

# 2002 Spending Review

December 2002

## Departmental Investment Strategies: A Summary





HM TREASURY

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December 2002

Presented to Parliament by  
the Chief Secretary to the Treasury  
by Command of Her Majesty

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# FOREWORD BY THE CHIEF SECRETARY TO THE TREASURY

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When the Government was elected in 1997, investment in our public services was at its lowest level for over a decade, and had been on a declining trend since the mid 1970's. The results were plain to see – backlogs of maintenance in our hospitals, schools and transport systems, leading to declining standards of service and poor results.

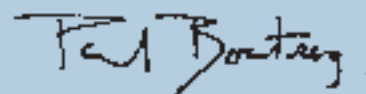
Since 1997, the Government has pursued its commitment to reverse the years of neglect in maintaining our country's infrastructure. Public sector net investment is projected to be almost three times higher this year than in 1997. Total investment, including the proceeds from asset sales and investment through the Private Finance Initiative, is £13 billion higher this year.

These extra resources have been matched by reform to make sure that we get the most from the new funding. We have reformed the budgeting framework to protect capital investment programmes and to give departments certainty to plan for the long-term. We have reformed the way in which our asset base is managed, through the introduction of resource budgeting and the publication of the National Asset Register – an international landmark in transparency and accountability. And we have reformed the way in which investment is planned, through the introduction of Departmental Investment Strategies, which link investment programmes to policy outcomes.

We are already seeing results. Since 1997, 20,000 schools have benefited from building improvements. An £8.5 billion hospital building programme is now underway – the biggest in NHS history; over 50 major hospital schemes will be operational by 2008. 460,000 homes have been brought up to decent standards. But there is much still to do.

That is why the 2002 Spending Review will enable this ambitious programme to continue, by raising public investment by £12 billion over the next three years. This includes £3 billion for our schools, £2.5 billion for the NHS, £2 billion for transport and £1 billion for new investment in our housing stock.

Departmental Investment Strategies set out how these new resources will be used and the improvements that we can expect to see. They build on the strategies published after the 2000 Spending Review to demonstrate our continuing determination to improve the quality of Britain's infrastructure.





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# INTRODUCTION

**1.1** The Government set out its spending plans for the next three years in the 2002 Spending Review White Paper<sup>1</sup> in July. The Public Service Agreements White Paper<sup>2</sup>, which was published at the same time, set out the outcomes and targets to be achieved with the additional resources. Within those spending plans, Departmental Investment Strategies (DISs) set out how the Government will achieve the step change in investment needed to underpin the improvement in public services.

**1.2** In 1997, public sector net investment stood at just £4.9 billion, 0.6 per cent of GDP, the lowest level for over a decade. Investment in public services had been on a declining trend since the mid-1970's, representing over twenty years of falling standards in the quality of schools, hospitals and other public service assets. This was matched by a budgeting system which encouraged short-termism, rather than long-term planning, and a bias towards spending on current pressures rather than capital investment.

**1.3** By 2006, the Government intends to increase net investment in public services to almost £25 billion. Total investment, which includes depreciation, reinvesting proceeds from asset sales and investment from the private sector through Public Private Partnerships and the Private Finance Initiative, is set to increase to over £46 billion. This is the largest sustained rise in public sector investment for over twenty years.

**1.4** These extra resources have been matched by reform of the budgeting framework to protect capital investment programmes and to give new incentives for managing the public sector asset base more effectively. Further information about the Government's overall strategy is set out in chapter 2.

**1.5** DISs ensure that departments have a coherent plan for using their investment budgets to achieve real reform in the way in which public services are delivered. These plans were produced in draft and considered as part of the Spending Review process. They have been updated to take account of spending decisions and are now ready for publication.

**1.6** Departmental Investment Strategies are divided into four sections:

- a summary of the department's **strategy**, explaining how their investment plans fit with their Public Service Agreement targets;
- a description of the department's **asset base**, how it supports their objectives and how they intend to get the most from it;
- **new investment plans** over the next three years; and
- the **process and systems** which the department will use to ensure that its programme is delivered and that it achieves best value for money.

Chapters 3-6 of this paper look at each of these components. They use examples from department's own strategies to show how they contribute to the overall aims.

**1.7** Each department is publishing its own strategy and these are available via the Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

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<sup>1</sup>"2002 Spending Review: New Public Spending Plans 2003-2006" (CM 5570).

<sup>2</sup>"2002 Spending Review: Public Service Agreements 2003-2006" (CM 5571).



## OPPORTUNITY AND SECURITY FOR ALL

2.1 The Government's four key themes for the 2002 Spending Review are:

- raising productivity;
- extending opportunity;
- strong and secure communities; and
- Britain in the world.

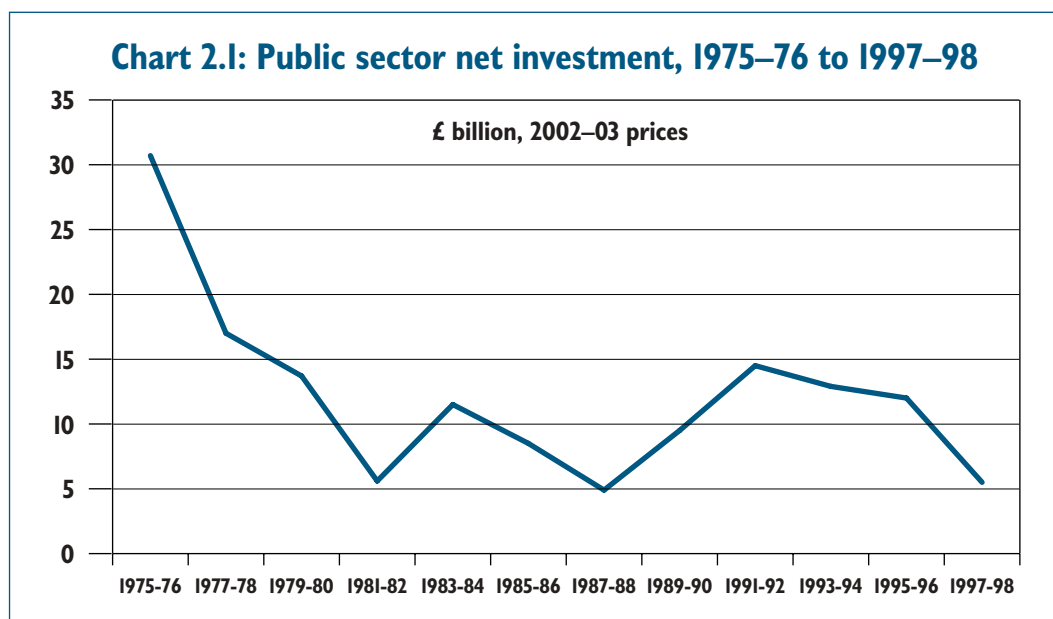
Capital investment in the infrastructure needed to deliver public services plays an important role in all these areas. Box 1 explains how investment strategy links to each of these themes.

### Box 1: Investing in the key areas

- The Government is committed to raising the long-term rate of **productivity growth** in the UK, narrowing the productivity gap. Narrowing this gap is key to delivering higher living standards, better public services and greater opportunity for all. The Government's plans for investing in the country's capital stock, such as in housing and transport, are central to supporting productivity growth and helping to create an environment in which businesses, entrepreneurs and individuals can flourish.
- A central objective of the 2002 Spending Review is to build a fairer, more inclusive society that increases **opportunity for all**. This includes maximising the educational opportunities afforded to all by schools and colleges, pathways to skilled work and widening access to higher education. Investment in educational infrastructure, from childcare through schools and on to further and higher education, provides a better learning environment and improved results. Investment in education will increase seven-fold from £1 billion in 1996-97 to over £7 billion by 2005-06.
- The Government aims to provide **cohesive communities** with strong local services, where crime is tackled effectively. This includes both reforming the way in which the criminal justice system operates and wider social and environmental programmes, to tackle child poverty and deprivation. The additional £1 billion investment in our housing stock will contribute to the target of bringing all social housing into a decent condition by 2010.
- Only by being strong in the world, and by working closely with its international allies, can the UK combat terrorism, tackle poverty and create a **safer and fairer world for all**. The 2002 Spending Review delivered the largest planned increase in defence spending in twenty years, with more than £1 billion extra in capital investment for new capabilities to enable the UK to continue its leading role in the campaign against international terrorism.

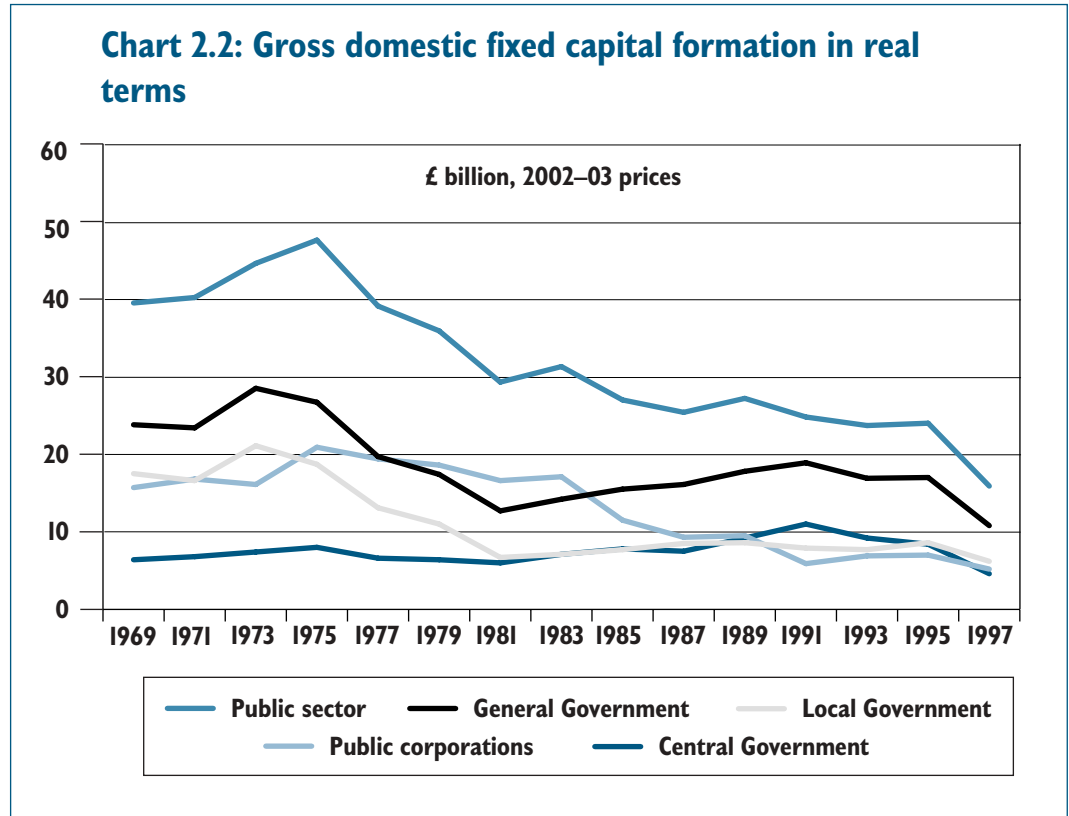
## HISTORIC TRENDS IN INVESTMENT

**2.2** In 1997–98 public sector net investment was at a historically low level. Chart 2.1 shows the fall in public sector net investment from 1975 onwards. This represented a reduction from 5 per cent of GDP in 1975 to just 0.6 per cent of GDP in 1997. Between 1991–92 and 1996–97, public sector net investment fell by an average of more than 15 per cent in real terms each year. (Definitions of investment, including public sector net investment, are explained at paragraph 2.9).



**2.3** The fall in public sector investment was partly explained by the decisions of successive Governments to move away from certain activities previously delivered by the public sector. This included the formerly nationalised industries and most local authority provision of housing.

**2.4** However, the fall in public sector investment was not fully explained by these changes. Chart 2.2 sets out gross fixed capital formation, the acquisition less disposal of fixed assets, by government sector. These figures show the decline in public corporation and local government capital spend we might expect from the change in the size of the public sector over the 1970's and 1980's. However, it also shows the marked decline in general government spend – central plus local government – since the start of 1990's, a decline of £8 billion in real terms between 1990 and 1997.



**2.5** This under-investment led to a marked deterioration in the quality of the assets used to deliver public services. Specifically, by 1997, there were maintenance backlogs estimated at:

- in excess of £7 billion in schools;
- over £3 billion for NHS buildings;
- up to £6.75 billion on local authority roads; and
- £10 billion on council housing.

**2.6** The under-investment in public services was a result not just of a lack of resources, but also because the budgeting system had an in-built bias against capital investment. This was because:

- there was no separation between current and capital budgets, so that capital investment tended to be sacrificed in favour of current spending;
- budgeting was done annually, which mitigated against capital investment programmes which frequently take more than a year to deliver, and encouraged wasteful end-year spending;
- the system focused on resource inputs, rather than public service outcomes; and
- there was no coherent investment strategy to deliver the assets needed to support public services.

## THE GOVERNMENT'S OBJECTIVES

**2.7** Since 1997, the Government has developed a new strategy for public investment that addresses these historic problems. The strategy has five key objectives:

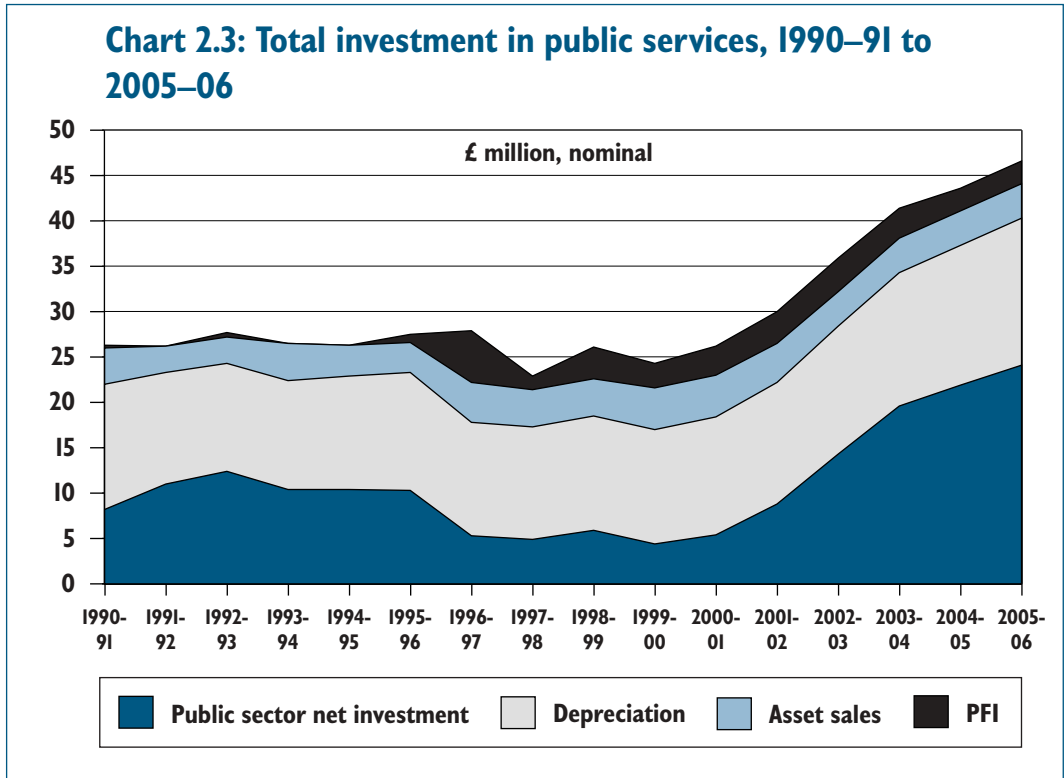
- **improving the nation's infrastructure** – improving the facilities that allow productivity and competitiveness in our economy;
- **modernising public services** – financing the asset base necessary to underpin improvements in public service delivery;
- **focusing on the long-term** – extending planning horizons from the historic levels of one year, to fixed three-year spending plans, and longer-term plans for key programmes such as transport and health;
- **tying resources to results** – ensuring that the allocation of resources is linked to defined outcome-related targets; and
- **making the most of our assets** – ensuring that all of the UK's public assets are used as productively as possible, and that only those assets which are necessary to deliver public services are retained, releasing resources for investment in priority areas.

**2.8** Underpinning all five of these objectives is the need to ensure sustainable public finances. The Government controls capital spending to meet one of its two key fiscal rules, the sustainable investment rule:

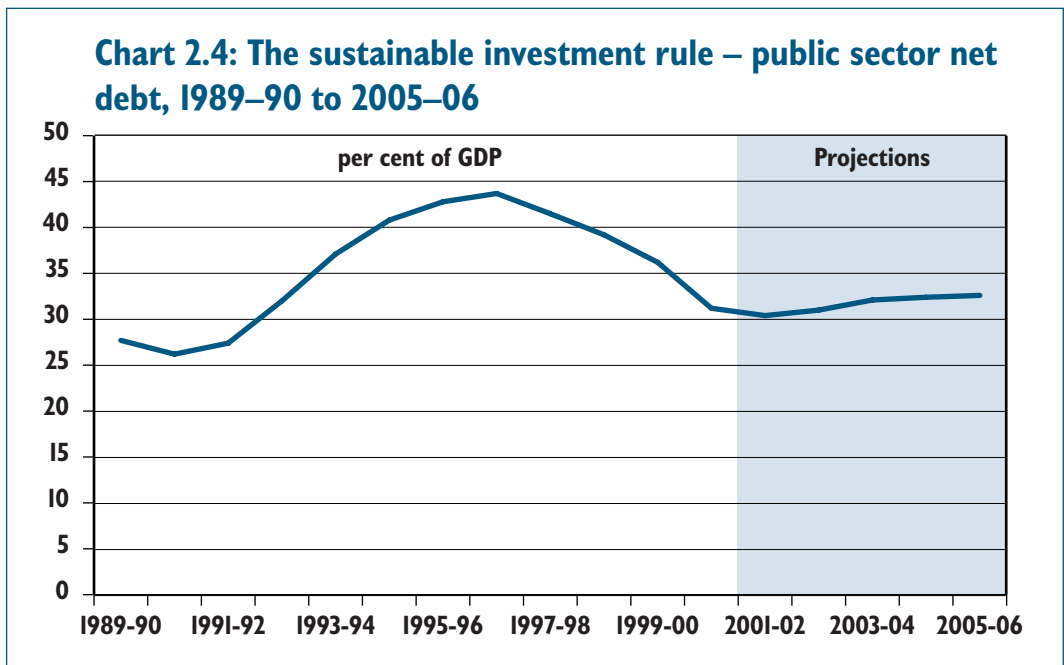
- **the sustainable investment rule:** public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

### Achieving a step change

**2.9** Chart 2.3 shows the step change in total investment in public services that the Government is planning to achieve by 2006. Total investment is planned to be over £13 billion higher in real terms by 2006 than in 1997. Total investment includes all new public funding committed each year. However, within the existing asset stock, capital will be consumed over time through use and ageing. Depreciation is the measure of the consumption of fixed capital each year. Net investment adjusts new investment committed to allow for depreciation; the chart therefore splits new investment into net investment and depreciation. The chart also includes the proceeds from asset sales, which are recycled to allow for further investment in future years and estimated private sector investment in public services through PFI. As the chart shows, the vast majority of total investment comes from the public sector, with private sector investment making up only between 10 and 15 per cent in each year.



**2.10** As Chart 2.4 demonstrates, this level of spending is fully consistent with meeting the sustainable investment rule. This rule has been met in every year since 1998, and is projected to continue being met in each year covered by the 2002 Spending Review.

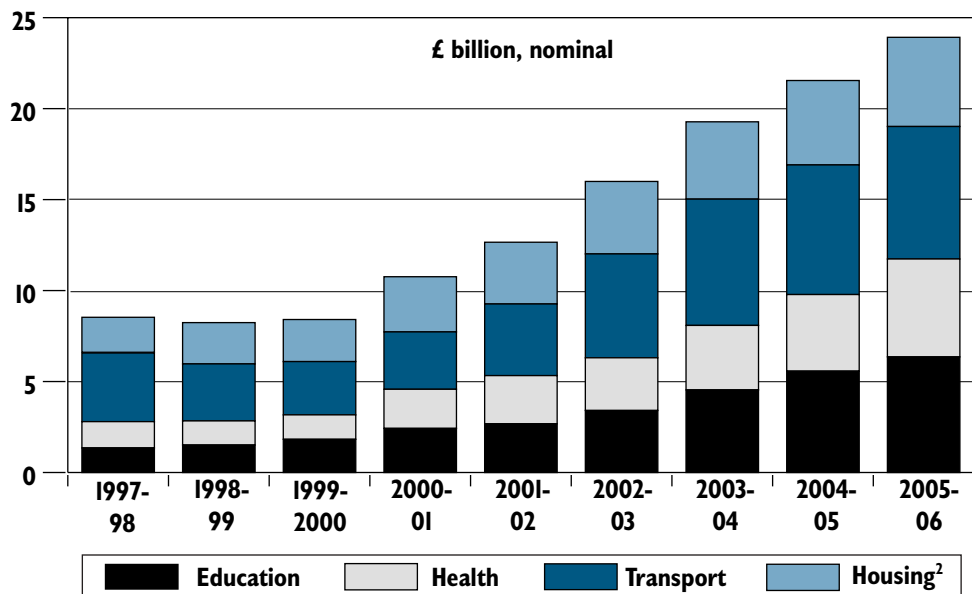


**Releasing resources for priorities**

**2.11** Within the increased level of resources devoted to investment, the Government has focused on four priority areas: education, transport, health and housing. Chart 2.5 shows how public investment in each of these areas will increase from 1997 through to 2006.

- Capital spending on **education** in England will increase from just over £1 billion in 1997 to over £5.8 billion by 2006, £7 billion when investment through PFI is included – a sevenfold increase. Total spending on UK education will increase to 5.6 per cent of GDP by 2006;
- Capital spending on **health** in the UK is set to grow by an average of over 15 per cent each year in real terms between 1997 and 2006. Total UK spending on health will reach 8.7 per cent of GDP by 2006;
- Investment in **transport** in the UK will grow from £3.8 billion in 1997 to over £7.2 billion by 2006;
- Investment in **housing** in England will increase from £2.1 billion in 1997 to £4.9 billion. Over the next three years, capital investment is set to grow by an average of over 11 per cent each year in real terms – £1 billion of extra investment.

**Chart 2.5: Investment in priority areas, 1996-97 to 2005-06<sup>1</sup>**



<sup>1</sup> These numbers are subject to allocation decisions by local authorities and the devolved administrations

<sup>2</sup> Includes Major Repairs Allowance in AME

**Matching resources with reform** 2.12 This step change in resources for investment has to be matched by reform. Since 1997, the Government has introduced a series of reforms to the budgetary framework to end the bias against capital spending from the old system, and to ensure that new investment achieves its objectives. These include:

- the setting of separate resource and capital Departmental Expenditure Limits, to ensure that long-term investment is not sacrificed to short-term pressures;
- longer-term budgets for health of five years, and transport with a ten-year plan, to allow for longer-term planning and stable growth in these areas;
- Public Service Agreements (PSAs) which set out what increased investment will buy in terms of public service improvements;
- the establishment of Departmental Investment Strategies to ensure that departments have a coherent strategy against which to manage their investment programmes;
- full End Year Flexibility (EYF), allowing unspent funds to be carried forward from one year to the next, preventing wasteful end-year surges;
- central funds, such as the Capital Modernisation Fund (see box 2), to promote innovation in public service delivery;
- creating a National Asset Register<sup>3</sup> listing all assets held by central government departments, an initiative unique to the UK, to promote better management of existing assets and to help departments to judge whether individual assets are still required;
- the introduction of full resource accounting and budgeting, enabling departments to recognise, for the first time, the full economic costs of holding assets and giving them greater incentives to manage assets and liabilities more effectively; and
- a review of the capital appraisal and evaluation methodology, resulting in revised guidance that takes greater account of the long-term.

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<sup>3</sup>"The National Asset Register", (CM 5221).

**Spending Review 2002** **2.13** Spending Review 2002 will sustain and build on the increases announced in the Comprehensive Spending Review in 1998 and the Spending Review in 2000. Budget 2002 set a firm overall 'envelope' for total public spending in the three year period of the 2002 Spending Review, allowing public sector net investment to rise from its 1.8 per cent target of GDP in 2003-04 to 2 per cent of GDP by 2005-06, rising to 2¼ per cent of GDP by 2007-08. Table 2.1 shows how this translates into spending plans for the next three years.

**Table 2.1: Capital spending plans, 2002–03 to 2005–06**

Capital budget (£billion, nominal)	2002-03	2003-04	2004-05	2005-06
Public sector net investment	14.3	19.6	21.9	24.1
Depreciation	14.1	14.7	15.4	16.2
Asset sales	3.8	3.8	3.8	3.8
Public sector investment	32.2	38.1	41.1	44.1
Capital spending by the private sector	3.7	3.3	2.5	2.5
<b>Total investment</b>	<b>35.9</b>	<b>41.4</b>	<b>43.6</b>	<b>46.6</b>

### **Box 2: Capital Modernisation Fund**

The Capital Modernisation Fund (CMF) was set up as part of the Comprehensive Spending Review with an initial £2.5 billion endowment. The 2000 Spending Review allocated a further £2.5 billion and the 2002 Spending Review has topped up the fund with an additional £1.9 billion. CMF resources are allocated to projects that promote more modern and effective methods of public service delivery. A total of £4.6 billion has now been allocated to over 140 projects, many of which are already delivering real public service improvements. For example:

- as a result of a £360 million allocation to the Primary Care Modernisation Programme, the Department of Health opened 42 NHS "walk-in" centres, providing health advice and minor treatment services without the need for an appointment. Over one million people visited the centres in 2001, reducing pressure on GPs and hospital accident and emergency departments;
- the City Learning Centre (CLC) project in inner-city schools was allocated £100 million in the first round of the CMF. The project is setting up IT centres in major city areas to enhance teaching and learning across the whole curriculum through state of the art educational technology. The CLCs are based in secondary schools but are intended to serve as a resource for other schools in the area, as well as the local community as a whole. 79 CLCs are open, and a further 5 centres will be opened when the second phase is completed in March 2003.

# 3

## DEPARTMENTAL STRATEGIES

**3.1** The individual Departmental Investment Strategies set out how each department plans to use the resources allocated in the 2002 Spending Review over the next three years. This paper provides an overview of those strategies.

**PSA Targets 3.2** The starting-point for any strategy is to consider the department's aims and objectives. The Public Service Agreement for each department, published in July, sets out the outcomes that each department will be aiming to achieve and the targets that underpin them. The DIS explains how investment will contribute to the achievement of these objectives. Box 3 gives an example of departmental PSA targets and the part that investment will play.

### **Box 3: Department for Transport**

The Department for Transport has, amongst others, PSA targets to:

- improve accessibility, punctuality, and reliability of public transport (bus and light rail) with an increase in use of more than 12 per cent from 2000 levels by 2010; and
- cut journey times on London Underground services by increasing capacity and reducing delays.

The Transport Ten Year Plan sets out a step-change in transport spending between 2001-02 and 2010-11, with total investment, including private sector investment, of £121 billion – a 75 per cent increase on the previous decade.

Over the next three years, it is expected that investment in light rail and buses will contribute to meeting the PSA target by completing the Docklands Light Railway extension to London City Airport and the first phase of the new East London Transit scheme. There will also be investment in improved bus services, with a target to increase service levels by 15 per cent by 2007-08, compared with 2001-02, and the introduction of Smartcard ticketing on bus, underground, DLR and Tramlink services.

For the London Underground, the Public Private Partnership for the Tube will lever in £16 billion of investment over the first fifteen years of the contract. This will pay for track renewals, new trains and carriages and new signalling. By the end of the first period of the contract, this improvements should lead to, for example, a 25 per cent reduction in delays on the Northern Line, 30 per cent on the Bakerloo and over 30 per cent on the Metropolitan and Circle Lines.

**Planning for the long-term 3.3** The introduction of three-year plans, instead of annual budgets, has enabled departments to plan capital investment programmes over a realistic timeframe. For some programmes, a longer timeframe is necessary because of the size and complexity of the investment needed. The Ten Year Plan for Transport has already been explained in Box 3. Similarly, there is a ten-year plan for the NHS which sets out the long-term strategy for reforming the provision of healthcare. This has now been strengthened by the announcement, at Budget 2002, of a five year fixed budget for health, giving health managers certainty to plan for the future. Box 4 sets out how the investment allocated to the health service over the five years will contribute to the achievement of the NHS Plan.

**Box 4: NHS Plan**

The NHS Plan set out a ten year programme of investment and reform aimed at delivering conspicuous improvement to health services. Particular priorities include:

- reductions in waiting times;
- pre-booked care to suit patients;
- improvements in clinical outcomes, in particular in cancer and coronary heart disease; and
- improved access to services, especially primary care.

The Review carried out by Derek Wanless in 2001 concluded that, in order to achieve a high quality health service, there would need to be a step change in provision of public funding to the NHS, with real terms growth of between 7.1 and 7.3 per cent a year between 2003-04 and 2007-08. The Government accepted the conclusions of the review and announced at Budget 2002 a five year budget for health, which delivers a 7.3 per cent real terms growth in UK NHS spending in every year up to 2007-08. Capital expenditure on the UK NHS is projected to grow from £2.8 billion in 2002-03 to £7.4 billion in 2007-08, excluding private sector investment through PFI.

This surge in investment will help to deliver the priorities outlined in the NHS Plan by:

- a massive increase in hospital capacity, equivalent to around 6,750 beds;
- significant investment in information technology to deliver appointments booking systems, starting with the introduction of electronic records for all hospitals and Primary Care Trusts by 2006;
- meeting the targets for new equipment in the NHS Plan to support more rapid diagnosis of cancer, improving survival rates; and
- establishing new primary care facilities for improved access, including 500 one-stop shops, 1,000 diagnostic centres and 300 primary care based outpatient centres. 3,000 primary care premises will be refurbished or replaced by the end of 2004.

**Progress so far 3.4** The DISs published now cannot be seen in isolation. This is the third set of DISs which have been published since 1998. The new DISs are therefore not just forward-looking, but also look back to explain what the department and its delivery bodies have achieved against the plans set out in the previous DIS. Box 5 provides some examples of progress reported by departments. Since some of the targets set out in Public Service Agreements are to be achieved over a longer time-frame than three years, the contribution made so far is critical to achieving the overall target. The revised strategies build on existing achievements.

**Box 5: Achievements so far**

Examples of achievements against the previous DISs are set out below. More detail is available in individual departmental strategies.

**Education**

- 20,000 schools have benefited from building improvements since 1997. By 2003-04, a typical secondary school will receive direct capital funding of around £75,000 and a typical primary school around £22,000. By 2004, over 650 schools will have benefited from rebuilding or major renewal;
- research has shown the positive link between improved ICT facilities and improved results more generally. The computer to pupil ratio in primary schools is now 1:9.7 and 1:6 in secondary schools. This will be improved to 1:8 and 1:5 respectively by 2004.
- since 1997, 553,000 childcare places have been created, benefiting over 1 million children.

**Health**

- over 1,300 GP premises have been upgraded. 10,000 GP practices and 1,000 hospitals are connected to the NHSnet, which handles 1.5 million messages per day with usage rising by 8 per cent a month.
- an £8.5 billion hospital programme is now underway – the biggest in NHS history. By 2008, of the 68 major hospital schemes so far approved to proceed, over 50 will be operational, with all the remaining schemes under construction. The extra investment will allow an increase in treatment capacity equivalent to over 10,000 beds.

**Transport**

- since 1997, 4,239 new railway vehicles (carriages and coaches) have been ordered, of which 1,427 are already in service. By 2005, 2,800 more vehicles should be in service. Over 2,100 railway stations have been improved and 17 new stations built.

**Housing**

- between 1996 and 2001, the number of decent homes for council and housing association tenants increased by 460,000. Of this, 210,000 was as a result of new homes created and 250,000 homes brought up to the decent homes standard. This puts the department on course to meet its target to reduce by one third (600,000) the number of households living in social housing which does not meet basic delivery standards between 2001 and 2004 – a vital part of its overall target to bring all social housing up to decent standards by 2010.

**Crime**

- as a result of the 2000 Spending Review, the Home Office has allocated further funding of £146 million to its existing CCTV initiative, for 683 new CCTV schemes. 500 schemes are now in place and the remainder will be in operation by March 2003. Early findings from a number of implemented schemes have shown a very positive impact on crime reduction.



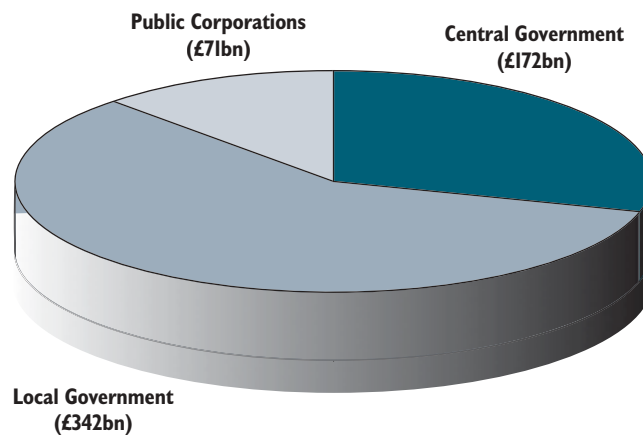
# 4

## GETTING THE MOST FROM OUR ASSETS

### WHY THE ASSET BASE MATTERS

**4.1** The public sector owns about an eighth of the UK's total asset base: £585 billion against the national balance sheet total of £4,500 billion. Chart 4.1 shows how the asset base is divided between sectors. The majority of the asset base is held outside the control of central Government, with local government owning over 60 per cent of the total and public corporations a further 12 per cent. The majority of assets are commercial and industrial buildings and engineering works, with the remainder being made up of residential buildings, machinery, vehicles and other smaller items.

**Chart 4.1: Total public assets by sector, 2000–01**



Source: National Statistics "United Kingdom National Accounts" chapter 10.

**4.2** The asset base matters because:

- the size of the public sector asset base means that it contributes to the productivity of the overall economy, as explained in chapter 2; and
- substantial sums of public capital are tied up in these assets. The Government needs to ensure that this capital is being used to best effect to support the delivery of public services. The public sector must have the right kind of assets, maintain them to the required standards, use them as effectively as possible, and redeploy capital from assets which are no longer needed.

**4.3** One of the aims of the DIS is to set out how each department utilises its assets in the most effective way possible, and to help departments to identify where assets are no longer being used and can be sold. Each DIS sets out the department's assets, their condition and reports on progress on asset utilisation and disposals. The DIS is one of a series of reforms introduced to get the most out of the public sector asset base.

## REFORMING THE MANAGEMENT OF ASSETS

### National Asset Register

**4.4** The DIS is complemented by the National Asset Register (NAR). In 1997, the Government published the first NAR, a comprehensive list of assets owned by every Government department and their sponsored bodies. The NAR was an international landmark in transparency and accountability in Government. For the first time, anywhere in the world, Government and the public had a complete picture of the country's assets.

**4.5** The Government published an updated version of the Register in 2001, which again broke new ground. The Register now includes the value of every asset and each department's entry includes a comprehensive description of all significant changes since 1997. The updated Register therefore demonstrates progress made in the last three years in the Government's management of its assets.

**4.6** Building and updating the information contained in the NAR, each DIS includes information about the department's asset base. The size of asset holding by department is set out in table 4.1. This shows the total fixed assets for central government departments as at March 2001. The next revision of the NAR will be published in 2004.

**Table 4.1: Assets owned by each department, 2000-01<sup>1</sup>**

	£ million
Education and Employment	5,294
Health	20,109
Department of Environment, Transport and the Regions	62,996
<i>of which Highways Agency</i>	60,532
Home Office	5,294
Lord Chancellor's departments <sup>2</sup>	1,554
Law Officer's departments <sup>3</sup>	47
Defence	87,125
<i>of which Land and Buildings</i>	14,377
<i>of which Fighting Equipment</i>	27,496
Foreign and Commonwealth Office	1,250
International Development	2,169
Trade and Industry	3,351
Ministry of Agriculture, Fisheries and Food	473
Culture, Media and Sport	59
Social Security	60
Northern Ireland Office	1,753
Chancellor's Departments <sup>4</sup>	1,554
Cabinet Office	189
<b>Total</b>	<b>193,277</b>

<sup>1</sup> The value of total fixed assets is taken from the published resource accounts for 2000-01 and therefore incorporates Machinery of Government changes as at 31st March 2001. The above table does not include fixed assets relating to Non Departmental Public Bodies.

<sup>2</sup> The Lord Chancellor's Departments are as defined in the National Asset Register with the exclusion of HM Land Registry, which is a trading fund.

<sup>3</sup> The Law Officer's Departments are as defined in the National Asset Register.

<sup>4</sup> The Chancellor of the Exchequer's Departments are as defined in the National Asset Register with the exclusion of bodies that did not prepare resource accounts for 2000-01 (the Royal Mint and the Register of Friendly Societies).

**Resource accounting and budgeting** **4.7** In addition to the incentives created by the DIS and the NAR, departments also now recognise the full cost of holding assets within their budgets. As part of the move to resource budgeting, departments now have to pay capital charges on each of their assets. The charge incorporates depreciation and a cost of capital, currently set at 6 per cent. It is currently scored in Annually Managed Expenditure. The 2002 Spending Review was conducted on a full resource basis, and capital charges will therefore move to Departmental Expenditure Limits from 2003-04 onwards. Table 4.2 shows the capital charges associated with each department's assets.

**Table 4.2: Capital charges, 2002-3 to 2005-6<sup>1</sup>**

	£ million			
	2002-03	Plans 2003-04	2004-05	2005-06
Education and Skills	10	40	50	50
Health	1,660	3,460	2,020	2,260
Transport	270	340	400	440
Office of the Deputy Prime Minister	160	160	160	170
Home Office	540	590	650	670
Lord Chancellor's departments	150	190	220	240
Attorney General's departments	20	20	20	20
Defence	12,740	13,320	13,590	14,180
Foreign and Commonwealth Office	180	210	230	250
International Development	160	180	180	180
Trade and Industry	350	370	380	380
Environment, Food and Rural Affairs	350	360	380	390
Culture, Media and Sport	200	230	240	240
Work and Pensions	110	130	130	140
Scotland	840	840	870	910
Wales	360	370	390	410
Northern Ireland Executive	240	250	250	260
Northern Ireland Office	70	80	90	90
Chancellor's Departments	370	380	400	400
Cabinet Office	310	360	370	370
<b>Total</b>	<b>19,090</b>	<b>21,880</b>	<b>21,020</b>	<b>22,050</b>

<sup>1</sup> Consistent with 2002 Spending Review. Departments are able to adjust their capital charges. Any changes will be reflected in individual DISs. Capital charges will also be adjusted to take account of the results on consultation on the revised Green Book (see chapter 6).

**4.8** The capital charge represents the opportunity cost of tying capital into a particular asset. Now that departments can recognise the full cost of holding assets within their budget, they can make more informed choices about whether they should be making more use of those assets, or disposing of them to free up resources for other priorities. Resource accounts also provide departments with a wealth of other management information, including the age profile of their assets and their likely timescale for replacement.

**Asset utilisation** **4.9** Effective management of the asset base means having a thorough knowledge of its size and condition and comparing that to the infrastructure needed to deliver the department's objectives. It also involves using assets to their maximum potential. The new reforms introduced on asset management are already beginning to show results. The individual strategies set out departmental asset utilisation targets and progress on achieving them. Box 6 gives some examples of how asset management has changed in departments since the last DIS was published.

**Box 6: improved asset utilisation**

- the **Ministry of Defence** is implementing a new estates strategy, which will identify 'core sites'. Resources will then be focused on those sites and space elsewhere can be rationalised. The MoD aims to increase the proportion of personnel on core sites by 10 per cent by 2005.
- the **Lord Chancellor's Department** has achieved its target to reduce courtroom overcapacity by 10 per cent by March 2002, using a common measure of annual courtroom capacity. The target was achieved by allowing courtrooms to be used for other purposes, for example asylum appeals and inquests, and by rationalising by co-locating courts in one building and disposing of surplus space.
- **NHS Trusts** have had to account for capital charges within their budgets for the last ten years. The evidence suggests that the asset base of Trusts has become increasingly well utilised. Although income is increasing, the amount of building space is falling. Over the last ten years, the ratio of Trust and Health Authority income to net book value of the fixed assets they hold has increase from 1.2:1 to 1.6:1, suggesting more productive use of fixed assets.

**Local authorities** 4.10 Although local authority assets are outside the accounting boundary of central government departments, many local authority assets play a key role in delivering priorities. The Office of the Deputy Prime Minister (ODPM) has developed a range of performance indicators to assess the performance of local authorities in managing their assets effectively. Local authorities have also been required to put in place systems to monitor the performance and condition of their assets.

4.11 Asset Management Plans and Capital Strategies provided by local authorities give an overview of the local authority asset base, including a picture of existing asset utilisation. Asset Management Plans are tested against a range of criteria including data and performance monitoring and identifying under-utilised assets. More and better information has become available since the 2000 Spending Review and the proportion of plans submitted rated as good has risen from 18 per cent in 2001-02 to 50 per cent in 2002-03. Local authorities will continue to provide core statistical data to ODPM, including key data on asset numbers, value and condition as well as property performance indicators. This data is essential to informing decisions about local authority investment needs and priorities and will ensure that the focus remains on continuous improvement in local authority asset management.

4.12 Other departments have also made strides in working with local authorities to assess the condition of their assets and targeting resources where they are most needed. Box 7 describes the system operated by the Department for Education and Skills (DfES) and Local Education Authorities (LEAs).

**Box 7: Asset Management Plans**

In 2001-02, DfES implemented a new capital strategy for schools. The objective of the new strategy is to allocate more funding directly to LEAs and schools, rather than operating a centrally-directed bidding process. This leads to greatly reduced bureaucracy, local ownership of investment plans and decisions, and more responsiveness to local priorities, resulting in better value for money.

The key instruments of the capital strategy are Asset Management Plans (AMPs), which require LEAs to conduct a full survey of school buildings for condition, suitability and sufficiency, so that they have a sound understanding of all their needs. They are required to prioritise between schools' needs in a transparent manner, involving schools and other relevant bodies in the decision-making. When an LEA's AMP has been appraised as sufficiently robust, DfES will allocate an increased proportion of the LEA's funding to be spent with a minimum of intervention or supervision.

Appraisal of AMPs confirms their overall improvement, with around 90 per cent of LEAs producing satisfactory AMPs to date, compared with 65 per cent in 2000. The scheme gives LEAs the incentive to manage their asset base more effectively, to link spending to their needs and greater certainty about future funding allocations.

**Asset disposals 4.13** Where assets are no longer required, it is important that they are disposed of to release resources for other priorities. As an incentive, departments can retain receipts from asset sales for further investment, rather than having to hand them back to be reallocated centrally. Table 4.3 shows receipts from asset sales received by central and local government since 1991.

**Table 4.3: Proceeds of sales of fixed assets, 1991-92 to 2001-02**

	£ billion
	Total fixed asset sales
1991-92	2.9
1992-93	2.9
1993-94	4.1
1994-95	3.4
1995-96	3.3
1996-97	4.4
1997-98	4.1
1998-99	4.1
1999-2000	4.6
2000-2001	4.6
2001-2002	4.3

**4.14** The DISs also set out plans for further progress in asset disposals up to 2005-6. Asset disposals over the next three years should result in at least £3.75 billion each year, with particular plans including:

- the **Ministry of Defence** received £810 million of proceeds from asset sales between 1998 and March 2002, overachieving against its target of £700 million. It plans to sell assets worth a further £575 million by 2006; and
- the NHS Plan set a target of £600m for the **Department of Health** for sales from the retained estate. Income of £160 million will be achieved by 31 March 2002 with further estimated sums of £300 million by 31 March 2003 and £201 million by 31 March 2005, giving an estimated total gross income of £661 million.



# 5

## NEW INVESTMENT PLANS

**5.1** The most important part of the DIS is the section in which the department's new investment plans for the next three years are set out. This explains how the budget set for the department in the 2002 Spending Review will be invested to achieve public service outcomes against the department's targets. Table 5.1 shows the capital Departmental Expenditure Limit set for each department.

**Table 5.1: Capital DEL, 2003-04 to 2005-06**

Capital Budget	£ billion, resource budgeting basis		
	2003-04	2004-05	2005-06
Education and Skills	3.3	3.8	4.4
Health	2.9	3.5	4.5
of which: NHS	2.8	3.4	4.4
Transport	3.4	3.7	3.4
Office of the Deputy Prime Minister	2.0	2.2	2.3
Local Government	0.3	0.3	0.3
Home Office	0.8	0.9	1.1
Lord Chancellor's Departments	0.1	0.1	0.1
Attorney General's Departments	0.0	0.0	0.0
Defence	6.0	6.3	6.9
Foreign and Commonwealth Office	0.1	0.1	0.1
International Development	0.0	0.0	0.0
Trade and Industry	0.4	0.2	0.1
Environment, Food and Rural Affairs	0.3	0.3	0.4
Culture, Media and Sport	0.1	0.1	0.1
Work and Pensions (administration)	0.0	0.2	0.1
Scotland <sup>1</sup>	2.0	2.1	2.3
Wales <sup>1</sup>	0.8	0.9	1.0
Northern Ireland Executive <sup>1</sup>	0.4	0.5	0.5
Northern Ireland Office	0.1	0.1	0.1
Chancellor's Departments	0.2	0.3	0.3
Cabinet Office	0.2	0.2	0.2
Invest to Save Budget	0.0	0.0	0.0
Capital Modernisation Fund	1.1	0.8	0.9
Reserve	0.6	0.8	1.0
<b>Total Capital Budget DEL</b>	<b>25.2</b>	<b>27.6</b>	<b>30.1</b>

<sup>1</sup> As the devolved administrations have freedom to reallocate spending between capital and resource budgets, these numbers are indicative.

**5.2** In addition to the totals in capital DEL, departments make a number of capital grants to the private sector. Under full resource budgeting, capital grants to the private sector score in the resource budget, rather than the capital budget. This reflects the fact that, under resource-based management, spending is only treated as capital if it creates an asset on the balance sheet of the Government. However, this expenditure continues to score as investment in national accounts, and is a vital part of investment in our public services, particularly in education, housing and transport. Table 5.2 shows departmental gross investment budgets, which include both capital DEL and capital grants to the private sector, and how these reconcile to the totals set out in chapter 2.

**Table 5.2: total investment in DEL, 2003-04 to 2005-06<sup>1</sup>**

	£ billion		
	Plans 2003-04	2004-05	2005-06
Education and Skills	4.1	5	5.8
Health	3.0	3.6	4.5
of which NHS:	2.9	3.4	4.4
Transport	6.0	6.2	6.4
Office of the Deputy Prime Minister	4.2	4.6	4.9
Local Government	0.3	0.3	0.3
Home Office	0.9	1.1	1.2
Lord Chancellor's departments	0.1	0.1	0.1
Attorney General's departments	0.0	0.0	0.0
Defence	6.0	6.3	6.9
Foreign and Commonwealth Office	0.2	0.2	0.2
International Development	0.0	0.0	0.0
Trade and Industry	1.0	0.9	0.9
Environment, Food and Rural Affairs	0.5	0.6	0.6
Culture, Media and Sport	0.1	0.1	0.1
Work and Pensions	0.0	0.2	0.1
Scotland <sup>2</sup>	2.2	2.4	2.6
Wales <sup>2</sup>	2.2	1.1	1.2
Northern Ireland Executive <sup>2</sup>	0.7	0.8	0.8
Northern Ireland Office	0.1	0.1	0.1
Chancellor's Departments	0.2	0.3	0.3
Cabinet Office	0.2	0.2	0.2
Invest to Save Budget	0.0	0.0	0.0
Capital Modernisation Fund	1.1	0.8	0.9
Reserve	0.6	0.8	1.0
<b>Total investment in DEL</b>	<b>33.8</b>	<b>35.7</b>	<b>39.1</b>
Capital AME <sup>3</sup>	0.5	1.7	1.2
<b>Public sector gross investment</b>	<b>34.3</b>	<b>37.3</b>	<b>40.3</b>
less depreciation	-14.7	-15.4	-16.2
<b>Public sector net investment</b>	<b>19.6</b>	<b>21.9</b>	<b>24.1</b>

<sup>1</sup> Consistent with 2002 Spending Review. Final numbers are subject to departmental decisions about allocations of capital grants.

<sup>2</sup> As the devolved administrations have freedom to reallocate spending between capital and resource budgets, these numbers are indicative.

<sup>3</sup> Excluding capital grants to the private sector. Includes an accounting adjustment for single use fighting equipment.

**5.3** The majority of capital expenditure is controlled directly by departments within capital DEL or through capital grants to the private sector in resource DEL. There is a small amount of capital expenditure controlled in Annually Managed Expenditure, which includes the self-financed capital expenditure of local authorities and public corporations and capital projects funded by the National Lottery (see box 8).

**Box 8: National Lottery**

The National Lottery has raised more than £12 billion for good causes and more than 97,000 awards have already been made. By September 2001:

- **Arts** – the Arts Councils across the UK had awarded over 21,000 grants worth a total of nearly £1.8 billion, for a wide range of projects. For example, the Northern Arts region Arts are Ours project, reached over 200 schools and 16,000 young people with a programme of region-wide artists' residencies;
- **Sport** – the Sports Councils across the UK had awarded nearly 17,000 grants worth nearly £1.6 billion. In England, over £1 billion had been invested into over 3,300 community facilities. 77 per cent of schemes have been rated satisfactory or better and there has been a 116 per cent increase in facility usage.
- **Charities** – the Community Fund had awarded more than 45,000 grants worth a total of more than £2 billion. 45 percent of money has gone to people on low incomes and 69 per cent of grants to people who are in some way disadvantaged by poverty, whether as a result of long-term illness, ageing, unemployment or lack of skills.
- **Heritage** – the Heritage Lottery Fund had awarded more than 7,500 grants worth a total of over £1.7 billion. Over 1,000 nature and conservation projects have been supported, protecting 50,000 hectares.
- **Education, Health and the Environment** – the New Opportunities Fund had committed funding worth over £980 million to projects throughout the UK. For example, the £300 million Healthy Living Centre initiative aims to fund schemes which provide a range of services designed to improve the health of disadvantaged groups.

**How will the money be spent?**

**5.4** Each DIS sets out how the department proposes to spend its investment budget and what it intends to achieve. Key areas for additional investment include replacement or refurbishment of new buildings and infrastructure; new equipment; and new developments in e-government to improve the accessibility of public services and improve customer focus.

**5.5** Investment in infrastructure is needed to address the maintenance backlogs on the asset base and provide the asset base needed to support improved public service delivery. Key programmes in this area include:

- the largest hospital building programme in the history of the NHS, delivering an additional 6,500 beds over the next three years (10,000 over the life of the programme); new diagnostic and treatment centres, treating 250,000 patients by 2005-06; and expanded care and diagnostic capacity for coronary heart disease, delivering a 40 percent increase in activity and contributing to the achievement of the three month maximum waiting time for cardiac surgery by 2005.
- £1 billion extra for investment in housing by 2005-06, compared to 2002-03, to enable the Office of the Deputy Prime Minister to achieve its target of bringing all social housing up to a decent standard by 2010, and its new target of increasing the number of private sector houses occupied by vulnerable families up to a decent standard;
- £2 billion of extra investment in transport infrastructure by 2005-06, compared to 2002-03, including in rail and strategic roads improvements, and in new light rail and bus schemes;
- increased investment for defences against flood and coastal erosion, increasing from £364 million in 2001-02 to £564 million in 2005-06;

- over £350 million of new funding by 2005-06 to improve the further education capital stock. Together with private sector investment through PFI and other sources of funding, it is expected that 20 per cent of the further education estate will be renewed by 2006.

**5.6** Modern equipment which meets the demands of today's public services is vital in many areas. Key programmes include:

- delivering the equipment plans set out in the NHS Plan, including 50 new MRI scanners, 50 CT scanners and 45 linear accelerators. Department of Health's investment plans also include the regular replacement of scanners to reduce the age profile of equipment. The average age of equipment has already declined dramatically since 1999-2000; 25 per cent of MRI and 39 per cent of CT scanners now in use are new since April 2000;
- a dedicated capital funding stream for university research worth £500 million per year by 2005-06 and doubling the budget for large scientific facilities, to strengthen the UK's innovation performance;
- new investment in equipment for the Ministry of Defence, rising to £5.7 billion by 2005-06, to support the armed forces in facing new demands; and
- achieving and maintaining the targeted computer to pupil ratios of 1:8 in primary schools and 1:5 in secondary schools by 2004. The programmes also includes increasing the proportion of teachers with personal access to ICT by 2006, increasing teacher effectiveness and confidence in the use of ICT.

**5.7** E-government remains a key priority. Through the provision of electronic services, public service delivery can be more efficient and more accessible. Key projects in this area include:

- a major new IT Strategy for the NHS, delivering electronic patient records to all hospitals and Primary Care Trusts by 2006 and roll-out of electronic booking systems. By 2004, 80 per cent of day cases and two thirds of outpatient appointments will be booked electronically at a time to suit the patient;
- significant increases for the Inland Revenue's e-government programme to deliver their target to have 100 per cent of services available electronically by 2005, as far as possible through a common portal; and
- the Department for Work and Pensions will be investing to modernise its IT systems to help improve standards of customer service, help meet the target that, by 2005, at least 85 per cent of customers have their benefit paid directly into their bank account, and enable the delivery of new policy initiatives, such as Pension Credit and Child Support Reform.

#### **Local authority capital**

**5.8** The Government wants local authorities to have the resources to enable delivery of quality services. The 2002 Spending Review provided a 10.7 per cent annual average real increase in local authority investment through public sector capital spending and PFI from 2002-03 to 2005-06. Table 5.3 shows the capital support allocated by central government to local authorities for 2003-04. This is divided into direct funding – capital grants – and credit approvals, effectively permission to borrow with a guaranteed revenue stream to cover the costs of financing the borrowing. Local authorities are also allocated PFI credits which enables them to enter into PFI contracts, with the guarantee of assistance from central government in meeting the on-going service charges. Allocations of these over the next three years are set out in table 5.4.

**5.9** The Government has made a commitment to local authorities to give stability, predictability and certainty of funding to enable robust financial planning. Reviews are currently being carried out in respect of the funding provided for Housing, Waste and Education. The allocation of capital resources for the years beyond 2003-04 is subject to the outcome of these reviews. Further information is provided in the Local Authority Investment Overview available on the website of the Office of the Deputy Prime Minister ([www.odpm.gov.uk](http://www.odpm.gov.uk))

**Table 5.3: Local authority investment, allocations of credit approvals and capital grants, 2003-04<sup>1</sup>**

	£ million		
	Credit approvals	Capital Grant	Total
Education and Skills	1,036	867	1,903
Environment Food and Rural Affairs	52	80	132
Health – personal social services	59	41	100
Office of the Deputy Prime Minister – housing	842	99	941
Office of the Deputy Prime Minister – LG Online	–	215	215
Office of the Deputy Prime Minister – Local PSAs	–	100	100
Office of the Deputy Prime Minister – fire	53	5	58
Transport	1,405	250	1,655
Home Office – police	73	117	190
Lord Chancellor's Department	10	39	49
<b>TOTAL</b>	<b>3,530</b>	<b>1,813</b>	<b>5,343</b>

<sup>1</sup>Excludes the GLA transport grant and Voluntary Aided schools funds. The numbers for housing, waste and education are currently under funding review and are subject to change.

**Table 5.4: Allocation of PFI credits, 2003-04 – 2005-06**

	£ million		
	2003-04	2004-05	2005-06 <sup>2</sup>
Education and Skills	850	1,050	1,200
Home Office	75	100	110
Lord Chancellor's Department	70	70	70
Health	40	65	90
Culture Media and Sport	30	55	65
Transport	360	400	500
Environment Food and Rural Affairs	100	125	130
Office of the Deputy Prime Minister (housing)	300	325	360
Office of the Deputy Prime Minister (fire)	50	50	50
Office of the Deputy Prime Minister (other)	65	65	65
Transport for London	0	25	60
<b>Total</b>	<b>1,940</b>	<b>2,330</b>	<b>2,700</b>

**Local Government On-Line** **5.10** £511 million has been made available over three years to support the continued development of Local Government On-Line. A national strategy for this project was published on 27 November 2002. The new funding includes £10 million in each year for e-voting. The strategy sets out a vision to use technology to improve the efficient delivery of services and ensure communities have ready access to local services that really meet their needs.

**Private sector involvement** **5.11** The private sector has a key role to play in delivering public service infrastructure. Public Private Partnerships (PPPs) help increase investment to tackle the multi-billion pound backlog of under investment and neglect in public services which has built up over many years. They help manage this increased investment efficiently, and make the money invested go further. Between 2002-3 and 2005-6, the Government expects that contracts worth £12 billion will be signed. Table 5.5 shows the value of contracts expected to be signed in each year and the expected level of repayments to the private sector under PPP contracts.

**Table 5.5: Value of Private Finance Initiative contracts expected to be signed<sup>1</sup>**

	£ million			
	2002-03	2003-04	2004-05	2005-06
Capital spending by the private sector	3,724	3,256	2,481	2,500 <sup>2</sup>
Payments under PFI contracts	4,545	4,907	4,944	4,964

<sup>1</sup> Consistent with figures published in Budget 2002. These will be updated in Budget 2003.

<sup>2</sup> Estimate

### Box 9: Wider Markets Initiative

The Wider Markets Initiative encourages departments to make better use of their assets by engaging in commercial services where appropriate. This applies to both physical and non-physical assets such as databases, skills and intellectual property. Such public sector commercial activity can generate additional resources for departments. As an incentive, departments are allowed to keep such receipts to be reinvested in other areas. Examples of projects include:

- The **Ministry of Defence** engage in an extensive range of Wider Markets Initiative projects, including the marketing of spare training capacity, the provision of maintenance and repair services to commercial sector customers, and the commercialisation of scientific and technological knowledge, including liquid crystal displays, and voice recognition technology.
- In the past year CEFAS, the **Department for Environment, Food and Rural Affairs'** marine research agency, has been very active in pursuing new opportunities to commercialise its intellectual property and has developed a staff incentive scheme to underpin further commercialisation of intellectual property. There are now three joint ventures all of which are progressing well. A new collaborative agreement was signed with Lotek Group to develop innovative electronic fish tags that are being used to provide new information to improve the management of heavily fished fish stocks. A venture between CEFAS and Kiotech International Ltd to develop fish attractants for use in sport fishing and for improving the sustainability of fish farming has received world-wide attention and the company is now seeking additional investment for expansion via an AIM listing. Eco-Sense Ltd, a joint venture with WS EnviroTech, has now developed a new range of environmental monitoring systems that are now being actively marketed.

**5.12** It is important to see PPP in context. The vast majority of the extra investment in public services is public sector investment. Investment through PFI contracts typically makes up between 10 and 15 per cent of total investment in any one year. This investment is a much-needed boost towards reversing the under-investment in the nation's infrastructure, but it does not replace the significant extra investment committed by the Government since 1997.

**5.13** However, experience suggests that the public sector is not always best placed to deliver major investment projects. The private sector can offer different advantages:

- the private sector is more likely to challenge inefficiency and to develop imaginative approaches to delivering public services;
- the private sector has an incentive to invest in a high-quality building to reduce its long-term maintenance and operating costs; and
- since the private sector is only paid when the project is completed, it has a strong incentive to manage the risk associated with completing complex investment projects to time and budget.

**5.14** PPPs are the means by which the Government is seeking to bring together the best of both sectors in order to deliver a higher quality of public service than is possible through the public sector alone. They are only pursued where they represent better value for money than the public sector alternative. PPPs have proved their worth through results in a number of sectors, including education, health, transport and defence. The National Audit Office has endorsed the PPP route as best value for many projects (see box 10).

**Box 10: PPPs: what has been achieved so far?****Health**

PPP is helping to deliver the biggest hospital building programme in the NHS. 11 hospitals built under PFI contracts are already operational and a further 13 are under construction. Successful projects to date include the new Dartford and Gravesham hospital – an acute general hospital on the Darent Valley site which consolidates services from three hospitals into one modern, flexible accommodation. The hospital was open in 44 months, far more quickly than can be delivered under a conventional public procurement.

**Education**

48 schools PFI projects have been signed with a total capital value of over £1.3 billion, covering 550 schools. Successful projects to date include the Barnhill Community School in Middlesex, a new schools which provides state of the art facilities to educate 1,450 children.

**Transport**

The 10 Year Transport Plan anticipates £56 billion to be funded through private sector finance, including PPPs. Successful projects to date include the extension of the Docklands Light Railway to Lewisham, which was completed in 1999. The project had a capital value of £200 million, and was delivered within budget and two months early, in time for the Millennium celebrations.

**Defence**

To date the Ministry of Defence has signed 45 PFI deals that have been brought nearly £2.3 billion of private sector capital investment into defence. A number of significant projects are now delivering the required services and the initial results are encouraging. A special training company called CAE ATS Plc was set up for a £120 million state of the art Medium Support Helicopter Training Facility, which is now up and running at RAF Benson with enormous potential for international use. The E3D Sentry aircrew training facility was delivered three months early with project costs 29 per cent below a conventionally procured MoD-owned training service. There have been 1,250 family quarters provided through PFI deals; service personnel and their families are very satisfied with the quality of this fully serviced housing.

**External views of PPPs**

The National Audit Office has endorsed PPP as best value on a number of projects, including:

- the Inland Revenue PPP contract with EDS “has been successful in helping the department deliver significant changes in taxation policy to demanding timetables”;
- A74/M74: “expected to bring benefits which offset the higher cost of financing the road privately. These benefits include construction of the road in around 22 months, compared with an estimated 36 months for a conventionally financed project”; and
- National Savings: “the deal represents better value to National Savings than the alternative of keeping the operational service in-house.”

# 6

## PROCEDURES AND SYSTEMS

**6.1** New investment will only result in improved public services if the right procedures and systems are in place to deliver planned spending and achieve the challenging targets that departments have set. The final section of Departmental Investment Strategies sets out the procedures and systems which departments use to deliver their investment programmes and to ensure that they get best value for money.

### Focusing on delivery

**6.2** The 2002 Spending Review brings a new focus on delivery. The Prime Minister's Delivery Unit was established last year to strengthen the capacity of departments to deliver effectively on particularly challenging targets. It has been concentrating on the key areas of health, education, law and order and transport. It is now planning to expand its scope to include priorities in the domestic service delivery departments. Working in close collaboration, the Treasury and the Delivery Unit will together ensure that departments have in place effective delivery plans for their new targets. The key features of these plans are published in Service Delivery Agreements.

**6.3** DISs focus particularly on the procedures used to deliver capital investment programmes. These, by their nature, often take a number of years to complete, involve wide-ranging groups of people and can be complex to implement. The step change in investment since 1997 has required a step change in departmental capacity to manage these types of programme. Departments have taken time to gear up to respond to that change. This has led to a general trend of capital expenditure being below expected profile. Under the reformed public spending framework, these funds are not lost. The End Year Flexibility system allows departments to carry any such unspent funds from one year forward to the next. This ensures that there is no reduction in planned investment, prevents wasteful spending at the end of the year, and gives departments the incentive to plan investment programmes over a realistic timeframe.

**6.4** In addition, departments have reviewed progress against the DISs published in 2000 to assess whether further changes need to be made to their processes to ensure that their investment plans are achieved. Individual DISs set out some of the conclusions of those reviews and how they are being implemented in departments. This section draws on some examples to show the changes that departments have made.

### Allocations

**6.5** Once the overall budgets for departments have been agreed in the Spending Review, departments allocate funds between priorities. To achieve the targets set out in Public Service Agreements, departments need to ensure that their allocations fit with the overall strategy. Within that principle, service deliverers should have maximum local flexibility and discretion to innovate to meet local demands. Examples of changes that departments have made in this area include:

- Department of Work and Pensions (DWP) has already developed new governance procedures and a Gated approval process, whereby a project must satisfy a rigorous senior scrutiny at each stage before being allowed to proceed or secure further funding;
- In response to comments made by NHS Trusts as part of their DIS review, the Department of Health will be allocating a greater proportion of the available capital to Trusts, Primary Care Trusts and Health Authorities, enabling greater local prioritisation of capital developments; and making three-year allocations for both Operational and Strategic Capital, removing any barrier to a more strategic use of available capital resources. These allocations will also be announced early to allow maximum time to plan investments; and

- Department of Environment, Food and Rural Affairs (DEFRA) has confirmed its intention to set three year budgets for all major budget-holders as soon as possible and have decided to delegate End Year Flexibility to budget holders and programme managers, where appropriate.

**6.6** The proportion of central government capital support for local authorities being directed through the Single Capital Pot, a cross-service allocation mechanism introduced in 2002-03, has risen from 48.5 per cent to in excess of 60 per cent in 2003-04. This will allow local authorities to plan better, respond to local issues flexibly and encourage better corporate and strategic working. It will also facilitate more effective tackling of cross-cutting issues such as regeneration, social exclusion and sustainable development.

### Appraisal and evaluation

**6.7** Taking a thorough approach to project appraisal is essential to ensure that the right projects are taken forward in the way that represents best value for money. Full project appraisal takes a rigorous approach to measuring the costs and benefits of individual projects. Similarly, evaluation throughout and at the end of a project enables departments to assess its success and learn lessons to be applied more widely.

- Department for Culture Media and Sport has already set up a checklist for those appraising local authority PFI projects, and are now considering developing a similar checklist for all project appraisals; and
- Department for Education and Skills (DfES) has established a Programme and Project Management Unit, whose remit includes the improvement and dissemination of project management skills. DfES is also preparing to release option appraisal guidance for Local Education Authorities, to help spread best practice.

The Treasury publication, *Appraisal and Evaluation in Central Government*, known as the “Green Book”, sets out best practice guidance for project appraisal. The Treasury has issued a revised version of the Green Book for consultation (see box 11). Departments have produced their own version of the Green Book which draws on the best practice recommendations and adapts these to reflect their particular requirements.

### Monitoring

**6.8** Although local service providers need to be given responsibility to deliver, it is important that departments are able to monitor performance against their capital investment programmes. This enables them to respond flexibly in-year to delays in some projects, by bringing forward work on others, and to ensure that their overall targets are on course to be met. Examples of developments in this area include:

- Ministry of Defence has adopted a new performance management regime, covering Public Service Agreement targets and other internal priorities, to improve the assessment and reporting of performance across the department. The department has created a “balanced scorecard” to enable to assess what is important for it to fulfil its role successfully, which has led to clearer strategic goals, fewer key targets, and more rigorous ways of measuring performance. Quarterly reporting against the scorecard began in June 2001.
- Home Office’s Investment Board is putting in hand new measures to improve performance and strengthen its role in promoting success and assisting delivery. These include more transparent reporting and closer monitoring of project progress, supporting the development of a Departmental risk management framework and taking a more strategic approach to the management of capital programmes as a whole to balance resources between projects, according to the progress they are making.

**Box 11: The Treasury's "Green Book"**

The Treasury provides guidance for central government on how capital projects and policies are to be appraised. This guidance is published in the Green Book, which was recently revised to encourage a more thorough, long-term and analytically robust approach. A consultation on the new methodology has recently concluded, and as a result the new guidance is expected to be issued in the New Year.

The main changes proposed include the following:

- the Government's 'discount rate', which is used to convert all expected future costs and benefits into a present day value to enable comparison, has been changed from 6 percent to 3.5 percent. The new rate discounts the future much less than before, thus greatly encouraging decision makers to take more account of the long-term effects of their proposals. Elements, implicitly accounted for in the old rate, should now be shown explicitly in an appraisal;
- a greater emphasis on clearly identifying and valuing the benefits of proposals and subsequently ensuring that they are delivered to time and budget; so that proposals should only be accepted if it is clear that their benefits outweigh the costs, and that there is a viable, affordable, implementation plan;
- appraisers will now have to recognise and adjust for the widespread tendency to be over-optimistic when preparing forecasts. This will help decision-makers understand earlier the likely true cost of spending proposals, and encourage good practice in procurement and project management;
- the guidance encourages appraisers to work more systematically through the option appraisal process, improving the analysis used to inform investment decisions. It is more accessible, explaining to senior managers more clearly what specialist techniques are appropriate, and when they should be used – thus helping them to act as more informed critics and clients.

There will be a period of transition during which projects originally assessed under the old regime will be allowed to continue if they have reached a critical point. Training in the new approach has already begun and will intensify in the New Year.

Departments, the Office of Government Commerce, the Regulatory Impact Unit (within the Cabinet Office) and the National Audit Office will play major roles in monitoring the effective implementation of the new approach. For instance, assessments of adjustments for optimism bias will be incorporated into the Gateway Review process.

**Project Management** **6.9** Managing large investment projects requires specialist skills at all levels. Many departments have identified a lack of suitably qualified staff to take forward their major investment programmes and are taking forward programmes to increase project management skill levels. The majority have set up dedicated training teams to deliver project management training widely throughout the department. Particular examples include:

- As a result of discussions with the Office of Government Commerce, DEFRA has recommended that there should be more Board level representation on projects and training for Senior Responsible Owners (SROs) and Construction Project Owners. The process has already started with the Permanent Secretary chairing the Project Board for the new Rural Payments Agency Board; and

- DWP has already introduced a training course to address the roles and responsibilities of a Project Board. As part of the project review process, project staff are interviewed and documents examined to ensure that there is a clear management and control structure within the project and that individuals are aware of their responsibilities. DWP has also developed a project Intranet, so that Board members and all staff have access to the latest guidance on project management principles within the department.

**Centres of expertise** **6.10** Although departmental investment programmes vary considerably, there are many benefits in sharing experience. The Government has created several organisations to promote best practice across the private sector. In addition to the Prime Minister's Delivery Unit, described in paragraph 6.2, these include:

- the Office of Public Service Reform – the OPSR, established by the Prime Minister, contributes to taking forward the programme of public service reform. Its aims include transforming the approach of the civil service to project and programme management and keeping the focus of public services on customers and tangible service improvements;
- the Office of Government Commerce (see box 12); and
- Partnerships UK – Partnerships UK, created in 2001, was formed to help the public sector meet the challenges which arise from Public Private Partnerships. Its mission is to work with the public sector to make PPPs better, stronger and faster. PUK is itself a joint venture, with the public sector owning a minority interest and the private sector owning the majority. This governance structure has been designed to balance private sector disciplines with PUK's public sector mission.

#### **Box 12: Office of Government Commerce and the Gateway Review**

The Office of Government Commerce (OGC) was created in 2000 to improve the efficiency and effectiveness of the Government's procurement, acting as a centre of excellence.

The OGC set itself a target to achieve £1 billion value for money improvements in central civil Government procurement by 2003 through its work with departments. In its first year, OGC achieved £433 million of gains. The target has now been extended and increased to achieving £3 billion of gains by 2006.

The OGC also play a key role in improving the handling of major projects to deliver successes in public service procurement. Launched in February 2001, Gateway Reviews are designed to ensure that all government projects are subject to rigorous tests and that they pass through a series of procurement gates, with reviews carried out by independent teams. Gateway has placed the UK Government among the world leaders in implementing a structured procurement methodology and is now viewed as one of the government's most effective weapons to deliver successes in public service procurement. Nearly 300 projects, covering a proposed spend in excess of £24 billion, have been reviewed to date. The benefits from Gateway Reviews far outweigh the cost. Cost is in the region of 0.1 per cent of the procurement value, but value for money savings average over 5 per cent. OGC expect to generate at least £500 million value for money gains from Gateway Reviews alone. Even more will be saved by the OGC programme to embed in departments the best practice to avoid the common causes of procurement failure made evident by the Reviews.



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