit on Sustainable Development, chairing the Cabinet Sub-Committee of Green Ministers, or monitoring and reporting progress against the Government's 15 headline indicators, DEFRA has a key responsibility to promote a better quality of life for everyone, now and for generations to come.

Waste and recycling - a cornerstone of sustainable development

16.2 A key element in delivering a sustainable future for the UK is the management and recycling of waste. In this Review the Government is making provision for Local Authorities to address the long-term challenge of municipal waste growth and the shift away from landfill disposal, and to meet the shorter-term challenges of fridge disposal and reform of hazardous waste legislation.

16.3 Additional investment must be accompanied by reform. The Government will take final decisions on additional resources, and other policy measures, when the conclusions of the report by the Performance and Innovation Unit (PIU) into sustainable waste management are published in autumn 2002. Following the recent public consultation, decisions on the landfill tax and the future of the Landfill Tax Credit Scheme will be announced at the same time.

16.4 Together, the new resources being announced for local authorities and the decisions to be taken when the PIU's conclusions are published will deliver a step-change in performance. DEFRA's PSA target of 25 per cent recycling and composting of household waste by 2005-06 demonstrates the Government's commitment to radical reform of municipal waste management, and by 2010 the UK will have cut levels of biodegradable municipal waste going to landfill by 40 per cent.

A vibrant and prosperous rural economy

16.5 Whilst many rural areas are prosperous, the economic performance of some areas and sectors continues to lag. DEFRA will work with other departments and agencies to improve rural productivity, and the 2002 Spending Review includes increased resources to support the Regional Development Agencies' work in encouraging rural enterprise and business growth.

16.6 Despite improvements, some groups and communities in rural areas continue to experience difficulty in accessing key services. DEFRA will work across Government to ensure public services meet their needs. This will include developing community enterprise, helping small private sector service providers improve their competitiveness, and strengthening the capacity of the rural voluntary sector to support the most disadvantaged in rural areas.

A sustainable future for food and farming

16.7 The reform of the Common Agricultural Policy (CAP) will be critical to delivering a sustainable future for farming, and the Government will continue to press for reform through the mid-term review of the CAP occurring this year. But farming needs more reform, now. The 2002 Spending Review allocates DEFRA the resources to fund work on animal health issues drawing on the recommendations of the inquiries arising from last year's Foot and Mouth outbreak. These measures will be set in the context of a comprehensive animal health and welfare strategy. This will establish how to ensure both farmers and taxpayers bear a fair share of the costs of animal health controls.

16.8 Building on the report from the Policy Commission chaired by Sir Don Curry, DEFRA will make progress towards a sustainable future for the food and farming industries by using the flexibility that already exists within the CAP. As Curry suggests, the England Rural Development Programme will be expanded and a 'Broad and Shallow' agri-environment scheme will be introduced that pays farmers to deliver positive environmental outcomes through changes in farming practices. In order to provide more streamlined and better focused delivery of rural development and agri-environment programmes in rural areas, the environmental and rural agencies across the DEFRA family will be examined for potential rationalisation. DEFRA will publish a comprehensive delivery strategy for sustainable food and farming in the autumn.

Box 16.2: Delivering sustainable food and farming

The Curry Commission set out how progress can be made towards a sustainable future for food and farming. This Review gives DEFRA the resources to implement their core recommendations, providing a balanced package for farmers including investment for:

- electronic livestock identification;
- a more efficient food chain;
- action through the England Rural Development Programme, including:
- a new broad and shallow agri-environment scheme to be piloted over the next 2 years and then rolled out in full in 2005-06;
- other measures, such as the Rural Enterprise Scheme, the Processing and Marketing Grants Scheme, and the Vocational Training Scheme; and
- anticipated expansion to current schemes.
- piloting farm audits;
- enhanced farm advice;
- more testing for TSE-type diseases (such as BSE);
- an enhanced National Scrapie Plan; and

- further work, in concert with HM Customs, to prevent illegal meat imports.

In return for this investment, the Government expects farmers to play their part in making their industry sustainable, for example by managing disease risks.

Raising the standards of flood and coastal defence

16.9 The autumn 2000 floods, the worst in some areas for 400 years, reminded the UK how much damage and disruption large scale flooding can cause. Research has shown that climate change, and changing patterns of land use, may well be increasing the amount of property at risk from flooding and in response to this government investment in flood defence has been rising swiftly in real terms since 1997. That growth will now accelerate: overall, government expenditure on flood and coastal defences will rise by £150 million by 2005-06, equivalent to an average annual real rate of growth of 8.6 per cent.

16.10 Building on the work of the flood and coastal defence funding review, the Government will also explore options for putting in place new funding mechanisms and simplifying the administration of flood defences. The Government recognises that reducing and managing flood risk involves more than simply building flood defences, and will work in partnership with homeowners, local government, the Environment Agency, scientists, the insurance industry and others to achieve this.

Forestry: an integral part of rural affairs

16.11 Increased investment in the Forestry Commission will allow it to take forward sustainable forest management, community forests, and restoration of native woodland. These actions, and others, play a vital role in the Government's integrated approach to protecting and enhancing the UK's environment. The increase in provision available to the Forestry Commission for its England and core Great Britain functions will also allow them to continue to manage their business during the downturn in world timber prices. Following on from the Interdepartmental Review of Forestry Devolution, DEFRA will do a further analysis, with the Treasury, of the Government's role in forestry in England.

SPENDING PLANS

16.12 The 2002 Spending Review provides a 2.7 per cent annual average real terms increase in funding for DEFRA and the Forestry Commission. The spending totals for each year are shown in the following table.

Table 16.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Department for Environment, Food and Rural Affairs					
	Resource budget	2443	2,765	2,742	2,792
	Capital budget	241	316	344	354
	Total Departmental Expenditure Limit¹	2,523	2,902	2,890	2,944
Department for Environment, Food and Rural Affairs ¹		2,426	2,808	2,796	2,850
	Forestry Commission ¹	97	94	94	94
	Near-cash spending (estimated) in DEFRA DEL ²	2,341	2,727	2,710	2,757

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 17

Department for Culture, Media and Sport

The Government is committed to working with Britain's culture, media and sport sectors to improve opportunity, access and quality for all. The 2002 Spending Review will:

- add £257 million a year to spending on these sectors by 2005-06 compared to 2002-03 which is equivalent to an average increase of 3.5 per cent a year in real terms;
- improve the delivery of arts and sports to offer a broader range of opportunities to children and young people;
- continue the work on improving community sports facilities initiated in Budget 2002;
- put in place a sports coaching strategy aimed at helping young people achieve their potential;
- strengthen the core funding for the national museums and galleries in order to maintain the policy of free access by all members of the public; and
- provide better access across the country to a network of regional museums.

OPPORTUNITY, ACCESS AND QUALITY

17.1 The Government's goals for the Department for Culture Media and Sport (DCMS) are opportunity, access and quality: offering everyone the opportunity to improve the quality of their lives by being able to access high-quality cultural and leisure activities.

17.2 The department's key themes for this review are:

- children and young people;
- building communities;
- maximising the contribution that tourism, creative and leisure industries make to the economy; and
- modernising delivery.

17.3 To ensure delivery of these goals, tough new PSA targets have been agreed with the DCMS. These include new objectives on increasing participation by pupils in sport both in and after school, jointly with the Department for Education and Skills (DfES) and increasing participation of adults in cultural and sporting opportunities.

17.4 A key part of the review is for the DCMS to take forward plans to reform the role it plays in relation to the bodies it sponsors. It will work with its bodies to devise a more effective partnership where roles and responsibilities are clearer and the department is the strategic commissioner of the service.

What has been achieved so far

17.5 The 2000 Spending Review improved access to the arts and provided additional funding to help schools provide more opportunities for sporting activities. Links were encouraged between the arts and schools by introducing a pilot scheme of Creative Partnerships in areas across the country to allow children the experience of a range of cultural and creative opportunities. Another significant measure was to ensure funding to allow the national institutions sponsored by the DCMS to introduce free entry. Budget 2001 removed the last remaining barrier to free entry by introducing a new VAT refund scheme effective from 1 September 2001 for those national museums and galleries willing to offer free admission. Eligible bodies are allowed to recover the VAT they incur.

17.6 The national museums and galleries sponsored by the DCMS have been free to the public since December 2001 and attendance has increased by around 75 per cent. The numbers of children visiting has also been rising steadily and the DCMS is on course to meet its PSA target to increase children's visits by one third by 2004.

17.7 Sixteen Creative Partnership pilots have been set up, targeted on deprived areas and will start working with children from September 2002. There are now more than 500 school sports coordinators in place and the percentage of children participating in the school sports coordinator areas has increased from 25 to 65.

What is now to be done

17.8 For this review, the DCMS has plans to strengthen the core in the arts, museums and galleries and improve the delivery of sports and the arts for children and young people. By 2005-06 spending on the arts will rise by £75 million above existing plans for 2003-04. The department will build on joint working with the DfES, which has already brought many benefits to children in primary schools through the Space for Sports and Arts programme (jointly funded by the Capital Modernisation Fund and the National Lottery) to bring together the two departments' priorities in the education, sporting and cultural sectors. This shared vision will offer a broader range of opportunities to young people, particularly the most deprived.

17.9 In schools, the DCMS and the DfES will continue to work together to enable more children to benefit from the coaching and school sports programme. This review also builds on the announcement made in Budget 2002 which gave **£20 million in support to community sports facilities in 2002-03, by continuing this funding across all years of the review**. Funding has also been provided to allow the Creative Partnerships pilot to be extended to broaden coverage.

17.10 As a result of increased core funding for the national museums and galleries, these institutions will be able to maintain the policy of free access by all members of the public to the main collections. This review has also allowed funding **to improve access to a regional museums network** that will provide a much-needed additional educational resource for children including those in the most deprived communities.

Reform and delivery

17.11 The DCMS has plans for reform of support for the tourism industry and regulation of the leisure and creative industries to maximise their contribution to the productivity of the economy. Tourism reform plans are now underway and these will include strengthening the role of the regions and ensuring that they work more closely with a streamlined national body. The department has proposals for legislation to cover alcohol and licensing, gambling and communications all of which aim to reform and modernise these sectors. The department is also undertaking a review of the National Lottery.

17.12 As outlined in Chapter 23, the DCMS has a major role to play in regional policy. This review has specifically focused on how government can work in closer partnership with the Regional Development Agencies to deliver better services. This is particularly relevant for tourism but also for sporting and cultural activities.

17.13 The DCMS already plays an influential role in delivering the Government's wider sustainable development objectives. By using a solid base of evidence to inform decisions, and by working across government and with other stakeholders during its development, a cross-departmental Sustainable Development Strategy will demonstrate the important and diverse contribution the DCMS will continue to make to delivering a better quality of life, from reducing the environmental impact of tourism to improving levels of educational attainment through the Government's culture policies.

SPENDING PLANS

17.14 New spending plans provide an annual average real terms increase of 3.5 per cent over three years to 2005-06. This will ensure that the DCMS sectors are able to create and maintain a sustainable infrastructure.

Table 17.1: Key figures

	£ million			
	2002-03	2003-04	2004-05	2005-06
Department for Culture, Media and Sport				

Resource budget	1,350	1,455	1,512	1,585
Capital budget	46	56	81	96
Total Departmental Expenditure Limit¹	1,328	1,423	1,500	1,585
Near-cash spending in DCMS DEL ²	1,218	1,283	1,358	1,442

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 18

Department for Work and Pensions

The Government is increasing opportunity for those without work and tackling child and pensioner poverty. In order to achieve these objectives the Department for Work and Pensions will be spending £800 million more in 2005-06 than in 2002-03, an average increase of 1.1 per cent a year in real terms. The 2002 Spending Review advances the Government's welfare reform and modernisation programme by:

- rolling out Jobcentre Plus nationally by 2006 to deliver an enhanced work- focused service;
- delivering the Pension Credit through the new Pension Service raising incomes of the poorest pensioners and rewarding those on low and modest incomes for their saving;
- continuing to invest in new technology to provide a modern, efficient service to customers, and to begin the move to pay all benefits electronically from April 2003;
- continuing to tackle fraud and error by setting a new target to reduce fraud and error in Housing Benefit by 25 per cent by 2006; and
- extending the Employment Zone approach to lone parents and New Deal returners, and testing new approaches with multiple providers in the same area.

In addition, the Review provides additional resources to:

- enhance employment support for people with a disability or long standing health problem;
- reform the administration of Housing Benefit; and
- invest in developing composite pension forecasting, accessible over the internet, to help guide decisions on savings for retirement.

WORK FOR THOSE WHO CAN, SECURITY FOR THOSE WHO CANNOT

18.1 The Department for Work and Pensions' key objectives are to provide employment opportunity for all, and tackle child and pensioner poverty. Reducing worklessness and poverty, and providing modern and efficient public services, will not only improve living standards but contribute to higher economic growth. Since 1997 the Government's welfare reform and modernisation policies have resulted in:

- record numbers in employment and reductions in unemployment to generational lows. Since 1997, employment has risen by 1.5 million, while both long term unemployment and long term youth unemployment have fallen by 75 per cent¹. The Spending Review enhances employment opportunity through completing the national roll-out of Jobcentre Plus to provide a more enhanced work-focused service to lone parents and sick and disabled people;
- 300,000 fewer children living in workless households since 1997;
- over 2 million pensioners now receiving the Minimum Income Guarantee, worth £98.15 a week for single pensioners. The Spending Review provides greater security to pensioners by introducing the Pension Credit from October 2003 to reward saving, as well as rolling out the new Pension Service to provide improved and tailored help for both today's and future pensioners;
- a major programme of ICT modernisation, including, for example, 10,000 Jobpoints that give customers instant access to job vacancies all over Britain and abroad; and

- a reduction in fraud and error in Income Support and Jobseekers' Allowance payments of 18 per cent since September 1998, well ahead of schedule to meet the current target of a 25 per cent reduction by March 2004.

18.2 The 2002 Spending Review sets a number of new and challenging targets for the Department for Work and Pensions to achieve. These include:

- reaffirming the Government's commitment to tackle child poverty by **reducing the number of children living in low-income households by at least a quarter by 2004 as a contribution towards the broader target of having child poverty by 2010 and eradicating it by 2020;**
- **for families with an absent parent who are on Income Support, a target to double to 60 per cent by March 2006 the proportion who receive maintenance;**
- **paying Pension Credit to at least 3 million pensioner households by 2006,** by ensuring that claiming is simplified and less intrusive so that pensioners are encouraged to take-up their full entitlement;
- **reflecting the Government's commitment to improve disability rights,** by removing barriers to the participation of disabled people in society in addition to improving the employment rate of disabled people;
- for the first time, tackling fraud and error in Housing Benefit. **The new target will aim for a 25 per cent reduction in Housing Benefit fraud and error by 2006;** and
- an increase in the existing PSA target to **reduce fraud and error in payments of Income Support and Jobseekers' Allowance.** The Government is now committed to a 33 per cent reduction in fraud and error in these payments by March 2004, as a milestone towards a 50 per cent reduction by March 2006.

Key Reforms

18.3 The 2002 Spending Review also takes forward the Government's objective of reforming and modernising welfare delivery. The key reforms this Spending Review delivers are:

- **national roll-out of Jobcentre Plus** - the Government's one stop shop for job search and receipt of working age benefits - so that by 2006 there will be an additional 2 million work focused interviews a year providing more intensive 'back to work' help;
- next steps on Employment Zones, including extension to lone parents and people returning to New Deal for the second time, and further development of the model to include testing the effect of multiple providers in a given area;
- **external scrutiny of Jobcentre Plus performance,** including publication of league tables of performance indicators, district-by-district;
- **further reforms to Housing Benefit administration supported by substantial new investment** - publication of quarterly reports on local authority performance, new streamlined inspection, and quicker and more decisive interventions with failing authorities. The current complex and unevenly administered arrangements blunt work incentives and deny people choice;
- the new Pension Service will deliver the Pension Credit raising incomes of the poorest pensioners and reward those on low and modest incomes for their saving; and
- investment to enable the development of composite pension forecasts - with the aim of bringing together information on all a person's pension entitlements, accessible over the Internet, and allowing savers to work out what saving more could mean for their income in retirement. This will be an important component of the strategy that the Government will set out in the forthcoming Green Paper.

Further reforms and investment

18.4 In addition, the Spending Review provides further investment in:

- additional resources to enhance employment support for those with a disability or long standing health problem, tackle worklessness among the hardest to help, and improve the basic skills of unskilled jobseekers, lone parents and sick and disabled people; and
- additional resources for the Disability Rights Commission to oversee and enforce the rights of disabled people.

Modern service delivery

18.5 The infrastructure that supports the social security system is antiquated, vulnerable to fraud and error and inflexible, preventing staff from delivering a modern, efficient service. This spending review continues the work begun in the last

review:

- from April 2003 the change to benefits being paid into bank accounts will begin, whilst ensuring that benefit recipients continue to be able to collect their cash from post offices; and
- moving away from relying on paper-based customer services towards much greater use of the telephone and electronic information gathering, as well as investing in new systems to enable claims to be processed more accurately and quickly.

SPENDING PLANS

18.6 The 2002 Spending Review provides for annual average real growth of 1.1 per cent for the Department for Work and Pensions' DEL. However, including the carry over from the Windfall Tax in 2002-03, the DWP's DEL falls in real terms by an annual average of 1.3 per cent. This fall in costs will take place even as the Department is providing an additional 2 million work focused interviews, doubling the number of parents to whom it is paying maintenance and paying the new Pension Credit. Thus by bearing down on the costs of administration, and ensuring robust value for money, the Government is able to devote more resources to its key priorities of moving people into work and tackling child and pensioner poverty.

Table 18.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Department for Work and Pensions					
	Resource budget	7,000	7,633	7,743	7,843
	Capital budget	117	4	161	83
	Total Departmental Expenditure Limit¹	7,018	7,531	7,800	7,817
	Near-cash spending in DWP DEL ²	7,018	7,515	7,780	7,798

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

¹Claimant count. Long-term adult unemployment: aged 25+, over 18 months duration. Long-term youth unemployment: aged 18-24, over 6 months duration.

Chapter 19

Northern Ireland Office

The Government's spending plans for the Northern Ireland Office provide for an additional £140 million of spending in 2005-06 compared to 2002-03, clearly demonstrating its full commitment to building a lasting peace with security in Northern Ireland. Excluding exceptional programme expenditure, these plans provide for growth of average 3.5 per cent a year above inflation in resources for the Northern Ireland Office over three years. This will allow the Northern Ireland Office to build on the substantial resources it received in the 2000 Spending Review and continue:

- implementing fully its Good Friday Agreement pledges;
- building a modern and efficient Police Service of Northern Ireland that is properly representative of all traditions in Northern Ireland and secures growing respect, trust and support;
- bringing about key reforms in the system of justice in Northern Ireland, which will also secure the respect, trust and support of all traditions in Northern Ireland; and
- providing for a properly financed independent Police Oversight Commissioner, Police Ombudsman, Northern Ireland Human Rights Commission, support for Victims of the Troubles and the Bloody Sunday Inquiry.

PEACE AND SECURITY FOR ALL IN NORTHERN IRELAND

19.1 The aim of the Northern Ireland Office (NIO) is to secure a lasting peace in Northern Ireland, based on the Good Friday Agreement, in which the rights and identities of all traditions are fully respected and safeguarded and in which a safe, open and tolerant society can thrive and prosper. The NIO will also seek to maintain positive and constructive relations with the Northern Ireland Executive and the Irish Government, and to contribute effectively to the work of the British-Irish bodies.

19.2 The political structures set out in the Good Friday Agreement, namely the Northern Ireland Assembly and the British-Irish bodies, continue to function. The implementation of the Patten reforms on policing continues with the first 300 recruits on a 50:50 Catholic/Protestant basis being appointed. The Policing Board was established in November 2001 with cross-community membership and agreement on a new police badge. Progress also continues on key reforms in the system of justice in Northern Ireland with legislation likely to receive Royal Assent in the summer of 2002. The Independent Commission on Decommissioning verified the first acts of IRA arms decommissioning in October 2001 and April 2002. The work of bodies including the Police Oversight Commissioner, Police Ombudsman, Northern Ireland Human Rights Commission, and Equality Commission continues.

19.3 Over the 2002 Spending Review period, the Northern Ireland Office will have a range of challenging Public Service Agreement targets building on those agreed in the 2000 Spending Review. These include two targets on increasing public confidence in policing and the criminal justice system in both communities in Northern Ireland, increasing Catholic representation in the Police Service of Northern Ireland to 30 per cent by 2011 as well as targets for reductions in specific types of crime and the rate of re-conviction. There is also a value for money target on reducing the cost per prisoner place in the Northern Ireland Prison Service.

A modern police service for the 21st century

19.4 The Northern Ireland Office will continue to receive substantial new resources over the next three years to continue to finance a modern, efficient and fully inclusive Police Service of Northern Ireland which secures widespread popular support. The investment for reform and modernisation includes resources for the on-going recruitment programme, the establishment of a new training college, the latest information and communications technology, refurbishment of police stations as well as a fleet of modern police vehicles. The aim is to provide the people of Northern Ireland with a modern and responsive police service for the 21st century; a police service which they can trust and support.

Reform, justice and fairness for all

19.5 The Northern Ireland Office will press ahead with legislation to implement the reforms recommended by the Criminal Justice Review and an updated Implementation Plan will be published. Through implementing these reforms, the Northern Ireland Office will place human rights principles and instruments at the core of a reformed justice system and establish basic principles to underpin the whole system. A single independent prosecution service will also be established. A new tariff-based Criminal Injuries Compensation Scheme is replacing the current arrangements that will provide victims with a simpler, quicker and more accessible service. The Northern Ireland Office will ensure that funding will continue to be made available for the Police Oversight Commissioner, Police Ombudsman, the Northern Ireland Human Rights Commission and the Equality Commission for Northern Ireland.

Investing in modern prisons

19.6 The Northern Ireland Prison Service is committed to ensuring, as far as reasonably practicable, the health and safety of its staff, prisoners and others who come in contact with the service. In taking forward the Modernising Government agenda, the service extended video-conferencing technology for pre-trial hearings to HMP Maghaberry which has reduced significantly the movement of prisoners to courts, provided a greater degree of security and the more efficient running of courts; an innovation that has already secured substantial savings for the taxpayer and will be extended more widely in the 2002 Spending Review period.

19.7 The Prison Service is keenly aware of the dangers caused by the illegal use of drugs in prisons and has appointed a Drugs Coordinator to help combat drugs use in Northern Ireland prisons. A strategic review of the prison estate will be carried out to determine the size and structure of the estate to meet future custody demands. A capital modernisation programme is currently taking place in the Juvenile Justice Centres.

Other commitments

19.8 The resource plans also provide the Northern Ireland Office with sufficient funds to meet its other commitments including criminal injury and damage compensation and core departmental modernisation initiatives.

SPENDING PLANS

Table 19.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Northern Ireland Office					
	Resource budget	1,143	1,088	1,128	1,162
	Capital budget	60	64	57	72
	Total Departmental Expenditure Limit¹	1,170	1,114	1,144	1,190
	Near-cash spending in NIO DEL ²	1,151	1,083	1,109	1,150

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 20

The Chancellor's Departments

The new spending plans for the Chancellor's departments provide an additional £0.5 billion in 2005-06, as compared to 2002-03. This represents 1.4 per cent annual average growth after inflation, which will deliver:

- more efficient service delivery through greater use of electronic applications;
- further action to combat tax and excise fraud to safeguard revenues and fair competition; and
- modernisation of systems supporting national and local statistics.

20.1 The Chancellor's departments play a key role at the centre of government: HM Treasury in setting the financial frameworks coordinating Euro preparations as required by the Government's policy of 'prepare and decide' and in stewardship of the resources which support public services; the two Revenue departments - the Inland Revenue and HM Customs and Excise - in providing key frontline services for citizens and businesses alike; and the Office for National Statistics in providing statistics essential for public policy making.

Fraud prevention

20.2 Tackling tax fraud and the shadow economy safeguards vital revenues and ensures the tax burden is properly and fairly distributed. It also ensures legitimate businesses do not face unfair competition from the fraudsters. Revenue departments will target their efforts to favour compliant businesses. New initiatives for tackling mainland oils fraud and VAT fraud will be implemented.

Tax and benefit modernisation

20.3 From April 2003 the Inland Revenue will be introducing the new tax credits announced in Budget 2002. The new Child Tax Credit will provide a single, seamless system of income-related support for families with children. The new Working Tax Credit will improve work incentives, make work pay and help to overcome persistent poverty among those in low paid work.

Environment and sustainable development

20.4 HM Treasury has a revised aim, and an additional new objective, highlighting the importance of delivering a better quality of life and protecting the environment. By using a solid base of evidence to inform decisions, and using the right mix of policy instruments, HM Treasury will continue to play an important part in delivering sustainable development.

INCREASING CHOICE AND IMPROVING INFORMATION FOR CITIZENS

e-government

20.5 Additional resources will enable the Revenue departments to develop and roll out electronic applications as a platform for conducting business. This will lead to greater efficiency and reduced compliance costs for business. Contact centres and self-service Internet transactions are already transforming the way their business is conducted. Government will seek to increase take-up by designing effective services that citizens and business really want.

20.6 Electronic filing of payroll data offers improvements in efficiency and data quality and the Government will work

with employers and intermediaries to ensure that critical mass is achieved and inefficient paper-based routines are phased out as soon as possible. The new incentive scheme is designed to encourage small and medium-sized enterprises (SMEs) to use this facility.

20.7 National Statistics and actuarial advice provide the key information to underpin economic and public service planning. National Statistics have a diverse customer base outside government in the business and research communities. The Spending Review supports continued investment to enable the Office of National Statistics to re-engineer their statistical systems to provide a more responsive and efficient service.

National audit and accountability standards

20.8 Electronic data exchange also plays a key role in Whole of Government Accounts - commercial-style accounts covering the whole of the public sector. These are intended to present a "true and fair" view of Government's activities, helping to deliver better policy making and greater accountability.

SPENDING PLANS

Table 20.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Total Chancellor's departments					
	Resource budget	4,309	4,468	4,608	4,778
	Capital budget	228	238	300	303
	Total Departmental Expenditure Limit¹	4,264	4,421	4,619	4,789
	Inland Revenue ¹	2,704	2,749	2,836	2,913
	HM Customs & Excise ¹	1,095	1,145	1,212	1,287
	HM Treasury ¹	171	220	232	240
	Office for National Statistics ¹	139	132	159	174
	National Savings ¹	157	172	171	168
	Government Actuary's Department ¹	1	3	2	2
	Near-cash spending in Chancellor's departments DEL ²	4,239	4,324	4,513	4,680

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 21

Cabinet Office

Following the Machinery of Government changes announced by the Prime Minister in May 2002, and the appointment of Sir Andrew Turnbull as the new Cabinet Secretary, the Cabinet Office has the following strategic objectives for the period to 2005-06:

- support the Prime Minister in leading the Government;
- support the Government in transacting its business;
- help deliver key public service priorities;
- lead the reform programme for public services; and
- coordinate security, intelligence and civil contingencies matters to protect the UK against disruptive challenges.

The Spending Review gives the Cabinet Office group an increase in spending of £321 million a year in 2005-06 compared to 2002-03. This yields an average growth rate of 3.6 per cent above inflation over the 3 years for the Cabinet Office core functions, with 3.7 per cent for the group as a whole.

PRIORITIES

21.1 Over the SR2002 period, the key aim of the Cabinet Office will be to support the Government's delivery and reform programme. Sir Andrew Turnbull's plans on how the Cabinet Office will be reorganised to achieve this aim were set out on 24 June 2002.

21.2 The recent machinery of government changes have also had implications for the Cabinet Office. For example, the work of the Regional Co-ordination Unit, the Government Offices for the Regions, and the Social Exclusion Unit will now be taken forward by the Office of the Deputy Prime Minister.

DELIVERY

Support to the Prime Minister and the Government

21.3 10 Downing Street and the Cabinet Secretariats will continue to provide the best possible support to the Prime Minister and the Government, providing advice and coordination across the whole of the Government's business.

Delivery of key public services

21.4 Delivery of key public services priorities and leading the reform programme for public services will be a key focus of the work of the Cabinet Office over the Spending Review period. Working closely with HM Treasury, the Delivery Unit is responsible for ensuring the Government achieves its delivery priorities across the key areas of public services. The Office of Public Services Reform will continue to work with departments to redesign services around the needs of customers. The Strategy Unit (which will bring together the Performance and Innovation Unit and Forward Strategy Unit) will focus on strategic and cross-cutting policy analysis. The e-Transformation group, led by the e-Envoy, will continue to lead work to achieve the Prime Minister's targets for electronic service delivery by the Government.

Coordination of security, intelligence and civil contingencies

21.5 Sir David Omand, the Security and Intelligence Coordinator, will lead the work of the Intelligence and Security and Civil Contingencies Secretariats in working to enhance the capacity at the centre of Government to coordinate security, intelligence and consequence management matters and to deal with risks and major emergencies should they arise.

SPENDING PLANS

21.6 The Chief Secretary has allocated additional funding for the Cabinet Office. This will ensure that the Cabinet Office has the financial flexibility to deliver against its full range of objectives.

Single Intelligence Vote

21.7 The Security and Intelligence Agencies play a vital role in protecting the UK from a diverse range of threats, including terrorism, serious crime and espionage. The importance of the Agencies in protecting national security was recognised in the 2000 Spending Review and again in this Review. The new spending plans provide for an average 7.1 per cent a year real growth from 2002-03 to 2005-06. Total spending on the Single Intelligence Vote will be £291 million higher in 2005-06 than in 2002-03. In the aftermath of the terrorist attacks of 11 September, the Agencies continue to provide a significant contribution to tackling the threat posed by terrorist organisations. The Government has, therefore, ensured that they remain sufficiently funded to meet their agreed objectives.

Table 21.1: Key figures

	£ million			
	2002- 03	2003- 04	2004- 05	2005- 06
Total Cabinet Office				
Resource Budget	1,637	1,864	1,919	1,934
Capital Budget	150	196	216	231
Total Departmental Expenditure Limit¹	1,608	1,831	1,899	1,929
Cabinet Office ¹	193	232	231	231
Single Intelligence Vote ¹	896	1,088	1,157	1,187
Other bodies ²	518	512	512	512
Near-cash spending in DEL ³	1,480	1,702	1,767	1,792

¹ Full resource budgeting basis, net of depreciation.

² Including the House of Commons, the House of Lords, the Parliamentary Commissioner, the Privy Council, the Central Office of Information, the Electoral Commission and the National Audit Office.

³ Consistent with previous control basis.

Chapter 22

Devolved Administrations

The Spending Review provides a major boost to the public services in Scotland, Wales and Northern Ireland:

- by 2005-06 provision in Scotland to invest in modern public services will be
- £4.1 billion higher than in 2002-03;
- provision will be £2.35 billion higher in Wales over the same period (including resources to fund Wales's Objective 1 needs); and
- provision will be £1.2 billion higher in Northern Ireland comparing 2005-06 with 2002-03.

Decisions on the use of this provision will be made by the Scotland, Wales and Northern Ireland administrations. The extra money will allow the devolved administrations to improve public services and determine their own particular public spending outcomes in line with the needs and priorities of the people of Scotland, Wales and Northern Ireland.

DETERMINING THE BUDGETS OF THE DEVOLVED ADMINISTRATIONS

22.1 The devolved administrations' budgets are determined within the United Kingdom framework of public expenditure control. The devolved administrations have freedom to make their own spending decisions, within the overall totals, on functions under their control in response to local priorities. The devolved administrations will make their own announcements in due course about their detailed spending plans.

Devolved funding arrangements

22.2 UK funding for the devolved administrations' budgets has been determined in the Spending Review alongside departments of the UK Government and in accordance with the established devolution funding arrangements. In general the changes to the devolved administrations' budgets have been linked to changes in spending plans of UK Government departments by the Barnett formula. The formula gives Scotland, Wales and Northern Ireland a population-based share of planned changes in comparable spending in UK departments, as set out in the Statement of Funding Policy published by the Treasury.

22.3 The increases announced in the Spending Review include the allocations already announced by the Government in the Budget in relation to health spending.

22.4 The increases include an extra allocation of £106 million a year in 2003-04, 2004-05 and 2005-06 to Wales to ensure funding of the European share of its Objective 1 needs, with resources for match funding provided for within the total spending settlement. The Government is also making available an allocation of £50 million in 2003-04, £62 million in 2004-05 and £80 million in 2005-06 for the Northern Ireland Executive's EU funded PEACE programme. In May 2002 the Government announced new borrowing powers for the Northern Ireland Executive and the establishment of a new strategic investment body, with funding of £200 million in the first three years. The costs of the Scotland and Wales Offices are met from within the total funds voted by the UK Parliament. The budget of the Northern Ireland Office has been determined separately; details are in Chapter 19.

SPENDING PLANS

22.5 Table 22.1 shows each devolved administrations' Departmental Expenditure Limit (DEL). Other budgetary items, defined as Annually Managed Expenditure (AME), are set annually. As the devolved administrations have freedom to reallocate spending between capital and resource budgets, the split between these budgets is indicative and reflects the consequential of the application of the Barnett formula to planned changes in UK departments' spending.

Table 22.1: Key figures

		£ million			
		2002-03	2003-04	2004-05	2005-06
Scotland					
	Resource budget	16,637	18,062	19,052	20,358
	Capital budget	1,876	1,953	2,146	2,288
	Total Departmental Expenditure Limit¹	18,207	19,718	20,884	22,319
Wales					
	Resource budget	8,829	9,655	10,240	11,000
	Capital budget	801	830	919	999
	Total Departmental Expenditure Limit¹	9,424	10,275	10,941	11,774
Northern Ireland Executive					
	Resource budget	6,167	6,486	6,796	7,208
	Capital budget	342	423	483	523
	Total Departmental Expenditure Limit¹	6,418	6,813	7,178	7,626
Near-cash spending in devolved administrations DELs ²		33,052	35,758	37,921	40,564

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Chapter 23

The English Regions

As part of the Government's commitment to promote prosperity in every region, the 2002 Spending Review:

- promotes growth in all regions, through improving the key drivers of productivity at the regional level, reinforced by an enhanced Public Service Agreement (PSA) floor target for regional economic performance;
- strengthens regional institutions and devolves power to the regions and local communities, including increasing resources and responsibilities for the Regional Development Agencies (RDAs); and
- promotes a fair allocation of public spending to encourage fairness across the regions.

This chapter also sets out how the Spending Review meets the priorities identified by regional institutions for promoting prosperity in their regions.

PROMOTING GROWTH IN EVERY REGION

23.1 The Government set out its aim to promote prosperity in all countries and regions of the UK in *Productivity in the UK: 3 - the Regional Dimension*, published alongside the Pre-Budget Report 2001. It explained the Government's agenda for achieving this aim, by tackling the market failures that act as barriers to growth - particularly those around the Government's five key drivers of productivity: skills, investment, innovation, enterprise and competition.

23.2 This chapter explains how the Spending Review has reinforced the Government's ambition to achieve this aim and explains how the regional dimension has been accounted for more widely in the Review.

23.3 The Spending Review builds on the foundations already put in place to tackle barriers to growth, including:

- promoting economic development in all regions, by strengthening of the Regional Development Agencies, including increasing expenditure by 4.5 per cent a year in real terms over the three years to 2005-06 and the piloting of greater RDA involvement in skills and business support;
- rewarding improved performance by local planning authorities, through a new 3-year incentive grant. This underlines the Government's commitment to fundamental planning reform, set out in the recent Green Paper *Delivering a Fundamental Change*, which included proposals to strengthen strategic regional planning;
- creating regional housing markets that are more responsive to changing demand by establishing strong regional housing bodies that will better integrate decisions on housing with those on economic development, planning and transport;
- increasing innovation with an average real terms increase of 10 per cent in the Department for Trade and Industry's Science Budget;
- fostering enterprise in deprived communities by extending the Phoenix Fund beyond its current end date of March 2004 with £50 million over 2004-05 and 2005-06 and up to £60 million by 2005-06 to promote enterprise in schools, in response to the Davies review; and
- boosting connections across the regions through the Government's Ten-Year Plan for Transport. The Spending Review confirms this commitment to transport by exceeding the Ten-Year Plan profile for the Review period, with spending rising by over 12 per cent a year on average above inflation, and continuing the delivery reforms

to create a more integrated system of transport planning and implementation with a strengthened regional dimension.

23.4 Box 23.1 sets out how the regional dimension to policy has been incorporated into Public Service Agreements, and in particular into an updated target on improving the economic performance of all regions.

Box 23.1: The regions and Public Service Agreements (PSAs)

The Government's commitment to ensuring all regions share in the UK's economic prosperity is set out in a joint PSA target between the Office of the Deputy Prime Minister (ODPM), the Department of Trade and Industry (DTI) and, for the first time, HM Treasury: *make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.*

This target is one of a set of enhanced PSA floor targets announced in the Spending Review, full details of which are set out in Chapter 4. These targets are at the heart of the Government's agenda for fairness in all parts of the country.

In addition to this, a number of other relevant PSAs will have a regional dimension, to help ensure that all regions share in Spending Review aims to improve public service delivery. This regional dimension is explicit in the ODPM housing target: *achieve a more sustainable balance between housing availability and the demand for housing in all English regions while protecting valuable countryside around our towns, cities and in the greenbelt and the sustainability of existing towns and cities.*

In other cases it is implicit, and will be reflected where appropriate in the target's delivery plan and measuring arrangements. For example, promoting economic performance and prosperity in rural areas (DEFRA), improving adult skills (DfES), encouraging tourism (DCMS), improving innovation (DTI) or tackling health inequalities (DH).

DEVOLVING RESPONSIBILITY IN EVERY REGION

23.5 The different priorities in each region for promoting prosperity show that a strong national response is necessary, but that that response must be flexible. Therefore, the Government is strengthening regional institutions and devolving power to the regions through:

- supporting in the Spending Review - demonstrated through an ODPM target - the introduction of elected regional assemblies in regions where there is demand for them, as set out in *Your Region, Your Choice: Revitalising the English Regions* (published in May 2002);
- further strengthening the role and funding of the RDAs; and
- strengthening institutions and funding at the local level, as explained in Chapter 1.

Better regional co-ordination and delivery

23.6 The Government, as part of its effort to improve the delivery of public services, is also committed to improving the coordination of policy at the regional level. This is reinforced by a new PSA target for the Office of the Deputy Prime Minister: *promote better policy integration nationally, regionally and locally; in particular to work with departments to help them meet their PSA floor targets for neighbourhood renewal and social inclusion.*

23.7 To this end, there will be substantive progress in the rationalisation of regeneration initiatives. This should result in the merging of such initiatives to produce a smaller set of clearly defined funding streams that facilitate sensible joint working at a local and regional level and do not impose unnecessary burdens on the delivery of services.

Regional Development Agencies

23.8 The Government views the RDAs as being the key strategic drivers of economic development and regeneration in

the regions, as set out in Chapter 3. It has put in place a framework based on stretching targets and strengthened flexibility to enable them to meet this challenge. These targets cover sustainable economic performance, regeneration, urban and rural development, physical development, employment, skills, productivity, enterprise, investment and innovation.

23.9 The Spending Review provides an increase of £375 million to the RDA's Single Pot by 2005-06, compared to 2002-03. Together with the reduction in the Single Regeneration Budget (SRB) commitments over the Spending Review period, which release an additional £535 million by 2005-06, this implies an increase in the uncommitted resources available in the Single Pot - the effective Single Pot - of £910 million by 2005-06 compared to 2002-03. The Single Pot will be £2 billion in 2005-06.

23.10 The settlement also:

- rebalances the RDAs' funding, with a switch of £200 million per year of existing funding levels from capital to resource, to help ensure the RDAs have the right mix of funding for their evolving role;
- gives the RDAs an initial £2 million per year from the Department for Culture, Media and Sport (DCMS) and tasks the RDAs with a greater role in regional tourism promotion, in preparation for DCMS' discussions on the future shape of government support for domestic tourism; and
- gives the RDAs an additional £2 million per year from 2004-05 through DTI to commission multi-modal transport studies via the Regional Planning Bodies, to ensure that transport links within and between regions support increased productivity.

23.11 The RDAs will also be invited to participate in the reforms being made to the institutional framework on housing and planning, on which further detailed announcements will be made in due course.

23.12 In addition to the measures above affecting all RDAs, as greater RDA involvement is to be piloted in one or two regions in the key areas of adult skills and services to small businesses.

Box 23.2: Increasing employment opportunity in every region

At the heart of the Government's strategy for increasing employment is making work pay, and as part of this the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit were introduced in October 1999. In Budget 2002, the Government announced from April 2003 it will be introducing two new tax credits: the Working Tax Credit and Child Tax Credit.

The WFTC was worth a total of nearly £5.5 billion in 2001-02, with the greatest help offered to low and middle income families, which therefore tends to offer greatest help to the traditionally the most deprived regions. The provisional estimated WFTC breakdown by region for 2001-02 is set out in the table below.

Table: Working Families' Tax Credit by country and region

£ million	£ per person	£ million	£ per person
2001- 02		2001-02	

North East	310	120	London	420	57
North West	800	116	South East	500	62
Yorkshire and the Humber	610	121	South West	440	88
East Midlands	430	102	Scotland	500	98
West Midlands	560	105	Wales	320	109
East	370	68	Northern Ireland	200	118
Total UK				5,460	91

PROMOTING A FAIRER ALLOCATION OF PUBLIC SPENDING

23.13 There is no single mechanism for allocating public spending at regional level. Rather the identifiable 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. In many cases the allocation is not to the region as such but is to, for example, local authorities or individual claimants or projects in each region.

23.14 Achieving greater regional fairness is not therefore a matter of reforming any single allocation mechanism. However, the Government is aiming to improve the allocation of public spending to key public services, for example:

- consulting on options on a fairer, simpler, more intelligible and more stable system of distributing grant to local authorities in England. The new system selected following the consultation will replace the Standard Spending Assessment in 2003-04. This Spending Review provides for average increases in general grant of 3.9 per cent a year in real terms;
- introducing a new formula for allocating resources to Primary Care Trusts (PCTs) will be announced in Autumn 2002 - by 2004 they will control 75 per cent of the health service budget, following the largest ever sustained investment in the NHS announced in Budget 2002. Reducing health inequalities will be a key criterion for allocating NHS resources under the new formula;
- reviewing the police allocation formula to tackle crime across England and Wales in a fair and effective way;
- establishing strong regional housing bodies, bringing together existing funding streams into a single non-ringfenced budget, so as to enable housing investment and planning decisions to be better integrated with transport and economic development. This process will need to be supported by a more strategic approach to the regional distribution of funding, including a review of the funding formulae and systems;
- consulting widely, in particular with employers, the Government will undertake a fundamental review of the funding for adult learning, to look better incentives, and how to encourage institutions to be more responsive to employer needs. The review will also consider how current funding arrangements could be reformed to enable RDAs to play a full and effective role in developing and implementing regional skills strategies. The review will be completed in time for any new arrangements to be introduced from April 2004; and
- making the distribution of lottery funding fairer through a £150 million targeted Lottery initiative, Fair Share, to target deprived parts of the country, and areas that have received less than their fair share of Lottery proceeds.

23.15 The Government will announce the results of these reviews in due course. Box 23.3 sets out how the Neighbourhood Renewal Fund is currently aiming to ensure fairness in outcomes across the regions.

MEETING REGIONAL PRIORITIES

23.16 The Pre-Budget Report stated that the Government would introduce a regional dimension to its consideration of priorities in the Spending Review. In doing this, for the first time, the Government invited the regional institutions (the RDAs and Government Offices) to set out their view of the key priorities to promote prosperity in their regions.

Departments were then required to take these documents into account when preparing their own priorities.

23.17 The regional institutions submitted their priorities in the form of Regional Priority Documents in January 2002. This section sets out how the Government is meeting the most frequently identified priorities.

23.18 While this illustrates how some of the key priorities for each region are being met, the Government is, of course, determined to ensure that the full range of high quality public services is delivered to everybody, regardless of the region in which they live.

Skills and education

23.19 Enhancing education and skills attainment was identified as a priority by almost every region. As set out in Chapter 6, to realise such an improvement, the Spending Review will add over £12.8 billion to spending on education and skills in England between 2002-03 and 2005-06.

23.20 The regional dimension to skills is being strengthened, as part of a longer term vision of ensuring the priorities identified in the Regional Economic Strategies and Frameworks for Regional Employment and Skills Action are underpinned with financial resources. **From April 2003, pilots will operate in one or two regions whereby budgets for adult learning are pooled between Local LSCs and RDAs, and coordinated in partnership.**

Box 23.3: Supporting disadvantaged communities in each region

A key way the Government aims to tackle social exclusion in all regions is through narrowing the gap between the most deprived neighbourhoods and the rest of the country, underpinned by PSA floor targets which this Spending Review has strengthened, as set out in Chapter 4.

On top of departmental allocations to deliver these targets, the Spending Review has provided for an increase in the Neighbourhood Renewal Fund (NRF) allocations to England's 88 most deprived local authority areas. These areas and the NRF allocations to them are concentrated in the most deprived regions, for example, with 14 in the North East. The regional breakdown of the NRF and the ten-year New Deal for Communities is set out in the table below.

Table: Key regeneration spending by region

Neighbourhood Renewal Fund		New Deal for Communities	
£ million		£ million	
			1998-99 to 2007-08
2003-04	2004-05 ¹	2005-06 ¹	

North East	53.0	59.6	69.5	214.7
North West	108.2	121.7	142.0	327.9
Yorkshire and the Humber	60.6	68.2	79.6	208.9
East Midlands	26.0	29.3	34.1	146.6
West Midlands	54.0	60.7	70.9	317.5
East	3.3	3.9	4.6	84.0
London	82.0	92.3	107.7	524.9
South East	4.6	5.1	6.0	95.9
South West	8.1	9.1	10.7	98.7
Total	400.0	450.0	525.0	2,019.2

¹ Figures for 2004-05 and 2005-06 are based on the present formula for allocating NRF and are therefore illustrative. Final allocations are determined in Special Grant Reports laid in Parliament annually.

Transport

23.21 Improving transport was also identified as a priority by almost every region and the Government is committed to improving the performance of transport networks, which are a key element of regional prosperity, providing access to markets and jobs. Chapter 8 reaffirms the Government's commitment to provide the resources to deliver the improvements set out in the Ten-Year Plan for Transport, *Transport 2010*, and identifies the reforms necessary to achieve this.

23.22 Delivering the Ten-Year Plan in all regions will be vital. A number of multi-modal studies are under way as part of the plan, both between regions - for example, between London, the South West and South Wales - and within regions, for example, the West Midlands conurbation. These studies aim to identify integrated solutions, and in doing so consult the public regionally. They will make their recommendations in due course.

23.23 Every region will also benefit from projects funded by the Strategic Rail Authority's Rail Performance Fund, which responds to bids from regional organisations in partnership with local train operators. This will deliver improvements such as extra services and refurbished stations. Major rail projects, such as enhancing the East Coast Mainline, are in development, and decisions as to whether to proceed with these will be taken in due course. The Channel Tunnel Rail Link, already under construction, as well as benefiting all parts of the country through improved connections to Europe, will particularly boost the Thames Gateway economy in the South East.

Broadband

23.24 In parallel to transport, some regions identified improving broadband communication as a priority in an increasingly knowledge-based economy. The Government has set the goal of having the most extensive and competitive broadband market in the G7 by 2005. As part of this, it has recently launched a regional broadband unit which will combine new teams in the DTI and Office of Government Commerce (OGC), focused on promoting broadband availability and take-up in the regions and supporting public sector broadband procurement.

Enterprise

23.25 Boosting enterprise and enhancing business development was identified as a priority for the traditionally economically weaker regions. Chapter 3 sets out a number of other key measures to promote enterprise, including the extension of the Phoenix Fund with a further £25 million being provided in 2004-05 and 2005-06. In the North East - which identified business development as its top priority - the Phoenix Fund has, for example, already provided funding to Project North East to support social entrepreneurs.

23.26 The regional dimension to support for small businesses is being strengthened. **The Small Business Service (SBS) and RDAs will pilot and evaluate different RDA-led approaches to improving coordination of business support services locally and will strengthen the relationship between local Business Link services and Regional Economic Strategies (see Chapter 15).** As set out in Chapter 26, the SBS itself will receive £44 million more in 2005-06 than in 2003-04.

Housing

23.27 Increasing the supply of affordable housing was a particular priority in the Southern regions experiencing high demand, and this is being tackled through reforms to the planning system and additional Government investment in those areas with the greatest pressures. Areas facing problems of low demand and abandonment are being supported by nine Pathfinder projects, backed up by significant new investment over the three years to 2005-06. Four of these nine projects are concentrated in the North West, which identified urban regeneration as a key priority.

Innovation

23.28 Increasing innovation was identified as priority by most regions. As set out in Chapter 15 the Spending Review provides for the largest sustained growth in spending on science for a decade, with some £1.25 billion additional spending by 2005-06 compared to 2002-03. Part of this increase will create a new enhanced Higher Education Innovation Fund to stimulate the commercialisation of scientific research. The next round of this Fund will include a role for the RDAs in ensuring that universities' proposals for funding are aligned with the needs of business in the region.

23.29 The Spending Review is also meeting the other priorities identified by regions, for example enabling progress towards achieving a more sustainable rural economy, including measures to support the agricultural sector.

SPENDING PLANS

23.30 The new spending plans for the RDAs' Single Pot are set out in Table 23.1; they provide an average increase of 4.5 per cent per year in real terms over the next three years. This is an increase of £375 million in 2005-06, compared to 2002-03. Table 23.2 sets out the increase in the "effective" Single Pot, over a baseline of some £850 million in 2002-03, implied by the reduction in SRB decommitments over the Spending Review period coupled with the increases set out in Table 23.1

Table 23.1: Regional Development Agencies (RDAs)

	£ million			
	2002- 03	2003- 04	2004- 05	2005- 06
<i>Of which:</i>				
Office of the Deputy Prime Minister	1,369	1,522	1,552	1,609
Department of Trade and Industry ²	172	191	236	296
Department for Education and Skills	42	42	42	42
Department for Environment, Food and Rural Affairs	42	41	46	51
Department for Culture, Media and Sport	0	2	2	2
Total	1,625	1,798	1,878	2,000

Note: DTI figures include British Trade International and funding for Regional Selective Assistance.

Table 23.2: Increase in RDAs 'effective' Single Pot

£ million		
2003- 04	2004- 05	2005- 06

Increase in RDAs Single Pot compared to 2002-03	173	253	375
Reduction in SRB commitment compared to 2002-03	214	414	535
Increase in "effective" RDAs Single Pot compared to 2002-03	387	667	910

Note: SRB commitment figures are based on provisional ODPM estimates. This gives a baseline for the "effective" RDA single pot of £850 million in 2002-03.

Chapter 24

Introduction to Cross-cutting Reviews

To provide better public services, the Government continues to address issues that cut across departmental boundaries, devising solutions focused on the needs of those using the services - whether it's a person, an organisation or a local authority. In addition to services, solutions to some of the biggest challenges do not fit neatly within traditional departmental structures. Better joint-working at the centre of government can directly enhance co-ordination at local level, by eliminating unnecessary bureaucracy and barriers between agencies. Seven cross-cutting issues have therefore been examined in depth as part of the 2002 Spending Review.

BACKGROUND

24.1 The Government established seven cross-cutting reviews to look systematically at issues that cut across departmental boundaries as part of the Spending Review. The seven were:

- Science and Research - Chapter 25
- Services to Small Business - Chapter 26
- Public Sector Labour Market - Chapter 27
- Children at Risk - Chapter 28
- Tackling Health Inequalities - Chapter 29
- The Role of the Voluntary Sector in Public Services - Chapter 30
- Improving Public Space - Chapter 31

24.2 Cross-cutting reviews have been conducted in recent Spending Reviews as a way of addressing critical issues that cut across departmental programmes and policies. The Government's January 2000 *Wiring It Up* report made a number of recommendations designed to tackle weaknesses in handling policies and services that cut across responsibilities of more than one department. Main recommendations included:

- ministers and senior civil servants should create a culture in which cross-departmental policies and objectives are valued as highly as purely departmental ones;
- cross-departmental policy making should be improved by involving outside experts and front-line practitioners more fully and at an early stage - in order to focus on what users of public services actually need, not what it is convenient to provide;
- greater use of budgetary flexibilities, such as cross-departmental budgets and pooling of funds where appropriate.

24.3 An example of how the Government has acted on this approach is the creation of Sure Start following the 1998 Comprehensive Spending Review, an innovative programme dedicated to improving outcomes for young children and their parents living in poverty. While the Sure Start Unit sits within the Department for Education and Skills (DfES), management and Ministerial responsibility is shared across both DfES and the Department of Health. Based on its success, an expanded Unit will be created as a result of this Spending Review, drawing together responsibilities for Sure Start, childcare, and early years education. Another example is the Criminal Justice System (CJS) Reserve, established in the 2000 Spending Review, which brings together the Home Secretary, Lord Chancellor, and the Attorney General in developing and implementing cohesive measures to transform and modernise the criminal justice system as a whole, looking across departments and institutional boundaries. In this Spending Review, the joint decision making has been enhanced by further pooling of funds from each department into a separate Criminal Justice System IT Budget.

OUTCOMES

24.4 For each of the seven reviews, advisory groups were formed which included a broad range of stakeholders such as non-profit organisations, local government, experts, academics and service providers. Reviews consulted widely to learn first-hand what works, and what doesn't, in tackling these complex issues. This section sets out the key outcomes of each review. These include the following:

- the **largest sustained growth in spending on science for a decade**, with some £1^{1/4} billion additions in spending by 2005-06 compared to 2002-03 - including an average increase of 10 per cent a year in real terms for the DTI Science Budget;
- a new information pack for **start-up businesses** giving entrepreneurs simple clear advice, and making it easier to start a small business. This assistance, coupled with a two year extension to the Phoenix Fund of £50 million, will particularly help small businesses in disadvantaged areas. **Business.gov** will help make sense of the array of government services and requirements by tailoring e-delivery services around the customer;
- **strengthening preventative services for vulnerable children at risk**, supporting existing local partnerships of voluntary and public sector providers, piloting new models to create accountable integrated services for the most disadvantaged children. This will ensure a more holistic approach to family and community support including education, social services, health, housing, childcare and other key services, and getting preventative services to be delivered earlier and more comprehensively, in order to break the cycle of poverty and social exclusion;
- a more comprehensive approach to **tackling inequality in health outcomes** across socio-economic groups and geographic boundaries by improved focus of programmes and resources on deprived areas and the most vulnerable - in particular health, education, and housing - as well as increased efforts on smoking cessation, better nutrition and exercise, and other preventative health care services; and
- the Government will increase funding to build capacity in the voluntary sector by 20 per cent and will drive forward the joint agenda with the sector reflected by the Compact published in 1998, respecting their unique and independent role in energising communities and delivering civic renewal. In addition, to increase the scope and scale of voluntary and community sector services, a new **investment fund worth £125 million over three years** will provide funding to help overcome barriers to effective service delivery, and to modernise the sector.

SPENDING PLANS

24.5 Additional funds to address cross-departmental issues have been included in the departmental spending plans set out in Section II. In some cases, these funds have been drawn together into 'pooled budgets', looked after by a single department but managed by a cross-departmental group of Ministers. In other cases, departments have used other mechanisms to improve coordination of their policies and programmes - for example, shared or coordinated targets in the Public Service Agreements or Service Delivery Agreements.

24.6 In addition to the funds included in main departmental settlements, the Government will continue the Policy Innovation Fund, created two years ago, worth £150 million over the next three years, allowing new policy innovations to be piloted and implemented, with matched funding from departmental budgets.

Chapter 25

Science and Research

The cross-cutting review of science and research considered how to maximise the benefits to the economy and society provided by public spending on science and research, and how to enhance the effectiveness of departments' own research programmes. As a result, the Government has provided the largest sustained growth in spending on science for a decade with some **£1¹/₄ billion** addition in spending by **2005-06** compared to **2002-03** - including an increase of an average of 10 per cent a year in real terms for the Science Budget.

25.1 Science, engineering and technology are essential to delivery of the Government's central economic objective of high and stable levels of growth and employment. Closing the productivity gap with our major international competitors will be achieved more quickly by strengthening the UK's innovation performance, which is underpinned by public investment in the science base. The Government recognised the important contribution of science to productivity and growth in the Comprehensive Spending Review in 1998, and again in the last Spending Review, when the Science Budget was increased by seven per cent per year above inflation.

OUTCOMES

Building on success

25.2 In this Spending Review, the Government is providing additional resources for science and research to provide for the long term sustainability of the science and engineering base, and to increase the volume of research carried out. The Review increases spending on science by some **£1¹/₄ billion** in 2005-06 compared to 2002-03, comprising increases in the DTI Science Budget, managed by the Office of Science and Technologies (OST), and increases in Department for Education and Skills (DfES) spending for recurrent research, capital funding for science infrastructure and additional funding to implement the Roberts Review¹. As a result of these investments, the overall DTI Science Budget will increase by an average rate of 10 per cent a year in real terms between 2002-03 and 2005-06.

25.3 Building on investments from previous Spending Reviews, the Government has identified further areas for priority action so that UK science and research can continue to maintain its world-class position. The **£1.75 billion** investment in science research infrastructure (in partnership with the Wellcome Trust), which was delivered by the last two Spending Reviews, has resulted in major improvements in facilities. But the cross-cutting review identified a significant backlog in capital investment, which earlier funding had not fully addressed. For this reason, and to ensure the long term sustainability of scientific research, the Government will:

- create a dedicated capital funding stream for university research worth **£500 million per year** by 2005-06, which will provide universities with the certainty and level of funding needed properly to plan investment decisions; and
- contribute to world-leading large scientific facilities, such as the Diamond synchrotron, **more than doubling the OST budget for these facilities to £205 million per year by 2005-06**, over and above 2002-03 allowing UK scientists access to facilities serving a range of disciplines.

25.4 In addition to the measures aimed at improving sustainability, the Government wishes to ensure that the UK can remain in the forefront of scientific research. Therefore, the Government will increase resources for science, engineering and research programmes over 2002-03 levels by **£400 million per year by 2005-06**, an average rise of **5 per cent per**

year above inflation.

Working in partnership

25.5 The Government is the major, but not exclusive, funder of the science and engineering base, and is also an important user of it. While UK scientists have been driving up quality across the board, they have naturally sought to maximise their research opportunities. This has resulted in the volume of excellent research increasing at a faster rate than the underpinning funding. It is in the interests of all funders and users of research to work in partnership to redress this balance so that the system does not become unsustainable.

25.6 The Government will, therefore, increase the Research Council contribution to the indirect costs of research in universities significantly, providing an extra **£120 million a year over 2002-03 levels by 2005-06**, in addition to increased provision for institutions through DfES. This demonstrates the Government's commitment to maintaining and developing UK scientific excellence.

Improving management

25.7 In return for greater support for research, universities have a responsibility to manage their research effectively and sustainably. This will mean continued development of their costing and financial management systems to enable them better to understand the contribution of individual research projects to the actual costs, direct and indirect, of the research. The Government will expect universities to manage their budgets in a way which allows them to invest properly in infrastructure renewal and ensures that research is put on a sustainable footing.

Investing in human capital

25.8 The Government is investing new resources to boost skills in this area through implementing the key recommendations of Sir Gareth Roberts' review of the supply of scientists and engineers, which reported in April 2002. Measures being implemented by DTI and the OST focus on improving the attractiveness of postgraduate study and careers in higher education. In particular, the Government will be funding the Research Councils to increase the minimum PhD stipend to £12,000 and making additional funding available to increase the stipend further in areas where recruitment is difficult, thereby enabling the average PhD stipend to rise to over £13,000 by 2005-06. The Government will also be funding an increase in the average annual pay of Research Council postdoctoral researchers by £4,000 by 2005-06; with the increases being targeted in areas with recruitment and retention difficulties. The Government is also providing funding to improve significantly the training available to PhD students and postdoctoral researchers, and to create 1,000 new academic fellowship posts over 5 years for our best postdoctoral researchers, to help them make the transition to being a permanent member of the academic staff. Taken together, these measures will represent a **new investment of £100 million a year** by 2005-06. In addition, the Department for Education and Skills (DfES) settlement includes provision for additional significant improvements and investment in science, technology, engineering and mathematics education at school and at university.

Improving commercial exploitation

25.9 Building on successes of Government stimulation of commercialisation activities, the Government will increase resources for knowledge transfer from the science base from **£64 million in 2002-03 to £114 million in 2005-06 (including £20m per year from DfES)**, with £90 million per year by 2005-06 for a newly enhanced Higher Education Innovation Fund, and additional funding for knowledge transfer from public sector research establishments.

Better management of science in Government

25.10 The Government is also introducing a range of measures to improve the management and co-ordination of science within Government departments, so it can more effectively contribute to policy-making. This will include new procedures for the external review of the quality of Government science.

Science, Engineering and Technology Strategy

25.11 The Government will set out its strategy for science, engineering and technology in a document to be published shortly. This will demonstrate how the additional resources provided by the Spending Review and the reforms outlined above will be used to boost the UK's innovation performance, thereby contributing to productivity growth.

Box 25.1: Key PSA target

Improve the relative international performance of the UK's science and engineering base, exploitation of the science base, and the overall innovation performance of the UK economy.

SPENDING PLANS

25.12 To fund these plans, **DTI spending on science will increase at an average rate of 10 per cent per year above inflation between 2002-03 and 2005-06.** The Government's spending plans for science and research, delivered through the Office of Science and Technology, are summarised in Table 29.1 below. DfES will also receive additional provision enabling a substantial increase in recurrent funding for research, delivered through the Higher Education Funding Council for England over the 2002 Spending Review period.

Table 25.1: Key figures

	£ million			
Science Budget	2002-03	2003-04	2004-05	2005-06
Resource Budget	1,988	2,246	2,458	2,791
Capital Budget	104	131	207	205
Total Departmental Expenditure Limit¹	2,006	2,285	2,570	2,899

¹ *Full resource budgeting basis, net of depreciation.*

¹This comprises £890 million for the OST Science Budget, the major part of £244 million for DfES recurrent spending on research (of which, based on historic trends, at least 80 per cent could be expected to be spent on science), at least £100 million through DfES to implement recommendations of the Roberts Review and £50 million through DfES for science research infrastructure

Chapter 26

Services for Small Business

The cross-cutting review of services for small business considered the full range of government services from the customer perspective, with the aim of increasing their efficiency and effectiveness. Following the review, the Small Business Service has been tasked to work across government to improve service quality. In addition, funding of £40 million above 2002-03 levels by 2005-06 will take forward e-delivery of services, to make dealing with Government quicker and easier.

Small business

26.1 Small businesses are an important sector of the economy. There are 3.7 million small businesses in the UK, accounting for 45 per cent of private sector economic activity and over half of employment. The small business sector also contributes to the economy through its effects on competition, productivity and innovation.

Government services

26.2 Government services for small business are provided nationally, regionally and locally and take many forms, including direct support through grants and subsidies, indirect support such as workforce development, as well as advice on tax and regulation. The review estimated that services for small business provided by government departments, agencies, and regional and local government, cost about £2.5 billion a year. £1.8 billion is spent on specially targeted programmes that reach up to 10 per cent of small businesses and £800 million is spent on universal services which affect most firms, such as advice provided by the Inland Revenue, HM Customs and Excise and local authorities.

OUTCOMES

Encouraging enterprise

26.3 The Government's aim is to encourage enterprise across all sectors of society. Women, people from disadvantaged communities, and from some ethnic groups are under-represented in the business community. The review describes the barriers to entrepreneurship faced by under-represented groups, and also draws attention to the series of measures already in place to address these, including the Phoenix Fund, the Community Investment Tax Credit and the Community Development Venture Fund.

Extending enterprise

26.4 Because government services are spread so widely they can have an important effect in encouraging enterprise. A reduced willingness to approach government for support is a significant barrier for under-represented groups. The review's recommendations will increase awareness of the help and support that is available, for example:

- public services will train employees to recognise the value of entrepreneurs and the importance of signposting them to other services; and
- Jobcentre Plus and Business Links will work together to improve service provision and actively promote entrepreneurship in disadvantaged areas.

26.5 There are significant gaps in the evidence base on under-represented groups of entrepreneurs. The Small Business Service (SBS) will work with other government departments and with Regional Development Agencies (RDAs) to fill gaps in the evidence base and better coordinate ongoing research programmes.

Improving services by working together

26.6 The challenge for government services for small firms is to design themselves around the needs of small firms. This will require a new approach, but the Review points to some examples where services have already combined to improve the customer experience. Within government, the SBS will play an enhanced role in helping departments identify instances where services can be combined and improved, and raising overall standards. At the regional and local level, SBS and the RDAs will pilot and evaluate different RDA-led approaches to achieving improved coordination of business support services and strengthening the relationship between Business Link services and Regional Economic Strategies - these pilots will begin by April 2003 (see Chapter 15).

A new approach for new firms

26.7 The review looked especially at the process and services for people setting up a company or becoming self-employed for the first time. This is when businesses have most contact with different arms of government, and can also be when a business is most affected by poor service. The review found a widespread need for better presented and comprehensive information about what new businesses have to do, and what government can do to help them. The SBS is now consulting on a new strategy to encourage people to start new businesses and help those who have just started, including:

- information packs for all new businesses, setting out exactly what they need to do and what help the Government can give them, available in paper and over the Internet, and from a wide range of public and private sector service providers;
- a telephone service for advice and information; and
- enterprise events bringing together public, voluntary and private sector providers to publicise the services and support available for business.

Electronic service delivery

26.8 The key to affordable, high volume, high quality services tailored to meet customer needs will be electronic delivery. Although the majority of small businesses are now on line, only a minority want to use the Internet for transactions with government, or for advice and guidance as opposed to basic information. This is partly because, with a few exceptions, electronic services are not currently high quality - there are too many poorly presented websites, and little incentive for a small business to spend time finding information on them.

26.9 A new £15 million Capital Modernisation Fund project, business.gov, has been set up to tackle this problem. The challenge is to develop services which are designed with the needs of customers as paramount, and which:

- link information and transactions together in logical settings;
- present the range of government services in a way which looks and feels coherent to the customer; and
- attract small business use by sheer quality.

Spending Plans

26.10 The Small Business Service is charged with implementing over three quarters of the review's recommendations. The SBS will raise its performance and profile in Whitehall to improve the quality of services for small firms. In particular, the Spending Review will provide an additional £40 million by 2005-06, compared with 2002-03, to build on the lessons of business.gov and enhance e-delivery of services. The Phoenix Fund will also be extended by two years beyond March 2004 with an extra £50 million over 2004-05 and 2005-06 to promote enterprise in deprived areas.

Table 26.1: Key figures

£ million

2003-04 2004-05 2005-06

Small Business Service

Resource budget	296	316	340
<i>of which: E-delivery (excluding business.gov)</i>	<i>13</i>	<i>28</i>	<i>48</i>
Capital budget	17	17	17
Total Departmental Expenditure Limit¹	313	333	357

¹ Full resource budgeting basis, net of depreciation.

Chapter 27

Public Sector Labour Market

The cross-cutting review of the public sector labour market review explored a number of issues around the productivity of the sector, and the need to attract workers in an increasingly tight labour market. Specifically, the review assessed the current composition of the public sector, how best to expand recruitment and retention, enhance work flexibility and career opportunities in the public sector, as well as to create an efficient workforce. As a result, departments are improving workforce planning to strengthen the links between performance and pay, drive efficiency, and ensure investments result in better services.

27.1 Achieving the Government's commitment on improved customer-focused public services, will be dependent on ensuring that public sector employers can recruit, retain and motivate suitably qualified staff to deliver those services. The modernisation of public services has involved a number of significant changes to the ways in which public sector employees are managed and rewarded. Working practices have been updated. In the 2000 Spending Review, significant new resources were allocated to the recruitment, retention and training of key public sector workers, in particular those in the NHS, education, and the criminal justice system. The further expansion of public services, set out in this Spending Review, will require a significant increase in the workforce over the next few years, particularly in areas such as childcare, health care, education and the Criminal Justice System.

27.2 The review looked at all labour markets which would have a significant impact on the delivery of public services (excluding transport), including those delivered by the private sector or voluntary organisations, and has identified trends affecting the size and composition of the public sector workforce. Finally, the review assessed policies to improve recruitment and retention, enhance work flexibility and career opportunity, and ensure that skills of staff are used more effectively.

OUTCOMES

Better workforce planning

27.3 Departments need to improve workforce planning tailored to their individual service programmes, to attract and retain workers in specific fields, take into account local or regional challenges, changes in the labour market, and, to ensure effectiveness and value for money. Elements of planning include improved and expanded recruitment, better benefits to workers, and more local flexibility to deal with specific vacancy problems. More details of these elements are set out below.

More local flexibility

27.4 Variations in the public sector labour market are largely local, rather than regional, and can differ significantly by occupation. Therefore, increased flexibility at local level to address recruitment and retention challenges is necessary. The public sector still maintains widespread national pay determination, which can limit the ability of individual employers to respond to local labour markets conditions. Local flexibility on pay and non-pay matters offers a targeted solution: for example, greater delegation to management on performance related issues, including rewarding good performers and adopting measures to assist those who are under performing. The latter could involve more training or re-engineering existing roles and organisational structures to ensure the right people with the right skills are matched with the right jobs.

A larger, more diverse workforce

27.5 Certain public service professions recruit from the same limited group of workers, luring them from one occupation

to another through short-term incentives; therefore, expanding the pool of potential employees is vitally important. To improve recruitment and retention, the public sector needs to engage on several fronts. These include better, coordination across the public sector, facilitating the sharing of information and good practices, and making better use of available recruitment channels such as JobCentre Plus.

27.6 The Government is determined to extend employment opportunities more widely than ever before, including in the public sector. As an employer, it should demonstrate best practice in removing barriers to employment, and improving the employment rates of lone parents, ethnic minorities, and people with disabilities. As many older public service workers are productive and keen to continue in work, pay and pension disincentives need to be addressed, and more flexible retirement options should be offered. Training and career assistance should be made available to former public sector employees interested in returning to the sector. A Department of Health initiative in this regard has resulted in over 9,500 former employees returning to the NHS in the past 3 years. In addition, while the public sector has a high proportion of women, some occupations suffer a lack of gender balance: there is room for improvement in attracting both men and women to non-traditional occupations.

Better benefits for workers

27.7 Good employment practices, which encourage flexibility and a good work/life balance, can create environments where staff feel cared for. This in return leads to enhanced recruitment and retention and to improved outcomes at work, whether it be better teaching or better patient care. Non-pay benefits such as offering flexible hours or part-time employment, providing childcare or on-site nurseries, better training and career progression programmes and other similar individual benefits are as important as pay. For example,

75 per cent of nurses returning to the NHS have chosen to do so on a part-time basis. Other benefits such as job satisfaction for helping others in society, for example through teaching or nursing, are significant. Workforce planning strategies must take a more holistic approach to compensation to include non-pay benefits.

Expanding career development opportunities

27.8 Fostering the concept of a career in public service, which spans across different departments, would help in recruitment and retention. The public sector should create an environment where job swapping can occur, and training courses can assist employees achieve higher attainment.

Better information and coordination

27.9 Data and analysis of the public sector labour market is central to our ability to forecast market changes. The review identified areas where data is poor or non-existent. HM Treasury, the Cabinet Office, the Office of National Statistics and others are therefore doing further work to improve and co-ordinate data collection and analysis on the public sector workforce. The potential impact of e-government on public sector pay and workforce will also have to be examined in more detail. All of this should assist in identifying and addressing public sector labour market issues in the future.

Chapter 28

Children at Risk

To advance the Government's goal to eradicate child poverty and tackle social exclusion, this review examined best practices in local partnership delivery of integrated children's services, and identified barriers to better coordination. The review also sought to establish key objectives for children's services, to identify obstacles to meeting those objectives, and to assess departmental spending and priorities against those findings. As a result, this Spending Review takes a three-pronged approach to strengthening preventative services:

- support existing local partnerships and pilot new models for joint working;
- target mainstream children's programmes to reach the most in need; and
- fill existing gaps in specialised services.

28.1 While the vast majority of children and young people look forward to being better educated, wealthier, physically healthier and living longer than their parents, it is still a matter of concern that a substantial minority face a combination of problems which result in persistently poor outcomes in terms of educational achievement, employment, health and anti-social behaviour. As well as the human cost, the long term costs to society can be enormous.

28.2 The Pre-Budget report *Tackling child poverty: giving every child the best possible start in life* published in November 2001 restated the Government's commitment to eradicating child poverty. The key message of the document was that child poverty and disadvantage can only be overcome through a joint approach of raising incomes and delivering better public services. This review confirms that approach and the focus of activity on early prevention of adverse outcomes and social exclusion.

28.3 Children at risk do not form a self-contained, easily defined group. Many children and young people can be vulnerable to risk factors such as poor parenting, disability and poverty at some point in their development. Without the support of preventative and appropriately targeted services, these risk factors can lead to crisis and in some cases lasting effects which perpetuate the cycle of deprivation, social exclusion and poverty. The review developed outcomes to minimise those risks faced by some of the most disadvantaged so that all children can achieve their full potential and benefit from new opportunities and increased prosperity.

OUTCOMES

28.4 The review found that despite extensive investment in services for children, most services are not having the desired positive impact on the most disadvantaged children. Key issues include insufficient local ownership by key agencies of the needs of children at risk, and the lack of a strategic vision pulling together the contribution of different local services and agencies to ensure that children receive appropriate support. The recommendations seek to ensure that support for children at risk is better focused on both preventative services and the preventative elements of mainstream services that address the known risk factors. These fall into three main areas: delivering sustainable services; improving strategic coordination; and filling gaps and improving services.

Strategic coordination of services at local level

28.5 Achieving integration of services requires strong leadership at both national and local level underpinned by effective performance management, driving forward reform. This reform has already begun in many areas with agreed joint priorities, streamlined and coordinated local services for children. The Government believes that it is crucial to build on these inter-agency developments, enabling different structures and financial arrangements to develop. In turn local partners must agree to carry out new functions including: better strategic planning; systematic identification, referral and

tracking regimes to ensure children don't fall through the services safety net; and allocating responsibilities for individualised packages of support for those at greatest risk. The Government believes there is a case for structural change to effect the better coordination of children's services, and will pilot Children's Trusts which will unify at the local level the various agencies involved in providing services to children

Delivering sustainable services

28.6 Mainstream services fail a significant minority of children and young people because they often focus on the majority and ignore specific needs. Services also focus on crisis and acute intervention rather than prevention and early identification of need. To address this, the Government has introduced targeted programmes, such as Sure Start and the Children's Fund, with discrete delivery arrangements outside mainstream public services. However, the review recommends the adoption of a common framework for integrating the lessons learned from successful programmes so that mainstream services are better able to respond to the full range of children and young people's needs on a fairer and more equitable basis. Within this framework the review recommended the following proposals to facilitate greater integration to meet the needs of all children:

- multi-disciplinary working underpinned by core learning and skills objectives across all statutory and voluntary agencies; and
- integrated service delivery and co-location of services to ensure better coordination, the maximum use of capital investment and support for 'mainstreaming' approaches.

Filling gaps and improving services

28.7 While the main outcome of the review was to change the way people work in order to improve children's services, small residual gaps in service provision were identified and have been addressed in this Spending Review. For example, the Government is developing a national framework for improving the support that is available for parents and families at a local level. Evidence shows that the voluntary sector is often best placed to provide these services but that where the sector is poorly resourced, provision can be patchy. The Government is determined to broaden further access to education in parenting skills and this will be supported by the new investment fund being created to expand involvement of the voluntary sector (see Chapter 30).

SPENDING PLANS

28.8 Considerable investment in the 2002 Spending Review will go to mainstream services as an incentive to improve the way children's services are delivered:

- of the £12.8 billion additional funding for Education and Skills in England, a sizeable proportion will target deprivation. There is an increase in the discretionary resources available to head teachers so that they have more flexibility to meet the differing needs of the students, including the most disadvantaged - in addition to extra money for behaviour and education support teams and extended schools;
- the Home Office plays a key role in helping to identify and support children and young people at risk, for example, the Youth Justice Board supports a range of preventative initiatives, including youth inclusion work and support programmes for young people most at risk of offending;
- as part of the extra investment in Personal and Social Services announced in the Budget - an average growth rate of 6 per cent above inflation over the Spending Review period - there will be new investment in Children's Social Services, including Children and Adolescent Mental Health Services; and
- there will also be extra investment in deprived areas through the Neighbourhood Renewal Fund (worth £525 million a year by 2005-06) and the mainstream spending supporting the Government's National Strategy for Neighbourhood Renewal.

Chapter 29

Tackling Health Inequalities

Building on the work of Sir Donald Acheson's Independent Inquiry into Inequalities in Health in 1998, the cross-cutting review on tackling the causes of health inequalities considered the contribution that high-quality public services can make to the Government's objective of narrowing the health gap, in childhood and throughout life, between socio-economic groups and between the most deprived areas and the rest of the country. It has recommended a comprehensive approach to tackling inequality in health outcomes through improved focus of programmes and resources-in particular education, health, and housing-as well as increased efforts on smoking cessation, better nutrition and exercise, and other preventative health care services.

29.1 Over the last twenty years, there have been significant improvements in life expectancy and health status. However, inequalities in health outcomes persist, and in some cases have widened over this period. There are significant differences between socio-economic groups, and the multiple problems of material disadvantage facing some communities have caused wide geographical variations in health.

Delivering the Wanless Report

29.2 The need for greater efforts to improve the health of those groups who currently experience the worst health outcomes was highlighted in Sir Donald Acheson's Independent Inquiry into Inequalities in Health in 1998. The Wanless Report, *Securing our Future Health: Taking a Long-Term View*, published in April 2002, subsequently concluded that additional resources should be directed to public health, targeted at those interventions where the long-term impact on poor health will be greatest. This will contribute to delivering the 'fully engaged' scenario envisaged by Wanless, which projects savings of some £30 billion in resource needs by 2022. The settlement for the Department of Health is based on the delivery of the fully engaged scenario.

The review

29.3 While the Government has already done much to tackle inequalities in health, it is clear that an effective cross-government approach is required to achieve further significant progress in tackling the health gap. The review has considered the contributions that high quality public services can make to closing the health gap. Experts from across government, academic institutions and local government have been closely involved with the review. Its work has also been informed by a public consultation undertaken by the Department of Health with practitioners throughout the country.

OUTCOMES

Work underway

29.4 The review has highlighted the importance of the contribution to tackling health inequalities that is being made by other major programmes of work the Government has already put in hand including the eradication of child poverty, the National Minimum Wage and the New Deal, the National Strategy for Neighbourhood Renewal, the modernisation and expansion of NHS primary care services in disadvantaged communities, and the strategy to reduce teenage pregnancy rates.

A long-term strategy

29.5 The review has identified the need for a long-term government-wide strategy to ensure that health inequalities objectives are reflected in departments' mainstream programmes, including those of the NHS and Department of Health,

the Department for Education and Skills, the Home Office, the Office of the Deputy Prime Minister, the Department for Work and Pensions and the Department for Environment, Food and Rural Affairs. As part of the strategy, the review identified a number of specific actions for the Spending Review period, including:

- a stronger focus on deprived areas in the allocation of resources for the NHS to improve access to services, and for schools in order to narrow the educational attainment gap;
- better preventative health care services for disadvantaged communities, particularly an expansion in smoking cessation advice and support;
- targeted services for disadvantaged communities to help families improve their children's nutrition and establish healthy eating patterns early in life;
- an expansion of initiatives to raise levels of physical activity in disadvantaged communities, with a focus on encouraging children to develop active lives; and
- improved housing conditions for families with young children and for elderly people.

Future work needed on early years development

29.6 The review highlighted the importance of narrowing the gap in early years development and subsequent educational attainment of children from disadvantaged backgrounds compared with their more affluent counterparts. The development of the National Service Framework for Children will consider how the lessons of Sure Start can be rolled out throughout the country.

SPENDING PLANS

Coordinating delivery of the review's conclusions

29.7 The review has focused on improving the coordination and targeting of mainstream public services to reduce health inequalities, and implementation of a long-term strategy, which will be overseen by a ministerial committee. Information on the strategy to tackle health inequalities and the delivery plan for the Spending Review period will be made publicly available. Local level action, which will be reflected in the NHS performance management framework and the National PSA for Local Government, will be coordinated principally through Local Strategic Partnerships.

NHS expenditure on health inequalities

29.8 The formula for distributing NHS resources to different parts of the country is currently under review and a revised version will be agreed in the autumn for use from April 2003. Reducing health inequalities will be a key criterion in the new formula. Primary Care Trusts will be held to account through the NHS performance management framework for using their devolved resources to tackle health inequalities, as one of the Department of Health's PSA priorities.

Chapter 30

Role of the voluntary sector in Public services

The Government needs a voluntary and community sector that is strong, independent and has the capacity, where it wishes, to be a partner in delivering world-class public services. To help achieve this, the Government will increase funding to build capacity in the sector and increase community participation. It will work to get the funding relationship right. Fully implementing the Compact and its Codes will be a key step towards more effective partnership. In addition, the Government will set up an investment fund worth £125 million over three years to help voluntary and community organisations in their public service work.

30.1 The purpose of this cross-cutting review was to explore how central and local government can work more effectively with the voluntary and community sector to deliver high quality public services. It was driven by a shared desire to strengthen civil society and benefit local communities, and premised on a recognition of the added value that a healthy voluntary and community sector can bring to service delivery. That is why flagship Government policies, for example Sure Start, the Children's Fund, the New Deal for Communities, are increasingly being designed for delivery in partnership with the sector.

THE REVIEW'S CONCLUSIONS

30.2 The Government needs a Voluntary and Community Sector that is strong, independent and has the capacity and skills, where it wishes, to be a partner in delivering world-class public services. It wants a new partnership with the sector, drawing on the sector's strengths to challenge, complement and reinforce public services. The Voluntary and Community Sector brings a distinctive approach to service delivery, based on its specialist knowledge, experience and skills. This comes from its close relationship with service users. This distinctive approach means that the sector has an important role in the wider reform of public services.

30.3 The review involved the Voluntary and Community Sector closely from the start, with participants on each of the five working groups responsible for the detailed work. These groups covered service delivery, capacity, funding, social enterprise and the development of the Compact. There was considerable agreement on the main challenges facing the sector and how Government should respond. The key recommendations are below.

30.4 All government departments will work to engage more effectively with the Voluntary and Community Sector to ensure that the distinctive approach that the sector can bring to service delivery is integrated into their programmes to reform the public services they are responsible for delivering. The Government will maximise the added value the Voluntary and Community Sector can bring by involving them in both the planning and delivery of services.

30.5 The Home Office's Public Service Agreement includes a specific target to "increase voluntary and community sector activity, including increasing community participation, by 5 per cent by 2006". All government departments will adopt a strategic approach to capacity building. Tools for undertaking a 'capacity check' of organisations will be developed. The Government will develop a coherent strategy to build capacity and make better use of existing resources.

30.6 Many service providers complain that the price government pays for a service does not reflect the full cost of delivering the service. The Government accepts that it is legitimate for service providers to factor in the relevant element of overhead costs into their cost estimates for services delivered under contract. All government departments will reflect this recommendation in their procurement policies.

30.7 Participants in the review made clear their concern about the problem of irrecoverable value-added tax (VAT). The Review of Charities Taxation in 1999 looked carefully at this issue and concluded for reasons of principle and affordability that no changes should be made. In response to representations during the review the Government has looked at the issue afresh to determine whether there is an effective way of mitigating the impact of irrecoverable VAT. The Government has decided to establish a new £125 million voluntary sector investment fund to tackle barriers to effective service delivery and modernise the sector for the future. The fund, which will run for the three years of the Spending Review will be designed and administered in close co-operation with the sector itself.

30.8 The Government will implement the Compact and its Codes in full across government. To achieve this all government departments will appoint a senior official to champion implementation of the Compact in their department. This 'champion' will establish a baseline of their department's engagement with the sector against which progress in implementation of the Compact can be clearly measured. The senior official will be personally responsible for driving through the review's recommendations.

30.9 The Government is determined that this review will make a real difference - and this means effective implementation. Implementation of the review is now, therefore, a key priority for the Active Community Unit (ACU) of the Home Office. Funding for the ACU increases from £35 million in 2002-03 to £65 million in 2005-06, an average increase in the ACU budget of nearly 20 per cent per year after inflation. Their work will be overseen by a high level group of officials from central government, local government and the voluntary and community sector. The group will be chaired by the Permanent Secretary at the Home Office and will report directly to senior ministers twice a year.

30.10 For local government, Best Value Reviews, Local Public Service Agreements and the new Comprehensive Performance Assessment all have a role to play in incentivising best practice. The high-level implementation group will be working with representatives from the Local Government Association, Audit Commission and the voluntary and community sector to ensure that this happens.

Chapter 31

Improving Public Space

The public space cross-cutting review considered a wide range of factors affecting the local environment in our communities. Specifically, the review examined government policies, funding and targets to improve the safety and attractiveness of public space. As a result, Government will announce a comprehensive strategy this autumn, introduce targets to measure street cleanliness and environmental improvements, and examine how legal and regulatory provisions could be improved to assist local authorities in this area.

31.1 A wide range of survey evidence supports the view that issues like anti-social behaviour, street crime, litter, dog fouling, graffiti, and the condition of parks and play areas impact greatly on the quality of people's daily lives.

31.2 Levels of health, crime, and children's development, are all linked with the quality of the local environment. The review also found that design quality can impact directly on perceptions of safety and public usage of spaces such as streets, parks and play areas.

Links to other policy priorities

31.3 As local public space is often worse for people already suffering from other forms of deprivation, this agenda also has a strong social exclusion theme. For example, ethnic minority communities often suffer disproportionately from poor local environmental outcomes. Children from ethnic minority groups are more likely to be involved in traffic accidents, while research suggests people from minority communities are less likely than the rest of the population to make use of parks.

Review findings

Principles for improved delivery

31.4 The review identified a number of principles for delivering better public space outcomes:

- mainstream funding should be the key to delivery, while additional programmes should be rationalised to reduce bureaucracy and allow maximum local flexibility for choices on spending;
- the involvement of local people, organisations and businesses in identifying problems and delivering improvements - partnership working - is crucial to getting the right solutions and ensuring their sustainability;
- there should be clear leadership and accountability at both local and national level;
- a robust system of measures and targets is needed to help drive performance, inform day-to-day management and increase transparency for local people; and
- there should be more clarity on the powers and freedoms of, and greater incentives and rewards for, those in the front line.

New approaches

31.5 The review made a number of recommendations which will be taken forward following the 2002 Spending Review.

31.6 Work on promoting Design Quality Indicators (DQIs) will be taken forward. These indicators could provide a valuable tool for measuring design quality input at the very earliest stages of a project. The Government is already participating in a number of DQI Pilot projects and these point to extremely positive benefits from using the DQI process. If further pilots are successful, consideration will be given to how to incorporate the DQI process in evaluation of new-build government capital projects.

31.7 A strategy paper will be published in the autumn to detail the Government's approach to public space over the next

three years and the further steps it intends to take to promote safer, cleaner streets and places. It will build on the work of the cross-cutting review, respond to the Urban Green Spaces Task Force report and outline the steps necessary to take forward the new, interdepartmental approach to public space issues which the review has engendered. This document will also recognise the different roles and responsibilities for government, local authorities and non-governmental organisations.

31.8 A cross-government review of the powers and responsibilities that govern and regulate the quality of public spaces and local environments has been set up. This will focus on legislation and guidance that cover issues such as litter, graffiti, fly-tipping, derelict land and highways maintenance. The review will consider how the relevant service providers and agencies can be made clearly responsible and accountable and will assess whether local authorities and other bodies have appropriate powers and guidance to make improvements to their public spaces. It will also consider how to make sure the legal and regulatory framework operates more efficiently, maximising the effectiveness and minimising the costs associated with creating and maintaining a safe, clean local environment. A prioritised action plan with recommendations for reforming the legal and regulatory framework will be published for consultation in autumn 2002.

Targets and measures

31.9 A new Service Delivery Agreement (SDA) target will be introduced on reducing the perception of anti-social behaviour, as measured by the British Crime Survey. This target will be shared by the Home Office, the Office of the Deputy Prime Minister (ODPM), and the Department for Environment, Food and Rural Affairs (DEFRA).

31.10 A new SDA target will be developed by DEFRA on street and local environmental cleanliness. This target will contain a 'floor' (minimum standard) element, reflecting the need to improve the poorest local environments, often found in areas where people already suffer other forms of deprivation.

31.11 DEFRA will also be piloting a performance indicator relating to street and local environmental cleanliness for consideration in Best Value Performance Indicators (BVPIs) for local authorities for either 2003-04 or 2004-05.

SPENDING PLANS

31.12 A number of large mainstream budgets impact on the safety and cleanliness of local neighbourhoods. These funding streams will deliver additional investment over the Spending Review period. Local transport plan capital expenditure - which includes expenditure on home zones, cycling, walking and local safety schemes - is doubling in real terms from 2001 to 2011 as part of the Ten-Year Transport Plan. The Neighbourhood Renewal Fund is being increased from £400 million in 2003-04 to £525 million by 2005-06, in part reflecting an increased commitment to safer and cleaner communities. Other relative funding streams like mainstream support for police and local authority delivered services, are also being increased in real terms.

31.13 Separate neighbourhood and street wardens programmes will be merged into a single programme, while additional resources have been allocated to the ODPM to fund demonstration projects and other activity to support safer, cleaner local environments.

Annex A

Statistical Annex

Summary

A.1 This annex sets out public expenditure plans for 2002-03 to 2005-06, together with provisional outturn for 2001-02.

A.2 Consistent with the fiscal rules, Budget 2002 set a firm envelope for spending over the next three years as set out in detail in Chapter 1 of this document and in Annex C of Budget 2002. The table below shows how the levels of total public spending set in the Budget, as measured by the National Accounts-based aggregate total managed expenditure (TME), are consistent with meeting these fiscal rules. In every year, the current budget is projected to be in surplus and net debt is held well below 40 per cent of GDP.

A.3 TME is divided into two components in National Accounts: public sector current expenditure which, together with depreciation, determines performance against the golden rule, and public sector net investment which, through, the level of net debt, determines whether the sustainable investment rule is met. Budget 2002 set firm limits for each of these aggregates within TME and these are also shown in the table. Later tables in this annex reconcile the departmental budgets set in the Spending Review with these key National Accounts aggregates. Table A2 moves from National Accounts aggregates to define the public sector budgets used to control public expenditure. Tables A.7 and A.8 in this annex reconcile the resource and capital budgets set for departments back to the National Accounts aggregates of public sector current expenditure and public sector net investment.

Table A.1: Fiscal rules and Total Managed Expenditure, national accounts¹

	£ billion			
	2002-03	2003-04	2004-05	2005-06
Current receipts	407	442	468	494
Current expenditure	390	420	444	471
Depreciation	14	15	15	16
Surplus on current budget	3	7	9	7
Public sector net debt (per cent of GDP)	30.2	30.4	30.4	30.7
Current expenditure	390	420	444	471
Depreciation	14	15	15	16
Net investment	14	20	22	24
Total Managed Expenditure	418	455	481	511

¹ All numbers are Budget 2002 projections

A.4 Taking the fixed level of public spending set in the Budget, Table 2 allocates TME between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). In the Spending Review, departments are allocated fixed three-year DELs. Spending that cannot be controlled within fixed budgets, typically because it is large, potentially volatile and demand-led, is controlled in AME. Examples include social security benefit expenditure and public sector pension payments. AME is subject to rigorous annual scrutiny and forecasts are published twice a year in the Pre Budget Report and the Budget.

A.5 Lower levels of AME expenditure release extra spending for public services in DEL. Since Budget 2002, AME has been updated to take account of changes in NAO-audited assumptions:

- lower independent forecasts of unemployment compared with Budget 2002 have reduced projected social security payments in each year from 2002-03, including by £0.1 billion in 2003-04; and
- lower interest rate expectations have reduced the forecast for debt interest payments in each year from 2002-03, including by £0.2 billion in 2003-04.

A.6 As part of the Spending Review, Educational Maintenance Allowances have been transferred from DEL to AME to reflect the fact that, following national roll-out, these allowances will be demand-led. Coal health compensation payments have also been transferred from DEL to AME, to reflect the particularly uncertain and demand-led nature of the scheme. The Over Thirty Month Scheme (OTMS) has been transferred from AME to DEFRA DEL to improve the financial control of the programme. None of these transfers impact on TME.

A.7 Table A2 includes the first full forecasts of AME expenditure for 2004-05 and 2005-06. Within total TME, AME spending is growing at 3.0 per cent a year in real terms between 2002-03 and 2005-06, allowing DEL to grow at 5.2 per cent. The Budget added £4 billion to DEL plans for 2003-04, of which £2.4 billion was committed to spending on health. In addition to the £4 billion Budget allocation in DEL, a further £3.7 billion has been transferred from AME to DEL in 2003-04 within unchanged total spending, reflecting both savings in AME programmes and classification changes.

A.8 Forecast reductions for AME for the current year have been added to the AME margin, as is the normal practice between Budgets. In line with practice at previous Spending Reviews, the AME margin has been set at £1 billion, £2 billion and £3 billion for the years covered by the Review.

A.9 There is a further technical change to the presentation of spending numbers. Spending on tax credits, which was previously included in accounting adjustments, has now been split with the amounts treated as public expenditure in the resource budget included in departmental AME. Spending treated as negative tax under OECD guidelines, but as public expenditure in National Accounts, remains in the accounting adjustments.

Table A.2: Total Managed Expenditure

		£ billion				
		Provisional Plans				
		outturn				
		2001-02	2002-03	2003-04	2004-05	2005-06
<i>Departmental Expenditure Limits</i>						
	Resource budget	213.2	228.5	249.3	263.7	283.1

	Capital budget	18.3	21.3	25.2	27.6	30.1
	less depreciation	-9.7	-10.1	-11.1	-11.5	-12.2
	Total Departmental Expenditure Limits	221.8	239.7	263.5	279.8	301.0
Annually Managed Expenditure						
Departmental AME						
	Social Security benefits ¹	101.8	105.3	110.6	116.3	121.1
Income Support/Jobseekers' Allowance child support and tax credits ²	8.3	9.4	13.4	14.1	14.7	
	Housing Revenue Account subsidies	4.5	4.5	4.4	4.2	4.0
	Common Agricultural Policy	4.7 ³	2.4	2.4	2.4	2.5
	Net public service pensions	4.5	5.1	5.4	5.7	6.1
	National Lottery	1.7	2.3	2.3	1.8	1.5
	Non-cash items in AME	4.6	4.8	5.1	5.4	5.5
	Other departmental expenditure	0.6	0.5	0.3	0.7	1.0
	Total departmental AME	130.8	134.3	143.8	150.6	156.5
Other AME						
	Net payments to EC institutions ⁴	0.8	2.2	2.4	2.8	3.1
	Locally financed expenditure	20.5	20.7	22.0	23.2	24.5
	Central government gross debt interest	22.2	20.9	23.0	22.9	22.8
	Public corporations own-financed capital expenditure	2.0	2.4	2.3	2.0	1.9
	Total other AME	45.4	46.2	49.6	50.9	52.2
	AME Margin	0.0	1.3	1.0	2.0	3.0
Accounting adjustments						
Accounting adjustments to remove non cash costs (excluding depreciation)	-11.2	-8.3	-9.3	-9.2	-9.8	
	Accounting adjustments to AME	3.4	5.2	6.1	7.3	8.5
	Total Annually Managed Expenditure	168.4	178.7	191.2	201.7	210.4
	Total Managed Expenditure	390.1	418.4	454.6	481.5	511.4

¹ Excluding income-related elements of support for children on Income and Jobseekers Allowance, which are included with tax credits.

² Includes R & D tax credits and other company tax credits, but excludes those elements of personal tax credits which are classified as negative taxation under OECD guidelines, as described in Box C2 on page 216 of Budget 2002.

³ Includes the costs arising from Foot and Mouth disease in AME.

⁴ Net payments to EC institutions exclude the UK's contribution to the cost of EC aid to non-Member states (which is attributed to the aid programme). Net payments therefore differ from the UK's net contribution to the EC budget, latest estimates of which (in £ billion) are £3.0 bn in 2002-03; £3.2 bn in 2003-04; £3.6 bn in 2004-05; 3.9 bn in 2005-06.

A.10 Table A3 sets out how departmental budgets (DEL), as determined by the level of TME and AME, are allocated in the Spending Review between departments. It shows total Departmental Expenditure Limits for 2003-4 to 2005-6, together with provisional outturn for 2001-02 and plans for 2002-03. Table A4 shows the same information in real terms. Provisional outturn for total DEL in 2001-02 is £221.8 billion. When shown on a consistent basis with the Budget, it is £212.4 billion, slightly below the £212.5 billion level shown in the Pre-Budget Report 2001.

A.11 For the first time, all numbers in this Spending Review are presented on a full resource basis (RAB). This has no impact on TME or the other key National Accounts aggregates used to measure performance against the fiscal rules, but does affect

what is included in DEL and AME. Annex B explains the impact of resource budgeting on the presentation of spending data and provides full reconciliations of the new data with the previous budgeting basis.

A.12 Under RAB, total DEL cannot be calculated simply by adding together resource and capital budgets. This would mean double-counting depreciation, which is included in both the resource and the gross capital budget. Depreciation would be counted once when new capital is spent from the capital DEL, and again as the asset depreciated from the resource DEL. Total DEL is therefore calculated by adding together the resource budget and the capital budgeting, minus depreciation and impairments.

Table A.3: Departmental Expenditure Limits - Total Budgets¹

£ billion					
Provisional outturn Plans					
	2001-02	2002-03	2003-04	2004-05	2005-06
<i>Resource and Net Capital Budget</i>					
Education and Skills	19.0	23.2	25.6	27.8	31.1
Health	52.2	58.0	63.9	70.3	77.3
of which: NHS	50.9	55.8	61.3	67.4	74.4
Transport	6.1	7.7	10.7	11.2	11.6
Office of the Deputy Prime Minister	5.4	6.0	6.7	7.2	7.6
Local Government	37.1	37.7	40.7	42.8	45.9
Home Office	10.8	10.7	12.3	12.7	13.5
Lord Chancellor's departments	3.1	2.9	3.1	3.3	3.4
Attorney General's departments	0.5	0.5	0.5	0.5	0.5
Defence	30.0	29.3	30.9	31.8	32.8
Foreign and Commonwealth Office	1.4	1.3	1.5	1.5	1.6
International Development	3.2	3.4	3.7	3.8	4.6
Trade and Industry	4.0	4.7	5.1	5.1	5.5
Environment, Food and Rural Affairs	2.9	2.5	2.9	2.9	2.9
Culture, Media and Sport	1.2	1.3	1.4	1.5	1.6
Work and Pensions	6.5	7.0	7.5	7.8	7.8
Scotland	16.9	18.2	19.7	20.9	22.3
Wales	8.7	9.4	10.3	10.9	11.8
Northern Ireland Executive	6.0	6.4	6.8	7.2	7.6
Northern Ireland Office	1.0	1.2	1.1	1.1	1.2
Chancellor's departments	4.1	4.3	4.4	4.6	4.8

Cabinet Office	1.7	1.6	1.8	1.9	1.9
Invest to Save Budget	0.0	0.0	0.1	0.0	0.0
Capital Modernisation Fund	0.0	0.9	1.2	0.9	1.0
Policy Innovation Fund	0.0	0.0	0.1	0.1	0.1
Reserve	0.0	1.4	1.5	2.0	2.5
Total DEL	221.8	239.7	263.4	279.8	301.0

¹ Full resource budgeting basis, net of depreciation.

Education (England)	45.0	49.3	52.7	57.8
Education (UK)	53.7	58.6	62.9	68.4
NHS (UK)	68.1	74.8	82.2	90.5
Transport (UK)	12.0	15.3	15.8	16.4
Housing (England)	4.8	5.5	5.7	5.9
Criminal Justice (England and Wales)	14.7	16.4	17.2	18.3

**Table A.4: Departmental Expenditure Limits - real terms,
2002-03 prices**

	£ billion				
	Provisional outturn	Plans			
	2001-02	2002- 03	2003- 04	2004- 05	2005- 06
<i>Resource and Net Capital Budget</i>					
Education and Skills	19.5	23.2	25.0	26.4	28.9
Health	53.5	58.0	62.3	66.8	71.7
of which: NHS	52.1	55.8	59.8	64.1	69.0
Transport	6.3	7.7	10.4	10.7	10.8
Office of the Deputy Prime Minister	5.6	6.0	6.6	6.9	7.0
Local Government	37.9	37.7	39.7	40.7	42.6
Home Office	11.0	10.7	12.0	12.1	12.6
Lord Chancellor's departments	3.2	2.9	3.0	3.1	3.1
Attorney General's departments	0.5	0.5	0.5	0.5	0.5

Defence	30.7	29.3	30.2	30.2	30.4
Foreign and Commonwealth Office	1.4	1.3	1.4	1.4	1.5
International Development	3.2	3.4	3.6	3.7	4.3
Trade and Industry	4.1	4.7	5.0	4.9	5.1
Environment, Food and Rural Affairs	3.0	2.5	2.8	2.7	2.7
Culture, Media and Sport	1.2	1.3	1.4	1.4	1.5
Work and Pensions	6.6	7.0	7.3	7.4	7.3
Scotland	17.3	18.2	19.2	19.9	20.7
Wales	8.9	9.4	10.0	10.4	10.9
Northern Ireland Executive	6.1	6.4	6.6	6.8	7.1
Northern Ireland Office	1.1	1.2	1.1	1.1	1.1
Chancellor's Departments	4.2	4.3	4.3	4.4	4.4
Cabinet Office	1.7	1.6	1.8	1.8	1.8
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Capital Modernisation Fund	0.0	0.9	1.1	0.8	0.9
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	1.4	1.4	1.9	2.4
Total	227.1	239.6	256.9	266.1	279.3

¹ Full resource budgeting basis, net of depreciation.

Education (England)	46.0	50.5	54.0	59.2
Education (UK)	55.0	60.0	64.4	70.1
NHS (UK)	69.7	76.6	84.2	92.7
Transport (UK)	12.2	15.7	16.2	16.8
Housing (England)	5.0	5.6	5.9	6.0
Criminal Justice (England and Wales)	15.1	16.8	17.6	18.8

A.13 Table A.4 shows DEL expenditure in real terms. DEL will grow by an annual average of 5.2 per cent in real terms between 2002-03 and 2005-06, with an additional £61 billion being spent in DEL by 2005-06, compared to 2002-03. Table A.5 shows how this extra allocation has been divided between departments. The first column shows the baseline plans for each department in 2002-03. The second column shows the increase in 2003-04 over 2002-03, already allocated to departments at the time of Budget 2002. This includes the assigned allocations made in Spending Review 2000 and further additions including the Budget additions for health, but does not include any Spending Review additions. The third column shows the extra allocations made in the Spending Review for 2003-04, in comparison to the 2002-03 baseline. The next two columns show the extra allocations made in 2004-05 and 2005-06, again in comparison to the 2002-03 baseline. The final column shows the annual average growth rates for each department in real terms between 2002-03 and 2005-06.

A.14 Of the £61 billion addition to DEL in 2005-06, over £30 billion has been allocated to education, health and transport:

- England education will grow by 6 per cent a year in real terms between 2002-03 and 2005-06, with an additional £12.8 billion spent in 2005-06, compared to 2002-03;
- as announced in the Budget, NHS spending in the UK will grow by an average of 7.3 per cent a year in real terms, with over £20 billion extra spent by 2005-06, compared to 2003-04; and
- to meet the commitments set out in the Ten Year Plan for transport, spending within DEL will grow by over 12 per cent a year in real terms, with an extra £4 billion spent by 2005-06.

A.15 Housing spend in England will grow by 4.2 per cent a year, with an extra £1 billion being spent by 2005-06, compared to 2002-03. Over £3.5 billion extra will be spent on the criminal justice system. Spending by the Department for International Development will grow by over 8 per cent a year between 2002-03 and 2005-06, to ensure that the UK meets its commitment to spend 0.40 per cent of gross national income on official development aid by 2005-06.

Table A.5:

**Departmental
Expenditure
Limits new
allocations by
Department**

£ billion

	2003-04		as at	2003-04	2004-05	2005-06	average growth	Annual
	Baseline	Pre-SR	SR2002	allocation	allocation	per cent		
	2002-03	Pre-SR addition	SR2002	allocation	allocation	per cent		
Education and Skills	23.2		2.0			2.4	4.6	8.0 7.6
Health	58.0		5.9			5.9	12.3	19.3 7.3
of which: NHS	55.8		5.5			5.5	11.7	18.6 7.4
Transport	7.7		1.7			3.0	3.5	4.0 12.1
Office of the Deputy Prime Minister	6.0		0.6			0.7	1.2	1.5 5.2
Local Government	37.7		2.7			3.1	5.1	8.2 4.2
Home Office	10.7		0.1			1.6	2.1	2.9 5.6
Lord Chancellor's departments	2.9		0.0			0.2	0.4	0.5 3.1
Attorney General's departments	0.5		0.0			0.0	0.1	0.1 2.5
Defence	29.3		0.9			1.6	2.4	3.5 1.2
Foreign and Commonwealth Office	1.3		0.1			0.1	0.2	0.2 2.8
International Development	3.4		0.3			0.3	0.5	1.2 8.1
Trade and Industry	4.7		0.3			0.4	0.4	0.8 2.8
Environment, Food and Rural Affairs	2.5		0.1			0.4	0.4	0.4 2.7
Culture, Media and Sport	1.3		0.1			0.1	0.2	0.3 3.5
Work and Pensions	7.0		0.5			0.5	0.8	0.8 1.1
Scotland	18.2		1.0			1.5	2.7	4.1 4.4
Wales	9.4		0.6			0.9	2.3	2.3 5.1
Northern Ireland Executive	6.4		0.3			0.4	0.8	1.2 3.3
Northern	1.2		-0.1			-0.1	0.0	0.0 3.5

Ireland Office							
Chancellor's Departments	4.3	0.1	0.2	0.4	0.5	1.4	
Cabinet Office	1.6	0.1	0.2	0.3	0.3	3.6	
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0	-	
Capital Modernisation Fund	0.9	0.3	0.3	-0.1	0.1	-	
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0	-	
Reserve	1.4	0.9	0.0	0.5	1.1	-	
Total DEL	239.7	18.5	23.8	40.9	61.3	5.2	

¹ Adjusted to
take account of
move to full
Resource
Budgeting and
transfers
between
departments
and
programmes.

Education (England)	45.0	4.0	4.4	9.9	12.8	6.0
Education (UK)	53.7	4.4	4.9	11.7	14.7	5.7
NHS (UK)	68.1	6.8	6.8	14.1	22.4	7.3
Transport (UK)	12.0	1.6	3.4	3.9	4.4	8.4
Housing (England)	4.8	0.5	0.6	0.9	1.1	4.2
Criminal Justice (England and Wales)	14.7	0.8	1.7	2.5	3.6	5.0

Table A.6: Departmental Expenditure Limits - Resource and Capital Budgets¹

£ billion

**Provisional Plans
outturn**

**2001-02 2002- 2003- 2004- 2005-
03 04 05 06**

Resource Budget

Education and Skills	17.1	20.9	22.3	24.0	26.8
Health	50.8	56.0	61.4	67.2	73.3
of which: NHS	49.2	53.9	58.9	64.5	70.6
Transport	4.3	5.0	7.6	7.7	8.7
Office of the Deputy Prime Minister	2.8	4.6	4.7	5.1	5.3
Local Government	37.0	37.4	40.4	42.5	45.5
Home Office	10.3	10.2	11.7	12.0	12.7
Lord Chancellor's departments	3.0	2.9	3.1	3.3	3.3
Attorney General's departments	0.5	0.5	0.5	0.5	0.5
Defence	31.7	31.4	33.0	33.8	34.7
Foreign and Commonwealth Office	1.4	1.3	1.4	1.5	1.6
International Development	3.5	3.4	3.7	3.8	4.6
Trade and Industry	4.1	4.6	4.8	5.1	5.6
Environment, Food and Rural Affairs	2.8	2.4	2.8	2.7	2.8
Culture, Media and Sport	1.2	1.4	1.5	1.5	1.6
Work and Pensions	6.4	7.0	7.6	7.7	7.8
Scotland	15.5	16.6	18.1	19.1	20.4
Wales	8.3	8.8	9.7	10.2	11.0
Northern Ireland Executive	5.8	6.2	6.5	6.8	7.2
Northern Ireland Office	1.0	1.1	1.1	1.1	1.2
Chancellor's Departments	4.1	4.3	4.5	4.6	4.8
Cabinet Office	1.7	1.6	1.9	1.9	1.9
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Capital Modernisation Fund	0.0	0.0	0.1	0.1	0.1
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	1.0	1.0	1.3	1.7
Total Resource Budget DEL	213.2	228.5	249.3	263.7	283.1

Capital Budget

Education and Skills	2.0	2.3	3.3	3.8	4.4
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Health	1.8	2.3	2.9	3.5	4.5
of which: NHS	1.7	2.2	2.8	3.4	4.4
Transport	2.0	2.9	3.4	3.8	3.4
Office of the Deputy Prime Minister	2.7	1.5	2.0	2.2	2.3
Local Government	0.1	0.3	0.3	0.3	0.3
Home Office	0.6	0.7	0.8	0.9	1.1
Lord Chancellor's departments	0.1	0.1	0.1	0.1	0.1
Attorney General's departments	0.0	0.0	0.0	0.0	0.0
Defence	5.5	5.5	6.0	6.3	6.9
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1
International Development	0.0	0.0	0.0	0.0	0.0
Trade and Industry	0.1	0.3	0.4	0.2	0.1
Environment, Food and Rural Affairs	0.3	0.2	0.3	0.3	0.4
Culture, Media and Sport	0.0	0.0	0.1	0.1	0.1
Work and Pensions	0.2	0.1	0.0	0.2	0.1
Scotland	1.6	1.9	2.0	2.1	2.3
Wales	0.5	0.8	0.8	0.9	1.0
Northern Ireland Executive	0.3	0.3	0.4	0.5	0.5
Northern Ireland Office	0.0	0.1	0.1	0.1	0.1
Chancellor's Departments	0.2	0.2	0.2	0.3	0.3
Cabinet Office	0.0	0.2	0.2	0.2	0.2
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Capital Modernisation Fund	0.0	0.9	1.1	0.8	0.9
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	0.4	0.6	0.8	1.0
Total Capital Budget DEL	18.3	21.3	25.2	27.6	30.1

¹ Full resource budgeting basis. Includes costs for depreciation and impairments, costs of capital charges and provisions on an accruals basis.

A.16 Just as TME is divided into public sector current expenditure and public sector net investment, DEL and AME are also divided into resource (current) and capital. To ensure that DEL budgets reconcile back to National Accounts, departments are set separate resource and capital DELs. Table A.6 divides total DEL from the previous table into resource and gross capital budgets for each department.

A.17 For the golden rule to be met, resource DEL must reconcile back to the National Accounts aggregate of public sector current expenditure. Table A.7 shows that this has been achieved in the period covered by the Spending Review. Taken together, resource DEL and AME reconcile back to the level of public sector current expenditure set in the Budget and shown in Table A.1. In the same way, Table A.8 demonstrates that capital DEL and AME reconcile back to the level of public sector net investment set in the Budget and shown in Table A.1.

Table A.7: Resource Budget and Public Sector Current Expenditure

£ billion				
Provisional		Plans		
outturn				
	2001-02	2002-03	2003-04	2004-05
				2005-06

Resource Budget

	in Departmental Expenditure Limits:	213.2	228.5	249.3	263.7	283.1
<i>of which:</i>						
	Departmental DEL	213.2	227.5	248.2	262.2	281.3
	Non-departmental DEL ¹	0.0	1.1	1.1	1.4	1.8
	in Departmental AME	129.8	132.9	142.3	149.4	155.4
<i>of which:</i>						
	Departmental AME (excluding non-cash items)	125.2	128.1	137.2	144.0	149.9
	Non-cash items in AME	4.6	4.8	5.1	5.4	5.5
	in other AME	41.8	43.2	46.3	48.9	51.3
	Net payments to EC institutions	0.8	2.2	2.4	2.8	3.1
	Locally financed current expenditure	18.8	18.8	20.1	21.4	22.8
	CG debt interest	22.2	20.9	23.0	22.9	22.8
	AME margin (current)	0.0	1.3	0.9	1.8	2.7
	Total Resource Budget	384.8	404.6	437.9	462.0	489.8
	Accounting and other adjustments ²	-17.4	-14.3	-15.5	-15.1	-15.3
	Classification changes to national accounts ³	0.0	-0.3	-2.1	-2.7	-3.4
	Public sector current expenditure	367.4	389.9	420.3	444.2	471.1

¹ Central funds, including the Invest to Save Budget, the Capital Modernisation Fund, the Policy Innovation Fund and the Reserve.

² Includes adjustments to deduct non-cash items in DEL and AME, which do not score in TME.

³ Adjusts for classification differences between resource budgeting and national accounts.

Table A.8: Capital Budget and Public Sector Net Investment

	£ billion				
	Provisional Plans				
	outturn				
		2001-	2002-	2003-	2004-
		02	03	04	05
					2005-
					06
Capital Budget:					
	in Departmental Expenditure Limits:	18.3	21.3	25.2	27.6
<i>of which:</i>					30.1

Departmental DEL	18.3	19.9	23.5	26.1	28.2
Non-departmental DEL ¹	0.0	1.3	1.7	1.6	1.9
in Departmental AME	1.0	1.4	1.5	1.3	1.1
in other AME	3.6	4.3	4.3	4.0	3.9
Public corporations own-financed capital expenditure	2.0	2.4	2.3	2.0	1.9
Locally financed capital expenditure	1.6	2.0	1.9	1.8	1.8
AME margin (capital)	0.0	0.0	0.1	0.2	0.3
Total Capital Budget	22.9	27.0	31.0	32.9	35.0
Accounting and other adjustments	-0.1	1.1	1.2	1.7	1.8
Classification changes to national accounts ²	0.0	0.3	2.1	2.7	3.4
Public sector gross investment	22.7	28.4	34.3	37.3	40.3
less Depreciation (national accounts)	13.6	14.0	14.6	15.2	15.9
Public sector net investment	9.2	14.4	19.7	22.1	24.4

¹ Central funds, including the Invest to Save Budget, the Capital Modernisation Fund, the Policy Innovation Fund and the Reserve.

² Includes capital grants to the private sector, which are classified as investment in national accounts, but as resource in budgets.

A.18 Under full resource budgeting, capital grants to the private sector score in the resource budget, rather than the capital budget. This reflects the fact that, under RAB, spending is only treated as capital if it creates an asset on the balance sheet of the Government. However, this expenditure continues to score as investment in national accounts and is a vital part of investment in our public services, particularly in education, housing and transport. The table below shows departmental gross investment budgets, which include both capital DEL and capital grants to the private sector.

Table A.9: Public sector investment in DEL¹

	£ billion					
	Provisional outturn	Plans				
		2001- 02	2002- 03	2003- 04	2004- 05	2005- 06
Education and Skills	2.5	3.0	4.1	5.0	5.8	

Health	2.0	2.4	3.0	3.6	4.5		
of which: NHS	1.8	2.3	2.9	3.4	4.4		
Transport	2.0	3.9	6.0	6.3	6.4		
Office of the Deputy Prime Minister	2.7	3.7	4.3	4.7	4.9		
Local Government	0.1	0.3	0.3	0.3	0.3		
Home Office	0.6	0.8	0.9	1.1	1.2		
Lord Chancellor's departments	0.1	0.1	0.1	0.1	0.1		
Attorney General's departments	0.0	0.0	0.0	0.0	0.0		
Defence	5.5	5.5	6.0	6.3	6.9		
Foreign and Commonwealth Office	0.1	0.1	0.2	0.2	0.2		
International Development	0.0	0.0	0.0	0.0	0.0		
Trade and Industry	0.1	0.8	1.0	0.9	0.9		
Environment, Food and Rural Affairs	0.3	0.5	0.5	0.6	0.6		
Culture, Media and Sport	0.0	0.1	0.1	0.1	0.1		
Work and Pensions	0.2	0.1	0.0	0.2	0.1		
Scotland	1.6	2.1	2.2	2.4	2.6		
Wales	0.5	1.0	2.2	1.1	1.2		
Northern Ireland Executive	0.3	0.7	0.7	0.8	0.8		
Northern Ireland Office	0.3	0.1	0.1	0.1	0.1		
Chancellor's Departments	0.0	0.2	0.3	0.3	0.3		
Cabinet Office	0.2	0.2	0.2	0.2	0.2		
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0		
Capital Modernisation Fund	0.0	0.9	1.1	0.8	0.9		
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0		
Reserve	0.0	0.4	0.6	0.8	1.0		
Total investment in DEL			19.0	26.9	33.8	35.7	39.1

¹ Includes capital grants to the private sector, which are classified as investment in national accounts

² Incorporates the Policy Innovation Fund and the Capital Modernisation Fund

A.19 Tables A.7 and A.8 show how a series of accounting adjustments have to be made to reconcile DEL and AME back to national accounts. These are broken down into separate categories in the table below.

Table A.10: Accounting and other adjustments

	£ billion					
	Provisional outturn	Plans				
		2001- 02	2002- 03	2003- 04	2004- 05	2005- 06
Accounting adjustments in DEL			-21.0	-18.4	-20.4	-20.7 -21.9

Resource budgeting changes	-22.4	-21.5	-23.2	-24.1	-25.5
Financial transactions in departmental budgets	-1.7	-1.4	-1.7	-1.3	-1.4
Expenditure arising from liabilities	1.5	1.7	1.8	2.1	2.2
Adjustments for public corporations	3.1	3.0	3.1	3.1	3.2
Other accounting adjustments in DEL	-1.4	-0.2	-0.5	-0.5	-0.5
Accounting adjustments in AME	3.4	5.2	6.1	7.3	8.5
General Government non-trading capital consumption	8.4	8.5	8.9	9.3	9.8
VAT refunded on general government expenditure	7.8	8.2	9.0	9.6	10.3
EC contributions	-6.1	-5.4	-4.9	-4.5	-4.3
Financial transactions in AME	0.0	0.0	0.0	0.0	0.0
Tax credits	0.9	1.3	0.7	0.7	0.7
Adjustments for public corporations	0.1	0.1	0.1	0.1	0.1
Intra general government debt interest	-3.2	-3.0	-3.0	-2.9	-2.9
Removal of non-cash spending in AME	-4.6	-4.8	-5.1	-5.4	-5.5
Other accounting adjustments in AME	0.1	0.4	0.4	0.4	0.2
Total accounting and other adjustments	-17.6	-13.2	-14.3	-13.4	-13.5

A.20 Table A.11 provides a historical series for each of the key fiscal aggregates.

Table A.11: Public Expenditure Aggregates, 1963-64 to 2005-06

	Public sector current expenditure	Depreciation	Public sector net investment	Total Managed Expenditure							
	Cash	Real Terms	per cent	Cash	Cash	Real Terms	per cent	Cash	Real Terms	per cent	
	(£bn)	(£bn)	of GDP	(£bn)	(£bn)	of GDP	of GDP	(£bn)	(£bn)	of GDP	
1963-64	9.6	129.2	30.7	1.1	1.4	18.8	4.5	12.1	163.4	38.9	
1964-65	10.1	130.6	29.8	1.2	1.7	22.0	5.0	13.0	168.3	38.4	
1965-66	11.3	138.4	30.9	1.3	1.8	22.4	5.0	14.4	176.8	39.5	
1966-67	12.2	144.5	31.7	1.4	2.3	26.8	5.9	15.9	187.9	41.3	
1967-68	13.7	157.6	33.6	1.5	2.9	33.4	7.1	18.2	208.5	44.5	
1968-69	14.7	161.1	33.2	1.7	2.8	30.8	6.4	19.2	210.1	43.3	
1969-70	15.6	161.7	32.7	1.8	2.8	28.8	5.8	20.2	209.4	42.4	
1970-71	17.3	165.3	32.6	2.1	3.2	31.0	6.1	22.6	216.1	42.7	
1971-72	19.7	172.9	33.3	2.3	3.1	27.3	5.3	25.1	220.5	42.5	
1972-73	22.2	180.6	33.1	2.6	3.2	26.3	4.8	28.1	228.2	41.8	

1973-74	26.2	198.5	35.0	3.1	3.9	29.5	5.2	33.2	251.8	44.4
1974-75	34.6	219.3	38.8	4.0	4.9	31.2	5.5	43.6	276.0	48.8
1975-76	44.3	224.2	39.9	5.1	6.1	30.7	5.5	55.5	280.6	49.9
1976-77	51.8	230.6	39.9	6.0	5.6	25.0	4.3	63.3	282.2	48.8
1977-78	58.0	227.2	38.4	6.8	4.3	17.0	2.9	69.1	270.8	45.8
1978-79	66.3	234.0	38.4	7.7	4.2	14.8	2.4	78.2	276.0	45.2
1979-80	79.4	240.0	38.2	9.1	4.5	13.7	2.2	93.1	281.3	44.8
1980-81	96.6	247.0	40.8	10.9	4.3	11.0	1.8	111.8	285.9	47.3
1981-82	110.6	258.1	42.6	11.9	2.4	5.6	0.9	124.9	291.5	48.1
1982-83	120.9	263.9	42.7	12.3	4.2	9.3	1.5	137.5	300.1	48.5
1983-84	130.4	272.4	42.3	12.8	5.5	11.5	1.8	148.7	310.7	48.3
1984-85	141.0	279.8	42.6	12.8	5.1	10.1	1.5	158.9	315.4	48.1
1985-86	148.7	279.8	41.0	12.1	4.5	8.5	1.2	165.3	311.0	45.5
1986-87	155.8	283.9	40.1	12.6	2.8	5.1	0.7	171.2	312.0	44.1
1987-88	166.4	287.6	38.6	12.3	2.8	4.9	0.7	181.5	313.8	42.1
1988-89	173.7	281.1	36.2	13.6	1.7	2.8	0.4	189.0	305.8	39.4
1989-90	187.4	283.1	35.7	14.7	6.3	9.5	1.2	208.4	314.7	39.7
1990-91	203.3	284.9	36.1	13.8	8.2	11.4	1.4	225.3	315.6	40.0
1991-92	228.6	301.9	38.4	12.3	11.0	14.5	1.8	251.9	332.7	42.3
1992-93	247.8	317.0	40.3	11.9	12.4	15.8	2.0	272.1	348.0	44.2
1993-94	262.3	327.4	40.1	12.0	10.4	12.9	1.6	284.6	355.3	43.6
1994-95	275.2	339.1	39.9	12.5	10.4	12.8	1.5	298.1	367.2	43.2
1995-96	287.3	344.1	39.4	13.0	10.3	12.3	1.4	310.5	372.0	42.6
1996-97	299.4	347.6	38.7	12.5	5.3	6.1	0.7	317.2	368.2	41.0
1997-98	306.3	344.9	37.2	12.4	4.9	5.5	0.6	323.6	364.4	39.3
1998-99	314.7	344.9	36.2	12.6	6.0	6.6	0.7	333.3	365.3	38.4
1999-00	326.6	349.5	35.6	12.6	4.4	4.7	0.5	343.6	367.8	37.4
2000-01	348.5	364.9	36.2	13.0	5.6	5.9	0.6	367.1	384.4	38.2
2001-02	367.4	376.2	36.8	13.6	9.2	9.4	0.9	390.1	399.5	39.0
2002-03	389.9	389.9	37.1	14.0	14.4	14.4	1.4	418.4	418.4	39.9
2003-04	420.3	409.9	38.0	14.6	19.7	19.2	1.8	454.6	443.4	41.1
2004-05	444.2	422.5	38.2	15.2	22.1	21.0	1.9	481.5	458.0	41.4
2005-06	471.1	437.2	38.6	15.9	24.4	22.7	2.0	511.4	474.6	41.9

Annex B

Resource Budgeting

INTRODUCTION

B1 The 2002 Spending Review delivers the full introduction of resource budgeting.¹ This means, for the first time, departmental expenditure limits set out in Departmental Expenditure Limits, reflect the full economic cost of their activities. The move to full resource budgeting completes the most significant overhaul of the public finances for well over a century, and places the United Kingdom at the forefront of public sector financial reporting and management reform.

B2 This annex explains:

- the principles of resource budgeting and its benefits;
- its effect on the presentation of spending numbers; and
- the relationship between resource budgeting and the international expenditure aggregates used to measure performance.

Principles of resource budgeting

B3 The Government believes that high quality public services require first-rate management, and this is dependent on management information available and the right incentives when taking decisions. The previous control system was based almost entirely on cash costs, which have largely unchanged since the nineteenth century. This system failed to provide the right information and incentives, and in particular, it was biased against essential long term investment.

B4 This is why the implementation of resource accounting and budgeting (RAB) has been actively and vigorously pursued by the Government as part of its drive for world class public services. Resource accounting applies the best financial reporting and disclosure practices to central Government finance, and resource budgeting uses this as the basis for planning and controlling spending.

B5 Resource accounts and budgets provide a far better measure of the costs of running services, because they capture the full economic costs of providing services. Costs are scored when resources are consumed - or 'accrued' - rather than when cash is spent. And, resource budgets capture cash costs of economic consumption such as:

- **depreciation** (the consumption of capital assets over their useful economic life);
- a **cost of capital charge** (the opportunity and financing costs of holding capital); and
- **provisions** for future payments, such as compensation or early retirement liabilities.

Better, more transparent information

B6 Resource accounting therefore provides a wealth of audited information on the use of Government resources and departmental assets and liabilities. Departmental resource accounts, which were fully introduced for the 2001-02 financial year, include, for the first time, a statement of operating costs, a balance sheet, and a cash flow statement. They are prepared in line with accounting standards, and all policies are prepared in consultation with an independent statutory body, the Financial Reporting Advisory Board (FRAB).

B7 The accounts are subject to statutory audit by the National Audit Office on behalf of Parliament. The accounts are then referred for scrutiny by the Public Accounts Committee.

Benefits of resource budgeting

B.8 The benefits of using this information as the basis of expenditure control include:

- using the information to support the Government's fiscal objectives, by providing a clearer distinction between consumption and investment.

- investment, and measuring the costs of holding and using capital and Government liabilities;
- better information for managers of public services on the costs of providing services on which to base decisions, support key Government targets;
- new incentives for the management of assets, building on the ground-breaking National Asset Register and supporting plans for a step change in public investment;
- better incentives to manage the cost of liabilities more effectively; and
- a higher level of expertise in Government.

B9 The Government is already using this information. Resource based information played a significant part in preparing the Spending Review. Departments' spending assessments were prepared on a full resource basis and detailed forecast balance sheets considered in discussions between departments and the Treasury.

The public spending control framework

B10 The resource budgeting framework has been carefully developed to fit in with the wider frameworks for outcome focused control introduced by this Government. Departments are set separate, discrete budgets (known as Departmental Expenditure Limits (formerly known as current) for resource consumption and **capital** for new investment, alongside the outcomes departments are which are set out in **public service agreements**.

B11 Resource budgeting has been introduced in two stages. In the first stage of resource budgeting - the 2000 Spending Review on an accruals basis, so costs were matched to the time they were incurred. The new non-cash costs were brought into budgets but left outside DEL - the main control total and presentational measure - to allow for a smooth transition from an entirely cash resource budgeting. These costs are now transferring into DEL in the 2002 Spending Review, completing the move to resource

Changes to the control framework

B12 The inclusion of new costs in departments' main budgets (DEL), is a significant change to the public spending control framework. The changes are:

- the main budget for current expenditure, the resource DEL, includes charges for depreciation and impairments (using capital assets), a cost of capital charge (currently at 6 per cent of net assets), and provisions for future costs. These changes come from AME in the 2002 Spending Review;
- grants paid to the private sector - for example to universities - are managed through the resource rather than the capital DEL. The fact that under RAB, spending is only treated as capital if it creates an asset on the balance sheet of the Government;
- so as to reflect the more commercial budgeting system for public corporations under RAB, investment by public corporations using their own resources no longer counts as part of the parent department's capital DEL.

B13 The changes to the budgetary control framework introduced in the 2002 Spending Review are shown in the chart below:

Chart B.1: Changes in budgeting control in the 2002 Spending Review

Changes to spending data

B14 Consequently, as a result of the move to full resource budgeting, there are changes to the way in which spending data is presented. Non-cash costs introduced into DEL in the 2002 Spending Review all add to the resource DEL. So in general under resource based DELs are usually larger than under the old near cash system. Capital DELs are sometimes lower because some grant funded projects are treated as resource rather than capital.

B15 In the 2002 Spending Review, spending plans are presented on both the new and the old basis, to ensure transparency and consistency with previous spending plans. Each departmental chapter in this white paper shows **resource and capital DELs** on a full resource basis and an **estimate of near cash spending**. The near cash line is consistent with the previous budgeting basis and reflects the fact that under the old budgeting regime, DEL was close to a cash concept. The new accruals items can be estimated separately as a result of the detailed information considered in the spending review.

B16 The statistical annex in this White Paper is presented on a full resource basis. The tables in this annex show reconciliation between the new and the old bases of presentation.

New measures of presentation

B17 In the past, it has been the practice to add current and capital DELs together to give a single number for spending on a department. However, the inclusion of capital consumption costs - depreciation and impairments - in the resource DEL means

DELs together would be misleading. Capital would be counted twice - once when the new investment was made and again as its useful life.

B18 Therefore, in order to provide a single number for departmental spending, total DEL is presented net of depreciation and the best measure of total annual spending under resource budgeting as it reflects the resources used to run public services plus them. Capital and resource DELs on a gross basis remain separate controls on departmental spending.

B19 This means that for each department, the 2002 Spending Review will publish four main aggregates:

- the resource DEL (operating costs);
- the capital DEL (new investment by the department);
- total spending (resources plus capital spending net of depreciation, the best measure of total spending on a resource basis);
- near cash spending (consistent with previous control basis and used for comparison).

B20 Each of these aggregates tells a different part of the story. In the 2002 Spending Review, the headline measure will normally be on a resource basis. However, occasionally for the purpose of comparisons with previous plans, presentation may focus on near cash spending.

Reconciling to previous plans

B22 In the three tables below, a reconciliation of the existing outturn, plans for 2002-03 and the new and new 2002 Spending Review plans is shown, covering resource, capital and total DEL:

Table B1: Departmental Expenditure Limits - reconciliation to previous plans

Total Departmental Expenditure Limits

	£ billion		
	Provisional Outturn	Plans 2002-03	2002 Spending Review plans
	2001-02	2002-03	2002-03
Total DELs - full resource basis	221.8	239.7	239.7
<i>Adjustments to reconcile with previous budgeting system*</i>			
<i>adjustment for total depreciation and impairments</i>			

	9.7	10.1	11.1	
<i>aggregate changes to the resource budget (see Table B2)</i>				
	-24.8	-27.1	-30.4	-
<i>aggregate changes to the capital budget (see Table B3)</i>		5.7	7.0	
Sum of all adjustments		-9.4	-9.9	-
Departmental Expenditure Limits (near-cash basis)				
	212.4	229.8	252.9	2
<i>*net of depreciation and impairments.</i>				

Table B2: Resource budgets - reconciliation to previous plans

The resource budget

	£ billion			
	Outturn	Plans	2002 Spending Review	2003-04
	2001-02	2002-03		2003-04
Resource DELs - full resource basis	213.2	228.5		249
<i>Adjustments to reconcile with previous budgeting system:</i>				
<i>depreciation and impairments</i>	-9.7	-10.1		-11
<i>cost of capital charges</i>	-8.3	-8.8		-9
<i>provisions, net of cash paid</i>	-0.5	-0.6		-0
<i>capital grants scoring as public sector investment</i>	-4.4	-5.6		-7
<i>other changes</i>	-1.8	-1.9		-1
Sum of all adjustments	-24.8	-27.1		-30
Departmental Expenditure Limits (near-cash basis)	188.4	201.5		218

Table B3: Capital budgets - reconciliation to previous plans

The capital budget

	£ billion			
	Outturn	Plans	2002 Spending Review	2003-04
	2001-02	2002-03		2003-04

Capital DELs - full resource basis	18.3	21.3	25.6
<i>Adjustments to reconcile with previous budgeting system:</i>			
<i>capital grants scoring as public sector investment</i>	<i>4.4</i>	<i>5.6</i>	<i>7.0</i>
<i>other changes</i>	<i>1.2</i>	<i>1.4</i>	<i>1.0</i>
Sum of all adjustments	5.7	7.0	8.6
Departmental Expenditure Limits (near-cash basis)	23.9	28.3	34.2

B23 The extent to which data for spending on individual services is affected by the move to resource budgeting depends mainly on the body concerned, and, to a lesser extent, the liabilities on its balance sheet. This has a particular impact on the presentation of the numbers (see paragraphs B27 and B28). Table B4 below shows 2001-02 provisional outturn, budgets for 2002-03, and the 2003-04 plans on both the new and the old basis. Table B5 shows near cash data split into resource and capital for 2001-02 to 2005-06.

Table B4 :
Departmental
Expenditure
Limits -
adjustments
for resource
budgeting

	£ billion										
	DELs, previous basis	Adjustments for full resource budgeting	DELs, new basis								
	Provisional		2002 Spending Review Plans	Provisional		2002 Spending Review Plans	Provisional		2002 Spending Review Plans		
	outturn 2001-02	Plans 2002-03	2003-04	2004-05	2005- 06	outturn 2001-02	2002-03	2003- 04	2004-05	2005- 06	outturn 2001-02
Education and Skills	19.1	23.2	25.6	27.8	31.1	0.0	0.0	0.0	0.0	0.0	19.0
Health	50.5	55.7	61.6	67.8	74.5	1.7	2.3	2.3	2.4	2.8	52.2
of which: NHS	49.2	53.5	59.0	65.0	71.6	1.7	2.3	2.3	2.4	2.8	58.9
Transport	6.3	7.8	10.8	11.3	11.8	-0.1	-0.2	-0.1	-0.1	-0.1	6.1
Office of the Deputy Prime Minister	5.0	5.5	6.2	6.7	7.0	0.4	0.5	0.6	0.6	0.6	5.4
Local government	37.1	37.7	40.7	42.8	45.9	0.0	0.0	0.0	0.0	0.0	37.1
Home Office	10.4	10.3	11.9	12.3	13.1	0.3	0.3	0.4	0.4	0.4	10.8
Lord Chancellor's departments	3.0	2.8	3.1	3.3	3.4	0.1	0.0	0.0	0.0	0.0	3.1
Attorney General's departments	0.4	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.5

Defence	24.5	24.2	25.6	26.5	27.4	5.5	5.1	5.3	5.3	5.4	30.0	2
Foreign and Commonwealth Office	1.3	1.3	1.4	1.4	1.5	0.1	0.1	0.1	0.1	0.1	1.4	
International Development	3.1	3.3	3.6	3.7	4.4	0.1	0.0	0.1	0.2	0.1	3.2	
Trade and Industry	4.3	4.5	4.9	4.9	5.3	-0.2	0.2	0.2	0.2	0.2	4.0	
Environment, Food and Rural Affairs	2.7	2.3	2.7	2.7	2.8	0.2	0.2	0.2	0.2	0.2	2.9	
Culture, Media and Sport	1.1	1.2	1.3	1.4	1.4	0.1	0.1	0.1	0.1	0.1	1.2	
Work and Pensions	6.5	7.0	7.5	7.8	7.8	0.0	0.0	0.0	0.0	0.0	6.5	
Scotland	16.4	17.7	19.2	20.3	21.7	0.5	0.5	0.5	0.6	0.6	16.9	1
Wales	8.6	9.3	10.1	10.7	11.6	0.1	0.2	0.2	0.2	0.2	8.7	
Northern Ireland Executive	5.6	6.1	6.5	6.9	7.3	0.3	0.3	0.3	0.3	0.3	6.0	
Northern Ireland Office	1.0	1.2	1.1	1.1	1.2	0.0	0.0	0.0	0.0	0.0	1.0	
Chancellor's departments	4.1	4.2	4.3	4.5	4.7	0.0	0.0	0.1	0.1	0.1	4.1	
Cabinet Office	1.5	1.5	1.7	1.8	1.8	0.2	0.1	0.1	0.1	0.1	1.7	
Invest to Save Budget		0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Capital Modernisation Fund		0.9	1.2	0.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0	
Policy Innovation Fund		0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Reserve		1.4	1.5	1.9	2.5	0.0	0.0	0.0	0.0	0.0	0.0	
Total DEL	212.4	229.8	252.9	269.1	289.7	9.4	9.9	10.5	10.7	11.3	221.8	25

B24 The 2002 Budget presented spending plans for up to and including 2003-04 on a near-cash basis. Table B6 shows changes in Expenditure Limits shown in the Budget for 2002-03 and 2003-04 for each department, including Spending Review additions

Table B5: Changes to DEL in 2003-04

£ billion

Budget RAB and other

Restated Spending Review

New	2002	adjustments	DEL
Education and Skills	25.4	-0.2	25.2
Health ²	61.5	2.3	63.7
<i>of which: NHS</i> ²	58.9	2.4	61.3
Transport ³	9.5	-0.1	9.4
Office of the Deputy Prime Minister ³	6.0	0.6	6.7
Local Government	40.4	0.0	40.4
Home Office	10.4	0.3	10.8
Lord Chancellor's departments	2.9	0.0	2.9
Attorney General's departments	0.4	0.0	0.5
Defence	24.9	5.3	30.2
Foreign and Commonwealth Office	1.3	0.1	1.4
International Development	3.6	0.1	3.7
Trade and Industry	4.3	0.7	5.0
Environment, Food and Rural Affairs	2.3	0.4	2.6
Culture, Media and Sport	1.2	0.1	1.4
Work and Pensions	7.6	-0.1	7.5
Scotland	18.9	0.7	19.6
Wales	9.9	0.2	10.2
Northern Ireland Executive	6.5	0.3	6.8
Northern Ireland Office	1.0	0.0	1.1
Chancellor's Departments	4.3	0.1	4.3
Cabinet Office	1.6	0.0	1.7
Invest to Save Budget	0.1	0.0	0.1
Capital Modernisation Fund	1.2	0.0	1.2
Policy Innovation Fund	0.0	0.0	0.0
Reserve	2.0	0.0	2.0
Unallocated provision	1.6	0.0	1.6
Total DEL	249.0	10.9	259.9

B25 Since the introduction of resource budgeting in the 2000 Spending Review, near cash outturn, budget and plans have been of resource and capital. Tables B6a and B6b show the equivalent of the main spending tables in the statistical annex in near ca

Table B.6a: Resource DEL in near cash terms: 2001-02 to 2005-06

	£ billion		
	Provisional outturn		
Plans	2001-02	2002-03	2003-04

Resource budget

Education and Skills	16.6	20.2	21.5
Health	48.7	53.4	58.6
<i>of which: NHS</i>	47.4	51.2	56.1
Transport	2.9	3.5	4.3
Office of the Deputy Prime Minister	1.5	1.8	1.9
Local Government	37.0	37.4	40.4
Home Office	9.6	9.4	10.9
Lord Chancellor's departments	2.9	2.7	3.0
Attorney General's departments	0.4	0.5	0.5
Defence	18.9	18.6	19.5
Foreign and Commonwealth Office	1.2	1.1	1.2
International Development	2.8	2.9	3.2
Trade and Industry	3.6	3.7	3.9
Environment, Food and Rural Affairs	2.2	1.9	2.2
Culture, Media and Sport	1.0	1.1	1.2
Work and Pensions	6.3	6.9	7.5
Scotland	14.3	15.4	16.7
Wales	7.6	8.2	9.0
Northern Ireland Executive	5.0	5.3	5.7
Northern Ireland Office	1.0	1.1	1.0
Chancellor's Departments	3.8	4.0	4.1
Cabinet Office	1.3	1.3	1.5
Invest to Save Budget		0.0	0.0
Capital Modernisation Fund			0.1
Policy Innovation Fund		0.0	0.0

Reserve		1.0	0.9
Total DEL	188.4	201.5	218.9

¹ *Consistent with previous control basis.*

Table B.6b: Capital DEL in near cash terms: 2001-02 to 2005-06

Plans	£ billion		
	Provisional outturn		
	2001-02	2002-03	2003-04
Education and Skills	2.5	3.0	4.1
Health	1.9	2.4	3.0
<i>of which: NHS</i>	1.8	2.3	2.9
Transport	3.4	4.4	6.5
Office of the Deputy Prime Minister	3.6	3.8	4.3
Local Government	0.1	0.3	0.3
Home Office	0.8	0.9	1.0
Lord Chancellor's departments	0.1	0.1	0.1
Attorney General's departments	0.0	0.0	0.0
Defence	5.6	5.6	6.1
Foreign and Commonwealth Office	0.1	0.1	0.2
International Development	0.3	0.4	0.4
Trade and Industry	0.7	0.8	1.0
Environment, Food and Rural Affairs	0.5	0.5	0.6
Culture, Media and Sport	0.1	0.1	0.1
Work and Pensions	0.2	0.1	0.0

Scotland	2.1	2.3	2.4
Wales	0.9	1.0	1.1
Northern Ireland Executive	0.7	0.8	0.8
Northern Ireland Office	0.0	0.1	0.1
Chancellor's Departments	0.2	0.2	0.3
Cabinet Office	0.2	0.2	0.2
Invest to Save Budget		0.0	0.0
Capital Modernisation Fund		0.9	1.1
Policy Innovation Fund		0.0	0.0
Reserve		0.4	0.6
Total DEL	23.9	28.3	34.1

B26 These changes can impact on growth rates. Table B7 shows how growth rates in the 2002 Spending Review - expressed in real terms - compare when in resource budgeting and near cash terms. The average rise above inflation between 2002-03 and 2005-06 - compare when in resource budgeting and near cash terms.

Table B.7: Changes to Growth Rates

		Average annual real growth, 2002-03 to 2005-06		
	Near cash	Resource budgeting		
		2002-03 AAGR	2004-05 AAGR	2005-06 AAGR
£ billion	2001-02			
Education and Skills	23.2	31.1	7.6	20.0
Health	55.7	74.5	7.4	50.0
<i>of which: NHS</i>	53.5	71.6	7.5	50.0
Transport	7.8	11.8	11.7	10.0
Office of the Deputy Prime Minister	5.5	7.0	5.6	6.0
Local Government	37.7	45.9	4.2	30.0
Home Office	10.3	13.1	5.6	10.0
Lord Chancellor's departments	2.8	3.4	3.4	2.0

Attorney General's departments	0.5	0.5	2.5	0
Defence	24.2	27.4	1.7	29
Foreign and Commonwealth Office	1.3	1.5	2.8	
International Development	3.3	4.4	7.3	7
Trade and Industry	4.5	5.3	3.0	4
Environment, Food and Rural Affairs	2.3	2.8	3.0	2
Culture, Media and Sport	1.2	1.4	3.2	
Work and Pensions	7.0	7.8	1.0	7
Scotland	17.7	21.7	4.4	18
Wales	9.3	11.6	5.0	9
Northern Ireland Executive	6.1	7.3	3.5	6
Northern Ireland Office	1.2	1.2	1.7	
Chancellor's Departments	4.2	4.7	1.0	4
Cabinet Office	1.5	1.8	4.0	
Memo Items				
UK education	53.7	68.5	5.8	53
UK health	65.4	87.2	7.4	68
UK transport	12.0	16.4	8.4	12
England housing	4.8	5.9	4.2	4
England and Wales criminal justice system	14.4	18.0	5.1	14

Defence

B27 The main change to departmental spending data concerns **defence** spending. Because of the significant fixed capital base of the Ministry of Defence - some £90 billion, or one third of total central Government assets - the Department incurs significant and using capital. This means that the resources consumed by defence are higher than measured under cash or near cash budgeting. In the 2002 Spending Review, these capital costs are projected to rise more slowly than the rest of the defence budget. As a result, the average annual real growth rate for defence on a full resource budgeting basis over the three year period 2002-03 to 2004-05 is 1.7 per cent. This is lower than the 1.7 per cent growth in near cash terms. The higher figure is consistent with previous data and therefore the purposes of historic comparisons.

Other services

B28 The effect of resource budgeting on the data for a number of other key services vary:

- **health spending** is measured as around £3-3.5 billion higher under resource budgeting, reflecting the extent of the health estate. This provides a more accurate measure of clinical negligence costs. The effect on the growth rate is marginal;
- there is virtually no effect on **education** spending numbers, as the schools estate falls within local government, which is outside of resource budgeting; and
- there are slight increases in the numbers for the **Home Office** and the **Department for the Environment, Food and Rural Affairs**, which reflects costs associated mainly with the prisons estate and the Environment Agency respectively. Again, the effect on the growth rate is marginal.

Controlling spending on the new basis

B29 Full resource budgets have been set on the new basis in the 2002 Spending Review. In order to do this for the first time, the Government has supplied the Treasury with detailed information on new resource costs. This has enabled the Government to set realistic and sustainable resource budgets.

B30 The Government has also slightly modified the control system to make allowances for the transition to full resource budgeting. £100 million has been added to the DEL Reserve in each year of the 2002 Spending Review specifically to meet unforeseen pressures and accruals costs in DEL.

B31 The inclusion of provisions in DEL has also led to a modification of the control framework. Many provisions, such as early retirement schemes, can be forecast, and it is right that DEL treatment incentivises departments to manage their cash in a small number of circumstances, large unforeseen provisions could compromise DEL as a control total. As a result, the Government is setting out the circumstances where provisions can score, in-year, as Annually Managed Expenditure, subject to the approval of the Secretary. These would be reported explicitly in Budgets and Pre-Budget Reports. The cash paid out against these provisions, the Government's key National Accounts aggregates - would be charged to DEL in future years.

Future changes to the measurement of costs

B32 The cost of capital charge - presently 6 per cent in real terms - is based on the discount rate used in investment appraisal, which is under review. In the event of a change in the discount rate, the cost of capital charge would also be reviewed. In the event of a change in the cost of capital charge in departments' budgets, and consequently, the resource DEL, would be restated accordingly.

Relationship with key fiscal aggregates

B33 The move to full resource budgeting does not affect the Government's key expenditure aggregates, against which departments are measured. Total Managed Expenditure (TME), public sector current expenditure and public sector net investment will continue to be measured on a basis with the internationally recognised National Accounts. These are based on common international standards and use international comparisons. They will continue to be the basis on which the Government formulates and measures fiscal policy for the years covered by the 2002 Spending Review.

B34 Resource budgets, on the other hand, are drawn up on the basis of the accounting policies set out in Generally Accepted Accounting Practice (GAAP). There are some differences between national accounts and GAAP, and, as a result, some spending within the resource budget is not reflected in the National Accounts measure of public sector current expenditure. Instead, it may affect net investment, or none of the aggregates. There is nothing new about this; departments' budgets already contain some spending - such as lending - which is in budgets for control but does not affect National Accounts aggregates.

B35 The main differences are:

- National Accounts do not include a cost of capital charge on net assets, as actual debt interest is scored;
- unlike in RAB, where provisions are recorded in the budget when they are incurred, National Accounts score only the provision; and
- under RAB, only spending which creates an asset on the Government's balance sheet is considered capital expenditure, whereas in National Accounts, government grant funded investment elsewhere in the economy, as capital.

B36 Because of these differences, there are a series of accounting adjustments reconciling GAAP based budgets and accounts. Some of these already exist, to remove the new resource budgeting items in AME introduced in the 2000 Spending Review. There are others, however, such as scoring the cash paid in respect of provisions which are measured in DEL. These are based on departmental accounting practices.

B38 So, whereas overall levels of DEL have changed as a result of the move to full resource budgeting, the key National Accounts aggregates shown in the 2002 Spending Review for 2003-04 to 2005-06 are the same as shown in Budget 2002.

¹ For a fuller account of the move to resource budgeting, see *Better Management of Public Services: Resource Budgeting and Review*, November 2001.

Annex C

Departmental Groupings

A number of tables in this publication present analyses grouped broadly by Ministerial responsibilities, as outlined below.

Title	Departments included
Education and Skills	Department for Education and Skills Office for Standards in Education
Health	Department of Health Food Standards Agency
Transport	Department for Transport Strategic Rail Authority Office of the Rail Regulator
Local Government	Office of the Deputy Prime Minister (part) - mainly block and transitional grants to English local authorities and the Greater London Authority
Home Office	Home Office Charity Commission
Lord Chancellor's Departments	Lord Chancellor's Department Public Records Office Northern Ireland Court Service Land Registry
Attorney General's Departments	Crown Prosecution Service Serious Fraud Office Treasury Solicitor's Department
Defence	Ministry of Defence
Foreign and Commonwealth Office	Foreign and Commonwealth Office
International Development	Department for International

	Development
Trade and Industry	Department of Trade and Industry
	British Trade International
	Office of Fair Trading
	Office of Gas and Electricity Markets
	Office of Telecommunications
	Postal Services Commission
	Export Credits Guarantee Department
Environment Food and Rural Affairs	Department for Environment, Food and Rural Affairs
	Forestry Commission
	Office of Water Services
Culture, Media and Sport	Department for Culture, Media and Sport
Work and Pensions	Department of Work and Pensions
Scotland	Scotland Office
	Scottish Executive and its Departments
	Crown Office
	General Register Office for Scotland
	Registers of Scotland
	National Archives of Scotland
Wales	Wales Office
	National Assembly for Wales
Northern Ireland	Northern Ireland Office
Northern Ireland Executive	Northern Ireland Departments
Chancellor's Departments	HM Treasury
	Office for National Statistics
	National Savings
	Governments Actuary's Department
	HM Customs and Excise
	Inland Revenue
	Office of Government

	Commerce
Cabinet Office	Cabinet Office
	Central Office of Information
	House of Commons
	House of Lords
	National Audit Office
	Electoral Commission
	Privy Council Office
	Security and Intelligence Services
	Office of the Parliamentary Commissioner for Administration and Health Service Commissioners for England

Annex D

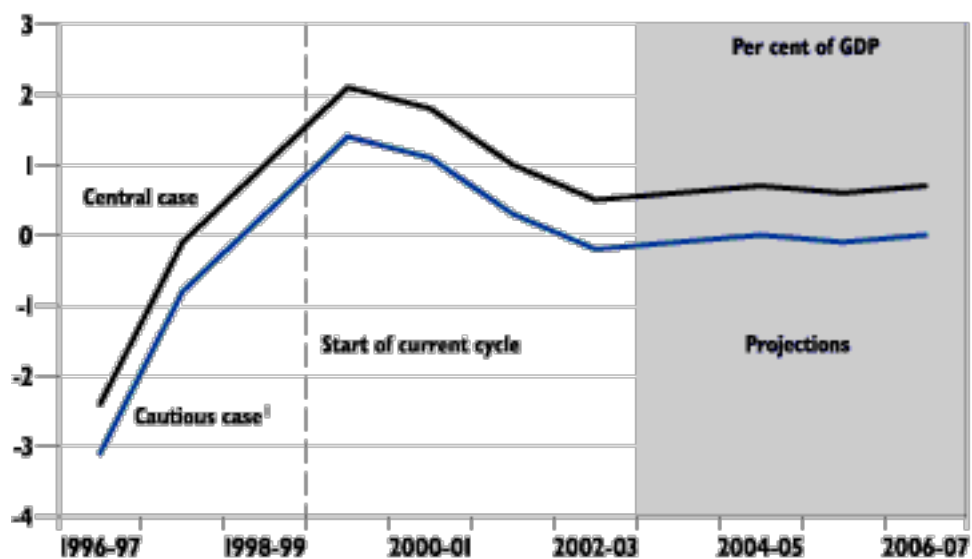
List of Abbreviations

ACAS	Advisory, Conciliation and Arbitration Service
ACU	Active Community Unit
ADR	Alternative Dispute Resolution
AME	Annually Managed Expenditure
BCU	Basic Command Unit
BTI	British Trade International
BVPI	Best Value Performance Indicator
CAFCASS	Children and Family Courts Advisory and Support Service
CAP	Common Agricultural Policy
CCR	Cross-Cutting Review
CDFIs	Community Development Finance Intermediaries
CDRP	Crime and Disorder Reduction Partnerships
CDS	Criminal Defence Service
CJS	Crown Justice System
CLS	Community Legal Service
CPA	Comprehensive Performance Assessment
CPS	Crown Prosecution Service
CSR	Comprehensive Spending Review (1998)
DA	Devolved Administration
DCMS	Department for Culture, Media and Sport
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DfES	Department for Education and Skills
DfID	Department for International Development
DfT	Department for Transport
DH	Department of Health
DIS	Departmental Investment Strategy
DPM	Deputy Prime Minister
DQIs	Design Quality Indicators
DTI	Department of Trade and Industry
DTLR	Department for Transport, Local Government and the Regions
DWP	Department for Work and Pensions
EC	European Community
e-government	Electronic Government
ERDP	England Rural Development Programme

EU	European Union
EYF	End-Year Flexibility
FCO	Foreign and Commonwealth Office
FE	Further Education
FM	Frequency Modulation
FMD	Foot and Mouth Disease
FSA	Food Standards Agency or Financial Services Authority
G7	Group of Seven (Canada, France, Germany, Italy, Japan, UK and US)
G8	Group of Eight (the above countries plus Russia)
GATS	General Agreement on Trade in Services
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GNI	Gross National Income
HE	Higher Education
HEIF	Higher Education Innovation Fund
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HMP	Her Majesty's Prison
HSE	Health and Safety Executive
ICT	Information and Communications Technology
IDA	International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IRA	Irish Republican Army
IT	Information Technology
LA	Local Authority
LEA	Local Education Authority
LLSC	Local Learning and Skills Council
LPSA	Local Public Service Agreement
LSP	Local Strategic Partnership
LTCS	Landfill Tax Credit Scheme
LU	London Underground
MDG	Millennium Development Goals
MoD	Ministry of Defence
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
NDPB	Non-Departmental Public Body
NePAD	New Partnership for African Development
NGO	Non-Governmental Organisation
NHS	National Health Service
NRF	Neighbourhood Renewal Fund
NSF	National Service Framework
NVQ	National Vocational Qualification

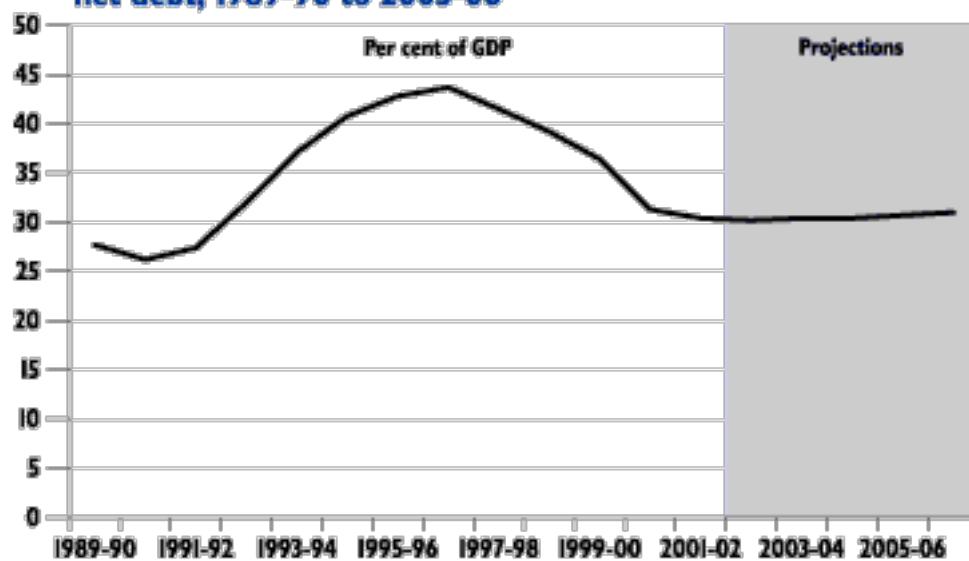
ODA	Official Development Assistance
ODA	Overseas Development Aid
ODPM	Office of the Deputy Prime Minister
OECD	Organisation for Economic Cooperation and Development
OFT	Office of Fair Trading
ONS	Office of National Statistics
OPSR	Office of Public Services Reform
OST	Office of Science and Technology
PAYE	Pay As You Earn
PCT	Primary Care Trusts
PDS	Public Defender Service
PFI	Private Finance Initiative
PhD	Philosophiae Doctor (Doctor of Philosophy)
PIU	Performance and Innovation Unit
PPP	Public-Private Partnership
PSA	Public Service Agreement
R&D	Research and Development
RDA	Regional Development Agency
RQO	River Quality Objectives
RVCF	Regional Venture Capital Fund
SBS	Small Business Service
SDA	Service Delivery Agreement
SDR	Strategic Defence Review
SME	Small and Medium-Sized Enterprise
SRA	Strategic Rail Authority
SSA	Standard Spending Assessment
TfL	Transport for London
TME	Total Managed Expenditure
TSE	Transmissible Spongiform Encephalopathies
TV	Television
UK	United Kingdom
UN	United Nations
US	United States
VAT	Value Added Tax
WFTC	Working Families Tax Credit
WGA	Whole of Government Accounts
WSSD	World Summit on Sustainable Development
WTO	World Trade Organisation

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



¹ Cautious case assumes trend output 7 percentage point lower in relation to actual output than in the central case.

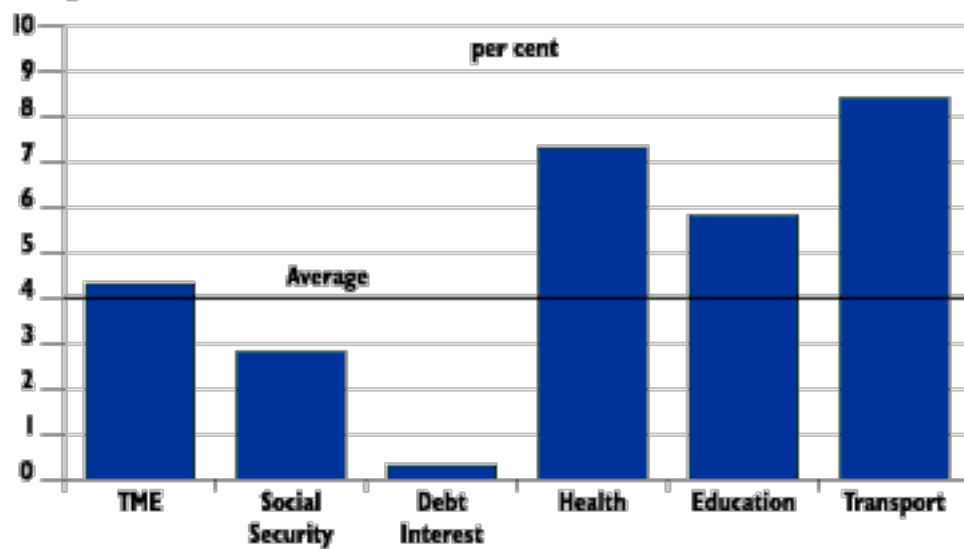
Chart 1.2: The sustainable investment rule – public sector net debt, 1989-90 to 2005-06



Source: HM Treasury.

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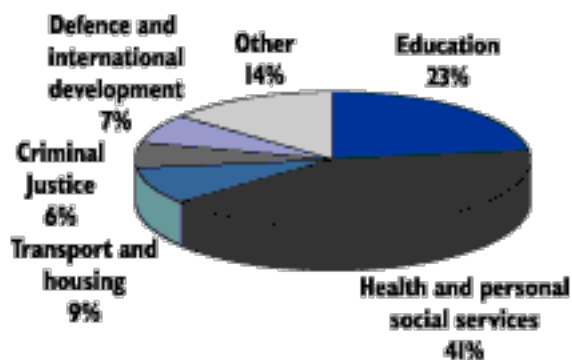
Chart I.3: Releasing resources for priorities – real annual growth rate, 2002–03 to 2005–06



Source: HM Treasury and Personal Tax Credits

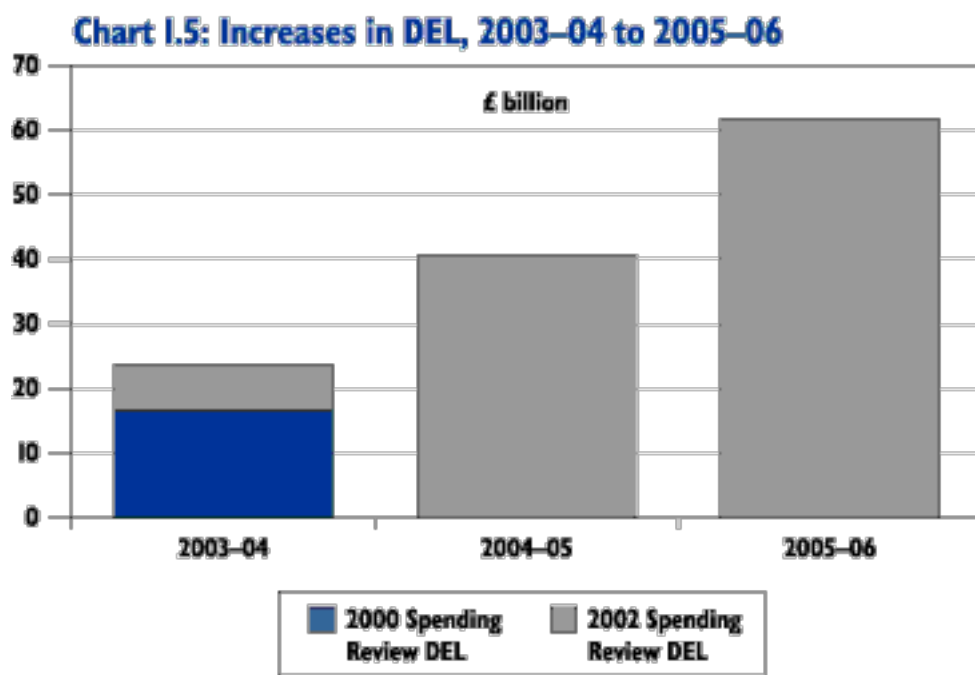
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Chart I.4: Shares of the rise in departmental and locally financed expenditure, 2002–03 to 2005–06



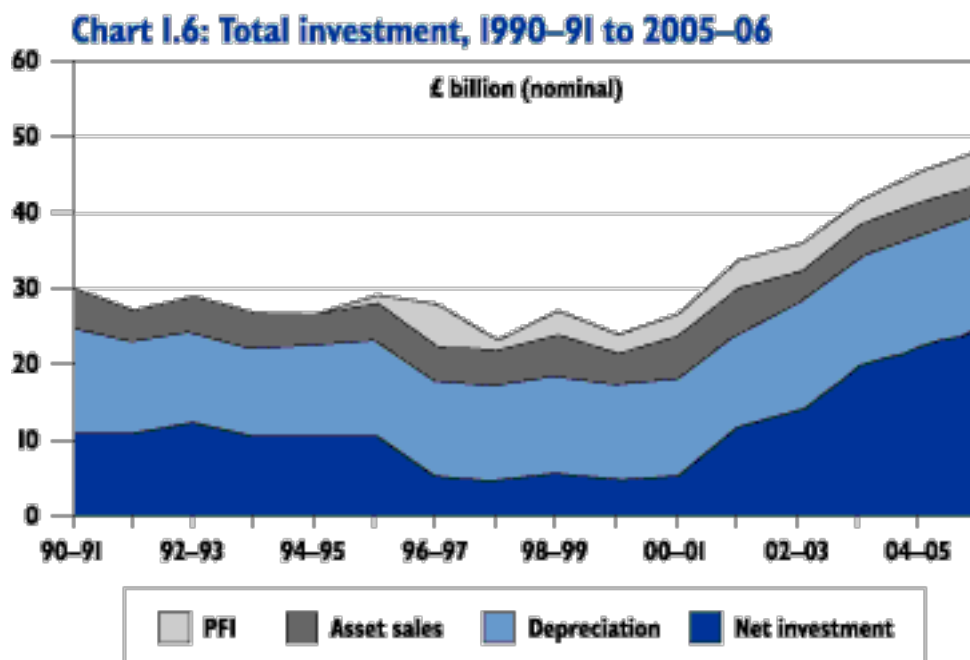
Source: HM Treasury

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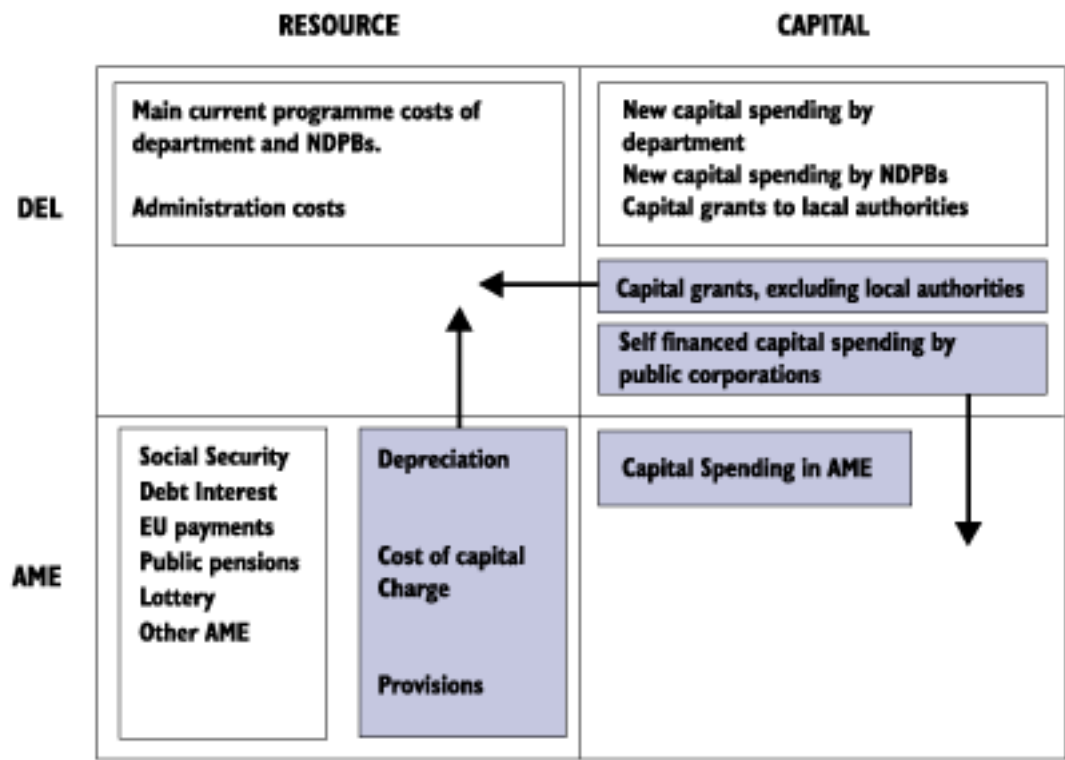
Source: HM Treasury

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Chart B.I: Changes in budgeting control in the 2002 Spending Review



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