

## **BRIEFING NOTE ON THE PUBLIC SECTOR MANAGEMENT ASPECTS OF THE PRE BUDGET REPORT 2004**

*The extracts below are from the Chancellor's speech on 2 December, from the Press Notice introducing the Pre Budget Report "Opportunity for all: The strength to take the long-term decisions for Britain", and from the Report itself. The full texts of all of these documents can be accessed on the Treasury website, at*

[http://www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr04/prebud\\_pbr04\\_index.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/prebud_pbr04_index.cfm)

*The extracts here are those that specifically deal with matters relating to management of the public sector, rather than material dealing with specific programmes. Additionally, much of the material in the Report relates back to previous announcements, including the 2004 Spending Review – this briefing excludes these except where they are important to the understanding of the new material and comment.*

*CIPFA's comments are shown in italics, to distinguish them from the official texts.*

### **CHANCELLOR'S SPEECH (Extracts)**

*The Chancellor began his speech with a review of progress so far in response to the recommendations of the Gershon and Lyons Reviews – their findings were accepted in full at the time of the Spending Review 2004 announcement in July.*

"The Pre Budget Report sets out detailed savings achieved of £2 billions in procurement; an additional one third of a billion saved in NHS drugs procurement; and, on target, the reduction of the first 9,000 civil service posts ---- as we implement the Gershon principles: a £21 billion efficiency saving while at the same time accepting his recommendation that to go beyond this figure would put the delivery of front line services at risk.

I can also announce the relocations of 1,230 Ministry of Defence posts from the South East to North Yorkshire; 2,300 DWP posts to Liverpool, Wrexham, Newcastle and elsewhere; 600 from the Office of National Statistics to South Wales; 220 from Revenue and Customs to Cardiff, Liverpool, Bournemouth, Truro and Manchester – further steps on the way to a total by 2010 of 20,000 civil service jobs relocated to the regions."

*16 Departments were identified in the Government's response to Lyons, as potentially contributing to the 20,000 target.*

"Sir Michael Lyons is also setting out today departmental guidelines for the disposal by 2010 of £30 billions of public assets

Lower debt has meant that debt interest payments each year are £4 billion less than in 1997".

*The next section of the speech deals with forward spending plans over a 5 year period.*

"Having previously set both the fiscal numbers and the detailed spending plans for the years 2005 to 2008, the public finance projections I have set out today are based on our cautious view of trend growth in the years to 2010 and on public spending rising from £579 billions in 2007-8 to £606 billions in 2008-9 and then to £634 billions in 2009-10".

*This is a further extension of the projections given in SR04. TME (Total Managed Expenditure) is stated to grow on average by 2.8% pa in real terms from 04/05 to 07/08 – the unadjusted growth in the quoted figures of £488bn to £580bn (per SR04 compared to £579bn in the new Report) is approximately 6%. The additional 2 years grow (unadjusted) at a rate of 4.7% pa., which appears to be a reduction in the public spending growth rate. The report provides no allocation of spending between DEL (Departmental Expenditure Limits - in essence, discretionary spend) and AME (Annually Managed Expenditure - demand led spend). SR04 projected a high increase in DEL of 4.2%, benefitting from AME savings – these appear to continue as a major factor as a result of the debt statistics below, but the spending implications for DEL are not quantified in the same way.*

## **GOVERNMENT BORROWING AND FISCAL TARGETS**

“When in the Budget I estimated borrowing at £37.5 billions some external commentators suggested this was an underestimate. At the same point in the economic cycle ten years ago the equivalent figure was £90 billions. But I can report that our final outturn for the year to April is not £37.5 billions but £35 billions.

And even after taking into account additional expenditure on defence and security, and other decisions I will announce today including on fuel duties and on the council tax, the cash figures for net borrowing for this year will fall to £34 billions and in future years fall further to £33 billions, falling again to £29 billions, then falling to £28 billions, £24 billions and £22 billions.

The deficit in 2004 is 3.9 per cent of GDP in Germany, 3.7 per cent in France, 4.4 in America and 6.5 in Japan.

In Britain the figure is 2.9 per cent and in future years falling to 2.7, 2.2, two, 1.6 and 1.5 per cent.

Our first fiscal rule is to balance the current budget over the economic cycle. For the years to 2009-10 the current balance is minus 13 billion, minus 7 billion, plus 1 billion, plus four billion, plus nine billion and plus twelve billion...so we are meeting our first fiscal rule in this economic cycle -- and in the next economic cycle too.

Our second rule is our sustainable investment rule - that we should borrow for investment while keeping debt at a low and sustainable level.

Because of the world downturn, debt has now risen to 45 per cent of national income in France, 48 per cent in America, 55 per cent in Germany, 85 per cent in Japan and in Italy it is nearly 100 per cent of national income. But in Britain this year debt is 34.3 per cent of our national income and in future years will be 35.4, 36.2, 36.8, 37.0 and 37.1 per cent – meeting our rule that debt should be kept below 40 per cent of national income.”

## **COUNCIL TAX**

“In order that English council tax rises will be substantially below last year’s 5.9 per cent rise, I am able to release an extra £125 million resources for England, alongside £512 million reallocated to councils from departments and a further one third of a billion from the reduction in ring fencing and other obligations --- in total £1 billion to reduce pressures on the council tax. The Minister for Local Government will later this afternoon give details, including on the position of pensioners”.

## **EXTRACTS FROM THE PRESS RELEASE**

### **DELIVERING HIGH QUALITY PUBLIC SERVICES**

“The Government's long-term goal is to deliver world class public services through investment and reform, while ensuring efficiency and value for money. The Pre-Budget Report announcements include:

- š a further £520 million assigned to the special reserve for 2004-05 for military operations in Iraq and the UK's other international obligations, and additional resources for counter-terrorism and resilience;
- š taking action to reduce pressures on council tax in 2005-06 by £1 billion by releasing an extra £125 million of resources for England alongside a reduction in ring fencing and other obligations and £512 million from Departmental reallocations.
- š progress against the programme of public sector relocation, and the publication of Sir Michael Lyons' report on asset management in the public sector; and
- š the next steps in the Government's continued public sector reform programme, focusing on devolving decision-making closer to the front-line and providing greater personalisation of services.”

## **EXTRACTS FROM THE FULL REPORT**

*The overview of the report refers back to the Gershon efficiency recommendations, in particular the incentives for departments to plan for the long term, the increase in public spending of 2.5 per cent in real terms over 2006-07 and 2007-08, and the delivery of over £20 billion of efficiency gains a year by 2007-08, to be recycled to front-line public services.*

### **HOUSING**

The 2004 Spending Review provided additional funding to begin to address the need for additional investment in housing and related infrastructure. In addition to providing significant additional resources for housing, the Government is committed to bringing forward a series of major reforms to ensure the effective implementation of the Barker Review. The Government will review progress in delivering this package of reforms by the end of 2005, including merging Regional Planning Bodies and Regional Housing Boards to create integrated bodies responsible for managing regional housing markets, supported by a new and independent national advice unit. Following consultation, the Government will announce its conclusions early in the new year, with the new arrangements in place by autumn 2005.

### **VOLUNTARY SECTOR**

The voluntary and community sector (VCS) plays a central role in creating a fair and enterprising society with a culture of volunteering and giving. The Government is committed to further action to support the work of the VCS in:

- developing stronger local communities;
- taking a greater role in public service delivery, described in Chapter 6;
- engaging people in volunteering and mentoring; and
- engaging the corporate sector in meeting community needs.

The Government will launch the 2005 Year of the Volunteer at a 'Local Heroes Ceremony' in January.

The full findings of the VCS review will be published in the new year through three publications: Working Together, Better Together, a summary pamphlet recording the findings of the review; Exploring the role of the third sector in public service delivery and reform, a discussion document on the development of this field; and Effective Local Partnerships, a leaflet setting out a practical checklist for local practitioners entering into partnership arrangements with the voluntary and community sector. The Government will host a third sector summit early next year with a series of seminars to discuss how the role of the VCS in public service delivery can be taken forward.

The Local Community Sector Taskforce, set up as part of the 2004 Spending Review, will take forward the development of regional Compacts between the VCS and RDAs in public service delivery and community participation, and will assist the VCS in managing the effects of the wind down of the Single Regeneration Budget. The Taskforce will report to the Deputy Prime Minister and the Chancellor and is made up of representatives from Government departments, the RDAs and the VCS.

### **PUBLIC INVESTMENT**

The 2004 Spending Review plans provided for public sector net investment (PSNI) to rise from 2 per cent of GDP to 2 1/4 per cent by 2007-08, to continue to address historic under-investment in the UK's infrastructure while meeting the sustainable investment rule. To date, the Government has delivered significant increases in capital investment in public services with net investment increasing to an estimated £21.7 billion in 2004-05. Although estimated investment this year, mainly in local authorities and public corporations, is below the Budget 2004 forecasts, **resources will be carried forward to future years to ensure delivery of**

**the Government's aggregate investment plans.** Total investment in public services, which includes gross capital spending by the public sector, including that financed by asset sales, and estimated investment scored to the private sector undertaken through Public Private Partnerships (PPPs), is set to rise to almost £60 billion by 2007-08.

*Sir Michael Lyons' report, Toward Better Management of Public Sector Assets, was published alongside the Pre-Budget Report. His recommendations are to be taken forward and reflected in Departmental Investment Strategies.*

## **COUNCIL TAX**

The Government accepts that many of the problems in the current local government finance system in general, and council tax in particular, can only be solved in the longer term. The Government has taken action to reduce pressures on council tax by £1 billion in 2005-06. This will be achieved both through an increase in resources provided by central government and by changes to increase flexibility, reduce ring fencing and reduce obligations for local government. Direct grant will be increased by more than £600 million above the grant set for 2005-06 in the 2002 Spending Review settlement. To fund this, Departments have reallocated £512 million of existing funding from central programmes to local authorities. An additional £125 million in new funding for England has also been allocated to local government. Alongside this additional money, the Government will be implementing measures to reduce local authorities' need to raise council tax by one third of one billion pounds, for example reducing by £75 million the amount that local authorities will be obliged to pass on to schools and setting upper limits for some recycling targets.

This increased funding and flexibility means that local authorities will be able to deliver better public services alongside council tax rises significantly lower than last year's 5.9 per cent. The Government will be prepared to take even tougher capping action in 2005-06 than last year to ensure that rises in council tax are acceptable for all people, including pensioners and others on low or fixed incomes, in all areas.

*The Opposition parties have criticised this arrangement as being a solution for one year only, with no provision for longer term assistance to local authorities.*

## **DELIVERING RESOURCES TO THE FRONT LINE - PROGRESS**

*The Report draws attention to the plans that are being developed for the whole Spending Review period up to 2008 and the publication of departmental Efficiency Technical Notes, explaining how efficiency gains will be measured. It also notes that about 4,000 posts will have moved out of London and the South East by the end of 2004-05, and that plans are on track that will result in over 10,000 posts – more than half the announced total target for 2010 – relocating by the end of 2007-08.*

*Other efficiencies achieved so far are identified in the Report as follows:*

- €# the Office of Government Commerce (OGC) has reported £2 billion of value for money gains in central civil government procurement for 2003-04. Around £500 million has been saved through collaboration between departments and as a result of direct negotiation between departments and suppliers. Nearly £600 million of procurement savings have been made between the Home Office, Department for Work and Pensions (DWP) and the Inland Revenue. OGC buying solutions, the Ministry of Defence and the NHS Purchasing and Supplies Agency have agreed to co-ordinate their purchase of energy which will yield estimated annual savings of between £5 million and £10 million.
- €# a recent Defra IT-outsourcing contract used benchmarks to secure efficiency savings of at least £25 million per year by 2007-08.
- €# the successful introduction of bar-coded transactions at the Post Office means some 40 million licensing transactions are processed electronically each year. This has

significantly improved the accuracy of vehicle records and reduced DVLA processing costs.

- €# The Department of Health (DoH) has negotiated a price cut with the drugs industry of 7 per cent, providing savings of £370 million per year on branded medicines in England. This will be channelled back into front-line NHS services by local Primary Care Trusts. Further savings on generic medicines will increase total savings for the NHS of £1bn per year from 2005-06 available for allocation to front-line health services. DoH has also announced savings in its arms-length bodies: savings of £140 million in 2005-06, rising to £500 million by 2007-08; staffing reduced by around 5,000 and another 750 posts released for front-line service delivery by 2007-08.
- €# The Department for Work and Pensions has relocated 2,050 posts and has reduced workforce numbers by over 6,000 – well on course to deliver the ambitious targets set in the 2004 Spending Review.
- €# The Ministry of Defence has consolidated army junior entry training in North Yorkshire, resulting in 1,230 posts relocating out of the South East, and has reduced HQ numbers by around 300 staff. It is also on track to deliver over £400 million in savings through improved Defence Logistics available for allocation to front-line defence services.
- €# The Department for Transport (DfT) will deliver efficiency gains of around £140 million in 2004-05 as a result of the Highways Agency improving its procurement regime and the DVLA implementing electronic service delivery. On top of its existing efficiency programme, and as part of implementing the reform agenda set out in the recent Rail White Paper, the DfT is legislating to streamline the public sector organisations involved in the delivery of rail services – including abolishing the Strategic Rail Authority (SRA). Further detailed design work remains to be carried out, but these reforms will reduce by about half, from around 600, the current public sector posts covering rail in the DfT, the SRA and their associated bodies.
- €# The Inland Revenue and HM Customs and Excise are on track to meet their workforce targets, with reductions of 836 staff and relocation of 274 posts during 2004-05.
- €# The Department for Education and Skills has reduced its workforce by 450; the Department of Health is on track to reduce its HQ staffing by over 700 by the end of 2004-05; and the Department for Environment Food and Rural Affairs has already delivered a reduction of 120 staff this year. The Office for Standards in Education (Ofsted) has announced plans for a workforce reduction of 500, with the relocation of 324 posts to Manchester, Nottingham and Bristol, by 2007-08.
- €# The Police Service is on track to deliver total efficiency improvements of £190 million in 2004-05 through improved procurement and more effective use of officers' time.
- €# The Department of Trade and Industry has moved 85 posts out of London, and the Department for International Development has moved 45 posts with a further 40 to follow during 2005.
- €# National Savings and Investments will continue to build on the efficiency gains achieved so far through their partnership with Siemens Business Service, as announced by Siemens on 13 August 2004.
- €# Local Government is expected to release £30 million of resources this year through e-enabling service delivery and securing unit cost savings in e-payment mechanisms and e-procurement. This builds on £20 million of cashable savings achieved last year.

*The Report goes on to refer to a number of related initiatives:*

- ⌘ The Gershon review of efficiency
- ⌘ The Lyons study of the management of public sector assets, including disposals,
- ⌘ A range of procurement initiatives, led by OGC - the Government has decided that OGC's remit should be extended into the wider public sector from April 2005. Engagement plans with each sector will be agreed with stakeholders by 1 April 2005, with OGC geared up to deliver its contribution at the same time.
- ⌘ The Mary Keegan reviews of the effectiveness of financial management within government.
- ⌘ The Atkinson review of the future development of measures of government output, productivity and associated price indices.
- ⌘ The Secretary of State for Work and Pensions review of the causes of long-term sickness absence across the public sector, and the Cabinet Office to examination of options for tackling short-term absence.
- ⌘ In the civil service, departments are being asked to analyse the case for more local pay variation. In the wider public sector, all of the Pay Review Bodies (PRBs) have been given a clear locus to investigate the role that local pay could play in addressing specific recruitment and retention issues. They will make recommendations to Ministers in the New Year.