

## 7. Issues in public service delivery

The government's current spending plans have been set until March 2006, with the exception of spending on the National Health Service (NHS), where the current plans have been set through to March 2008. This summer, the government will publish its next spending review. Spending Review 2004 is expected to reconsider the spending plans for 2005–06 and set departmental spending for all non-NHS areas until March 2008. Section 7.3 outlines some possible scenarios for the 2004 spending review.

The overall trends in actual and planned public spending under the current government are described in Section 7.1 for four of the major public services. As the performance and efficiency of the public sector have become a prominent part of the government's agenda, we also describe the trends in some possible indicators of service quality.

In Section 7.2, we discuss some of the other key issues in planning public spending, such as recent patterns of underspending, growth in the public sector pay bill and difficulties associated with accurately measuring the efficiency of public service delivery.

### 7.1 Delivering better public services?

For each public service considered, this section will present a measure of the resources that service has received in recent years. This will then be placed in the context of some quantifiable measure of the service's output, to indicate the effect that extra resources have had, to date, on service delivery. The output in question will generally be clearly measurable and volume-related – for example, the number of schoolchildren who attain a given level in national tests.

One problem with looking at a specific output is that it might not be representative of what is happening to other outputs, and might therefore give an inaccurate representation of a service's overall performance. This could be particularly likely if the government has provided an incentive for public sector workers to focus on a targeted output, since they may neglect other outputs. In addition, what determines people's well-being is not the specific outputs produced by government departments but the ultimate outcomes that individuals experience. For example, in judging the success of education services, it is not pupils' test scores at any age that matter but subsequent outcomes such as earnings and employability. In many cases, these outcomes are much more difficult to measure in an accurate and timely manner.

Even if we could measure outcomes correctly, these should not be the critical test of whether or not public services have improved. Outcomes are influenced by many factors beyond the government's control. For instance, the success of a cohort of young people at finding employment after finishing education might be adversely affected by a global recession. This could mask any improvement in their employability relative to that of previous cohorts. The

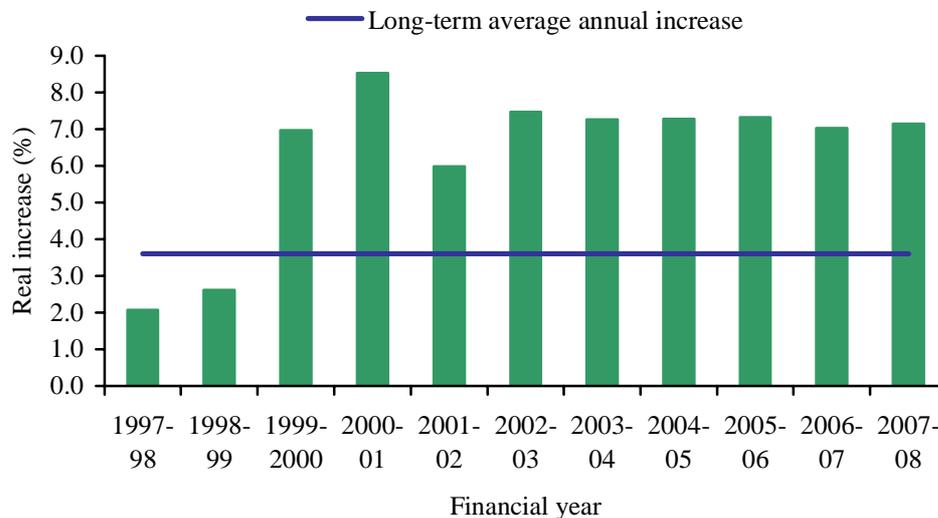
government's actual success in public service delivery would ideally be judged by the change in outcomes that is attributable to its decisions, i.e. the overall level of service quality compared with what would have happened in the absence of increased funding.

Given the difficulty of even measuring outcomes, let alone adjusting them for 'other factors', and the potential problem with focusing too much on specific outputs, this section also presents public opinion data as a potential broad indicator of service quality. This is not to suggest that public opinion is the main outcome that public services should aim to improve, nor even that opinions given in surveys are an accurate reflection of people's satisfaction with public services.

## National Health Service

The National Health Service is perhaps the most prominent public service, and is the service facing the most public pressure to deliver improvements speedily. The fact that the Treasury adopted the spending recommendations of the Wanless Review<sup>1</sup> until at least March 2008, and did so when spending on non-NHS functions was only being fixed until 2006, indicates the scale of the resources that are now being lavished on the NHS and the improvements that are expected. Figure 7.1 shows that the average real annual increase in NHS

**Figure 7.1. Real increase in NHS spending**



Sources: Department of Health annual reports; HM Treasury, 2002 Spending Review, Cm. 5570, London, 2002 ([www.hm-treasury.gov.uk/spending\\_review/spend\\_sr02/spend\\_sr02\\_index.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr02/spend_sr02_index.cfm)); table B3 of HM Treasury, *Pre-Budget Report*, Cm. 6042, London, December 2003 ([www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr03/prebud\\_pbr03\\_index.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr03/prebud_pbr03_index.cfm)).

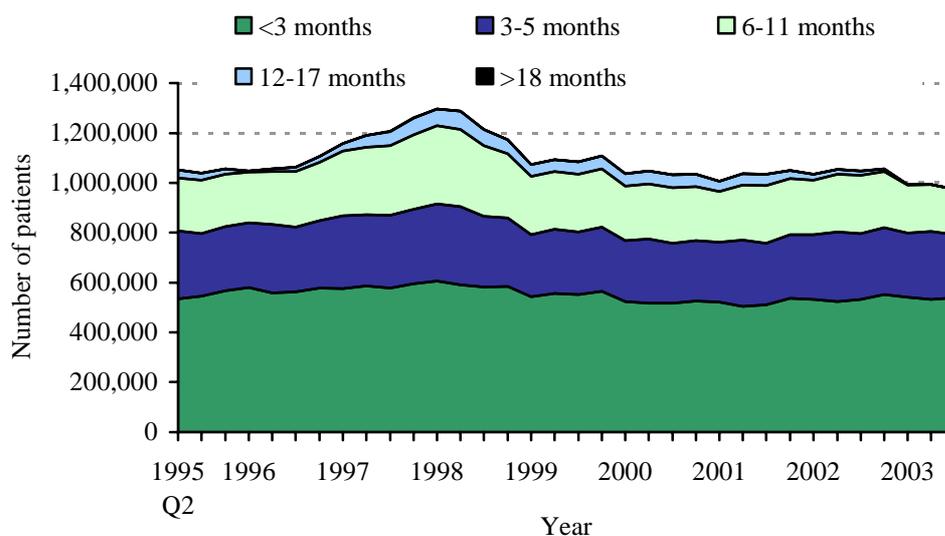
<sup>1</sup> D. Wanless, *Securing Good Health for the Whole Population: Population Health Trends*, HM Treasury, London, 2003 ([www.hm-treasury.gov.uk/consultations\\_and\\_legislation/wanless/consult\\_wanless03\\_index.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/wanless/consult_wanless03_index.cfm)).

spending is planned to be just under 7.3% from 1999–2000 until 2007–08. This level of sustained public spending growth, if delivered, will be unprecedented in the health service’s history.<sup>2</sup>

These large increases make it particularly interesting to look at whether or not the NHS has increased its volume of outputs and ultimate ‘consumer satisfaction’ to a degree that is commensurate with the increase in resources. One of the simplest quantitative measures of whether or not the NHS is delivering more outputs relative to the demands placed on it is the number of people who are waiting for an appointment/treatment and the length of time for which they have been waiting. The Department of Health has a performance target to reduce the maximum wait for an out-patient appointment to 3 months and the maximum wait for in-patient treatment to 6 months by December 2005, and to achieve a maximum in-patient and day-case waiting time of 3 months by December 2008.<sup>3</sup>

Figure 7.2 shows the in-patient waiting list by length of wait. In-patient waiting lists began to rise in 1996 and peaked at the start of 1998, taking until the start of 2000 to return to their pre-1996 levels. Almost no one waits for more than 12 months any more, although the number of people waiting 3–5 months is now about 10,000 higher than it was in the first quarter of 2000.

**Figure 7.2. In-patient waiting list by length of wait**



Note: Waiting-list statistics for 2003Q3 are still incomplete due to a lack of data from a small minority of trusts.

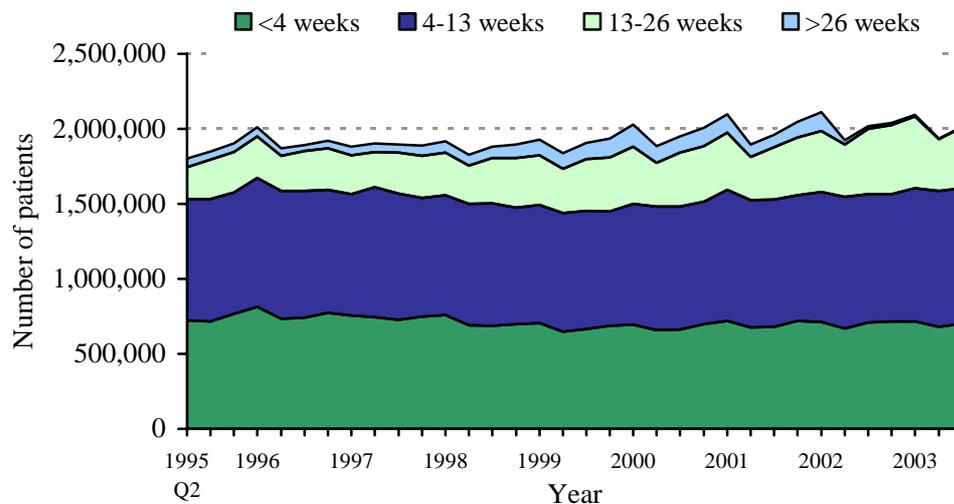
Source: Department of Health, *Hospital Waiting Times/List Statistics* ([www.doh.gov.uk/waitingtimes/](http://www.doh.gov.uk/waitingtimes/)).

<sup>2</sup> See C. Emmerson, C. Frayne and S. Love, *A Survey of Public Spending in the UK*, Briefing Note no. 43, Institute for Fiscal Studies, London, December 2003 ([www.ifs.org.uk/public/bn43.pdf](http://www.ifs.org.uk/public/bn43.pdf)).

<sup>3</sup> See [www.hm-treasury.gov.uk/performance/Health.cfm](http://www.hm-treasury.gov.uk/performance/Health.cfm).

Figure 7.3 shows the same data for out-patients. The number of people waiting for an out-patient appointment has more marked seasonal variation. The total number of out-patients waiting remained relatively stable between 1996 and mid-1999. The number waiting then rose to a peak of just over 2.1 million in the first quarter of 2002. Waits of over 26 weeks numbered about 60,000 in 1995–96 and rose to over 146,000 by the start of 2000. Since then, they have fallen dramatically to about 3,000. The number of patients waiting less than 4 weeks has fallen slightly since 1995–96, while the number waiting 4–13 weeks has risen over the same period.

**Figure 7.3. Out-patient waiting list by length of wait**



Source: Department of Health, *Hospital Waiting Times/List Statistics* ([www.doh.gov.uk/waitingtimes/](http://www.doh.gov.uk/waitingtimes/)).

Although they have the virtue of being relatively easy to measure, it is important to note that waiting lists and waiting times are not an ideal measure of the output of the NHS, for several reasons. Waiting statistics reflect demand as well as supply: if the number of operations performed by the NHS doubled but the number of people requiring operations quadrupled over the same period, both the waiting list and waiting time for operations would rise hugely, which would belie the improvement in service delivery. Neither waiting lists nor waiting times reflect changes in the mixture of cases being dealt with, and neither indicate the quality of the treatment received. Finally, an exclusive focus on either the number of people waiting for treatment or the length of time for which they wait gives NHS staff incentives to change the order in which they see and treat patients, without changing the overall throughput of the NHS. The most that one can infer from the statistics shown above is that there has recently been a reduction in the numbers of patients who have lengthy waits.

What do people think about the health service under Labour? The British Social Attitudes (BSA) surveys have asked respondents about their levels of satisfaction with the NHS at regular intervals since 1983. Subtracting the percentage of respondents who reply they are ‘quite dissatisfied’/‘very dissatisfied’ from the percentage who claim to be ‘quite satisfied’/‘very

satisfied' gives a net measure of overall satisfaction with the NHS. In the most recently published survey (2001), overall satisfaction was +1%, i.e. the satisfied respondents outweighed the dissatisfied by a margin of one percentage point. This is a very low margin of net satisfaction, and is the lowest since Labour came to power in 1997 (the peak being +13% in 1999). However, overall satisfaction was negative in the two surveys before Labour came to power and the mean level of overall satisfaction for all of the available BSA surveys is only +1.3%.

With respect to whether or not the NHS has improved, Table 7.1 shows that only 22% of BSA respondents thought in 2001 that it was better or much better than five years ago. Three-quarters of respondents thought that the NHS was unchanged, worse or much worse. But in 1995, only 18% thought it had improved over the preceding five years – and, indeed, four-fifths thought it was the same, worse or much worse. So the results from the 2001 BSA, while not an indicator of huge public satisfaction, are not unfavourable compared with those from earlier surveys.

**Table 7.1. Opinion on how the NHS has changed**

<i>'Please say how much better or worse you think the general standard of health care on the NHS has been getting over the last five years.'</i>	<b>1995</b> %	<b>2001</b> %
Much better	3	2
Better	15	20
About the same	32	37
Worse	39	33
Much worse	10	6

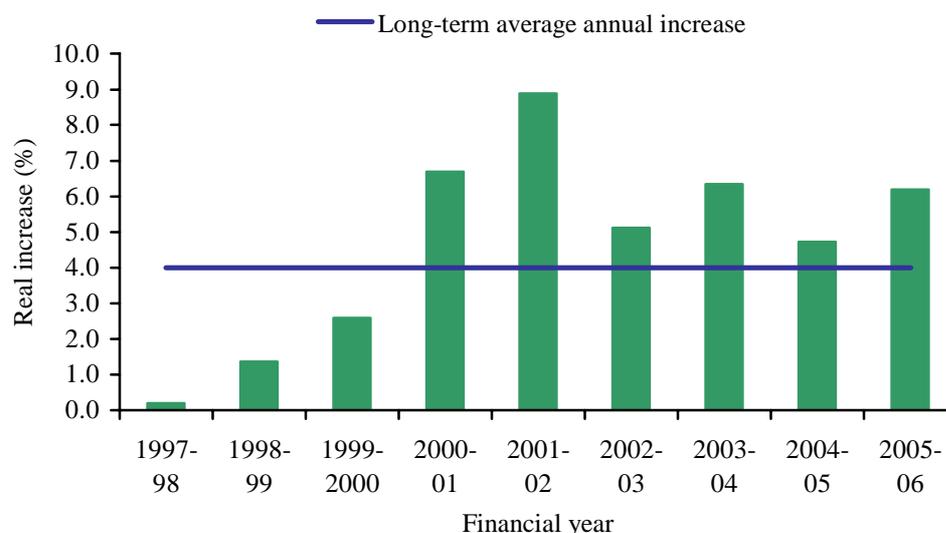
Source: S. Exley and L. Jarvis, *Trends in Attitudes to Health Care 1983 to 2001*, National Centre for Social Research, London, January 2003.

## Education

Like the NHS, education has received substantial real increases in spending since April 1999. The figures for 1997–98 to 2005–06 are shown in Figure 7.4. Since April 2000, the annual real increase in spending on education has consistently been, and is planned to remain, above the long-term average of 4.0%. Some of this spending is attributable to demographic factors, chiefly the increase in the number of school-aged children since 1997. In the academic year 1995–96, there were 9.8 million pupils in primary, pre-primary, secondary and special schools in the UK. By 2002–03, this number had risen to 10.1 million.<sup>4</sup> But even allowing for the increase in pupil numbers, real funding per student has still risen substantially. According to the Department for Education and Skills, unit funding per pupil aged 4–19 in maintained schools in England fell by 1% in real terms in 1994–95 and by 3% in 1995–96,

<sup>4</sup> Source: Department for Education and Skills, *Statistics of Education: Education and Training Statistics for the United Kingdom*, 2003 edition, London ([www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf](http://www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf)).

**Figure 7.4. Real increase in education spending**



Sources: HM Treasury, *Public Expenditure Statistical Analyses 2003*, Cm. 5901, London, May 2003 ([www.hm-treasury.gov.uk/media/81937/pesa\\_03\\_652.pdf](http://www.hm-treasury.gov.uk/media/81937/pesa_03_652.pdf)); table B3 of the December 2003 Pre-Budget Report.

barely changed in 1996–97 and 1997–98, then has risen by an average annual real rate of 4.5% from 1998–99 onwards.<sup>5</sup>

Have education services improved in return for these extra resources per pupil? With respect to class sizes, the government pledged at the time of the 1997 general election that by September 2002, there would be no infants in classes with more than 30 pupils.<sup>6</sup> The percentage of infant pupils in classes of 31 or more fell from 22.0% in September 1998 to 0.6% in September 2002, with 22 classes out of 62,000 containing 31 or more pupils.<sup>7</sup> Average class sizes have not been affected dramatically: average primary-school class sizes fell by just over one pupil between 1995–96 and 2001–02 and average secondary-school class sizes rose slightly. Likewise, the ratio of pupils to teachers has remained almost unchanged. With respect to outcomes, it is difficult to find accurate measures in the short and medium term of how much difference the extra resources have made. This is because if the resources have improved educational attainment in a given set of exams, this improvement will take years to manifest itself in terms of ultimate outcomes: if a pupil sits her Key Stage 1 tests at the age of 7, the extent to which her success in these tests affects her employability and earnings will not be calculable for a considerable time. So, given that much of the government’s effort in the area of education delivery has been focused on primary and early secondary

<sup>5</sup> Source: Department for Education and Skills, *Statistics of Education: Education and Training Expenditure since 1993–94*, Issue no. 04/03, August 2003 ([www.dfes.gov.uk/rsgateway/DB/SBU/b000406/Bulletin\\_04\\_2003.pdf](http://www.dfes.gov.uk/rsgateway/DB/SBU/b000406/Bulletin_04_2003.pdf)).

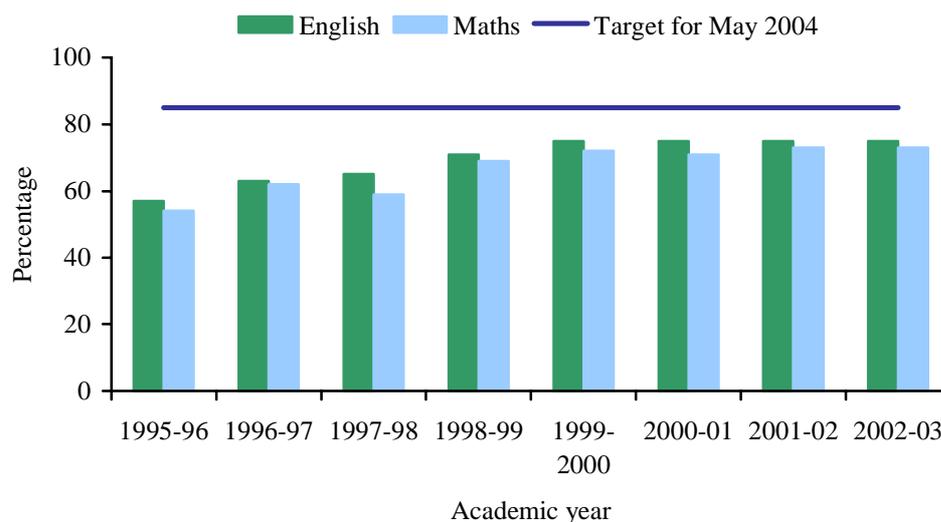
<sup>6</sup> See [www.hm-treasury.gov.uk/mediastore/otherfiles/461.pdf](http://www.hm-treasury.gov.uk/mediastore/otherfiles/461.pdf) and the ‘Background’ section of [www.dfes.gov.uk/trends/index.cfm?fuseaction=home.showIndicator&cid=3&iid=11](http://www.dfes.gov.uk/trends/index.cfm?fuseaction=home.showIndicator&cid=3&iid=11).

<sup>7</sup> See [www.dfes.gov.uk/trends/index.cfm?fuseaction=home.showIndicator&cid=3 &iid=11](http://www.dfes.gov.uk/trends/index.cfm?fuseaction=home.showIndicator&cid=3 &iid=11).

education, it makes little sense to try to evaluate at this stage what effect these targets have had on final outcomes. Instead, here we focus exclusively on the outputs that the government itself has emphasised: the percentage of children achieving the required standard in the various Key Stage exams.

The government set out in 1998 a series of National Learning Targets, to be achieved by the time of the 2002 National Curriculum tests. The targets for Key Stage 2 were that 80% of 11-year-olds should reach at least level 4 in the Key Stage 2 English tests and 75% should reach at least level 4 in the Key Stage 2 mathematics tests.<sup>8</sup> Both targets were missed, although the margin was just a couple of percentage points for the maths target. In 2001, the targets for the percentage of children achieving at least level 4 were raised to 85% for both English and maths by May 2004.<sup>9</sup> Additional targets were introduced in 2001 for Key Stage 3 (taken at age 14). By May 2004, 75% of pupils should achieve at least level 5 in English, maths and information & communications technology (ICT) and at least 70% should reach the same level in science.<sup>10</sup>

**Figure 7.5. Percentage of pupils in England reaching the expected standards in English and maths Key Stage 2**



Note: The 2002–03 results are calculated using the results by gender in table 2.9 of *Statistics of Education: Education and Training Statistics for the United Kingdom*, 2003 edition. Sources: HM Treasury website on Public Service Agreement Performance for the Department for Education and Skills ([www.hm-treasury.gov.uk/performance/DFES.cfm](http://www.hm-treasury.gov.uk/performance/DFES.cfm)); Department for Education and Skills, *Statistics of Education: Education and Training Statistics for the United Kingdom*, 2003 edition, London ([www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf](http://www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf)).

<sup>8</sup> See [www.dfes.gov.uk/nlt/](http://www.dfes.gov.uk/nlt/) for further details.

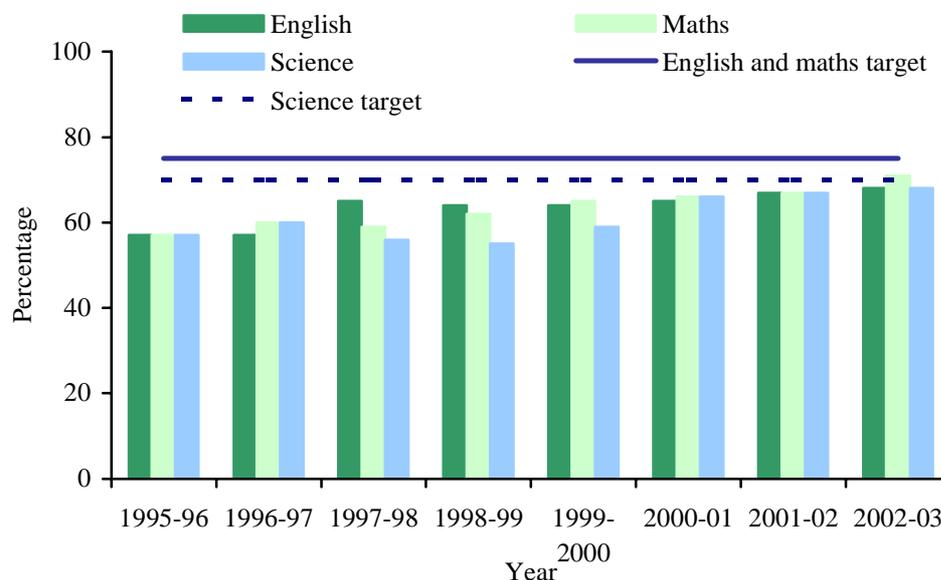
<sup>9</sup> See [www.dfes.gov.uk/consultations/sor/sordocs/SOR\\_131\\_1.doc](http://www.dfes.gov.uk/consultations/sor/sordocs/SOR_131_1.doc).

<sup>10</sup> See [www.standards.dfes.gov.uk/midbins/keystage3/guidance0902.PDF](http://www.standards.dfes.gov.uk/midbins/keystage3/guidance0902.PDF).

The percentage of pupils achieving the required standards for Key Stage 2 is shown in Figure 7.5. In both English and maths, it appears that results improved significantly between 1995–96 and 1999–2000, but have now reached a plateau of around 75% for English and 73% for maths. Results in both subjects are well short of the target level of 85%, which is supposed to be achieved by 2003–04.

The results for Key Stage 3 English, maths and science are shown in Figure 7.6. Results in English improved markedly in 1997–98 but have thereafter changed little. Results in science and maths have improved gradually and are approaching their respective targets for 2003–04. Results for ICT, which are not shown, improved from 50% of pupils attaining level 5 in 1996–97 to 66% in 2001–02.

**Figure 7.6. Percentage of pupils in England reaching at least the expected standards in English, maths and science Key Stage 3**



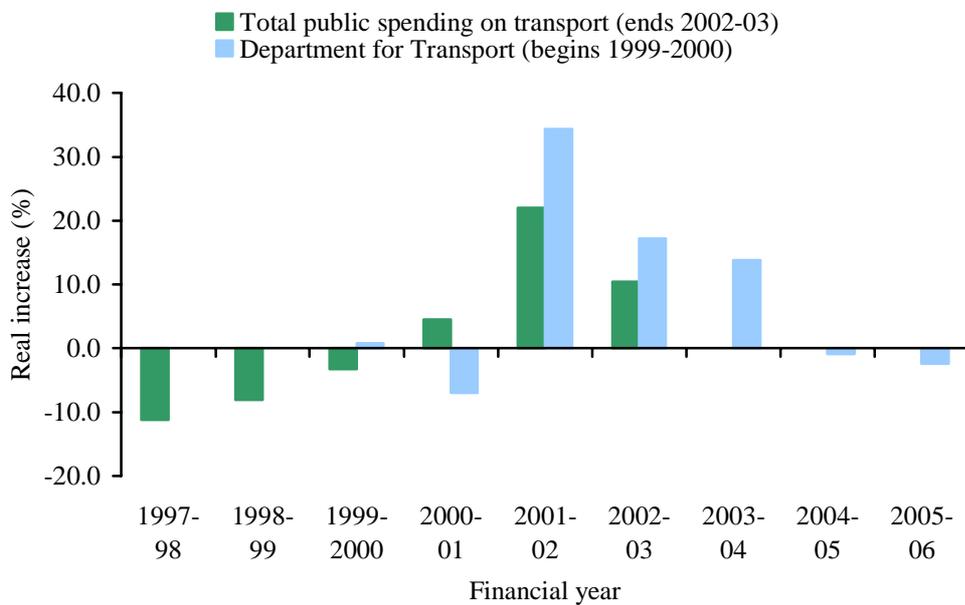
Note: The 2002–03 results are calculated using the results by gender in table 2.9 of *Statistics of Education: Education and Training Statistics for the United Kingdom*, 2003 edition.  
 Sources: HM Treasury website on Public Service Agreement Performance for the Department for Education and Skills ([www.hm-treasury.gov.uk/performance/DFES.cfm](http://www.hm-treasury.gov.uk/performance/DFES.cfm)); Department for Education and Skills, *Statistics of Education: Education and Training Statistics for the United Kingdom*, 2003 edition, London ([www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf](http://www.dfes.gov.uk/rsgateway/DB/VOL/v000431/edtraining2003final.pdf)).

Overall, improvements have taken place in the exam results on which the government has focused. The government missed its targets for Key Stage 2 results by 2001–02, albeit by a small margin, and will require improvements to reach its targets for 2003–04. The extent to which increasing the proportion of children who pass Key Stage 2 and 3 exams will improve those children’s lifetime outcomes is not yet clear, and will not be for several years.

## Transport

It is difficult to gauge accurately the amount by which transport spending has increased in recent years because spending on transport comes from a variety of different sources (the Department for Transport itself, local authorities and the Office of the Rail Regulator), because transport only acquired its ‘own’ department relatively recently (and therefore lacks a consistent set of annual reports with figures) and because different data series include different spending items. Figure 7.7 shows the real increases in public spending by the Department for Transport from 1999–2000 to 2005–06 and the real increases in total public spending on transport (from all public sector sources) from 1997–98 to 2002–03. Together, the series suggest a pattern of zero or negative growth in real transport spending, followed by three years of very large increases starting in 2001–02, and a return to smaller real growth thereafter.

**Figure 7.7. Real increase in transport spending**



Notes: The ‘total public spending on transport’ series is taken from *Public Expenditure Statistical Analyses 2003*. The ‘Department for Transport’ series begins in 1999–2000 and is taken from table A1 of *Department for Transport Annual Report. 2003*.

Sources: HM Treasury, *Public Expenditure Statistical Analyses 2003*, Cm. 5901, London, May 2003 ([www.hm-treasury.gov.uk/media/81937/pesa\\_03\\_652.pdf](http://www.hm-treasury.gov.uk/media/81937/pesa_03_652.pdf)); Department for Transport, *Department for Transport Annual Report 2003*, Cm. 5907, London, May 2003 ([www.dft.gov.uk/stellent/groups/dft\\_about/documents/downloadable/dft\\_about\\_508301.pdf](http://www.dft.gov.uk/stellent/groups/dft_about/documents/downloadable/dft_about_508301.pdf)); table B3 of the December 2003 Pre-Budget Report.

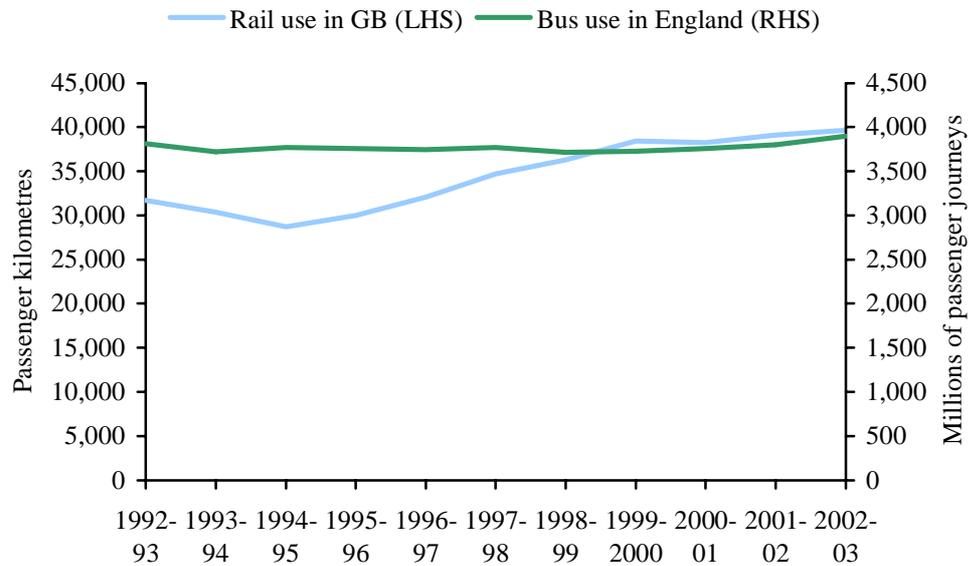
Has this recent increase in spending on transport had a noticeable effect on outputs? The main outputs that the Department for Transport and its predecessors have focused on relate to road congestion and the use of public

transport. With respect to public transport, the targets set out in the *Transport Ten Year Plan* in 2000 included the following:<sup>11</sup>

- aim to increase rail use in Great Britain (measured in passenger kilometres) from 2000 levels by 50% by 2010, and to improve the punctuality and reliability of rail services; and
- aim to increase bus use in England (measured by the number of passenger journeys) from 2000 levels by 10% by 2010, and to improve the punctuality and reliability of bus services.

Figure 7.8 shows the increases in rail and bus use, with each measured in the appropriate units. National rail usage has increased by 3.2% since the end of 1999–2000 and needs to increase by a further 44%, from 39,700 passenger kilometres to 57,300, by 2010 to meet the target. This would require an average increase of over 5% a year, which is well above the current rate. The number of passenger journeys made by bus has also been increasing at only a very modest rate: average annual growth since 1999–2000 has been 1.5%. However, even if there has not been a significant increase in the number of public transport users, at least the decline has been halted. 2002–03 was the first year since 1992–93 in which the number of passenger journeys made by bus and light rail exceeded 3.9 billion.<sup>12</sup>

**Figure 7.8. Rail use in Great Britain and bus use in England**



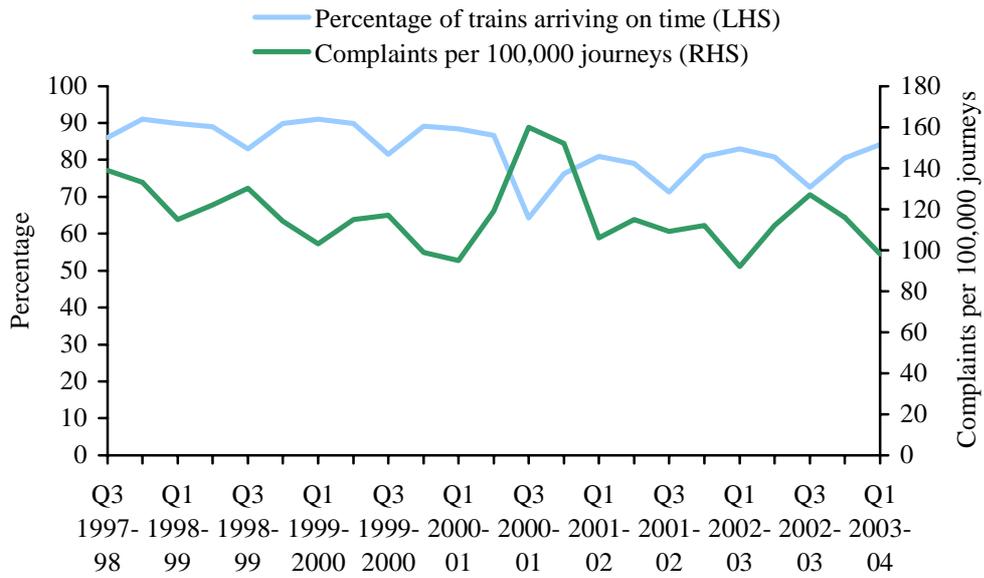
Source: Department for Transport, Transport Statistics, *A Bulletin of Public Transport Statistics: Great Britain: 2003 edition*, London, November 2003 ([www.dft.gov.uk/stellent/groups/dft\\_transstats/documents/page/dft\\_transstats\\_025841.hcsp](http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_025841.hcsp)).

<sup>11</sup> Source: Department of Environment, Transport and the Regions, *Transport Ten Year Plan 2000*, London, 2000 ([www.dft.gov.uk/stellent/groups/dft\\_transstrat/documents/page/dft\\_transstrat\\_503944.hcsp](http://www.dft.gov.uk/stellent/groups/dft_transstrat/documents/page/dft_transstrat_503944.hcsp)).

<sup>12</sup> Source: Table A, page 3 of Department for Transport, Transport Statistics, *A Bulletin of Public Transport Statistics: Great Britain: 2003 edition*, London, November 2003 ([www.dft.gov.uk/stellent/groups/dft\\_transstats/documents/page/dft\\_transstats\\_025841.hcsp](http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_025841.hcsp)).

Punctuality and reliability of bus services have been relatively high and stable, ranging from 97.8% to 98.8% over the past two-and-a-half years.<sup>13</sup> This has resulted in similarly stable levels of passenger satisfaction. By contrast, the performance of rail services has fluctuated significantly from season to season and in response to the programme of repairs undertaken after the Hatfield accident. The number of passenger complaints has, not surprisingly, been negatively correlated with performance. Figure 7.9 shows the percentage of trains arriving on time and the number of complaints per 100,000 rail journeys and illustrates this correlation.

**Figure 7.9. Rail services performance and complaints**



Source: Strategic Rail Authority, *National Rail Trends 2003–04 (Quarter 1)*, London, September 2003

[www.sra.gov.uk/publications/nat\\_rail\\_trends/2003\\_09\\_19/nrt\\_2003\\_04\\_q1.pdf](http://www.sra.gov.uk/publications/nat_rail_trends/2003_09_19/nrt_2003_04_q1.pdf).

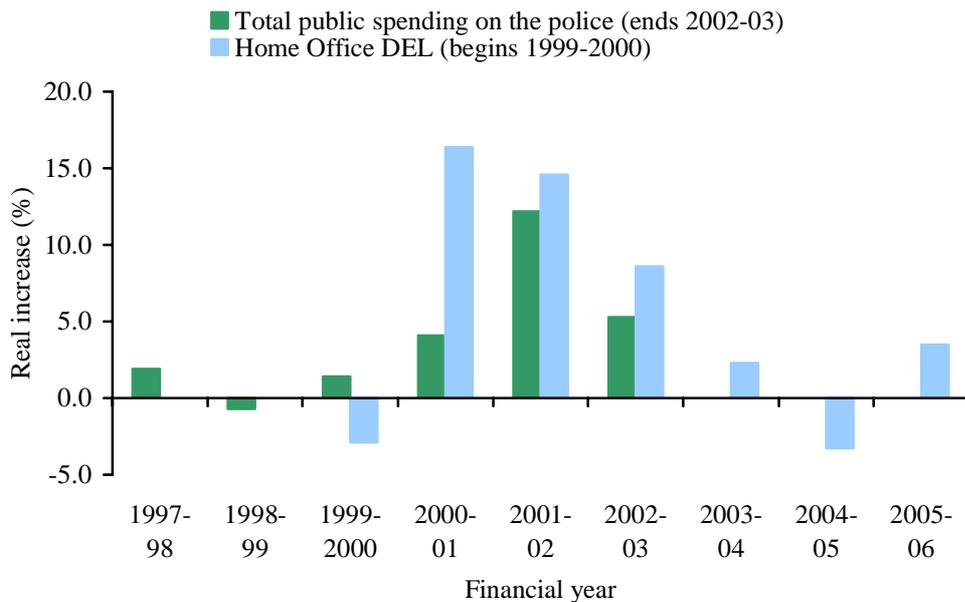
In the area of road congestion, it is more difficult to find a simple quantifiable output. The Treasury has begun to measure performance using an index of ‘average time lost per vehicle kilometre travelled’ but, as yet, there is little data available. In terms of outcomes, public concern about congestion appears to be falling, according to BSA surveys. Public concern about congestion in urban areas exceeds that about congestion on motorways. The percentage of respondents describing congestion in towns and cities as ‘a very serious problem’ or ‘a serious problem’ fell sharply from 72% in 2000 to 52% in 2001.

<sup>13</sup> Source: Table 2.1, page 13 of Department for Transport, *Bus Quality Indicators: England July to September 2003*, Statistics Bulletin (04)01  
[www.dft.gov.uk/stellent/groups/dft\\_transstats/documents/downloadable/dft\\_transstats\\_026652.pdf](http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/downloadable/dft_transstats_026652.pdf).

## Police

Like transport, public spending on law, order and protection comes from a variety of sources. In particular, local authorities, whose spending is not forecast more than a year in advance, carry out over half of the spending on law, order and protection functions. This makes it difficult to get a definitive measure of how much will have been spent on police services between 1997–98 and 2005–06. Figure 7.10 shows two relevant series. The first is the annual real increase in total public spending on the police from 1997–98 to 2002–03. The second is the annual real increase in the Home Office’s departmental expenditure limits from 1999–2000 to 2005–06. The Home Office spends just under half its annual budget on police services. The two series show a pattern of modest or negative real increases from April 1997 until March 2000, and then three years of relatively generous real increases until March 2003. If future public spending on the police continues to follow roughly the pattern of the Home Office’s budget, there will be more modest/negative real increases until March 2006.

**Figure 7.10. Real increase in spending on the police and real increase in the Home Office’s departmental expenditure limit (DEL)**



Notes: The ‘total public spending on the police’ series is taken from *Public Expenditure Statistical Analyses 2003*. The ‘Home Office DEL’ series begins in 1999–2000 and is taken from table 1 of *Home Office Departmental Report 2003*.

Sources: HM Treasury, *Public Expenditure Statistical Analyses 2003*, Cm. 5901, London, May 2003 ([www.hm-treasury.gov.uk/media/81937/pesa\\_03\\_652.pdf](http://www.hm-treasury.gov.uk/media/81937/pesa_03_652.pdf)); Home Office, *Home Office Departmental Report 2003*, Cm. 5908, London, May 2003 ([www.homeoffice.gov.uk/docs/annrep2003.pdf](http://www.homeoffice.gov.uk/docs/annrep2003.pdf)); table B3 of December 2003 Pre-Budget Report.

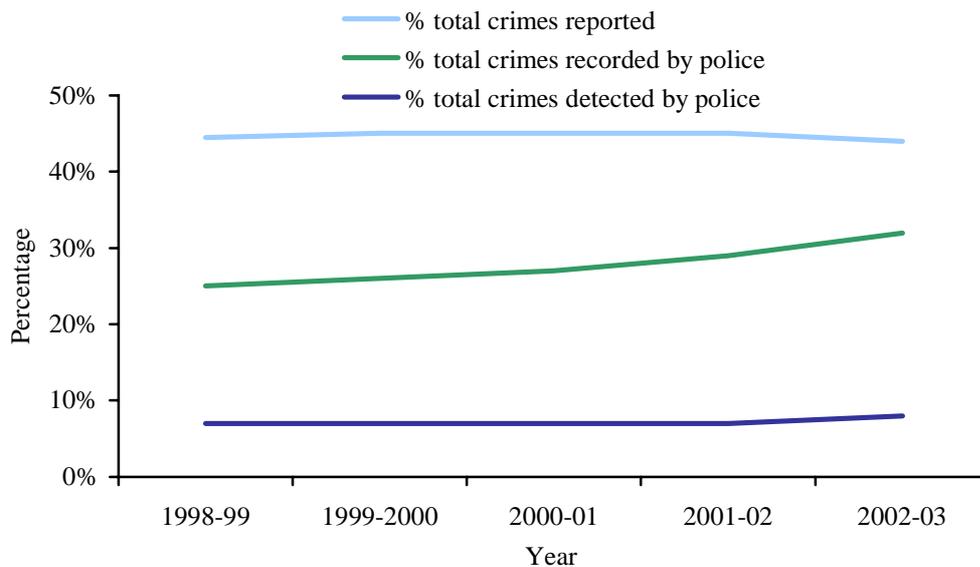
Information as to the number of crimes committed varies depending on the source used. According to the British Crime Survey (BCS), the main large national survey, the total number of crimes committed has fallen since 1995. The percentage of victims of crime who report the crime to the police has

remained stable at around 45% since 1997. This implies that the number of crimes reported to the police has fallen since 1997.

However, the percentage of reported crimes that the police record has risen significantly from 50% in 1995 to 62% in 2001 and 70% in 2002. This rapid rise in recent years is due to the introduction in 2001 of the new National Crime Recording Standard (NCRS), which made the standards for recording an incident as a crime more consistent across police forces. The result has been such a big increase in the ratio of recorded to reported crimes that, despite the fall in the number of crimes reported, the number actually recorded by the police has risen since 1997, jumping by about 7% between 2001–02 and 2002–03. The BCS estimates that without the NCRS, the number of recorded crimes would have fallen by 3% between 2001–02 and 2002–03.

The number of detections<sup>14</sup> achieved has failed to keep pace with the rise in recorded crimes (unadjusted for the NRCS) but, given the reduction in BCS crime, has probably remained fairly stable as a share of overall crime. Figure 7.11 shows the relationship between total crimes, reported crimes, recorded crimes and ‘detected’ crimes since 1998–99. Overall, the percentage of crimes that are detected seems to have changed little in recent years.

**Figure 7.11. Percentages of crimes that are reported, recorded and detected in England and Wales**

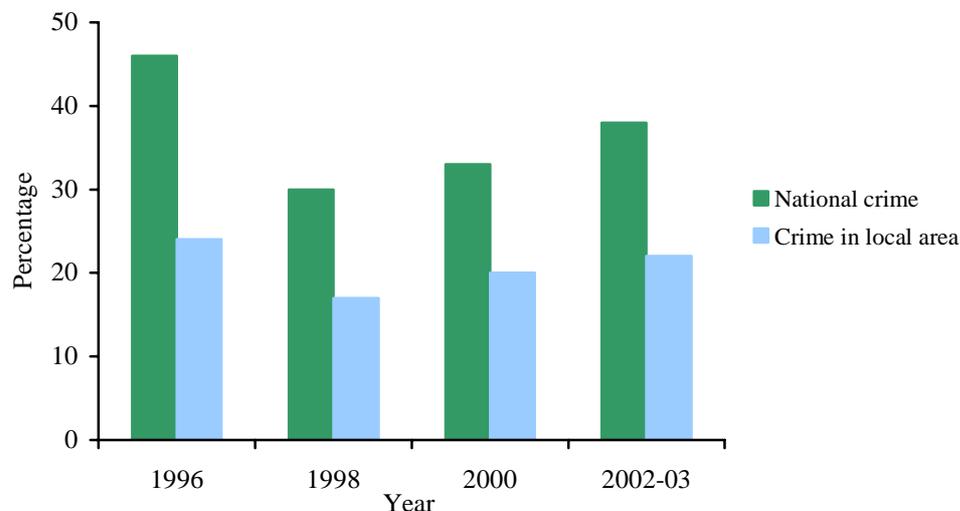


Notes: Percentages were based on the reporting and recording rates in figures 3.4 and 3.6 of *Crime in England and Wales 2002/03*. The graph only extends back to 1998–99 because of changes to the rules for the coverage and counting of offences.

Sources: J. Simmons and T. Dodd (eds), *Crime in England and Wales 2002/03*, London, July 2003 ([www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf](http://www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf)); authors’ calculations.

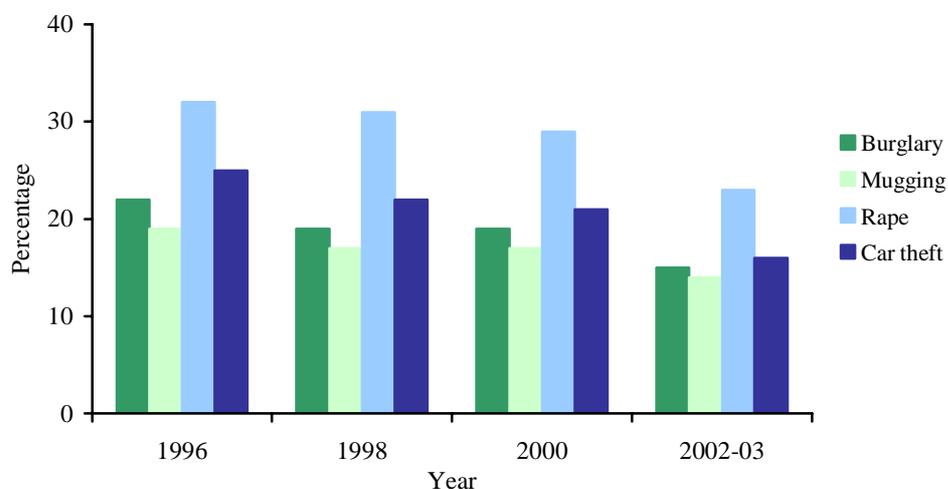
<sup>14</sup> A ‘detection’ can be recorded when all of the following conditions are fulfilled: (i) a notifiable offence has been committed and recorded; (ii) a suspect has been identified (and interviewed, or at least informed that the crime has been ‘cleared up’); (iii) there is sufficient evidence to charge the suspect; and (iv) the victim has been informed that the offence has been ‘cleared up’.

**Figure 7.12. Percentage of respondents who believe there is a lot more crime than there was two years previously**



Source: J. Simmons and T. Dodd (eds), *Crime in England and Wales 2002/03*, London, July 2003 ([www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf](http://www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf)).

**Figure 7.13. Percentage of respondents who are ‘very worried’ about different types of crime**



Note: Rape question only asked to female respondents.

Source: J. Simmons and T. Dodd (eds), *Crime in England and Wales 2002/03*, London, July 2003 ([www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf](http://www.homeoffice.gov.uk/rds/pdfs2/hosb703.pdf)).

Despite the fact that two of the main outputs – the number of crimes committed and the detection rate – have respectively improved and stayed stable, pessimism about crime has increased every year since Labour came to power, according to the BCS. This finding, portrayed in Figure 7.12, shows that improvements in outputs do not necessarily affect public perceptions. However, although people believe that crime has increased both nationwide and locally, respondents feel crime is generally lower in their own areas than elsewhere. This suggests that people’s perceptions of crime ‘in general’ (i.e. in

the whole of the country) are driven by different factors from their perceptions of crime within their own neighbourhoods.

The percentage of people who are personally afraid of crime may be a better outcome to look at, because fear of crime arguably has a greater impact on people's quality of life than does their assessment of overall trends. Figure 7.13 shows that the percentage of respondents to the BCS who are 'very worried' about crime has fallen in every survey since 1996 for most types of crime.

## **Conclusions**

Across the main public services that we have looked at – the NHS, education, transport and police – there has been, and is set to be, a large real increase in spending between April 1999 and March 2004. Under the current settlement, the NHS is set to continue receiving large increases in funding until at least March 2008, as is education until March 2006. The current settlements for transport and police are less generous in 2004–05 and 2005–06.

It is inevitable that the overall picture on service delivery is harder to measure. There have been noticeable improvements in some outputs such as the numbers of NHS patients facing long waits for appointments and treatment and the percentage of pupils achieving certain test scores. In the areas of health and education, there is more to do if the government's targets are to be met. With respect to transport, very little progress has been made towards some of the targets set out in the *Transport Ten Year Plan*. In particular, increases in the usage of public transport and the reliability of rail transport are below what the targets require. The police have yet to see the falls in both actual crime and fear of crime translate into a popular belief that rates of crime are falling.

Notwithstanding the modest progress that has been made, public opinion data show that most people believe public services to have deteriorated since Labour came to power in 1997. The opinion poll that ICM conducted for the *News of the World* in September 2003 found that for the NHS, the education system, the transport system and crime, the number of respondents who believed that the relevant public service had improved since 1997 was less than the number who believed it had deteriorated.<sup>15</sup>

As well as being negative about improvements to date, public opinion is also generally pessimistic about the future delivery of public services. Recent updates of MORI's 'Delivery Index' and ICM's 'Policy Performance Indicators' both show that the number of sceptics about whether or not the government's policies will succeed exceeds the number of optimists. This pessimism is particularly marked in the areas of public transport and the NHS. According to ICM, 71% of respondents believed in November 2003 that the

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<sup>15</sup> Source: ICM Research, *Pre-Labour Conference Poll*, September 2003 ([www.icmresearch.co.uk/reviews/2003/notw-sept-2003.htm](http://www.icmresearch.co.uk/reviews/2003/notw-sept-2003.htm)).

government's transport policies would be unsuccessful and 53% believed this of government policy on the NHS.<sup>16</sup>

By contrast, beliefs about the future of the education system are more finely balanced, with ICM's pessimists outnumbering optimists by only 5% and more MORI respondents expecting an improvement in the quality of education than expecting it to get worse. MORI's 'Delivery Index' also showed in December 2003 that public opinion on whether or not policing would improve over the next few years was 'net optimistic' by a small margin, although ICM found in November that pessimists about the government's policies on law and order outweighed optimists 57% to 33%. In so far as there have been any improvements to date, they have not yet convinced people that the government's plans for public service delivery will succeed.

## **7.2 Issues in planning public services**

### **Target-setting in the public sector**

The Public Service Agreement framework currently assesses the efficiency with which the public sector provides goods and services. The government began using Public Service Agreements (PSAs) in 1998, as part of the Comprehensive Spending Review, and has since used them in the 2000 and 2002 spending reviews. The main tools that PSAs use to achieve improvements are performance targets. These are intended to be measurable, clearly specified statements of what the government wants to achieve. They attribute responsibility to specified departments, teams and individuals. It is hoped that this will focus public sector workers' attention on the targets and the public's attention on what should be achieved and by whom. This section discusses the use of performance targets and the effectiveness of the targets in some of the main spending areas.

#### ***The system at present***

Given the wide choice of goals that the government could aim for, and the complex relationship between inputs, outputs and improvements that exists in many public spending areas, if PSAs are to be effective, the targets they set must be appropriate in several respects:

- the level at which the targets are set, and the people held responsible for them;
- the number and type of targets; and
- the way in which progress is measured.

In general, targets are set for the whole department(s) 'in charge' of the relevant public spending programme and the relevant Secretary of State is responsible for the 'delivery' of the target. This department-wide target is then broken down into smaller targets for individual sub-departmental groups.

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<sup>16</sup> Figures in this paragraph and the next are taken from [www.icmresearch.co.uk/reviews/2003/PPI%20-%20nov03.pdf](http://www.icmresearch.co.uk/reviews/2003/PPI%20-%20nov03.pdf) and [www.mori.com/polls/2003/mdi-dec.shtml](http://www.mori.com/polls/2003/mdi-dec.shtml).

The total number of performance targets has fallen steeply from about 600 in 1998 to 160 in 2000 and 130 in 2002. Likewise, over the same period, the focus of the performance targets has shifted. The emphasis was initially on inputs and processes, but it has shifted to outputs (the goods and services being delivered) and outcomes (the ultimate consequences for the public, such as longer life expectancy, better public transport, etc.).

The framework within which departments work towards their targets has become highly structured. As well as Service Delivery Agreements, which spell out in more detail the intermediate targets that a department has to hit to meet its PSAs, and Technical Notes, which set out the precise definitions of each target and the basis on which it is evaluated, since 2001 departments have also drawn up working documents called Delivery Plans. These plot in depth the expected 'trajectory' from the status quo to the target and specify who will meet the target, how and with what. The December 2003 Pre-Budget Report acknowledged implicitly that Delivery Plans have now superseded Service Delivery Agreements since the latter will be abolished in the 2004 Spending Review.<sup>17</sup>

### ***Possible effects of the targets***

Have the targets actually improved the quality and efficiency of public services? The targets set in 1998, which have been largely superseded by the more recent ones, were supposed to cover the period April 1999 to March 2002. Those set in 2000 and 2002 cover April 2001 to March 2004 and April 2003 to March 2006 respectively. So the government should already know how many of the 1998 targets were reached by March 2002, and it should, in theory, be possible to reach a judgement about how many of the 2000 targets have been reached, and the effect those targets have had, after March 2004.

In practice, attention appears to have shifted to the 2002 targets before the time period for meeting the 2000 ones has elapsed. For example, the Treasury website on 'Public Services Performance Index',<sup>18</sup> which is where the government's 'web-based reporting' on PSA delivery can be found, refers to the most recent PSAs from the 2002 Spending Review. Changing targets early has the potential advantage of being able to refocus attention on new priorities or towards better targets. However, if the practice of setting performance targets every two years continues, this might jeopardise the public's ability to evaluate whether or not a given set of targets has been met: instead of pursuing consistently a single batch of targets until the deadline for meeting them, departments could shift their energies before the deadline to meeting a new batch. Departments could even decide to ignore the targeting regime completely if they believe that success is never judged against the current set of targets.

Another feature of the government's target-setting framework that has the potential to undermine the effectiveness of the PSAs is the lack of clarity about how departments will be treated in light of whether or not they meet

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<sup>17</sup> Paragraph 6.62, page 144 of the December 2003 Pre-Budget Report.

<sup>18</sup> [www.hm-treasury.gov.uk/performance](http://www.hm-treasury.gov.uk/performance).

their targets. It is not clear to what extent ministers and departments are sanctioned or rewarded on the basis of their PSA performance.

On the one hand, the fact that there are no 'set-in-stone' reprisals for not meeting a target enables the Cabinet Committee on Public Services and Expenditure ('PSX'), which holds ministers to account for their use of public funds in delivering services, to vary its response to underperformance in light of individual departments' circumstances. In one case, the appropriate response to a department that fails to meet most of its targets might be to increase its funding so that it is better resourced in future. In another, it might be correct to conclude that the department should receive less money in future to encourage it to use its existing funds more cost-effectively.

On the other hand, the advantages of flexibility must be set against the weaker incentives for departments to perform. An explicit link between performance against targets and future funding might provide greater clarity for departments and give them more incentive to take the performance targets seriously.

The various commissions, committees and individuals who have assessed the PSAs and targets have generally endorsed the principle of holding the public sector to objective and measurable goals.<sup>19</sup> The extent to which the targets actually improve public services is not yet clear. Unless the government reduces the frequency with which new targets are set and ensures that departments have incentives to focus on targets, the new target regime will be less likely to have any significant effects.

### ***Measuring the quality of public services***

One potential pitfall of a desire to set targets for the public sector that are quantifiable is the difficulty of measuring 'soft' attributes such as the quality of public services in a quantifiable way, and of setting appropriate targets for improvements in them. For instance, the government has set the Department of Health a target of improving the 'service effectiveness' of the NHS and personal social services by 1% a year. The service effectiveness of the NHS presumably depends on the appropriateness of the treatment the patients are offered and the quality of that treatment. The Treasury intends to monitor progress against the target using 'service effectiveness indicators' but has yet to develop these.<sup>20</sup>

A lack of adjustment for quality may also bias the implied level of 'government inflation', which is derived from the difference between the value of the government's consumption in cash terms and in real terms. The most recent estimate of quarterly general government consumption

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<sup>19</sup> Audit Commission, *Targets in the Public Sector*, London, September 2003 ([www.audit-commission.gov.uk/Products/NATIONAL-REPORT/B02E376A-01D5-485b-A866-3C7117DC435A/Targets\\_briefing.pdf](http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/B02E376A-01D5-485b-A866-3C7117DC435A/Targets_briefing.pdf)); House of Commons Public Administration Select Committee, *On Target? Government by Measurement*, London, July 2003 ([www.publications.parliament.uk/pa/cm200203/cmselect/cmpublicadm/62/6202.htm](http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpublicadm/62/6202.htm)); Lord Sharman, *Holding to Account*, London, February 2001 ([www.hm-treasury.gov.uk/media/928E1/Holding%20to%20Account.pdf](http://www.hm-treasury.gov.uk/media/928E1/Holding%20to%20Account.pdf)).

<sup>20</sup> See [www.hm-treasury.gov.uk/performance/targets/perf\\_target\\_21.cfm](http://www.hm-treasury.gov.uk/performance/targets/perf_target_21.cfm).

expenditure<sup>21</sup> shows that general government consumption expenditure grew by 10.2% a year in cash terms and the real value of goods and services by 1.7% a year.<sup>22</sup> The rate of annual inflation was just over 8%, which implies that £1 of government spending bought 8% more in 2002Q3 than in 2003Q3. This rate of inflation is much higher than in the rest of the economy. Although some of this high rate may be attributable to rising costs, it could be that a substantial part of the inflation actually reflects improvements in the quality of the goods and services that the public sector produces.

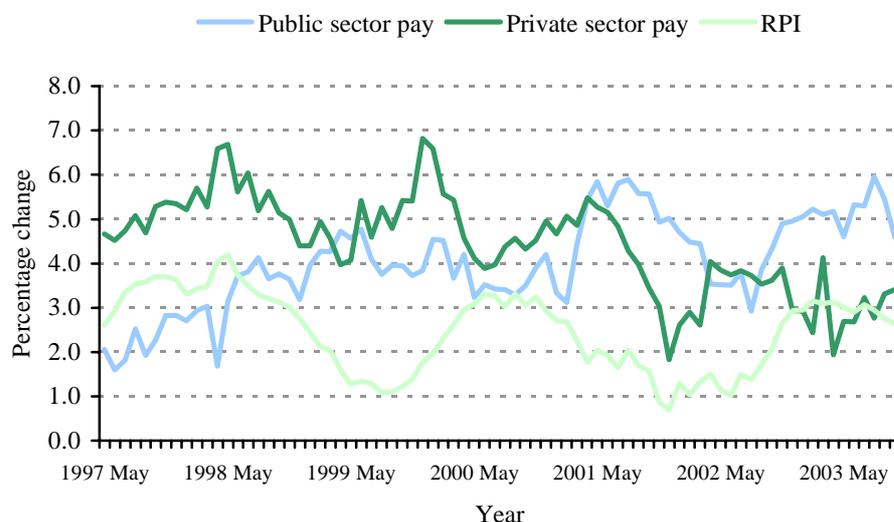
The National Statistician announced in December 2003 that Sir Tony Atkinson is to undertake a review of the future development of indices of government output, productivity and prices.<sup>23</sup> The review will address problems with the existing indicators, such as measuring the quality of public services. Given that the review team has been asked to produce a preliminary report by July 2004, it is possible that some of its findings could be used to develop indicators with which to measure progress against the 2004 Spending Review's PSAs. In the mean time, the risk remains that departments may focus on the more concrete quantity-related targets, possibly at the expense of service quality.

## Public sector pay and employment

### Public sector wage inflation

Figure 7.14 shows annual wage inflation in the public and private sectors from May 1997 to October 2003. The graph reveals that from 1997 until mid-2001,

**Figure 7.14. Annual public and private sector wage inflation**



Source: ONS, [www.statistics.gov.uk/statbase/tsdtables1.asp?vlink=LMS](http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlink=LMS).

<sup>21</sup> Note that 'general government' is not exactly the same as 'public sector' because the former excludes public non-financial corporations and only includes central and local governments.

<sup>22</sup> Source: Office for National Statistics, *Quarterly National Accounts 3<sup>rd</sup> Quarter 2003*, London, December 2003 ([www.nationalstatistics.gov.uk/pdfdir/qna1203.pdf](http://www.nationalstatistics.gov.uk/pdfdir/qna1203.pdf)).

<sup>23</sup> See [www.statistics.gov.uk/CCI/nugget.asp?ID=663&Pos=&ColRank=1&Rank=208](http://www.statistics.gov.uk/CCI/nugget.asp?ID=663&Pos=&ColRank=1&Rank=208).

wage inflation in the public sector was considerably below that in the private sector in all but two months. Since then, it has narrowed the gap, and it is now 4.6% – over one percentage point above private sector wage inflation and about two points higher than retail price index (RPI) inflation. The net result of these changes is that the ratio of the average private sector wage to the average public sector one is approximately the same as it was when the present Labour government first came to power.

### ***The public sector wage bill***

According to the 2003 *Blue Book*, the total amount spent on public sector wages, salaries and employers' social contributions was £113 billion in 2001.<sup>24</sup> Public sector nominal salaries were 6.2% higher, on average, in March 2003 than in December 2001.<sup>25</sup> But increasing the total public sector wage bill by 6.2% would underestimate the wage bill in March 2003 because the number of public sector workers has increased, as well as their average salary. According to *Labour Market Trends*,<sup>26</sup> the number of public sector employees increased by 1.7% between the middle of 2001 and the middle of 2002. Assuming the increase between mid-2002 and mid-2003 was the same, this means that the total increase from December 2001 to March 2003 was approximately 2.1%. So the wage bill in March 2003 was about £122.7 billion, or 29.3% of total managed expenditure for 2002–03.

### ***What does this mean for public spending?***

Table 7.2 sets out alternative scenarios for public spending on wages under different assumptions about the path of public sector employment and public sector wage inflation over the next five years. On the assumption that total public spending rises in line with the increases projected by the Treasury for April 2003 to March 2008, the table also shows how much money might be left for non-wage public spending.

For each combination of growth in public sector employment and public sector pay, Table 7.2 sets out a 'low' scenario (of zero real growth) and a 'high' scenario (which reflects recent levels). The first four rows of the table show the effects of the four possible combinations of the low and high scenarios on the public sector wage bill and on other public sector current spending, within the context of the 2003 PBR plans for total managed expenditure (TME) and public sector net investment.

The table shows that:

- If the government chooses to freeze the number of public sector workers and to keep their wages constant in real terms, and to stick to its projected plans for TME, it will be able to increase spending on

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<sup>24</sup> Source: Tables 3.2.2 and 5.1.2 of Office of National Statistics, *United Kingdom National Accounts. The Blue Book 2003*, London, 2003 ([www.statistics.gov.uk/downloads/theme\\_economy/BB\\_2003.pdf](http://www.statistics.gov.uk/downloads/theme_economy/BB_2003.pdf)).

<sup>25</sup> Source: Office for National Statistics, [www.statistics.gov.uk/statbase/tsdtables1.asp?vlink=LMS](http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlink=LMS).

<sup>26</sup> [www.statistics.gov.uk/STATBASE/Product.asp?vlnk=550](http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=550).

other current items at an average real rate of 4.7% a year. (This scenario is shown in the first row of Table 7.2.)

- If the number of public sector workers and the average level of real-terms public sector pay both increase at the same rate as they have done recently (1.7% and 2.3% respectively), then real growth in other items of current spending will be 3.0% a year. This is still greater than expected growth in the whole economy. (This scenario is shown in the fourth row.)
- The government could afford to increase public sector employment by an average of 2.3% a year – ie, faster than between 2001 and 2002 – while maintaining recent levels of real wage growth in the public sector and still maintaining spending on other current items as a share of national income. (This scenario is shown in the fifth row.)

**Table 7.2. Public spending on wages and non-wage items under different scenarios, April 2003 to March 2008**

Annual % growth in public sector:		Real average annual % increase in public spending on:			
Employment	Real pay	Wages	Other current items	Net investment	TME
0.0	0.0	0.0	4.7	20.5	3.9
0.0	2.3	2.3	3.7	20.5	3.9
1.7	0.0	1.7	4.0	20.5	3.9
1.7	2.3	4.0	3.0	20.5	3.9
2.3	2.3	4.7	2.6	20.5	3.9

Notes: The average annual growth figure of 1.7% for public sector employment was the rate of growth between mid-2001 and mid-2002. The average annual growth figure of 2.3% for real public sector pay was the year-on-year increase in the third quarter of 2003. To maintain this real rate of growth given the projected GDP deflator for 2002–03 to 2007–08 would require average nominal public sector wage growth of 5.0%.

Sources: Office for National Statistics, *Blue Book 2003*, London, 2003

([www.statistics.gov.uk/downloads/theme\\_economy/BB\\_2003.pdf](http://www.statistics.gov.uk/downloads/theme_economy/BB_2003.pdf)); O. Black, R. Herbert and I. Richardson, 'Jobs in the public sector: June 2002', *Labour Market Trends*, London, September 2003

([www.statistics.gov.uk/articles/labour\\_market\\_trends/Public\\_Sector\\_Jobs\\_Sep03.pdf](http://www.statistics.gov.uk/articles/labour_market_trends/Public_Sector_Jobs_Sep03.pdf) and [www.statistics.gov.uk/downloads/theme\\_labour/Public\\_sector\\_jobs\\_Tablea.xls](http://www.statistics.gov.uk/downloads/theme_labour/Public_sector_jobs_Tablea.xls)).

***What are the implications of the recent public sector wage bill increases for public service delivery?***

It is too early to judge whether or not the recent increases in the number and in the pay of public sector workers have enhanced the public sector's efficiency. With respect to the number of workers, the increase should have raised the total output of the public sector. But whether or not the productivity of the public sector – i.e. the (quality-adjusted) output *per worker* – has increased depends both on whether or not the new workers have raised or lowered the average level of productivity and on the productivity of those leaving public sector employment. Prior to the recent increases in public sector employment, which began in 1998, the number of public sector workers had fallen every year for 15 years. If, as a result of this decline, public sector workers were so overstretched as to be operating below their potential levels of productivity, it is conceivable that the recent increase in recruitment raised the average

productivity of public sector workers. However, if the public sector's current scale is such that there are diminishing returns to employing more workers, then the new employees will have reduced output per worker.

Increasing the pay of public sector workers might enhance efficiency if paying a higher wage attracts better workers and/or motivates workers to be more productive. Given the fact that the differential between public sector and private sector salaries had widened in every year from 1992 until 1998, it is possible that increases in pay were needed to attract qualified workers, especially in sectors with high vacancy rates, such as nursing. Relatively large increases in public sector pay may even have been needed to preserve current standards of service delivery.

### **Departmental underspending**

Under the present system for planning public spending, government departments do not have to forgo any money that they fail to spend by the end of each financial year. Instead, each department accrues an 'end year flexibility' (EYF) entitlement to any part of its departmental expenditure limit (DEL) that it has not consumed. The Treasury has estimated that the combined cumulative underspend of all departments by the end of 2002–03 was £9.4 billion.<sup>27</sup>

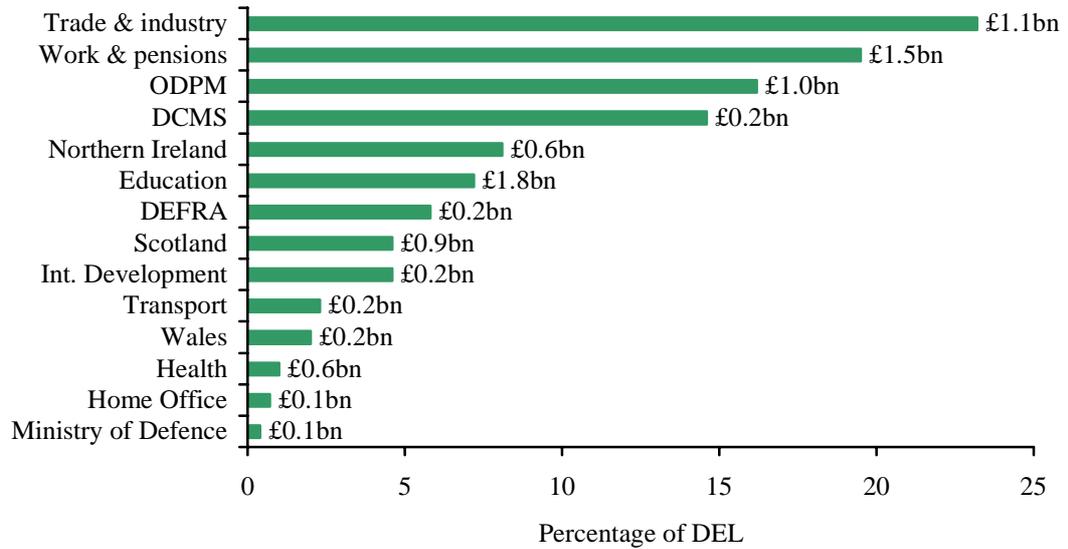
Figure 7.15 shows each department's underspend as a percentage of its DEL for 2003–04, to indicate the scale of the underspending. The graph makes it clear that none of the departments responsible for delivering major public services, such as health, education, transport, defence, law and order, etc., has an underspend of a magnitude that is likely to have a noticeable effect on that department's service delivery. (The fact that the Department for Work and Pensions has a high underspend relative to its DEL does not indicate potential for big increases in spending on its programmes because the department's DEL is only a very small fraction of its overall budget, most of which is annually managed expenditure on items such as benefits and pensions.)

Some other departments have acquired reserves of unspent DEL that are sizeable relative to their budgets. For example, the Department of Trade and Industry now has an EYF entitlement that amounts to just under a quarter of its 2003–04 DEL. Does this mean that the Treasury may be tempted to give this department a smaller DEL in the 2004 Spending Review? If the Department of Trade and Industry is not a priority, then the Treasury could reduce its budget to give more resources to other spending areas. But to do so would give departments an incentive to spend all of their DELs by the end of the year before each spending review for fear of losing future allocations. An aim of the current system for planning public spending was to prevent such a 'use it or lose it' approach, which may have encouraged departments to spend inefficiently.

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<sup>27</sup> HM Treasury, *Public Expenditure 2002–03 Provisional Outturn*, Cm. 5884, July 2003 ([www.hm-treasury.gov.uk/media/D0689/peowp2002-03.pdf](http://www.hm-treasury.gov.uk/media/D0689/peowp2002-03.pdf)).

**Figure 7.15. DEL underspending carried forward under the EYF scheme from 2002–03, as a percentage of 2003–04 DEL**



Notes: ODPM stands for ‘Office of the Deputy Prime Minister’; DEFRA stands for ‘Department for Environment, Food and Rural Affairs’; ‘DCMS’ refers to the Department for Culture, Media and Sport. The ‘Northern Ireland’ category is the sum of the Executive and the Northern Ireland Office. ODPM’s underspending is the sum of underspending on its main programmes and underspending on its local government functions. The number at the end of each department’s bar shows the cash value of that department’s cumulative DEL underspend in March 2003.

Sources: Underspending figures are taken from table 6 of HM Treasury, *Public Expenditure 2002–03 Provisional Outturn*, Cm. 5884, July 2003 ([www.hm-treasury.gov.uk/media/D0689/peowp2002-03.pdf](http://www.hm-treasury.gov.uk/media/D0689/peowp2002-03.pdf)), and planned DELs from table B4 of HM Treasury, *2002 Spending Review*, Cm. 5570, July 2002 ([www.hm-treasury.gov.uk/spending\\_review/spend\\_sr02/spend\\_sr02\\_index.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr02/spend_sr02_index.cfm)). Both the underspending and the planned DEL figures are on a ‘stage 1 RAB basis’, i.e. excluding certain non-cash costs.

Also, recent public sector expenditure data suggest that departments’ spending in 2003–04 has, to date, been in line with the projections in the PBR and slightly above those in the April 2003 Budget.<sup>28</sup> This, together with the fact that departments have requested to use up £2.5 billion of their EYF entitlements from previous years,<sup>29</sup> suggests that the period of underspending is drawing to an end.

### 7.3 Options for Spending Review 2004

The previous sections have placed the recent increases in spending received by some of the main public services in historical context. The increases have also

<sup>28</sup> See IFS’s public finance bulletins ([www.ifs.org.uk/press/pub\\_fin.shtml](http://www.ifs.org.uk/press/pub_fin.shtml)) for more details.

<sup>29</sup> See HM Treasury, *Central Government Supply Estimates 2003–04 Winter Supplementary Estimates*, London, November 2003 ([www.hm-treasury.gov.uk/media/E74A9/winter\\_supp03\\_932.pdf](http://www.hm-treasury.gov.uk/media/E74A9/winter_supp03_932.pdf)).

been looked at alongside several indicators of the improvements seen to date, to give a general indication of the government's success in achieving 'value for money' in the public services. Two of the main issues that will need attention if the government is to succeed in getting such value – namely, the target-setting regime and the public sector wage bill – have been discussed. So what do Sections 7.1 and 7.2 signify for Spending Review 2004 (SR2004)?

Table 7.3 outlines four different scenarios for the path of total managed expenditure during the SR2004 years. The table shows, for each scenario: the average annual real growth in spending from April 2005 to March 2008; the average annual change in public spending as a share of national income (measured in percentage points); the annual taxation or borrowing increase required to finance this change in public spending's share of national income; and, finally, how this annual financing requirement compares to the amount that has already been allocated in the December 2003 Pre-Budget Report.

**Table 7.3. Public spending scenarios for 2005–06 to 2007–08**

	<b>Real freeze</b>	<b>Same share of national income</b>	<b>HMT PBR projections</b>	<b>Continue post-1999 growth rate</b>
Average annual real growth in spending	0.0%	2.5%	3.0%	4.0%
Average annual percentage point increase in share of GDP	-1.0	0.0	0.2	0.6
Required annual increase in borrowing or taxation	-£11.7bn	£0.0bn	£2.5bn	£7.1bn
Annual change relative to HMT plans	-£14.2bn	-£2.5bn	£0.0bn	£4.6bn

Notes: The figures in the 'continue post-1999 growth rate' column assume that TME grows by 4.0% a year in real terms. The annual increases in real spending and in spending's share of national income are averages for the three-year period. The figures for the required annual increase in borrowing or taxation are calculated relative to expected national income in April 2005.

Sources: December 2003 Pre-Budget Report; HM Treasury website.

The first column of figures shows what would happen if public spending were to be frozen in real terms. The second illustrates the results of holding public spending at 41.5% of national income from April 2005 to March 2008, which will be the level reached if the spending numbers in the PBR are fulfilled until 2004–05. The third column shows the effects of the rates of spending growth outlined in the December 2003 PBR. The final column projects the consequences of the government raising public spending by 4.0% a year in real terms from April 2005 to March 2008, which is equal to the planned average annual rate of increase in real public spending over the period from April 1999 to March 2005. This is equivalent to a 1.0 percentage point higher real rate of growth in spending than is implied by the 3.0% in the Treasury's current plans.

By March 2005, TME is expected to be 41.5% of national income. If the government had planned to keep it at this level over the SR2004 years, this would have meant real average growth in public spending of 2.5% a year. Instead, the present spending plans in the PBR imply a modest increase in TME to 42.1% of national income over the same period. Almost all of this

increase is expected to come from the continued growth in public sector net investment, while current spending as a share of national income is expected to remain more or less flat. The increase should raise average real growth in total spending to 3.0% a year. Table 7.3 shows that this is expected to cost an average of £2.5 billion a year more than the 'same share' scenario. With public sector net borrowing projected by the Treasury to drop as a share of national income, this increase in spending is being financed through a projected steady increase in tax revenues as a share of national income.

So if the government chose to keep TME constant as a share of national income, it would save about £2.5 billion a year relative to its current plans. If it were to go even further and freeze spending in real terms over the SR2004 years, TME would fall as a share of national income by an average of 1.0 percentage point a year, from 41.5% in April 2005 to 38.5% in March 2008. This would save £11.7 billion a year relative to the 'same share' scenario, or £14.2 billion relative to the present spending plans in the PBR.

Finally, a decision to increase TME by 4.0% a year in real terms would see public spending rising to 43.3% of national income, or by an average of 0.6 percentage points a year. The rise in public spending's share of national income would cost an extra £7.1 billion a year, or £4.6 billion a year more than the £2.5 billion increase already included in the Treasury's plans.

## **7.4 Conclusions**

If in the 2004 Spending Review the government sticks to the figures pencilled into the December 2003 Pre-Budget Report, and if its forecasts for national income are accurate, then public spending will rise over the SR2004 period by an average of 3.0% a year in real terms. This is less generous than the 4.7% real annual increases under the previous spending review but still implies a modest rise in total public spending as a share of national income.

If the government maintains the balance between current and investment spending implied by the PBR, it still has to determine the balance between the public sector wage bill and other items within current spending. It was noted in Section 7.2 that even if public sector wages and public sector employment continued to rise at recent rates, the government could still afford to increase public spending on other current items by an annual average of 3.0% between now and March 2008. Between April 2003 and March 2006 (the Spending Review 2002 period), high wage bill growth is compatible with average annual real increases in other current spending of 3.9%, but between April 2006 and March 2008 (the last two years of the SR2004 period), it is only compatible with increases of 1.5%. In other words, if the government sticks to the plans pencilled into the PBR and if real growth in the public sector wage bill continues at its recent pace, the government can still afford relatively generous increases in spending on other current items for the next two years. But thereafter, the amount available for spending on such items will begin to fall as a share of national income.

Overall, if the PBR increases are anything to go by, the 2004 Spending Review should see public spending continuing to grow as a share of national

income, but much more slowly than in the period seen since April 1999. The increase will take the form of higher investment rather than current expenditure on service delivery. The key challenge for departments is to build on the modest improvements that have been made to date in the delivery of public services in a more constrained fiscal environment. The government could opt to raise taxes again to finance further increases in public spending. Whether or not the public would support such increases would presumably depend in part on whether or not performance to date has persuaded them that they would get good value for their money.

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