

The Government's goal is to deliver world class public services through sustained investment and outcome focused reforms to ensure that taxpayers receive value for money. Budget 2004 sets out the main issues for the 2004 Spending Review, which will conclude this summer. The review will take further steps to strengthen the economy, build a fair society with opportunity and security for all, and deliver better public services. This chapter sets out the priorities for the next phase of the public services reform agenda, which will increasingly focus resources and decision-making on the front line.

The Government is committed to maximising efficiency within the public sector and reducing administration costs while continuing its ambitious programme of public service delivery. Greater efficiency will enable the Government to release significant extra resources for front line services such as schools and hospitals and deliver further improvements in the performance of key public services. Budget 2004 announces the Government's plans to cut administration costs in real terms and achieve efficiency gains across the public sector of 2.5 per cent a year over the three years of the 2004 Spending Review period.

The 2004 Spending Review will set spending plans for 2006-07 and 2007-08 and will confirm the plans set for 2005-06 in the last Spending Review. In doing so it will consolidate and build on the step change in funding for key public services achieved in previous spending reviews. The efficiency savings identified by the Government will ensure that the resources allocated in the 2004 Spending Review will make the greatest possible impact on front line public services.

Budget 2004 sets firm overall spending limits for the 2004 Spending Review period, allowing:

- current spending to increase by an average of 2.5 per cent in real terms in 2006-07 and 2007-08, in line with the cautious assumption for trend economic growth and consistent with the nominal growth rates set out in Budget 2003 and the 2003 Pre-Budget Report. Final plans for DEL and AME spending will be set in the Spending Review; and
- public sector net investment to rise from 2 per cent of GDP to 2¼ per cent by 2007-08, to continue to address the historic under-investment in the UK's infrastructure while remaining consistent with the sustainable investment rule.

The growth rate of both overall public spending and departmental spending will be lower in the 2004 Spending Review than in the 2002 Spending Review. However, building on the progress made in correcting historic under-investment and with administration costs cut in real terms and planned efficiency gains equivalent to £20 billion a year by 2007-08, the Government's objective is to match the pace of growth in front line public services achieved in the last Spending Review.

Budget 2004 sets out resources for skills, science and education. To ensure that recent progress in raising educational standards and attainment is locked in and that new challenges can be addressed over the coming years, Budget 2004 announces:

- education spending in England will grow by an annual average of 4.4 per cent in real terms across the 2004 Spending Review period, and by 2007-08 education spending will be £7.4 billion higher in England than in 2005-06 and £8.5 billion higher for the UK on top of the uplift for 2005-06 already in spending plans. By 2007-08, education spending in the UK will be 5.6 per cent of GDP, up from 5.4 per cent in 2004-05;
- reforms including resources for Children's Centres in all of the 20 per cent most disadvantaged wards, and a transformation of all secondary schools to twenty-first century standards in the next 10 to 15 years; and
- by 2007, per pupil spending will rise to £5,500, more than twice that in 1997.

INTRODUCTION

6.1 The Government's goal is to deliver world class public services through sustained investment and reforms which achieve the standards of services that the public expect and ensure that taxpayers receive value for money. World class public services are key to building a stronger, more flexible economy and a fairer society. A healthy and educated workforce, modern and reliable transport network, and adequate supply of housing promote productivity and flexibility and help to ensure opportunity and security for all.

6.2 Achieving this goal requires sustained investment in public services, used in the most efficient way to deliver the levels of services the public expects. The Government's fiscal framework and prudent management of the economy and the public finances have enabled it to deliver a step change in investment in key public service priorities in the three Spending Reviews since 1998. The 2004 Spending Review, which will conclude this summer, will lock in the step change in funding for key public services delivered in previous Spending Reviews while continuing the drive to increase the efficiency of public services and release resources for front line, non-administration services. Resources will be targeted on the front line, where they best deliver added value and better standards for the users of public services.

Delivering better and more efficient public services

6.3 The Government has made increasing investment in public services and improving delivery a top priority. There has been a significant increase in resources made available for public services in successive Spending Reviews, helping to address the underinvestment of previous decades. Alongside this additional investment, the Government has embarked on an ambitious reform agenda to deliver efficient, responsive public services with high standards achieved across the country. The key principles that have driven the reform agenda so far, as set out in Budget 2003, are:

- clear long-term outcome-focused goals set by the Government;
- devolution of responsibility to public service providers themselves, with maximum local flexibility and discretion to innovate and incentives to ensure that the needs of local communities are met;
- independent and effective arrangements for audit and inspection to improve accountability; and
- transparency about what is being achieved, with better information about performance both locally and nationally.

6.4 This agenda has been put into practice across the public services, and alongside increased investment, is continuing to deliver real progress in standards and outcomes. Public Service Agreements (PSAs) have been a key mechanism for driving improvement in the public services through providing focus and ambition. Since 1998, the PSA framework has been progressively improved, with the number of targets halved as they have been achieved, and refined with a stronger focus on the outcomes that matter most to the public. They are also providing a framework of long-term goals, within which departments and delivery agents are free to determine how best to deliver, and have been instrumental in the drive for better performance information, with regular web-based reporting of progress providing unprecedented transparency about the results that investment in public services is delivering.

6.5 Transparent and measurable national targets for delivery, which continue to be an essential framework for reforms, have resulted in measurable improvements in key priority areas, for example:

- there are 187,000 fewer patients waiting for treatment now than in 1997-98;
- almost 53 per cent of 16 year olds achieved five or more A* to C grade GCSEs in 2003 compared to 45 per cent in 1997; and
- overall crime fell by 28 per cent between 1997 and 2002.

6.6 Despite the successes of the reform programme so far, a lot remains to be done. Raising the productivity of the public sector is a key part of the Government's objective to ensure that resources and capacity are utilised with maximum effectiveness to deliver public services that are responsive and personalised to local and individual needs. As set out in the HM Treasury paper *Public Services: meeting the productivity challenge*, published alongside Budget 2003, productivity of the public sector raises productivity of the economy as a whole. It also helps ensure that the public receives the highest possible standards from the additional resources the Government has made available for public services. Reliable measures of public sector output are crucial in gaining an accurate sense of how productivity is changing and in informing policy decisions. The National Statistician has therefore asked Sir Tony Atkinson to undertake a review of the future development of measures of government output, productivity and associated price indices so as to advance methodologies.

ACHIEVING GREATER EFFICIENCY

6.7 The 2004 Spending Review will consolidate and build on progress so far, by setting out the priorities and next steps in the Government's continuous drive for improvement. Achieving greater efficiency in the public sector will enable the Government to deliver high and continuously improving standards within the public services by releasing extra resources for front line services. This means moving resources, as a result of more efficient procurement and streamlined back office functions, away from administration and closer to public service customers. The greater the scale of efficiencies that can be achieved within the public sector, the lower the increase in total expenditure that is required to achieve further improvements in the performance of key public services. Efficiency gains therefore also enable the Government to fulfil its responsibility to deliver value for money to taxpayers.

6.8 Efficiency in the public sector involves making best use of the significant investment in information and communications technology (ICT), workforce reform and the sharing of best practice agreed for the 2002 Spending Review period. Other investments and reforms designed to modernise and enhance the delivery of public services will build on this. The pursuit of efficiency also includes reducing bureaucracy, which both cuts headquarters' administration costs and frees up the time of front line professionals to respond better to the needs of their customers.

The public spending framework

6.9 Since 1997, the Government's commitment to improving standards in the public services has been matched by a focus on the efficiency of spending. Underpinned by the new fiscal framework and prudent management of the economy and the public finances, the Government has undertaken extensive reforms of the system for managing public expenditure. The elements of this new public spending framework that are already delivering greater efficiency are:

- firm three year plans for public spending, reviewed every two years, and full end-year flexibility (EYF), allowing departments to carry over unspent resources into future years and reducing wasteful end of year spending over time;

- PSAs, which provide an outcome focused contract for delivery and put the spotlight on efficiency and effectiveness in departmental programmes;
- the introduction of resource budgeting in line with best commercial practice and Departmental Investment Strategies, which have put a new emphasis on asset management and estate rationalisation in departments; and
- the introduction of administration cost limits for government departments, which translate the previous running cost controls to a resource budgeting basis and to better promote economical and efficient administration within central government.

Efficiency in the 2002 Spending Review

6.10 Specific measures have also been introduced over past Spending Reviews to increase the efficiency and effectiveness of particular aspects of public spending. The establishment of the Office of Government Commerce (OGC) in 2000, for example, has helped departments improve the efficiency of their procurement activities – saving over £1.6 billion in its first three years. In addition, significant investment in ICT by both central and local government in the 2002 Spending Review is streamlining the delivery of services to the public, cutting transaction costs and reducing paperwork. The Department for Work and Pensions (DWP), for example, now pays over 60 per cent of benefits directly into its customers' bank accounts, and is on track to deliver savings of £400 million a year by 2006.

The Efficiency Review

6.11 Building on these achievements, Budget 2003 announced a cross-cutting review of efficiency in the public sector to identify the scope for further efficiencies in public spending that would release resources for frontline priorities. As the head of this review, Sir Peter Gershon has drawn on his own extensive experience and consulted widely to identify opportunities for sustainable efficiencies in the use of resources within both central government and the wider public sector. Drawing on the evidence gathered by this review, the Government believes that there is scope for real efficiency gains in a number of areas:

- procurement savings can be achieved by greater use of shared purchasing strategies, use of electronic purchasing and improved supplier management. As indicated in the 2003 Pre-Budget Report, the Efficiency Review and the OGC are exploring options for radically reforming the approach to public sector procurement;
- the corporate back office, including IT, finance and human resource management services, can be streamlined by adopting existing best practice, for example by simplifying back office processes and procedures, plus standardising and sharing support functions; and
- transactional services, such as the payment of benefits and tax, can be made more cost-effective through maximising the benefits of investment in more efficient communication channels such as web interfaces and call centres.

6.12 There are also potential benefits from more long term reforms to the way government works and public money is spent, for example, how policy is set, funding provided and quality regulated for front line public service delivery organisations. Further efficiencies can also be achieved that will enable front line professionals to spend more time delivering services to the public.

The Government's forward efficiency programme **6.13** Recognising the varied cost and complexity of different efficiency measures, the Government envisages a comprehensive, continuous programme of efficiency improvements that will release resources for the front line from administration, and also enable the front line to make better use of the resources it has. These efficiencies will be delivered during the course of the 2004 Spending Review period and beyond.

6.14 Ambitious efficiency proposals have already been brought forward by a number of departments, particularly in relation to headquarters costs and back office rationalisation. Further details of these departments' proposals are given in Box 6.1. Building on these initial proposals in relation to central government administration costs, Budget 2004 announces:

- the administration costs of all departments will be capped at or below the 2005-06 nominal level for the remainder of the 2004 Spending Review period;
- in particular, core Departmental Expenditure Limits (DEL) for 2006-07 and 2007-08 for DWP, Inland Revenue, HM Customs and Excise and HM Treasury, almost entirely comprised of administration costs, will be held constant in nominal terms at 2005-06 levels, representing a real terms cut;
- within the overall DEL settlement for education announced in this Budget, the administration costs of the DfES will fall in nominal terms over the next Spending Review; and
- the devolved administrations will also set tough administration cost limits for the 2004 Spending Review period.

6.15 As a consequence of these measures, total central government administration costs will be capped at 2005-06 nominal levels in 2006-07 and 2007-08 – a real terms reduction – with the expectation that further savings should enable a cut in the nominal level. As Chart 6.1 illustrates, this will reduce administration costs to a planned 3.7 per cent of total spending, the lowest level since the running costs regime (the predecessor of the current administration costs regime) was introduced in 1986-87. These cash savings will be available for redistribution to priority public services in the 2004 Spending Review.

Box 6.1: Departmental efficiency programmes

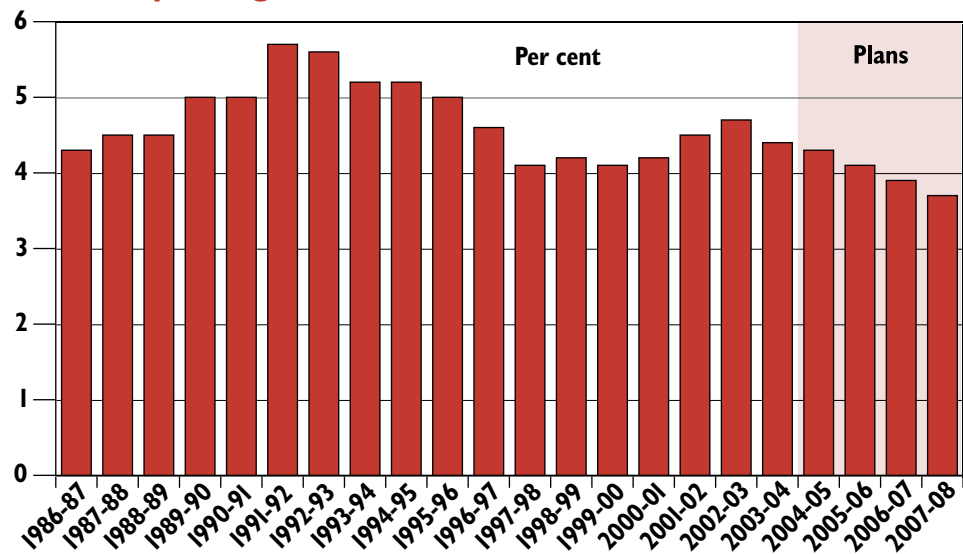
A number of departments are demonstrating their commitment to releasing resources for the front line and improving public service delivery by bringing forward early proposals as part of the efficiency review for savings in their headquarters and wider administrative costs:

- DWP plans to make gross efficiency gains equivalent to 40,000 posts between now and 2008, and reinvest some of the savings in meeting significant increases in its own front line work load, such as additional work-focused interviews. On the basis of policy commitments and existing activities, this will result in a net reduction equivalent to 30,000 posts by 2008;
- following the Government's announcement that it accepts the recommendations of the review of the revenue departments, led by Gus O'Donnell, a new tax department will be created, offering a one-stop service to business and allowing tax flows to be managed more effectively. This integration of the Inland Revenue and HM Customs and Excise, along with existing plans and proposed efficiency reforms, could create scope for overall savings equivalent to up to 14,000 jobs by the end of 2007-08. On the basis of policy commitments and existing spend-to-save packages, this would result in a net reduction equivalent to 10,500 posts by 2008;

These announcements, affecting departments covering over 40 per cent of all civil servants and over 50 per cent of all administration costs, represent significant steps in the Government's efficiency programme.

- the DfES has started a major restructuring process to streamline the department and its Non-Departmental Public Bodies (NDPBs). By 2008, the department will have reduced its workforce by 31 per cent (a reduction of 1460 jobs) alongside significant savings in the wider education and skills sector, and a reduction in the costs of OFSTED's inspection of schools. Together with planned 2.5 per cent a year efficiency gains, as set out later in this chapter, these reforms will enable the department to focus its resources on strategic leadership of the system and on ensuring effective delivery mechanisms for education and children's services; and
- the Department of Health has already started a process that will reduce the number of people working in the Department by 1,400, or 38 per cent, by October 2004. Together with the planned 2.5 per cent a year efficiency gains, these reforms will focus the Department's resources on those areas where it can add most value – providing the strategic, regulatory and funding framework within which the NHS operates.

Chart 6.1: Administration costs as a proportion of total spending



Source: HM Treasury

6.16 In addition to administration cost savings, the Government believes there is also scope for further efficiencies in the way the wider public sector uses the resources it has available. This could be, for example, through back office rationalisation, improvements in procurement processes and streamlining of transaction services, as well as through freeing up more time for front line professionals to deliver services direct to the public. Sir Peter Gershon has identified the risk that an excessive target for efficiencies could affect delivery of the Government's objectives for the public services, as set out in PSA targets. The Government is determined to deliver the maximum level of efficiencies that are compatible with continuing its ambitious programme of improvements in public service outcomes. **On this basis, the Government is setting a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5 per cent a year over the three years of the 2004 Spending Review period, which would deliver gains equivalent to £20 billion a year by 2007-08.**

Implementation and Monitoring

6.17 Delivering this ambitious efficiency programme will require departments and other public sector bodies to re-examine their existing spending programmes closely and prepare detailed efficiency proposals for consideration in the 2004 Spending Review. In order to drive through the Government's overall efficiency programme, Budget 2004 announces that John Oughton will become the new Chief Executive of the OGC and take on wider responsibility for the implementation of the Government's efficiency programme. He will:

- work closely with HM Treasury to monitor the progress of departments against their agreed efficiency programme, and identify further improvements in public sector efficiency that can be achieved through more radical reforms and process re-engineering within government; and
- build on the OGC's previous successes to deliver a further £3 billion of saving in central government civil procurement spend over the 2004 Spending Review period.

6.18 In securing these efficiency gains, there will be a strong emphasis on using normal staff turnover, and, for example, making the most of the opportunity for staff to be redeployed to posts out of London and the South East in the wake of the Lyons review. As part of this, the Government is examining options for strengthening the current arrangements for civil service staff to be redeployed across administrative boundaries.

6.19 As a result, the Government believes that in most cases the initial costs of departments' efficiency proposals will be met from within departments' existing expenditure limits. However, in some cases additional flexibilities may be required. Where departments can present a strong business case, HM Treasury will consider excluding some element of transitional costs from the departmental administration cost limits. Departments will also be able to bid in 2004-05 and 2005-06 for an element of match funding towards restructuring costs from a £300 million Efficiency Challenge Fund. Bids will be reviewed and then assessed against strict criteria.

6.20 Overall, the Government's ambitious efficiency programme will ensure that the 2004 Spending Review sustains continued improvements in front line public services, and delivers greater value for money for taxpayers, by releasing additional resources for investment in front line priorities and making better use of those already available.

DELIVERING RESOURCES

2002 Spending Review

6.21 Maintaining sound public finances that are sustainable over the economic cycle ensures economic stability, and has enabled the Government to deliver the investment in public services required to achieve value for money and the standards that the public expects.

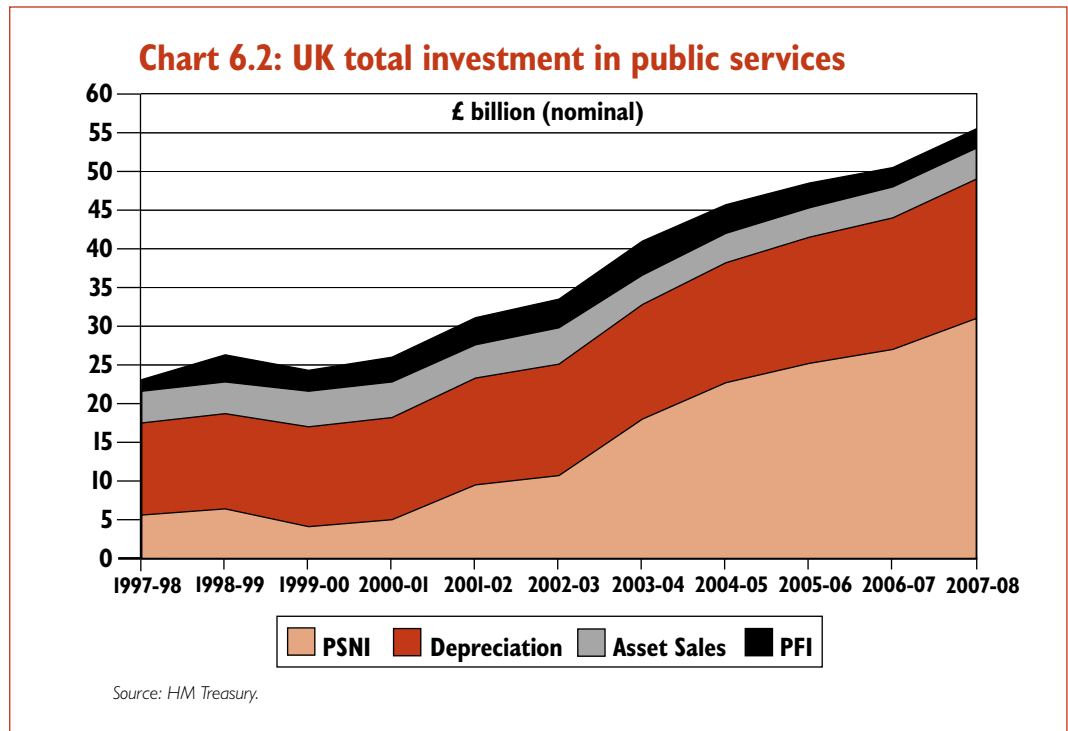
6.22 The Government's fiscal rules are the foundation of the public spending framework, ensuring that the public finances are sustainable over the economic cycle and that spending and taxation impact fairly between generations. These rules remove the past discrimination against investment and ensure that borrowing for investment is conducted in a responsible way.

6.23 The 2002 Spending Review set spending plans for 2003-04 to 2005-06 for public services other than the NHS, for which spending plans to 2007-08 were fixed in Budget 2002. Building on previous Spending Reviews, these plans allow for significant increases in investment in key public services. The Government's spending plans are fully consistent with meeting its strict fiscal rules.

6.24 In Budget 2003, the Government made a special contingency provision of £3 billion to meet the costs of the military conflict in Iraq and of its international obligations. In the 2003 Pre-Budget Report, the Government carried forward £2 billion of the special reserve that had not been allocated in 2002-03 into 2003-04, and added a further £500 million, taking the total special reserve for 2003-04 to £2.5 billion. At the same time, a further £300 million was added to the special reserve in 2004-05 as a prudent allowance against continuing commitments.

6.25 The Government's fiscal framework and prudent management of the economy and the public finances, have enabled it to deliver a step change in investment in key public service priorities in the three spending reviews since 1998. After a period of relative stagnation in the mid-1990s, health and education have benefited from significant and sustained real increases in investment since the 1998 Comprehensive Spending Review. By 2006, public spending on education in the UK is set to be about 50 per cent higher in real terms than in 1997, and by 2008 spending on the NHS will be approximately 90 per cent higher in real terms than in 1997.

New spending plans: 2004 Spending Review **6.26** The 2004 Spending Review, which will conclude this summer, will set new spending plans for 2006-07 and 2007-08, and new PSA targets up to 2007-08 or beyond. Spending plans for 2005-06 that were set in the 2002 Spending Review will not be revisited. The new public spending plans build on those set in the 2000 and 2002 Spending Reviews, which increased the level of public spending by 20 per cent in real terms between 2000 and 2006. The new spending plans for 2006-07 and 2007-08 lock in public spending at these new higher levels. Greater efficiency will enable the Government to deliver high and continuously improving standards within the public services and release significant extra resources for front line services that address the public's highest priorities.



6.27 Budget 2004 sets firm overall spending limits for the 2004 Spending Review period, allowing:

- current spending to increase by an average of 2.5 per cent in real terms in 2006-07 and 2007-08, in line with the cautious assumptions for trend economic growth and consistent with the nominal growth rates set out in Budget 2003 and the 2003 Pre-Budget Report. Final plans for DEL and AME spending will be set in the Spending Review; and
- public sector net investment to rise from 2 per cent of GDP to 2¹/₄ per cent by 2007-08, to continue to address the historic under-investment in the UK's infrastructure while remaining consistent with the sustainable investment rule. Chart 6.2 sets out the profile for total investment in public services that the Government is planning to deliver by 2007-08, consistent with existing plans and the Spending Review envelope, including all new public funding committed each year through additional investment, re-investing the proceeds of asset sales and estimated private sector investment in public service, through the Private Finance Initiative.

6.28 The growth rate of both overall public spending and departmental spending will be lower in the 2004 Spending Review than in the 2002 Spending Review. However, building on the progress made in correcting historic under-investment and with administration costs cut in real terms and planned efficiency gains equivalent to £20 billion a year by 2007-08, the Government's objective is to match the pace of growth in front line public services achieved in the last Spending Review.

PREPARING FOR THE 2004 SPENDING REVIEW

6.29 In the 2004 Spending Review additional funds allocated above existing baselines will be targeted at front line public service priorities based on a rigorous assessment of where new resources will have the greatest impact on outcomes at the front line. In particular, this year's Spending Review will take further steps to:

- strengthen the economy;
- build a fair society, with opportunity and security for all; and
- deliver better and more efficient public services.

Strengthening the economy

6.30 Budget 2004 announces early decisions on key economic areas that will be central to the 2004 Spending Review – science, skills, employment and education. The Spending Review will take further steps to tackle the historical barriers to stronger economic performance and higher productivity in the UK by investing in the science base, taking forward the Government's agenda to boost adult skills, reviewing financial support for 16 to 19 year olds continuing in education or vocational training, and investing further in the nation's infrastructure, as set out in earlier chapters of this Budget. The Spending Review will also help achieve more balanced growth across UK regions through these measures and also through support for urban renewal and regeneration, the rural economy, sustainable development and by developing further the framework to ensure that regional and local institutions have the flexibilities they need to achieve their ambitions.

Building a fair society

6.31 The Government is committed to tackling social exclusion and deprivation and promoting opportunity and security for all. The 2004 Spending Review will build on previous reviews with proposals to:

- increase the contribution of public services towards improving the life chances of children in low-income households and to improve services for children and their families living in deprived areas. The Child Poverty Review in particular will include recommendations to improve both the immediate material circumstances of children in low-income households and their long term life chances, as set out in more detail in Chapter 5;
- improve performance of public services accessed by those living in deprived areas and by disadvantaged population groups;
- respond to the recommendations of the Wanless Review to secure good health for the whole population, and tackle in particular the occurrence of avoidable ill health related to socio-economic deprivation;
- increase the supply of affordable housing, reduce homelessness and regenerate deprived city centres; and
- develop floor targets as part of PSAs to ensure standards of public services are raised across the board, especially in the most deprived areas, to meet minimum national standards.

6.32 The Review will also consider the resources available to reduce crime, strengthen the UK's defences and meet the UK's responsibilities in international development.

6.33 The Spending Review will also drive forward the next phase of the Government's reform agenda for the public sector. Key elements of this next stage of reform are contained in the reviews announced in Budget 2003, which aim to ensure that best use is made of the additional funding allocated in the 2002 Spending Review and to prepare the ground for the 2004 Spending Review.

6.34 Central to the aim of this next stage of public service reform is the Government's intention to deliver public services that are more responsive to local and personal needs. More efficient use of resources will help ensure public spending can be better targeted on regional and local priorities, and more personalised to the requirements of individual users. In addition to the action being taken to enhance efficiency:

- the Lyons Review of public sector relocation identified 20,000 posts for relocation from London and the South East;
- the Devolving Decision-Making Review is establishing a clear rationale for a more devolved approach to decision-making, alongside a framework of national targets, as the means of delivering more responsive regional and local public services;
- the review of the voluntary and community sector is exploring how best the Government can engage this sector to improve the responsiveness of public services to local and personal needs; and
- the Spending Review, in addition to the outcome of these reviews, will also set out further steps that will be taken to make the delivery of public services more personalised to individual needs.

6.35 The following section outlines progress made with each of these reviews and sets out further details of how the Government is taking forward its intention to make public service delivery more personalised. Progress on the Childcare and Child Poverty reviews is described in Chapter 5, along with the initial results of the review of financial support for 16 to 19 year olds. The results of the Wanless Review – *Securing good health for the whole population* – are set out in a later section in this chapter.

Spending Review 2004: Cross-cutting reviews – more responsive and personalised public services

Independent review of public sector relocation

6.36 The independent review of public sector relocation announced in Budget 2003, led by Sir Michael Lyons, is a key part of the Government's efficiency agenda. In his final report, *Well placed to deliver? – Shaping the pattern of Government service*, published on 15 March 2004, Sir Michael concluded that the current concentration of national public sector activity in and around London is inconsistent with Government objectives for efficiency and regional development, and that location needs to become an integral dimension of government business planning.

6.37 Sir Michael has identified 20,000 posts as candidates for dispersal from London and the South East as a first tranche, and has made ten recommendations for taking this forward. These are set out in Box 6.2 below. The Government welcomes Sir Michael's report and confirms that location will be an important theme of the 2004 Spending Review. Departments will be expected to reflect Sir Michael's recommendations in their submissions to the Spending Review, taking account of the read-across to efficiency. Departments will be able to make bids to the new efficiency challenge fund if their dispersal proposals meet strict efficiency criteria. The Government will come forward with detailed proposals for monitoring and implementing dispersal plans as part of the Spending Review.

Devolving Decision-Making Review

6.38 Consistent with the drive for efficiency, the Devolving Decision-Making Review, announced in Budget 2003, is considering how best to achieve decentralised delivery and responsive local and regional services in a way that is consistent with equity and efficiency, against a clear framework of national standards. The Review is today publishing two reports:

- *Devolving decision-making: 1 – Delivering better public services: refining targets and performance management*, published by HM Treasury and the Prime Minister's Delivery Unit, sets out how, as public services have improved, there is scope for greater local flexibility to determine local priorities and methods of delivering better services within a framework of clear national standards embedded in PSAs. This requires a reduction in the input controls set nationally, matched by stronger local accountability and incentives to improve public services. Improvements to performance data will be key to achieving these aims and increasing public engagement in service delivery. Local organisations also need to develop stronger performance management capacity to oversee reforms successfully; and
- *Devolving decision-making: 2 – Meeting the regional economic challenge: increasing regional and local flexibility* considers how a more devolved approach can enhance the economic policy making framework. It argues that to maximise economic performance in every country, region and locality in the UK, it is essential to increase the flexibilities of the Regional Development Agencies, local authorities and others to make decisions and use resources to increase local economic activity. More detail is set out in Chapter 3.

Box 6.2: Independent Review of Public Sector Relocation

The independent review of public sector relocation, led by Sir Michael Lyons, was announced in Budget 2003. The final report, *Well placed to deliver? – Shaping the pattern of Government service*, published on 15 March 2004, made the following findings and recommendations:

- departments have identified more than 27,000 jobs that could be taken out of London and the South East, including up to 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of the Government's forthcoming Spending Review;
- major dispersals are unlikely to offer a quick payback but incur considerable costs up front. The Government must be prepared to make the necessary investment. Equally, it needs to set sharper incentives to encourage departments to seek the benefits of locations outside London and to keep their presence in the capital to a necessary minimum;
- departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions. The Review has demonstrated that failure to make progress on flexible pay, alongside relocation will limit the efficiency gains from dispersal, and could undermine the economic benefits for receiving locations;
- Whitehall headquarters should be radically slimmed down, reflecting a clearer understanding of what activity is really needed in London, and of the distinction between policy and delivery;
- a presumption against London and South East locations should be strongly enforced for new government bodies and activities; for functions such as back office work and call centres, which do not need to be in London; and for bodies and functions whose effectiveness or authority would stand to be enhanced by a location outside London;
- the Cabinet needs to give continuing political impetus to the location agenda. Leadership should be provided by a Cabinet Committee and, in the short term at least, a lead minister. These arrangements should be supported by a small, short life unit at the centre, to act as a ginger group, to monitor and report on progress with dispersals, and to ensure that best practice is disseminated and embedded;
- permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational considerations must be an integral part of these responsibilities. The aim should be to mainstream the locational aspect of business planning;
- the Government must take responsibility for the whole pattern of its locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and, where necessary, challenging departments' locational preferences;
- the Government office portfolio must be much more tightly managed. In particular, relocations from London should be coordinated to ensure overall value for money and to strengthen individual business cases; and
- the civil service needs a more coordinated approach if it is to minimise the costs and the adverse impacts on staff associated with relocation and redundancy.

6.39 These two reports set out a clear rationale for taking a more devolved approach to decision-making. The Government believes this is an essential means of delivering both continuously improving public services and stronger economic performance throughout the UK. A devolved approach can help achieve these aims as it can:

- *improve efficiency*, providing an increased range of choices to users as local providers have the flexibility to tailor services to local needs based on better local information and knowledge;
- *improve internal management capacity* by empowering local leadership and frontline staff, thereby harnessing internal drivers of continuous improvement, leading to improved productivity; and
- *better engage local stakeholders* of public services and make local service providers more accountable to their users.

6.40 Both reports set out a vision for medium-term reform. First steps towards implementing the approach set out in the two reports will be made in the 2004 Spending Review, building on the progress that has been achieved so far.

Voluntary and community sector review

6.41 The 2004 Spending Review will also take further steps to improve the responsiveness of public services to local and personal needs. The review of the voluntary and community sector (VCS) aims to explore the practical ways in which Government can best engage the expertise, innovation and enthusiasm of the VCS in the delivery of world class public services. The VCS is sometimes better placed to provide highly responsive and personalised services at the local level, especially to some of the most disadvantaged people in society. The Government wants to support the work that VCS organisations do, recognise the contribution they make, and explore how to more closely involve voluntary and community organisations in the successful delivery of some of the Government's core public service objectives.

6.42 The review builds on the foundations laid in the 2002 cross-cutting review, *The role of the voluntary and community sector in service delivery*, by focusing on two key objectives:

- the practical steps Government can take to support an effective partnership at the local level between local voluntary and community organisations, local government and other local public sector agencies; and
- the potential for greater involvement of the VCS in the delivery of the core government objectives in the areas of services for older people, correctional services, adult and community learning, ethnic minority employment, homeless hostel provision and parenting support.

6.43 The Review is currently working with local government and the VCS to develop a joint strategy for building a powerful partnership at the local level. It is also working with departments as part of the Spending Review process to develop strategic and practical approaches for VCS involvement in the chosen areas over the coming few years. It is expected that the Review will report at the time of the 2004 Spending Review. Ahead of the Review's final report, Chapter 5 sets out other measures the Government is taking in this Budget to support the VCS.

Personalising delivery

6.44 Building on the Budget 2003 reviews, further steps will be taken to make the delivery of public services more personalised to individual needs:

- there is further scope for better use of IT to enhance data-driven real-time accountability of public service delivery. New technology has great potential to drive reform of public services and deliver a greater degree of personalisation of services;

- more user and community involvement in local public service delivery can help achieve services that are more responsive to local and personal needs. Therefore, a central feature of the next stage of reform must be to enable individuals to exercise much greater choice and control over the public services they receive. Greater user empowerment can also produce more effective services and better outcome; and
- public service professionals have a key role to play in delivering more personalised services. Front line staff that are free to innovate and to exercise their judgement are key to the delivery of public services that are more tailored to individual and local needs. The Government has already increased direct payments to headteachers and devolved 75 per cent of the NHS budget to Primary Care Trusts. The next stage of reform will further reduce centrally imposed controls and involve the front line to a greater degree in the redesign of services and the setting of targets. In the follow-up to the Gershon Review, work will focus on how greater flexibility and workforce reforms can enable professionals to make better use of their productive time.

Box 6.3: Personalisation in public services**Education**

Personalised education is where teaching and learning respond to the needs of each pupil, where pupils own their learning, and where schools are engaging parents and communities in the learning process. Personalisation has been enhanced through the provision of 25,000 more teachers and over 80,000 extra support staff in schools, enabling more personal attention for each pupil and through widening curricular options through the increased flexibilities programme, 14 to 19 year olds pathfinders and the introduction of vocational GCSEs. Going forward, personalisation will be furthered in the following ways:

- development of Assessment for Learning in which pupils and teachers agree learning objectives in each subject and a plan for how to reach their goals using data as part of monitoring to enable better focus on areas for development. Workforce reform and ITC are also important;
- the interim Tomlinson report on 14 to 19 year olds education proposes a specialised diploma allowing a wider mix of subjects to engage pupils further and widen their learning and employment options; and
- more extended or full-service schools providing after school and breakfast clubs and childcare, as well as after-school opportunities in sports, arts and drama, and extra tuition.

Health

A more personalised health service is one that offers easier access and fits around the needs of the patient. It is a health service where patients are treated with dignity, have better information about the performance of NHS services and the treatment options open to them, and where they can have greater involvement in decisions about their care and treatment.

The Government has already improved personalisation through NHS Direct, providing 24 hour information and advice, and walk-in centres accessible 365 days a year without prior appointment, through speeding access to GP appointments and cutting waiting times for hospital treatment. It has committed to ensuring that all hospital appointments will be booked at a time and place convenient to the patient by 2005, is providing information and support for patients through hospital and Primary Care Trust (PCT) star ratings, a patient prospectus for every home, and Patient Advocacy and Liaisons Services in every hospital. Further steps to promote a personalised service include:

- every patient having their own electronic NHS 'healthspace' from this year, where they can record personal information about their health and preferences to share with NHS professionals, which will be linked in time to their electronic treatment record;
- by the end of 2004, all patients who have waited over six months for an operation will be offered a choice of an alternative hospital. Every patient will be offered choice at the point they are referred by their GP by 2005; and
- rolling out to every PCT the successful 'expert patient' schemes for chronic disease, enabling patients to take a much more active role in managing and taking informed decisions about treatment of their condition.

INVESTING IN THE FUTURE

6.45 Budget 2004 announces investment in key areas underpinning economic growth and flexibility now and for the future. This includes a framework for investment in science and

innovation as set out in Chapter 3, further measures to boost employment as described in Chapter 4, and measures to improve the UK's education and skills base. To ensure that the key resources required for a strong and flexible economy and a fair society are in place, the Budget announces firm spending plans for education that will deliver the resources needed to underpin reforms and meet the requirements of the economy.

Education

New spending plans 6.46 The Government's aim is to achieve excellence in standards of education and levels of skills, and to give everyone the opportunity to develop their learning. To reflect this priority, ahead of the 2004 Spending Review the Budget announces firm spending plans for the DfES and for Local Authority Formula Spending Share on education and children's social services. DfES DEL spending from 2004-05 to 2007-08 is set to rise by an annual average real increase of 5.6 per cent. Education spending in England will grow by an annual average of 4.4 per cent in real terms across the Spending Review period, and by 2007-08 spending will be £7.4 billion higher than in 2005-06. By 2007-08 education spending in the UK will be 5.6 per cent of GDP, up from 5.4 per cent in 2004-05. Efficiency gains worth at least 2.5 per cent each year over the Spending Review period, delivered through reducing administrative costs, reforming procurement and unlocking productivity gains from technology and workforce improvements, will see resources freed up and cost pressures reduced for priority frontline programmes. Details of the exact education settlement and its breakdown are set out in Tables 6.1 and 6.2.

Table 6.1 New education and children spending plans

£ million	2005-06	2006-07	2007-08
Resource DEL budget	26,708	28,108	29,708
Capital DEL budget	4,445	4,845	5,445
Total Departmental Expenditure Limit ¹	31,105	32,905	35,105
<i>Local Authority Formula Spending Share:</i>			
Education	27,963	29,863	31,663
Children's Social Services ²	4,016	4,316	4,516
Total education (England) ³	56,529	60,122	63,910

Table 6.2 Education spending in the UK⁴

£ million	2004-05	2005-06	2006-07	2007-08
Total UK education and training	64,857	69,857	74,102	78,610
Total UK education	63,195	68,134	72,272	76,649
UK education as a proportion of GDP (per cent)	5.4%	5.5%	5.5%	5.6%

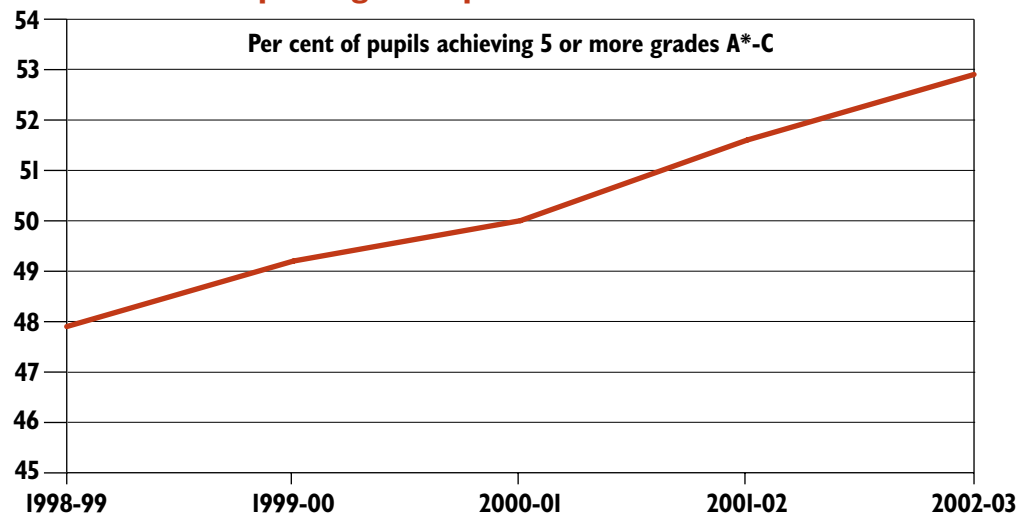
¹ Full resource budgeting basis, net of depreciation.

² 2005-06 still indicative at this stage.

³ England education measured consistent with international definitions from the UN classifications of functions of government (COFOG). Actual outturns are subject to spending decisions by local authorities.

⁴ UK education and UK education and training measured consistent with international definitions from the UN classifications of functions of government (COFOG). Actual outturns are subject to spending decisions by local authorities and devolved administrations.

6.47 The sustained high investment in education since 1997 has resulted in a measurable improvement in standards. In particular, the proportion of 11 year olds achieving expected levels in reading and maths have risen by 12 per cent and 11 per cent respectively, and almost 53 per cent of 16 year olds achieved five or more A* to C grade GCSEs in 2003, compared to 45 per cent in 1997. The Government is on track to help 750,000 adults gain basic skills by 2004.

Chart 6.3: Improving GCSE performance

Source: Department for Education and Skills.

6.48 The investment allocated for education over the next three years will build on these improvements and tackle key future challenges. International comparisons show that the gap in attainment between children from higher and lower socio-economic groups in the UK is wider than that in almost every other OECD country. The UK has one of the lowest staying on rates after the age of 16, and has a particularly large number of adults with no and low skills. These weaknesses are a constraint on UK productivity and carry large social costs. The Government's long term ambitions are therefore to:

- improve opportunity for every child through extended schools, childcare and better integrated support for parents and children;
- deliver higher standards in schools, and narrow the attainment gap between the best and worst off;
- bring all school buildings up to twenty-first century standards in the next 10 to 15 years;
- improve the UK's post-16 staying on rates from being one of the lowest in the OECD to one of the highest;
- enable each individual to acquire the skills he or she needs to be employable and support employers to develop the skilled workforce needed for the success of their businesses; and
- support expansion of higher education to meet the UK's rising skill needs while reducing the social class gap between those that do and do not enter university studies.

Sure Start, Childcare and early years 6.49 In line with its commitment to ensure that every child has a sure start in life, the Government is announcing additional investment in childcare and services for disadvantaged children of £669 million by 2007-08 compared with 2004-05 as noted in Chapter 5. This funding will deliver a Children's Centre in all of the 20 per cent most disadvantaged wards in England by 2008, on the way towards achieving the Government's goal of a Children's Centre for every community.

Children 6.50 Children's Social Services will also receive a real terms increase, allowing them to make a leading contribution to delivering the vision of the Children's Green Paper: *Every child*

matters (2003), to protect each child and help them achieve their potential. The Children's Fund will also be continued to 2008 to allow a smooth transition to new Children's Trusts, which will be focused on preventative work and developed and delivered with the full engagement of the voluntary sector.

Schools 6.51 The Government's primary and secondary schools strategies are the first stage in a process of reform, which aims to achieve excellence and to narrow the attainment gap between schools and between pupils within individual schools. In the next stage of schools reform, personalisation and devolving decision making will be central to the realisation of these objectives.

6.52 As part of the process of achieving excellent secondary education across all schools, direct payments to headteachers will ensure that schools have added flexibility to buy extra books, ICT and other items that complement teachers in developing a more personalised approach. Refined training will enable teachers better to identify the needs and pace of progress of every pupil across each subject. Up to one thousand more specialist schools and academies will be designated. All secondary school buildings will be transformed to twenty-first century standards in the next 10 to 15 years.

6.53 Pupils in both primary and secondary schools will benefit from more schools across the country offering extended services, bringing together education, health, children's social services and childcare. Such schools will open up the potential of schools to pupils, parents and the wider community in localities across the country. The concept of enterprise education within schools will be further developed, building on experience from the present pilots.

6.54 All schools will be empowered, particularly to take decisions about how to improve the way funding is used to help all pupils and to meet their particular objectives. Consistent with its commitment to devolving decision making, the Government is determined to ensure that the performance framework for schools reflects the circumstances of individual schools, with light touch regimes for the best and more intensive support for weaker schools. The performance framework will reinforce the focus on individuals, helping to reduce the significant scale of within-school variation in pupil performance which currently constrains school effectiveness. As part of this process, and to streamline funding, most specific grants will be paid as a single schools improvement grant. Targeting of excellence in urban and other deprived areas, as achieved via the excellence in cities and leadership incentive grants, will be sustained.

6.55 These reforms and investments will particularly help to support personalised learning and ensure that every pupil is able to realise his or her potential.

14-19 year olds and adult skills 6.56 The Government's vision is that all young people should reach age 19 ready for skilled employment or higher education. The new spending plans will support this ambition, through a coordinated reform strategy, as set out in Chapter 3. To improve outcomes among these most at risk of reaching age 19 with low skills, in the 2004 Spending Review the DfES will introduce a new PSA target to reduce the number of young people not in education, training or employment. Chapter 3 also sets out the New Deal for skills which includes the Government's aspirations and new measures for tackling the UK's large number of adults with low skills in the workforce.

Higher education 6.57 The further investment announced in this Budget will continue to advance progress towards the Government target to increase participation in higher education towards 50 per cent of 18 to 30 year olds by 2010. The Government will maintain per student spending levels in real terms over the 2004 Spending Review period.

Box 6.4: Department for Education and Skills new PSA targets

The Government is currently consulting with stakeholders on DfES's new PSA targets, which will drive up performance in each of the key areas of education and training, as well as reflecting the wider role of DfES in meeting the needs of children, including their social, emotional and physical well-being, and keep them from harm. Full details of the new PSA targets will be published at the end of the 2004 Spending Review. These PSAs will ensure increased resources match improved delivery and standards, while aiming to deliver a national minimum standard that all learners and institutions are entitled to, and expected, to achieve. The Government's key ambitions will be made a priority, through PSA targets to:

Improve life outcomes and general well-being of children and young people

- Improve children's learning and emotional development by increasing the proportion who are prepared for their education;
- As a contribution to reducing the proportion of children living in households where no one is working, increase the availability of childcare and narrow the gap in childcare provision between the 20 per cent most disadvantaged wards and other areas;
- Increase the number of schoolchildren spending a minimum of two hours each week on high quality PE and sport beyond the current commitment;
- Reduce the under-18 conception rate by 50 per cent by 2010

Raise standards and tackle the attainment gap in schools

- Increase the proportion of 11 year olds achieving level 4 or above in English and maths and close the gap in educational attainment by setting more challenging floor targets for schools;
- Increase the proportion of 14 year olds achieving level 5 or above in English, maths, ICT and science, and close the gap in educational attainment by setting more challenging floor targets for schools;
- Improve school attendance including reducing the level of unauthorised absence at school level;
- Narrow the gap in educational attainment between children in care and that of their peers, and improve the stability of their lives.

All young people to reach age 19 ready for skilled employment or higher education

- Increase the proportion of those aged 16 who achieve level 2 qualifications (equivalent to 5 GCSEs at grades A* to C) and close the gap in educational attainment by setting more challenging floor targets for schools;
- Increase the proportion of 19 year olds who achieve at least a level 2, as a step towards the Government's long term objective that all young people reach the age of 19 ready for higher education or skilled employment;
- Reduce the proportion of 16 to 18 year olds who are not in employment, education or training.

Tackle the adult skills gap

- Increase progress to reduce the number of low skilled adults, so that by 2007 1.5 million adults have improved their basic skills and by 2010 the number of adults in the workforce who lack NVQ 2 or equivalent qualifications is reduced by at least 40 per cent.

Raise and widen participation in higher Education

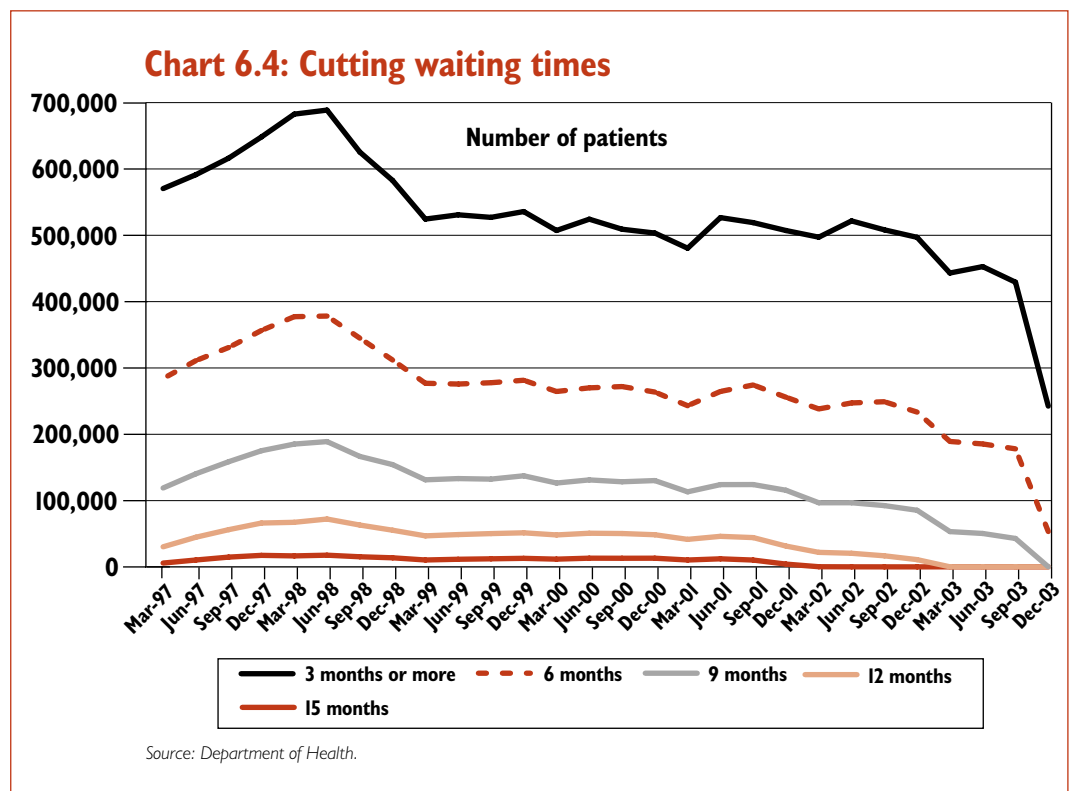
- by 2010 increase participation in Higher Education towards 50 per cent of those aged 18 to 30 and also make significant progress year on year towards fair access and bear down on rates of non-completions.

6.58 As described in Chapter 3, this Budget also puts in place the foundations for the Government's ten-year investment framework for science and innovation, and the implementation of the Lambert Review recommendations to strengthen business-university collaboration.

2004 SPENDING REVIEW: IMPLEMENTING REFORMS, DELIVERING RESULTS

6.59 The Government's agenda for public services reform is being put into practice by departments in the current Spending Review period and will be taken forward over the 2004 Spending Review period. Progress so far and concrete reform plans are set out by main public services delivery area in this section.

Health 6.60 The Government has introduced far-reaching reforms to deliver a world-class health service, which is available to all and free at the point of use, making best use of the record increase in funding of 7.2 per cent a year in real terms from 2003-04 to 2007-08. This is driving the considerable progress made against the health PSA targets to deliver the improvements in standards that the public expects. Compared to 1997-98, there are now 450,000 more NHS operations, 860,000 more elective admissions and 187,000 fewer patients waiting for treatment.



6.61 However, while progress against PSA targets is generally excellent, further progress is still needed in some key areas. Work going forward includes:

- focusing a greater share of NHS resources on public health, developing a stronger evidence base and putting a greater emphasis on prevention, to help meet the 'fully-engaged' trajectory set out in the 2002 Wanless Report. A public health White Paper will be published in summer 2004 setting out the Government's response to the second Wanless Report, published last month, described in further detail in Box 6.5; and

- building on progress made in effective joint working between the NHS and social services, which has already resulted in the rate of delayed discharges from hospital falling by 50 per cent since 2001 and 20,000 more people supported to live independently at home through intensive homecare services since 1998-99.

6.62 To allow local health providers to address local needs and help to drive up NHS performance across the board, around 75 per cent of Department of Health funding is already devolved to PCT level. In addition, a Departmental Change Programme is re-focusing the Department on high level strategic issues, with day-to-day management decisions more fully devolved to those delivering front line service. Examples of how a more personalised health service that fits around the needs of the patient is being implemented are set out in Box 6.3 earlier in this chapter.

Securing good health for the whole population

6.63 In Budget 2003, the Government announced that Derek Wanless would provide an update on the long-term challenges in implementing the ‘fully-engaged’ scenario, which was identified in his 2002 report as the way to deliver the best health outcomes at least cost, with a particular focus on public health and health inequalities. His final report was published on 25 February 2004, and the key findings are set out in Box 6.5.

Box 6.5: Key findings of the Wanless Review – securing good health for the whole population

As set out in the Wanless report, achieving the goal of a population ‘fully engaged’ in improving its health is a major prize for the whole community. The step change in activity needed to achieve this will require strong leadership and organisation in public health delivery, access to high quality, personalised information, and increased support to help individuals take vital health and lifestyle decisions, as well as more evidence on the cost-effectiveness of public health interventions.

Individuals are primarily responsible for their own and their families’ health, but the Government has a major role in the process by providing the necessary framework for success. Activity is needed on a wide front to help individuals take greater responsibility, with an enhanced role for schools, local authorities and other public sector agencies, employers, and private and voluntary sector providers in developing opportunities for individuals to play their part in securing better health.

The Wanless report makes more than twenty recommendations to Government on implementing cost-effective approaches to improving population health, prevention and reducing health inequalities consistent with the public health aspects of the ‘fully engaged’ scenario. The recommendations focus on improving public health policy making, improving the evidence base, engaging people in managing their own health, and the delivery structures required to achieve the ‘fully engaged’ scenario.

The report also recommends that the Government should set and monitor a consistent set of national objectives for the key risk factors such as smoking, physical inactivity and obesity. Primary Care Trusts and local authorities should then agree joint local targets based on the national objectives and their local needs, which should then be reinforced through the NHS and local government performance management and inspection systems and could mobilise other local groups to provide support.

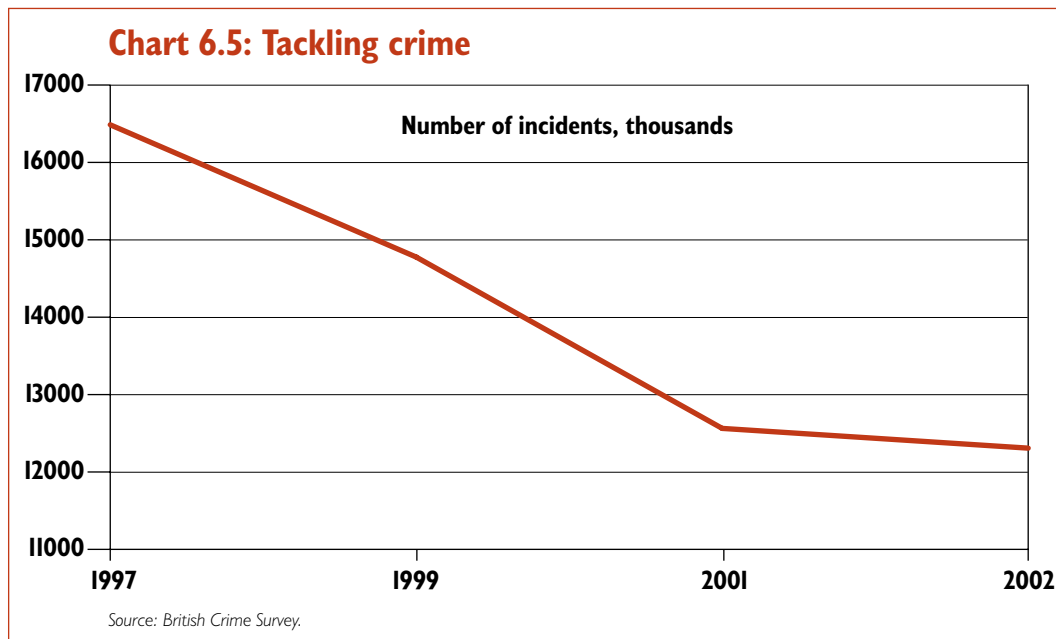
Transport 6.64 The Government's aim is to provide the stable long-term framework needed to bring about real improvements to the UK transport system and reverse the legacy of under investment, stop-go funding and shifting policies. The 2000 Ten Year Plan for Transport sets out an £180 billion programme of transport investment. It represents an integrated approach to tackle the problems of congestion and pollution and to deliver improvements for passengers, motorists and businesses, while addressing concerns over safety and environment. In January 2004, the Secretary of State for Transport announced a review of the rail industry, which intends to publish proposals in summer 2004. The review will consider the structural and organisational changes needed for railways to operate more effectively and better respond to customers, with clear lines of accountability and responsibility.

6.65 Further and challenging reforms are needed if the Government is to achieve its vision for transport. The 2004 Spending Review and the parallel strategic review of the Ten Year Plan will consider measures that include:

- an exploration with regional and local stakeholders of ways to improve regional planning and regional choice to bring transport investment choices closer to stakeholders and to deliver outcomes more effectively;
- better use of analytical tools and evidence base in appraising transport investment proposals and informing decisions; and
- the Bus Subsidy Review and road user charging, discussed further in Chapter 7.

Criminal Justice 6.66 The Government is determined to cut crime and the fear of crime. The Home Office, Department for Constitutional Affairs and Crown Prosecution Service are working together to bring more offenders to justice, increasing the public's confidence in the Criminal Justice System (CJS) and ensuring that it meets the needs of the people it serves. The Government will continue its reform programme, in particular it is:

- tackling serious and organised crime by establishing a new Serious and Organised Crime Agency;
- reducing re-offending rates and increasing rehabilitation through establishment of a new National Offender Management Service;
- improving the efficiency and effectiveness of the courts system by establishing a unified courts administration;
- increasing the number of offences brought to justice by the Crown Prosecution Service, which will now bring charges in all but routine cases; and
- introducing a new police reform consultation programme, which aims to increase transparency and accountability to the public by increasing community involvement in policing decisions.



6.67 The British Crime Survey shows that the Government's strategy is delivering improved outcomes. Between 1997 and 2002, overall crime fell by 28 per cent, with a 34 per cent reduction in vehicle crime and a 41 per cent reduction in domestic burglary. Criminal Justice Boards have been established at both local and national level to be more responsive to CJS issues and to improve performance. The challenge for the 2004 Spending Review period is to continue to improve police performance, the effectiveness of the CJS and realise the benefits from improved partnership working.

Housing 6.68 The Government aims to offer everyone the opportunity of a decent home, and so promote social cohesion, well-being and self-dependence for all. By the end of this year the Office of the Deputy Prime Minister (ODPM) will have reduced the number of non-decent social homes by around a third compared to 2001, and will continue to work towards its aim to make all social housing decent by 2010.

6.69 In order to ensure greater responsiveness of housing policy to differing regional needs and housing market priorities, decisions need to be better aligned with regional planning and economic strategies, and ensure that investment decisions benefit from local knowledge. The Barker Review, into factors affecting the housing supply in the UK, which is described in Chapter 3, sets out proposals building on recent reforms by merging regional planning bodies and regional housing boards to create a single body supported by independent regional planning executives, responsible for managing regional housing markets. As part of the 2004 Spending Review, the Government will also consider whether to extend these bodies' strategic responsibilities to other housing related services as well.

6.70 This Government has accepted the need to increase investment in social housing in order to increase supply and will be making a start in the 2004 Spending Review. Greater investment needs to be accompanied by the delivery of higher and consistent standards in conditions, services and management across the social housing sector. Research undertaken by the Housing Inspectorate for the Treasury and ODPM, in conjunction with the Housing Corporation, has confirmed that there appear to be significant variations in management costs between housing association landlords even after accounting for issues such as stock location, size and management performance. The 2004 Spending Review will be considering appropriate measures to drive up efficiency and effectiveness within the sector, for the benefit of both tenants and the taxpayer.

Local Government 6.71 The Government's aim is to see vibrant, innovative and responsive local government delivering high quality public services for their communities. Central and local government are working together to ensure that local organisations, supported by appropriate performance frameworks and accountability arrangements, have sufficient flexibility to respond effectively to local needs.

6.72 From April 2004, the prudential regime for local authority borrowing will come into effect. Local Government will no longer need to seek permission to borrow for capital investment, and will be free to borrow subject to it being affordable as set out in the Prudential Code. Local authorities will also have new powers to trade, which will increase diversity and choice in the delivery of public services and support the development of a dynamic and entrepreneurial public sector. It will help to introduce new players to the market and encourage best value authorities to improve and extend the range of services they offer to local people. The wider issues of local government finance are being considered in the Balance of Funding Review, which is expected to report this summer.

6.73 Local PSAs encourage authorities to deliver service improvements above and beyond what would normally be expected in return for financial rewards. The first agreements of the second generation of local PSAs will run from April 2004. These will provide an increased focus on addressing local priorities and building more effective local partnerships.

6.74 These reforms are being matched by greater accountability. The Comprehensive Performance Assessment (CPA) brings together assessments of the individual services for which the authorities are responsible, with an overall assessment of the council's ability to lead the community, forge change and effect cross-service delivery improvements. In the second CPA for single-tier and county authorities, well over half were rated good or excellent and therefore benefit from increased freedoms and flexibilities over and above the general reforms. The Government is actively engaging with those authorities judged poor and one-third of those classified as poor or weak in 2002 moved up one category in 2003. CPA is now being extended to all lower-tier councils and refreshed scores for upper and single-tier authorities will be announced at the end of the year. The Audit Commission is consulting on a revised CPA for 2005 onwards, which will have a greater focus on local government's role in economic development and local priorities, including value for money, to continue to drive up standards across local government, delivering improvements in many of the services – including education, social services, waste management and housing – that matter most to people.

