What the Comprehensive Spending Review Means for Public Bodies

Institute for Government

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This seminar was an opportunity for ACE members to explore what the upcoming comprehensive spending review means for public bodies. Experts Dr Gemma Tetlow and Martin Wheatley from the Institute for Government set out what to expect from the spending review, and Sian Jones and Vicky Davis from the National Audit Office (NAO) offered advice on how to prepare.

Dr Gemma Tetlow began by setting out the fiscal backdrop to the spending review. The Office for Budget Responsibility (OBR) projects that resource departmental expenditure limits (DEL) will increase by around 1% year-on-year in real terms over the next five years, compared to a cut of around 1% since 2008/09. She explained that the Government has already allocated much of this increase: the NHS budget is protected until 2023/24 and the Government has made verbal commitments to protect spending on areas including defence and international aid. Gemma added that unprotected areas of public services and administration are likely to face further cuts. Whilst the Government has said it wants to end austerity over this period, if it wanted to freeze budgets for unprotected services, it would need to find an extra £2bn/year; for public services to be able to grow in line with the rest of the economy, it would need to find an extra £11bn. Gemma said that it is not clear whether the Government will continue to prioritise budgets for frontline services that have seen significant real terms increases since 2010 – such as health and children's social care – or will prioritise services that have now been significantly cut, such as justice and policing.

Following this, Gemma went on to look at the fiscal targets the Government has set for itself. Since 2010, the Government has set itself the objective of reducing public spending to reduce borrowing; now, however, the Government's fiscal rules no longer constrain spending as tightly. The Government has set itself three overarching rules. Its objective for fiscal policy, set in 2016, is to "return the public finances to balance at the earliest possible date in the next Parliament". The OBR interprets this to mean the next parliament from now, so in the early- to mid-2020s. The Government also adheres to the mandate for fiscal policy - to "reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020-21" - and the supplementary debt target - for "public sector net debt as a percentage of GDP to be falling in 2020/21". The Government has not set fiscal targets for itself for beyond 2020/21. This means there is uncertainty over what the Government will decide what it wants to do over the spending review period. Gemma also cautioned that current forecasts are based on a reasonably close trading relationship with the EU. If the UK leaves the EU without a deal, there will be additional short- and long-term costs and the Government will need to make fiscal adjustments.

Martin Wheatley outlined what spending reviews are and how they work. Spending reviews cover around half of public spending, the DEL. This includes capital departmental expenditure limit (CDEL) and resource departmental expenditure limit (RDEL) spending. The other half of public spending is annual managed expenditure (AME), including debt interest and welfare. In the spending review, the Government sets out how it expects DEL to be spent annually. Governments carry out spending reviews every three to five years. The last review was in 2015 and covered the four financial years from 2016/17 to 2019/20. In the spring statement, the Chancellor announced that there would be a three-year spending review, starting before the summer and with announcements to come in the autumn budget. However, the Chancellor also said that this was on the assumption that a Brexit deal would be agreed. If a Brexit deal is not agreed, the Government may decide to hold a rollover exercise to set budgets for 2021 and put the main spending review off to next year. Public bodies should be prepared for a one-year review process and have in mind the minimum budget they would need to keep going for 2020/21.

Martin moved on to consider the evidence for the current Government's priorities for the forthcoming review. The Chancellor has said that the Government would carry out a zero-based review of capital spending. Martin cautioned that governments often aim for zero-based budgeting but can find it politically difficult to achieve. The Chief Secretary to the Treasury has also suggested that she would like this to be a "people's spending review", focusing on things "people care about". It is assumed that this means frontline services such as schools and hospitals, local transport more than large transport projects, and skills and training. The Treasury has said that it will be using the new Public Value Framework for the spending review, with a "renewed focus on the outcomes achieved for the money invested in public services". The framework groups the main criteria that contribute to public value into four pillars: pursuing goals, managing inputs, engaging users and citizens, and developing system capacity. Martin recommended that public bodies should prepare for the spending review by considering how to describe the impact of their work against each of the pillars.

Sian Jones outlined the National Audit Office's assessment of how past spending reviews have gone and what the NAO expects to see in the upcoming spending review. In its report on the 2015 spending review, the NAO assessed how the spending review had gone and set out five principles for what a good spending review process should look like. Sian underlined the importance of departments and agencies having the right processes in place before starting to prepare bids for the spending review. Sian also said that when processes such as SDPs were in place they should be used meaningfully. In its 2018 report Improving Government's Planning and Spending Approach, the NAO found that government had made some improvements since 2015. However, government still finds it challenging to give incentives to joint working between departments; to prioritise and drop goals where needed; and to have the right data available to evaluate the outcomes of spending decisions.

Vicky Davis then looked at the Government's commitments and promises for the 2019 spending review. In February 2019, the Public Accounts Committee (PAC) made recommendations to Government on how to improve the spending review process for 2019/20. The Government has now made the following commitments to the PAC: Single Departmental Plans (SDPs) will be a key input to the spending review; the public value framework will be mainstreamed and set alongside SDP and spending review guidance; departments will need to assess themselves against the public value framework; and cross-cutting working will be a key focus. Vicky also looked at the Government's public promises for the spending review. The Government has said that the public spending squeeze will end and committed £20.5bn extra for the NHS by 2023/24. It has also said this extra money for the NHS will be funded by the Brexit dividend, and possibly by cuts to other departments and taxpayer contributions. It is not clear if there will be additional resources made available or if other departments will shoulder some of the burden. The NAO view is that the current spending review will be a key test for the Treasury and Cabinet Office to see whether the

Government's changes to the planning and spending process withstand the political negotiation process.

Vicky set out the NAO's view of how arm's length bodies (ALBs) should prepare for the spending review. She recommended questions for ALBs to think about how to answer:

- How are you engaging with your department?
  - Do they understand your plans, priorities and capability in light of past experience? Do you have a sound evidence base to make your case? What do they expect? What is their process?
- Is planning integrated?
  - Make sure that strategy, finance and workforce are joined up and consider the cross-government perspective. Consider shared objectives with other ALBs.
- Are you planning to deliver value?
  - Link planning to outcomes, and set out the relationship between inputs, outputs and outcomes. Have you assessed yourself against Barber 4 pillars?
- Have you made the hard choices?
  - So have a clear, agreed set of objectives against which you can line up the options and get buy in to the choices. What would you prioritise? What would you cut?
- Are you being over-optimistic about what can be delivered, or what efficiencies can be achieved?
  - Challenge assumptions and understand headroom you have in resources. Look at past experience. Have you got the evidence to build your case?
- Are you managing in-year costs rigorously but flexibly?
  - Push back if short term spending control threatens the value to be delivered – the two must be balanced intelligently
- Is there one version of the truth?
  - How are your plans/priorities reflected in the departmental SDP? Do these reflect your own internal business plans?
- Have you built in collection and use of performance data?
  - Do you know how you will track and use data, including on longer-term benefits, from the start? Do you have this already?

The Chair then opened up the discussion to the floor.

Concern was expressed at the amount of time and support offered to ALBs by departments to prepare their resource plans for the spending review. Speakers underlined the importance of ensuring there were good channels of communication with departments. Smaller public bodies may not be included in SDPs, but as the plans develop they will become more meaningful and the activities of ALBs should be reflected in them. In the meantime, it was recommended that ALBs check that their business plans reflect what is required of an SDP. ALBs should consider the business case reviews part of the Public Value Framework. While the public sector equality duty should be built into the spending review process, it was felt that it was unlikely to be built into the process from the start.

Consideration was given to the difference between a one-year rollover budget and a one-year spending review. It was felt that the Treasury might not want to carry out two spending reviews from scratch in consecutive years. Further, some departments and agencies might not be able to manage for the next year with only the standard increment, so the Treasury would be under pressure in some areas to find significant real terms increases for 2020/21. There is also the option of increasing borrowing; for that one-year period the Government has £27bn headroom against the borrowing target.

The current political uncertainty made planning difficult, and it was acknowledged that the risk of uncertainty could prove paralysing. Speakers recommended that departments and ALBs take stock of what their core activities were that would continue whoever was in government. Areas of uncertainty could then be discussed. Scenario planning is another possible approach.

The long-term affordability of public services was discussed. It was pointed out that for the past few years the Treasury had focused on reducing borrowing, passing costs on to public service providers. As cost pressures on service providers have increased and they have started struggling to deliver in some areas, the Government has started to focus more on outcomes.

It was suggested that the Treasury might ask departments to note cross-cutting priorities in their bids, to encourage joint working. Departments might also work within existing structures to make joint pilot bids for smaller funds of around £10-20m. Cabinet Office and the Treasury were considering how to use the government functions to consider bids. The high turnover of Senior Responsible Officers could make it more difficult to establish the governance structures needed for joint bids. Reference was made to the Infrastructure and Projects Authority's work on the importance of having a single SRO for a project's lifetime.

The classification of different kinds of spending was touched on, with a query on whether all science spending would be classified as CDEL. CDEL was cut sharply in 2010 but has since increased quite significantly, and the plan is to carry on increasing it over the next few years. The Government has spoken strongly of its commitment to increasing spending on research and development as part of the industrial strategy, and it is understood that this would be treated as capital spending. It was pointed out that the Government's proposed zero-based review of capital spending makes it important for ALBs responsible for capital spending programmes to be able to justify their bids The PAC's recent report on how government funds research and development was commended to members. There was a question on 'Special CDEL', where a department funds an ALB with a loan and gets a return on its investment: this may be counted as part of DEL but adjusted out in the Treasury's accounting.

Following the seminar, the ACE Secretariat offered to put members in touch with other public bodies from their department who are part of the Association, so they can discuss the preparations they are making and their responses to Whitehall.