

Preparing for the Next Spending Review

A briefing note

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Summary

Resumed growth means that the post-election spending review will take place against a far more positive-sounding backdrop than either the 2010 Spending Review or the 2013 Spending Round. However, this fiscal consolidation is taking longer than the Government planned – and the Chancellor has promised to go even further, running budget surpluses once the deficit is closed.

No politician is advocating tax rises to reduce the deficit, so spending reductions are set to be a long-term feature of UK public finances, rather than a short and sharp experience which is almost over. Not just 2015, but also 2020 could easily be an austerity election, for the public finances at least.

The Government set itself a stretching challenge to reduce spending rapidly to address the deficit, and has done so quite successfully so far with very few reversals. Spending was significantly lower in 2014 than had been expected in 2010, representing a substantial feat of expenditure control. However, weaker growth than expected means that spending is higher as a share of GDP than had been planned.

The Treasury has been less firm on tax than spending, getting into bad habits allowing commitments to be made on the basis of only temporary or uncertain increases in revenue, with examples in many recent announcements. The amounts involved are relatively small, but the principle is important. Fiscal credibility is difficult to establish and easy to lose, and the Government risks inconsistent messages emerging over time about the commitment to consolidation.

Looking forward, all the Government's planned tax rises have been implemented, but more than half the planned spending cuts have yet to be made. Further action to reduce spending will fall on benefits and on the provision of services. There are substantial areas of public spending where there are pressures on public spending that are far beyond the control of the Treasury – and in most cases this is because of increasing demand for public services. For example:

- **Prisons** – overcrowding and prison numbers above expectations led the Chief Inspector of Prisons to warn about the risks of making further financial cuts.
- **The NHS** – this is a highly dispersed service facing cost pressures driven by demographic and seasonal demand. There are already growing financial deficits in the sector and concern about the ability to cope with the introduction of new costs.
- **Local government** – major cuts in funding have been made successfully but the sector claims this will be unsustainable into the future, especially as central government constrains the choices available to local authorities.

Sustaining austerity is not just about public services coping with further reductions in spending – and whether the Treasury has the levers to do it. It is also about whether there is sustained public and political support for those reductions. So far there has been agreement that cutting the deficit is necessary and less protest than might have been expected. However, as the impact of spending cuts increasingly affects public services this support may decrease – and continued public consent for the government's strategy of cutting spending, rather than slowing the pace of cuts or doing more consolidation through taxation, cannot be taken for granted.

There has also been political consensus, despite high profile clashes over certain totemic issues like welfare. Both government parties are currently committed to the same spending totals until into the next parliament, but have different positions about how to allocate the cuts and what to do once

the budget deficit is closed. Labour would accept Coalition spending plans for 2015-16, signalling that many of the cuts would not be reversed. However, no party has elaborated further on the details, and almost certainly won't before the election. The 2015 election is likely to be characterised by all sides avoiding the detail, as they did in 2010, and indeed is common in austerity elections around the world. The decisions on what to cut and how will be taken after the election.

All of these pressures on the sustainability of government spending, public opinion and political support will come together in the post-election spending review. This could be run on similar lines to the 2010 review. This used a short four month allocation process, with little collaborative work between departments. There were weaknesses to it: some major strategic issues could not be properly addressed in the timescales, public engagement in the process was inevitably superficial, and internal challenge of departmental proposals was limited.

These weaknesses need to be addressed in the next review, but there are also new challenges to face. Further cuts require more innovative and transformational cross-departmental approaches being introduced than just cutting public spending within departmental silos. A different approach to the spending review is needed. One potential way of achieving this – greater decentralisation of power – has proven difficult despite the coalition parties entering government committed to localism.

Therefore rather than simply rerunning the 2010 process, the Treasury needs to build on it to address these increased challenges while still finding savings across government. While we take the 2010 process as the starting point, there are five changes in the process which could result in a more effective spending review in 2015.

1. Cover a longer period of time, almost certainly five years to cover the full length of the parliament.

Transformative change typically takes three to five years to design and implement, so the planning horizon needs to reflect this. The review therefore needs to cover a long enough period to give leaders across the public sector time to maximise the benefits of this change. Agreeing spending allocations for five years would provide a clear trajectory over the whole term and for the first year of the next.

Spending reviews consume huge amounts of political energy and civil service time – rightly so if they are serious planning exercises. Having an initial review that covers five years means that any government, and especially a coalition, will not be forced to repeat the rather unsatisfactory Spending Round of 2013. This only covered a single year – 2015-16 – making it impossible to consider any transformative change.

While the Treasury will always rightly reserve the prerogative to alter spending allocations to adapt to circumstances or changed priorities, setting reviews to cover the full parliamentary term by default would reduce the need for difficult mid-term decisions. Reviews can be brought forward and held sooner if circumstances demand it; but cannot be delayed longer than the end of the previous review period.

2. Have a longer process for deciding allocations, to enable more rigour and collaboration.

A rushed review causes more problems later. Securing quick agreement to allocations usually involves bilateral negotiation and pitting departments and their secretaries of state against each other in a zero-sum competition for resources.

Running the allocation process over a longer period would present a challenge to the Treasury. Rather than using its leverage to simply force a decision, it would face the more challenging task of using it to get the right cross-departmental allocation backed by credible delivery plans. If the Treasury can do this, there would be three main benefits from lengthening the process.

First, it would provide the time needed to require departments to produce joint plans in some areas before agreeing to the allocation for it. This would depend on the Treasury facilitating these plans and thinking carefully about the areas where joint plans are strategically sensible.

Second, more time would allow more rigorous assessment of department plans for how they would live within the proposed allocation and whether they have the capability to deliver their plans. This should include a greater role for What Works centres in assessing evidence, and the Major Projects Authority in advising the Chancellor on the capacity and capability of departments and whole of government to deliver major projects.

Third, more time would also enable government to consider major strategic decisions properly. For example the next Strategic Defence and Security Review and National Security Strategy could be developed without the rush which characterised them in 2010, using existing collective forums such as the National Security Council. This would sit comfortably with the logic of stronger central coordination and the enhanced role of cabinet secretariats since 2010.

Departments need some certainty about spending totals at the start of 2016/17, but areas where spend totals need to be guaranteed could be sorted early, for example as part of any immediate reallocations following the election before finishing the full review later – which would give much more certainty about direction than a rushed review.

3. Take decentralisation seriously.

Many transformative changes will not work if designed in Whitehall and simply cascaded down. They need to be designed and implemented locally. Decentralisation requires an approach to the spending review built on a more grown up relationship between central and local government.

First, there is a need to recognise that decentralisation requires genuine transfers of power – not just money or responsibility. Doing so can help create the conditions for transforming services at a local level.

Second, there is a need to commit to this transfer of power in advance of the formal spending review – and probably in advance of the election too. Pre-election policy commitments should include clear proposals for decentralisation so that ministers and shadow ministers are unable to make commitments that clash with the reform. The whole point of decentralisation is that others will set goals and ways of meeting those goals, so once commitments are made, politicians will feel accountable for delivering them, often leading them to re-centralisation.

Third, there is a need to sustain this decentralisation effort throughout the spending review process itself. There needs to be clear support from the Chancellor and the Prime Minister – and probably an institutional mechanism too – to drive decentralisation. DCLG does not have the strength or means within Whitehall to force others to give up powers. The Treasury and the Prime Minister

could, using their authority to maintain momentum and overrule objections from departments and ministers. In the absence of either prime ministerial or chancellor commitment or a clear manifesto commitment, it is unlikely that further decentralisation will happen in the next spending review.

4. Plan the next phase of civil service reform to ensure Whitehall will have the people with the right skills to devise and deliver savings.

Transformative change in how government delivers services – especially if accompanied by genuine decentralisation – requires different skill sets in Whitehall. But the size and speed of Civil Service headcount reductions raises questions about how the Civil Service can ensure it has the right skills to devise and deliver savings after 2015.

Ensuring the Civil Service is capable of delivering this must be an essential component of the next stage of civil service reform. This means building on existing areas of strength to develop capability in other part of government. For example, the Major Projects Authority is in a unique position to help develop project management skills across the civil service.

This also points towards seeing both the Spending Review and civil service reform as part of an integrated planning process – which in turn requires situating the spending review in an on-going financial management and performance process providing the analysis and insight needed for rigorous planning. So for example the Treasury could more directly support departments in identifying savings across departmental boundaries – similar to the annual review by the Government Accountability Office in the US – to identify savings from fragmentation, overlap or duplication in spending.

5. Prepare properly now.

Prior to the 2013 Spending Round, the Institute for Government said that departments needed to invest then in understanding the choices available for further cuts in 2015, and to identify areas in which collaboration with other departments or agencies – or even other tiers of government – would enable greater savings to be made. With the pressure firmly on current delivery ahead of the next election, there is little evidence that the Civil Service has permission from ministers, or has taken the space required, to plan ahead for the challenges that will face any government after the next election. At a minimum, analysis to underpin the potential options needs to be developed – not least to build trusted relationships and mutual understanding between departments which will be a necessary ingredient in any shared plans.

The ‘stewardship’ role of permanent secretaries is currently underplayed compared to other Westminster systems. While it is natural for ministers to focus on the relative short-term, permanent secretaries are responsible for planning for longer-term issues that might stretch beyond the tenure of either minister or the permanent secretary themselves.

If secretaries of state really do want to forbid their permanent secretaries from fulfilling their stewardship role by preparing analysis now, particularly on a cross-departmental basis, ahead of the challenges of 2015, they should do so on grounds they would be prepared to defend publicly. It is unfortunate that the Civil Service leadership appears to have quietly accepted the limitations on their freedom to prepare now for the next Spending Review, while secretaries of state have so far remained publicly silent about it.

At the same time, ministers and would-be ministers need to be careful about what they do say publicly. Ringfences around spending, such as the NHS, are probably politically impossible to avoid announcing in the run up to the election. But politicians need to be careful to ensure any ringfences they announce are credible. As the pressures facing the NHS demonstrate, a ringfence does not in reality mean protection from difficult choices and cuts to services. Politicians therefore need to acknowledge the reality of what ringfences actually achieve, and be wary of overpromising what ringfences – or any kind of promise – can do in the run up to the Spending Review.

Introduction

One year from now, the government that is elected in May 2015 will be gearing up to run the next spending review and decide government spending beyond what is planned for 2015-16. All the main political parties are committed to continued fiscal consolidation, of which spending cuts will still be a major part. Getting the next spending review right is, therefore, very important.

This briefing note sets out some of the pressures facing whoever is in government when the next spending review is run. Picking up from our briefing note for the 2013 Spending Round last year, this note highlights how the Government has stuck to ambitious spending cuts, but has shown signs of being less firm on tax. In addition, there are many pressures on public spending beyond the direct control of government.

Government will need to make choices. These will be about what to cut, what not to, and how to balance consolidation between spending cuts and tax rises, and also about how the process of allocating spending between departments and layers of government could work better. Some of these choices can be made during the review itself. But many of them require advance thought and careful preparation – as well as developing the institutional capability of the Treasury and wider Civil Service. This briefing note highlights some of those choices and urges those in and out of government to prepare more for the decisions to come.

This briefing note should be of interest not only to those who may be running the next spending review but to anyone who wants to understand the dynamics and mechanics of how decisions about public spending are taken – and how to make these decisions more effectively.

There is more to come, for a long time to come

Economic growth has finally returned to the UK. GDP increased 1.7% in 2013, and most commentators expect growth of around 3% in 2014.¹ The Chancellor of the Exchequer, George Osborne, claimed this shows ‘pessimistic predictions that fiscal consolidation was incompatible with economic recovery have turned out to be comprehensively wrong’.² Whatever the economic post-mortem of the past six years might find, resumed growth means that the post-election spending review will take place against a far more positive-sounding backdrop than either the 2010 Spending Review or the 2013 Spending Round.

But while resumed growth put the Chancellor in a bullish mood, this fiscal consolidation is taking longer than the current Government planned. The Chancellor announced in the post-election ‘emergency’ Budget 2010 that the cyclically adjusted current budget deficit – which the Office for Budget Responsibility (OBR) forecast would be -2.2% GDP in 2014-15³ – would be balanced within four years.

As we said last summer, this plan was blown off course by weaker than expected growth. Balancing the cyclical current budget is instead now forecast to happen in 2017-18. In 2010 we thought we had four years to go; in 2014 we still have three. The timescale has nearly doubled in length.

¹ See for example, Inman, P., ‘IMF predicts Britain’s GDP growth rate will surge to 3.2% by year end’, *The Guardian*, 24 July 2014, retrieved 8 September 2014 from <http://www.theguardian.com/business/2014/jul/24/imf-predicts-britain-gdp-growth-rate-surge>

² Osborne, G., ‘What the economic pessimists are missing’, *Wall Street Journal*, 10 April 2014, retrieved 28 August 2014 from <http://online.wsj.com/news/articles/SB10001424052702304512504579493343009578478>

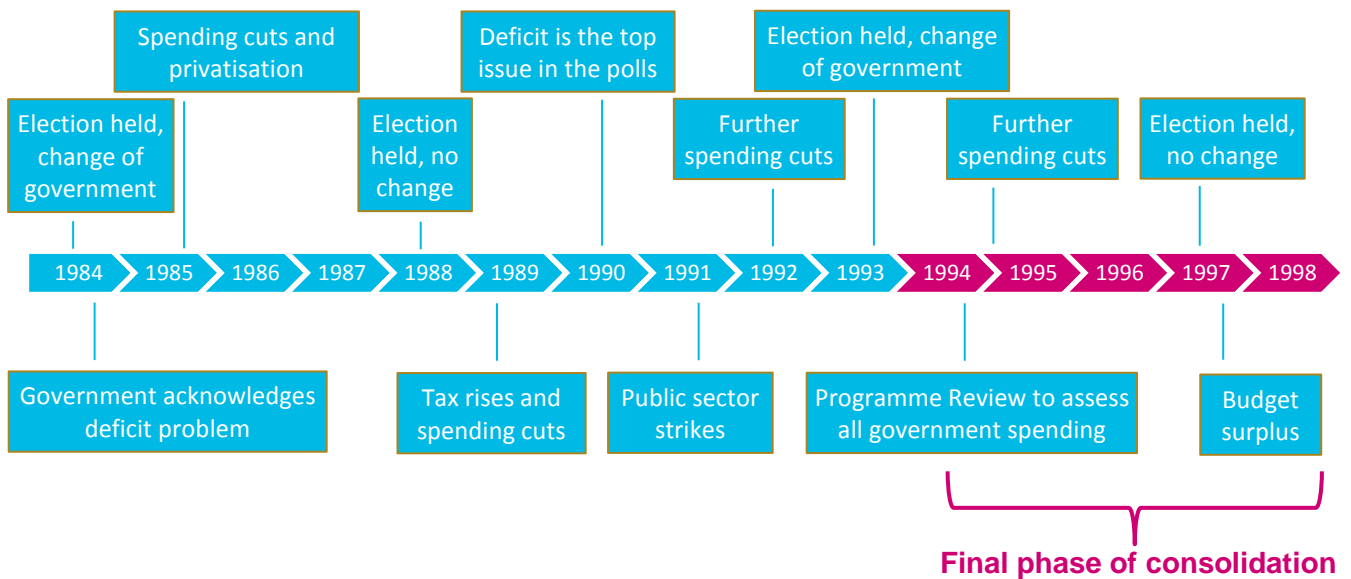
³ OBR, *Economic and Fiscal Outlook*, 2014, OBR website, retrieved 28 August 2014 from <http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf>

Austerity is therefore set to continue for longer than originally planned. By the end of this financial year, 55% of the projected fiscal consolidation will have been implemented. Within this less than half the cuts to spending on government services will have been made.⁴

Moreover, the UK stockpile of public sector net debt is now forecast to peak at 78.7% of GDP in 2015-16, more than double pre-crisis levels.⁵ So even if the ‘second go’ at tackling the deficit is a success in the next parliament, politicians will only be starting to face up to the next problem, which is high debt. In response, the Chancellor has stretched beyond his 2010 fiscal mandate to promise a new target of an absolute budget surplus by 2020. This will most likely require further cuts to come.⁶

This extended timeline should not come as much of a surprise. Canada is a classic case study of effective fiscal consolidation, involving very substantial spending reductions. People usually focus on the final phase from 1994 which stabilised Canada’s finances within a few years, but before this there were a series of failed attempts lasting a decade. The timeline below illustrates the Canadian experience. Moreover, the Canadian consolidation also took place against a backdrop of strong growth in its main trading partner, the US, where annual GDP growth in the period 1984 to 1998 averaged 6.1%. This is compared to the Eurozone – where 44.6% of UK exports went in 2013⁷ – which contracted by 0.4% of GDP last year.⁸

Figure 1: Canadian fiscal consolidation, 1984-98



If the UK experience proves to be as drawn out as the Canadian one, we should expect not just 2015 but also 2020 to be an austerity election, for public finances at least. No politician is

⁴ Tetlow, G., *Cutting the deficit: four years down, five to go?*, IFS, 2014, retrieved 28 August 2014 from <http://www.ifs.org.uk/publications/7186>

⁵ OBR, *Economic and Fiscal Outlook*, OBR website, 2014, Public Sector Net Debt, Table 1.4 on p.16, retrieved 28 August 2014 from <http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf>

⁶ BBC News, 'George Osborne: We'll run a budget surplus', *BBC News Online*, 30 September 2013, retrieved 28 August 2014 from <http://www.bbc.co.uk/news/uk-politics-24339347>

⁷ Office for National Statistics (ONS), *Statistical Bulletin: UK Trade, May 2014*, ONS website, 2014, retrieved 28 August 2014 from <http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/may-2014/stb-uk-trade--may-2014.html>

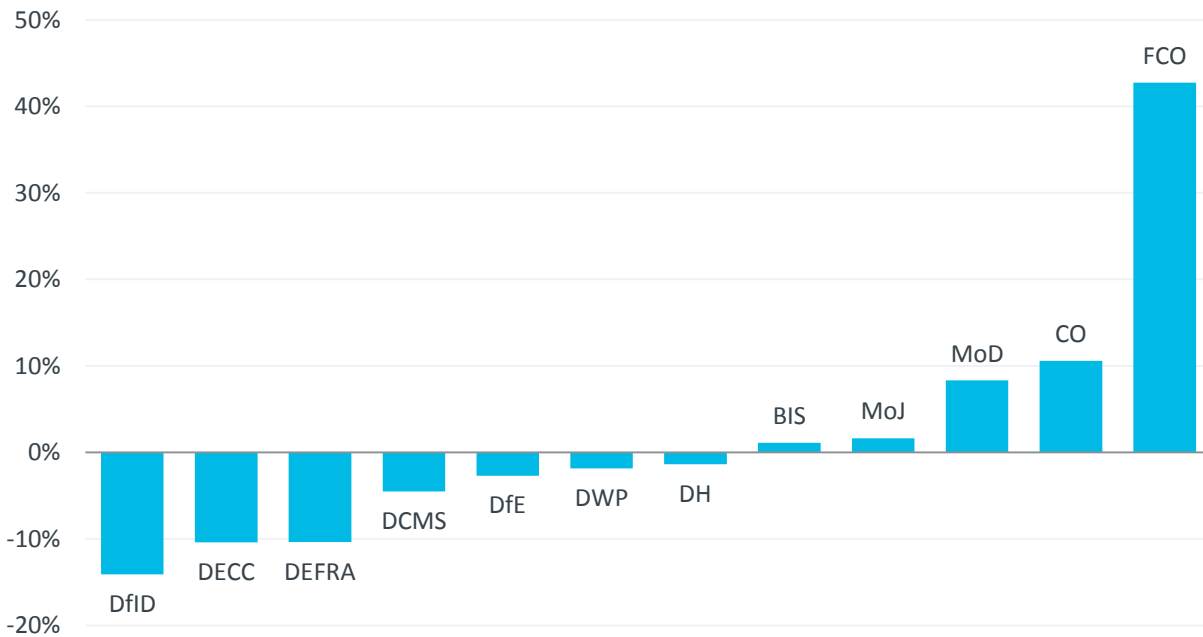
⁸ Eurostat, *Real GDP growth rate – volume*, EU website, retrieved 28/08/2014 from <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>

advocating tax rises to reduce the deficit. And while many commentators expect tax increases after the election whoever wins power, it is unlikely that any government is going to reverse course and spare public spending.⁹ So spending reductions are a long-term feature of UK public finances, rather than a short and sharp experience which is almost over.

The Government has stuck to its spending reductions so far...

The Government set itself an ambitious challenge when it set out to rapidly reduce spending to address the deficit, and has been quite successful so far. The Government has reduced spending with very few reversals. Figure x shows the expected outturns for 2013-14's resource departmental expenditure limits (DEL) relative to the amount expected in Spending Review 2010. In many departments, spending is lower in nominal terms than was planned in 2010. And in two of the departments where spending rose most, FCO and MoD, the increase is largely down to anticipated military and peace keeping expenditures. These were covered by a £3bn special reserve established in 2010.

Figure 2: Percentage change in resource DEL 2013-14 between Spending Review 2010 plans and outturn



Source: Spending Review 2010 table 1 and PESA 2014 table 1.5 (figures exclude depreciation)

Note: PESA figures rounded to one decimal place to match Spending Review figures. Home Office, Department for Transport and Department for Communities and Local Government excluded from chart as figures affected by budget transfers between departments. The Cabinet Office is aggregated with the Single Intelligence Account in these figures.

Overall, Budget 2014 expected resource DEL in 2013/14 to be £8bn lower than had been planned in Spending Review 2010. Similarly resource AME, which primarily includes benefit spending and debt interest, was expected to be £3bn lower than planned. There was a small, planned increase in capital expenditure, but overall expenditure was nearly £9bn, or 1.2%, lower than planned. This represents a substantial feat of expenditure control.¹⁰

⁹ Grice, A., 'Exclusive: Admit you'll have to raise taxes if you win next election, Ed Miliband told', *The Independent*, 5 May 2014, retrieved 28 August 2014 from <http://www.independent.co.uk/news/uk/politics/exclusive-admit-youll-have-to-raise-taxes-if-you-win-next-election-ed-miliband-told-9322962.html>

¹⁰ Budget 2014 Table 2.3; SR 2010 Table 1.1

However, the failure of growth to meet expectations between 2010 and 2014 means that spending is higher as a share of GDP than had been planned. Budget 2014 expected overall expenditure in 2013/14 to be 43.5% of GDP, compared to the 42.4% planned in Spending Review 2010.

...But has been less firm on tax

The Treasury has controlled spending tightly, but has been less firm on taxation. For example, repeated postponement of the fuel duty escalator is estimated to 'cost' the Exchequer £6.1 billion (bn) in 2015-16.¹¹ Increasing the personal allowance has been a clear political priority for the Coalition. It has already taken over three million people out of paying income tax altogether and benefited more than 26 million people.¹² This has effectively narrowed the income tax base in the middle of a fiscal consolidation. All the planned increases since April 2010 – including the latest extension to the allowance from April 2015 – are estimated to 'cost' £12-13bn a year by 2016-17.¹³

The Treasury has also got into bad habits. It has allowed commitments to be made on the basis of only temporary or uncertain increases in revenue such as those outlined below.

- The permanent tax giveaways in Budget 2014 of £4.9bn have been 'funded' by changes in the timing of tax receipts, tax avoidance measures, and unspecified spending cuts. The OBR highlighted that the changes increase revenue over the five year 'scorecard' but long-term implications are 'subject to considerable uncertainty'.¹⁴
- In its Autumn Statement 2013 the Government committed to scrap the cap on higher education student numbers, 'costing' £0.7bn a year from 2018-19. It planned to fund this in the short-term by selling the student loan book, but committing to an ongoing cost paid for by a one-off asset sale is not fiscally credible. The Business Secretary suggested recently this sale might now not happen.¹⁵
- Increases to the personal allowance and the fuel duty freeze in Budget 2013 were 'funded' by ending contracting-out for defined benefit pension schemes, which raises money in the short-term but is matched by similar liabilities over the long-term.

As Paul Johnson, director of the Institute for Fiscal Studies (IFS), warned the day after Budget 2014:

The numbers are small in the scheme of things, but we had similar observations to make after last year's Budget. A Chancellor focused on the sound management of the public finances over the long run would not make a habit of repeating these sorts of manoeuvres.¹⁶

Fiscal credibility is difficult to establish and easy to lose.¹⁷ The tax base has been narrowed, while extra long-term commitments have been made on the basis of temporary increases in revenue. This

¹¹ IFS calculations in April 2013 prices, based on comparison between planned fuel duty escalator and Coalition changes post-Autumn Statement 2013 Browne, J., 'Autumn statement policy measures' IFS, 2013, retrieved 28 August 2014 from http://www.ifs.org.uk/budgets/as2013/as2013_james.pdf

¹² Prime Minister's Office, DWP and the Treasury press release: 'Income tax cuts to benefit 26 million people from 6 April 2014', *Gov.UK website*, 2 April 2014, retrieved 28 August 2014 from <https://www.gov.uk/government/news/income-tax-cuts-to-benefit-26-million-people-from-6-april-2014>

¹³ Johnson, P., *IFS Budget analysis 2014: introductory remarks*, IFS, 2014, retrieved 28 August 2014 from http://www.ifs.org.uk/budgets/budget2014/opening_remarks.pdf

¹⁴ OBR, *Economic and Fiscal Outlook*, OBR website, para 1.9, 2014, retrieved 28 August 2014 from <http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf>

¹⁵ Cook, C., 'Vince Cable hints at U-turn over proposed student loans sale', *BBC News Online*, retrieved 28 August 2014 from <http://www.bbc.co.uk/news/uk-politics-28404598>

¹⁶ Johnson, P., *IFS Budget analysis 2014: introductory remarks*, IFS, 2014, retrieved 28 August 2014 from http://www.ifs.org.uk/budgets/budget2014/opening_remarks.pdf

¹⁷ McCrae, J., Myers, J. and Glatzel, K., *Undertaking a Fiscal Consolidation*, Institute for Government, p.10, retrieved 28 August 2014 from <http://www.instituteforgovernment.org.uk/publications/undertaking-fiscal-consolidation>

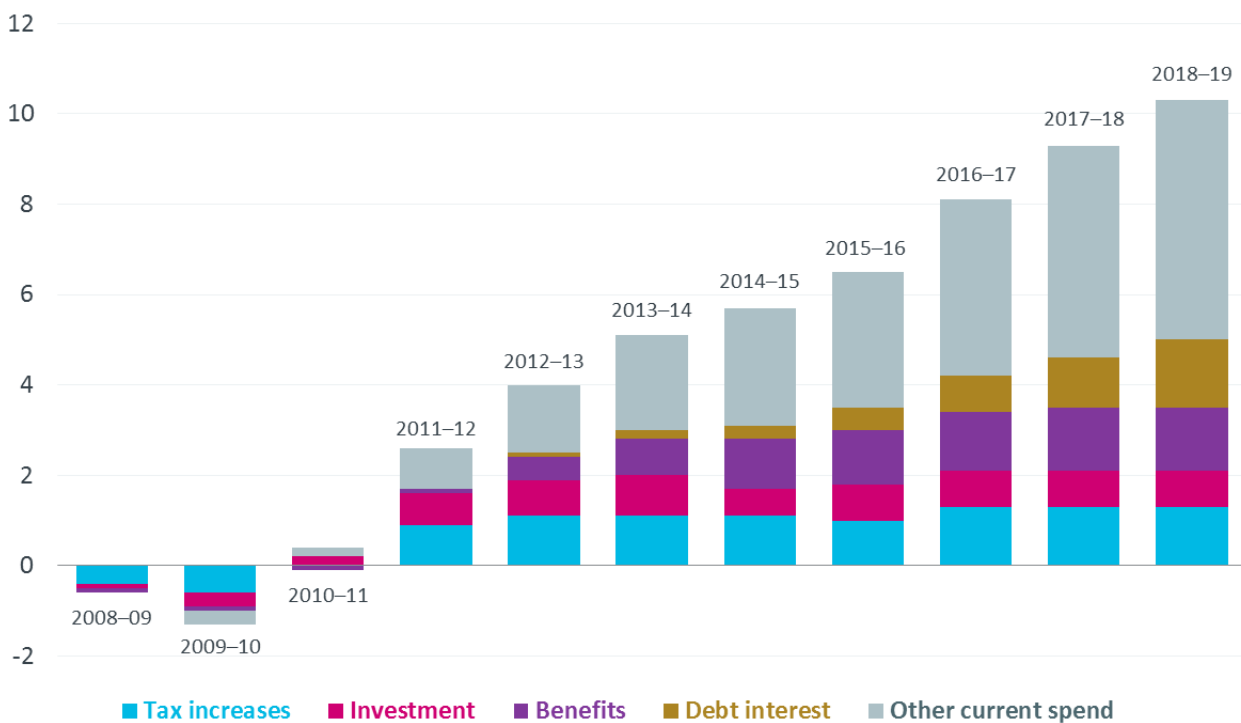
risks inconsistent messages emerging over time about the Government's commitment to consolidation.

The majority of planned spending cuts still have to be made

The early stages of this consolidation were a relatively even mix of spending cuts and tax rises. Almost all the planned tax rises and cuts to investment spending have now been implemented, but less than half the cuts to current spending have happened to date.¹⁸ By the end of this financial year, 45% of the planned consolidation still needs to be made and this is almost all from spending cuts.

The chart below shows the projected composition of fiscal consolidation to 2018-19, calculated by the IFS. It shows how far there is to go in planned further cuts to departmental spending. In his speech announcing the 'emergency' Budget in June 2010, the Chancellor said that four-fifths of the reduction in the deficit would come from spending cuts rather than taxation.¹⁹ The planned ratio is now even greater. By 2018-19 the IFS has projected just over 85% coming from spending cuts rather than tax rises (excluding debt interest).

Figure 3: Timing and composition of fiscal consolidation as % of GDP



Source: Institute for Fiscal Studies²⁰

¹⁸ Tetlow, G., 'Cutting the deficit: four years down, five to go?', IFS, 2014, retrieved 28 August 2014 from <http://www.ifs.org.uk/publications/7186>

¹⁹ Osborne, G., 'Budget 2010: Full text of George Osborne's statement', *The Telegraph*, 22 June 2010, retrieved 28 August 2014 from <http://www.telegraph.co.uk/finance/budget/7846849/Budget-2010-Full-text-of-George-Osbornes-statement.html>

²⁰ Tetlow, G., 'Cutting the deficit: four years down, five to go?', IFS, 2014, retrieved 28 August 2014 from <http://www.ifs.org.uk/publications/7186>

By the end of the planned consolidation, most of it will have come from ‘other current spend’ – day-to-day spending on things like health, education and defence. This is the spending which government notionally has more control of across years. However, as the following examples show, this control is constrained by fundamental demand-side cost drivers. This makes identifying and making savings even more difficult.

Government doesn’t control it all

There are substantial areas of public spending where pressures are far beyond the control of the Treasury. In most cases this is because of increasing demand for public services. We look at a few examples below.

- **Prisons** are run nationally, so the government has a lot of control over the service but not over demand for prison places. Overcrowding and prison numbers that exceeded expectations led the Chief Inspector of Prisons to warn about risks of making further financial cuts.
- **The NHS** is a highly-dispersed service, with institutions like foundation trusts enjoying large amounts of formal autonomy. Also cost pressures are driven by demographic and seasonal demand. There are already growing financial deficits in the sector and concern about the ability to cope with the introduction of new costs such as the Better Care Fund. It will be very challenging for any government to control costs and drive reconfiguration within this service.
- **Local government** has made major cuts in funding successfully but claims this will be unsustainable in the future. This is especially the case as central government constrains the choices available to local authorities, for example, through statutory requirements to provide certain services.

Prisons

Prisons are run nationally so the government has potentially a lot of control over the service. However, fundamental drivers of demand for services have not been changed, with early plans at reforming sentencing abandoned in the face of political opposition.

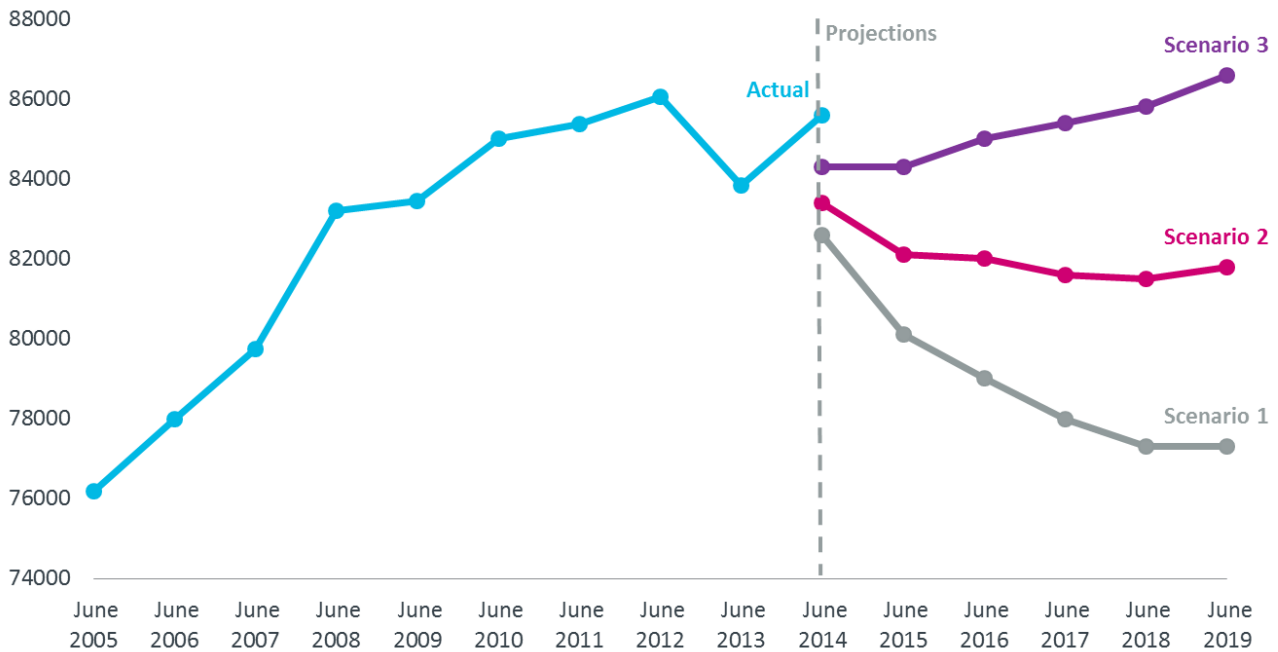
In June 2014, there were just 907 spare prison places compared to a prison population of 85,582.²¹ As recently as November 2013, the Ministry of Justice (MoJ) had projected a prison population between 82,600 and 84,300 in June 2014²² – a figure now shown to be too low. In the early stages of the consolidation, MoJ was helped when the prison population fell below expectations but this drop has now reversed. There is no sign of the prison population declining. All but six of 40 prisons, that were instructed to help house an anticipated 440 extra prisoners over the summer, are already full or overcrowded.²³

Figure 4: Actual and projected prison population under different MoJ scenarios, 2005-2019

²¹ UK Government, *Population and Capacity Briefing for Friday 27/06/2014*, Gov.UK website, 2014, retrieved 4 September 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324596/prison-population-figures-27-june-2014.xls

²² Ministry of Justice, *Prison Population Projections 2013-2019*, 2013, retrieved 28 August 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255574/prison-population-projections-2013-2019.pdf

²³ Staff, ‘Prisons inspector accuses ministers of prisons ‘failure’’, *BBC News Online*, 14 June 2014, retrieved 28 August 2014 from <http://www.bbc.co.uk/news/uk-27847007>



Source: Ministry of Justice, projections from November 2013²⁴

MoJ has little immediate control of the factors affecting the prison population, which include unexpected events like the August 2011 riots. Justice Secretary, Chris Grayling has blamed overcrowding on a surge in convictions for historic sex abuse, but this just demonstrates how vulnerable prison numbers are to small variations.²⁵ Political considerations mean the prison population can't easily be controlled through sentencing policy, which is ratcheted up even as crime rates have fallen: prison sentences remain a popular form of punishment. The House of Commons voted in June 2014 for mandatory prison terms for any adult convicted of a second offence involving a knife, despite the Chief Secretary to the Treasury warning this 'would impose a substantial new pressure on the prison population' and would not be affordable until at least 2016-17.²⁶

MoJ has already had to make substantial savings. Spending Round 2013 decided the MoJ budget would be cut by a further 10% in 2015-16 from a 2014-15 baseline,²⁷ meaning an overall cut of £2.1bn by 2015-16 from the £8.3bn 2010-11 baseline.²⁸ Significant cost savings have been made. For example, the average annual cost of a prison place in England and Wales in 2012-13 was reportedly £36,808 – a 3.5% saving on the previous year and significantly lower than the 2008-09 cost of £45,000.²⁹ Nevertheless, HM Chief Inspector of Prisons, Nick Hardwick, warned last year:

No one should fool themselves that these financial and organisational pressures do not create risks. In prisons, there are fewer staff on the wings supervising prisoners, there are fewer managers supervising staff and less support available to establishments from a diminished centre ...All the

²⁴ Ministry of Justice, *Prison Population Projections 2013-2019*, 2013, retrieved 28 August 2014 from

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255574/prison-population-projections-2013-2019.pdf

²⁵ Morris, N., 'Sex offenders account for almost half of the increase in people in jail, Chris Grayling suggests', *The Independent*, 9 July 2014, retrieved 21 August 2014 from <http://www.independent.co.uk/news/uk/crime/sex-offenders-account-for-almost-half-of-the-increase-in-people-in-jail-chris-grayling-suggests-9595797.html>

²⁶ Staff, 'Knife crime: MPs back mandatory jail term for second offence', *BBC News Online*, 17 June 2014, retrieved 28 August 2014 from <http://www.bbc.co.uk/news/uk-politics-27889836>

²⁷ The Treasury, *Spending Round 2013*, Gov.UK website, June 2013, retrieved 28/08/2014 from

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf

²⁸ The Treasury, *Spending Review 2010*, Gov.UK website, October 2010, retrieved 28/08/2014 from

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf

²⁹ Prison Reform Trust, *Prison: The facts*, Prison Reform Trust website, 2014, retrieved 28 August 2014 from

<http://www.prisonreformtrust.org.uk/Portals/0/Documents/Prison%20the%20facts%20May%202014.pdf>

establishments we inspected during the year were under pressure to do more with less and, in some, the cracks were beginning to show.³⁰

The NHS

Cracks are also showing in the NHS which is a highly-dispersed service, with institutions like foundation trusts enjoying large amounts of formal autonomy. Costs are being driven by demographic pressures and seasonal demand. Even though it is ring-fenced from real cuts there are growing financial challenges. The mild winter and low flu rates avoided an A&E crisis in 2013-14, but pressure appears to be building elsewhere with the number of people on hospital waiting lists nearing three million – the highest for six years.³¹

And there are other cost pressures including increased headcount. For example, the Keogh and Francis reports into patient care recommended a higher staff to patient ratio, and staff numbers increased in response. By the end of 2013 there were 18,500 more staff compared to June 2013.³² New guidance from the National Institute for Health and Care Excellence (NICE) on safe staffing levels comes with an estimated implementation cost of £200 million (m) – around 5% of the current cost of employing ward nurses.³³

The Coalition ring-fenced the NHS from cuts but, while headline budgets have not gone down, the NHS is still doing more with less. As a result of population growth, for example, the IFS has projected that if NHS spending is again ‘protected’ by a ring-fence in 2015 and frozen in real terms until 2018-19, real age-adjusted per capita spending on the NHS would be 9.1% lower in 2018-19 than in 2010-11.³⁴ So even ‘protecting’ NHS spending means there are tough decisions to make about how health care is delivered.

As well as containing costs, the NHS has been in many respects trying to shift the focus of its care, by moving more care into the community and away from acute services. But community-based care does not automatically lead to cashable cost savings.³⁵ Savings are only made when the acute care workforce is reduced and units (such as A&E departments) closed. Some community-based care comes with immediate costs instead. For example the Better Care Fund – announced in the 2013 Spending Round – increases the joint-funding of social care by NHS and local authorities to £3.8bn. Of this, £1.9bn will come from NHS allocations in 2015-16 in addition to the existing £1.1bn transfer from health to social care (the rest of the £3.8bn comes from other funds).³⁶

³⁰ Hardwick, N., HM Chief Inspector of Prisons for England and Wales, *Annual report 2012-13*, The Stationery Office, 2013, retrieved 28 August 2014 from <http://www.justiceinspectors.gov.uk/prisons/wp-content/uploads/sites/4/2014/04/hm-inspectorate-prisons-annual-report-2012-13.pdf>. Nick Hardwick has also suggested that overcrowding and staff shortages were directly linked to the growing rate of suicides in prison: Peachey, P. ‘Chris Grayling denies there is a prison crisis amid soaring suicides’, *The Independent*, 19 August 2014, retrieved 21 August 2014 from <http://www.independent.co.uk/news/uk/crime/there-is-no-crisis-in-prisons-says-chris-grayling-amid-soaring-suicides-9679395.html>

³¹ Appleby, J., Thompson, J. and Jabbal, J., *How is the NHS Performing? Quarterly monitoring report*, Kings Fund, 2014, retrieved 28 August 2014 from http://www.kingsfund.org.uk/sites/files/kf/field/field_publication_file/quarterly-monitoring-report-april2014.pdf

³² As measured by full-time equivalents. Appleby, J., Thompson, J. and Jabbal, J., *Quarterly monitoring report 11: NHS performance data*, Kings Fund, Figure 29, 2014 retrieved 28 August 2014 from <http://qmr.kingsfund.org.uk/2014/11/data>

³³ Trigg, N., ‘Hospitals get guidelines on safe nurse numbers’, *BBC News Online*, 15 July 2014, retrieved 28 August 2014 from <http://www.bbc.co.uk/news/health-28300146>

³⁴ IFS, *IFS Green Budget: February 2014*, IFS website, 2014, retrieved 28 August 2014 from http://www.ifs.org.uk/budgets/gb2014/gb2014_es.pdf

³⁵ In a recent report on the shift from hospital to community care, the Health Select Committee warned that hospital services are being cut back to fund community care, leaving gaps in care in the short-term and unclear savings in the long-term. Trigg, N., ‘Out-of-hospital-plan a “recipe for disaster”, MPs warn’, *BBC News Online*, 30 July 2014, retrieved 4 September 2014 from <http://www.bbc.co.uk/news/health-28134335>

³⁶ Bennett, L., & Humphries, R. *Making best use of the Better Care Fund*, The King’s Fund, January 2014, p.2, retrieved 8 September 2014 from http://www.kingsfund.org.uk/sites/files/kf/field/field_publication_file/making-best-use-of-the-better-care-fund-kingsfund-jan14.pdf

These spending pressures are placing NHS budgets under strain. More than a quarter of foundation trust hospitals are running deficits, with 40 in deficit in 2013-14 (out of 147 foundation trusts in England). This compares with 19 who expected to be running deficits, and 21 who ended 2012-13 in deficit.³⁷ The gross value of these deficits is £307m (compared to £190m in 2012-13).

The trend is a little better for non-foundation trusts, with 26 forecasting a deficit in January 2014 compared to 33 in November 2013 (out of 99 non-foundation trusts). But the net deficit in March across all non-foundation trusts was still £247m.³⁸

These are small amounts in the context of the NHS budget overall (around 0.6%), but indicate the fragility of NHS finances. Only 16.2% of NHS trust finance directors who were recently surveyed expressed confidence that they would achieve financial balance in 2015-16.³⁹ Trust finance directors are pessimistic about NHS finances overall: more than 80% think there is a high or very high risk of the NHS failing to achieve its £20bn productivity target by the end of 2014-15.⁴⁰

Local government

One way of coping with cuts is to push them down to another level of government. But here the problem of control works the other way. Local government has limited scope to determine the shape of cuts at the local level. Instead, substantial parts of spending and revenue raising powers are controlled by national legislation – forcing local authorities to cut other areas more heavily.

Recent analysis from the Local Government Association (LGA), which represents the sector nationally, has projected council funding to fall by £7.5bn between 2010-11 and 2019-20. This equates to 15% in cash terms.⁴¹ This is exacerbated by the impact of central government capping council tax increases, meaning they cannot be used to fully plug the gap. At the same time, on current assumptions, local authorities are projected to increase expenditure if they provide a constant level of public services. This results in a spending gap that the LGA expects to reach £12.4bn in 2019-20. This gap is around half the total council tax revenue collected by local authorities in England.⁴²

Figure 5: Local Government Association projections of local authority net expenditure and funding 2010-11 to 2019-20 (£bn)

³⁷ Monitor, *Annual report and accounts 2013/14*, Gov.UK website, para 4.6, 2014, retrieved 28 August 2014 from <https://www.gov.uk/government/publications/monitor-annual-report-and-accounts-2013-to-2014>

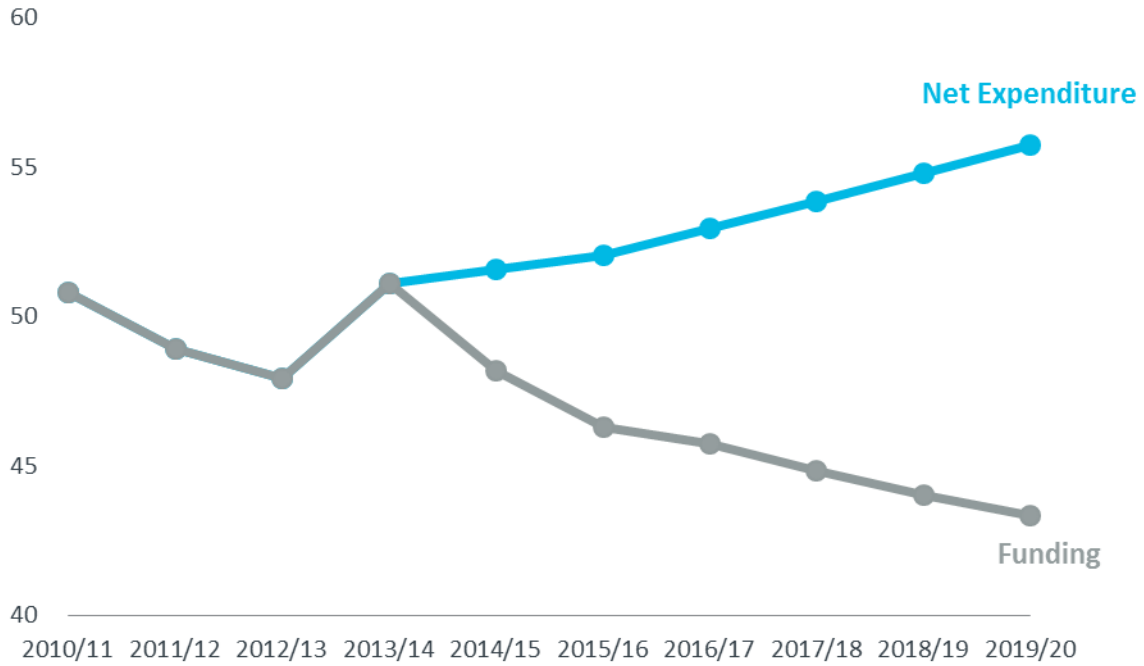
³⁸ Appleby, J., Thompson, J. and Jabbal, J., *How is the NHS Performing? Quarterly monitoring report*, Kings Fund, p. 2, 2014, retrieved 28 August 2014 from http://www.kingsfund.org.uk/sites/files/kf/field/field_publication_file/quarterly-monitoring-report-april2014.pdf

³⁹ Kings Fund, *How is the NHS Performing? Quarterly monitoring report 11: Survey*, 2014, retrieved 28 August 2014 from <http://qmr.kingsfund.org.uk/2014/11/survey/#/58cb286c-d8c3-4c4f-b810-64cc5df2a199>

⁴⁰ Ibid.

⁴¹ Local Government Association, *Future Funding Outlook 2014*, p. 14, 2014, retrieved 28 August 2014 from http://www.local.gov.uk/web/guest/publications/-/journal_content/56/10180/6325877/PUBLICATION

⁴² HM Government council tax receipts, Gov.UK website, 2014, retrieved 28 August 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/286843/CT_Receipts_Live_Table_Q3_2013-14.xls

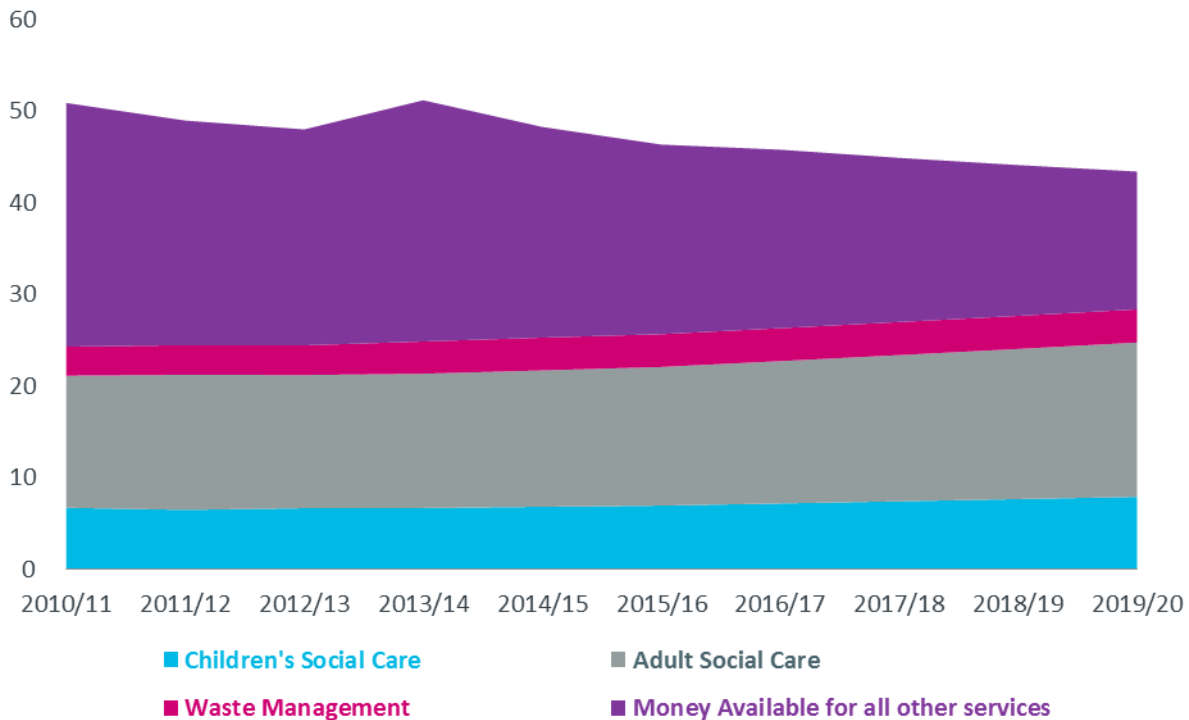


Source: Local Government Association

Note: The increase in both funding and expenditure between 2012-13 and 2013-14 is the transfer of public health responsibilities and funding for this, and also includes the planned use of reserves – a finite resource.

This increased spending is driven by statutory duties subject to similar demographic pressures faced by the NHS, especially for adult social care. Even within some notionally discretionary areas there are statutory obligations which cannot be cut easily, such as concessionary bus fares. The chart below shows the LGA’s projections of the impact on other services of falling local authority funding combined with steadily increasing statutory costs.

Figure 6: Local Government Association projections of share of local government funding for different services (% of whole funding)



Source: Local Government Association

Money available for other services beyond waste management and social care is projected to decrease by 56.5% between 2010-11 and 2019-20. Popular but discretionary services, such as libraries, will bear the brunt of further cuts. At the same time, while local authorities have saved substantial sums through efficiency savings, many of these are one-off and cannot be increased further – such as sharing services with a neighbouring authority.

Continued public support for austerity?

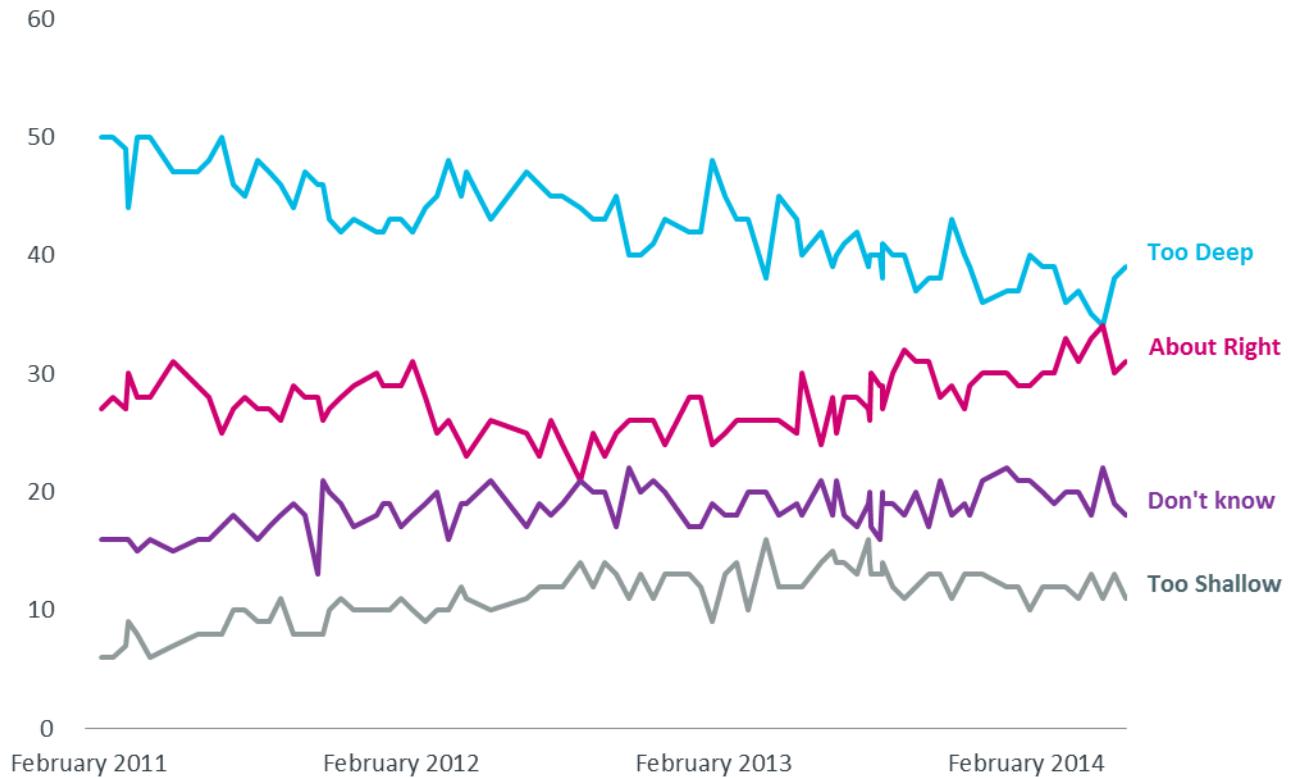
Sustaining austerity is not just about the scope of public services to cope with further reductions in spending. It is also about whether there is sustained public and political support for those reductions. As the new President of the European Commission, Jean-Claude Juncker, said of reform while Prime Minister of Luxembourg, 'We all know what to do, but we don't know how to get re-elected once we have done it.'⁴³ Yet after four years of spending reductions, the public appear ambivalent about their effect.

One of the features of the UK's fiscal consolidation has been the enduring public acceptance of the need for it. Recent polling shows 55% believe that cutting the government deficit is necessary, compared to 30% thinking it unnecessary. This figure has been virtually unchanged since early 2011.⁴⁴ The chart below shows views on the depth of cuts remain divided, but while around 40% think government cuts are 'too deep', around 30% think the depth of cuts is 'about right' and around 10% think they should be deeper still.

Figure 7: "Thinking about the way the government is cutting to reduce the government's deficit, do you think that this is too deep, too shallow, or at about right level?" as %

⁴³ Quoted by Buti, M., Turrini, A., Van den Noord, P., and Biroli, P., *Defying the Juncker Curse*, May 2008, retrieved 28 August 2014 from http://ec.europa.eu/economy_finance/publications/publication12586_en.pdf

⁴⁴ YouGov economy polling, retrieved 8 September 2014 from its online archive at http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/uvp5aa2f7h/YG-Archives-Pol-Trackers-Government%20Cuts-260814.pdf



Source: YouGov

The public are broadly divided over the ‘big picture’ of public spending. A September 2013 BBC-ICM poll found an even split of 39% people agreeing, and 40% disagreeing, with the statement that they were ‘pleased that public sector spending has been reduced’.⁴⁵

Nevertheless, many remain worried for their own futures. When asked in August 2014, 64% of people were worried they would suffer directly from cuts in spending on public services such as health, education and welfare. This figure has remained broadly at that level since 2010.⁴⁶ The BBC-ICM poll in September 2013 found that 40% of people thought public services overall had got worse in the past five years – though a positive 15% thought they had got better and 42% thought public services had stayed the same.⁴⁷ If pressures on funding lead to more visible cracks in provision of highly-valued services like the NHS – for example, if waiting times noticeably increase or hospitals close – these figures may shift and it could affect public consent for ongoing austerity.

Combined with better economic news as growth returns, this may mean the public proves receptive to a political narrative arguing that spending cuts could be slowed down. A narrative about ‘tough choices’ and the necessity of spending cuts, and accepting lower quality services, may be harder to maintain if sustained economic improvement leads to seemingly healthier public finances. The case for more cuts will need to be reinforced if the balance between cuts and tax rises remains the same,

⁴⁵ ICM, *ICM polling for the BBC, Table 32*, ICM website, 2013, retrieved 28 August 2014 from http://www.icmresearch.com/wp-content/blogs.dir/1/files/2013/10/BBC-Public-Services-Poll-Sept-2013_LONG.pdf

⁴⁶ YouGov economic worries polling retrieved 8 September 2014 from http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/1trgic7wrh/YG-Archives-Pol-Trackers-Economic%20Worries-260814.pdf

⁴⁷ ICM, *ICM polling for the BBC, Table 32*, ICM website, 2013, retrieved 28 August 2014 from http://www.icmresearch.com/wp-content/blogs.dir/1/files/2013/10/BBC-Public-Services-Poll-Sept-2013_LONG.pdf

rather than more consolidation coming from taxation. However, whatever the future holds, the striking point to date remains the high degree of public acceptance for spending reductions.

Continued political support for further cuts?

Since the public have remained committed to the necessity of fiscal consolidation, so too have the major political parties. Both government parties are currently committed to the same spending totals until into the next parliament. And both agreed to further cuts for 2015-16 in the Spending Round 2013, though the allocation of future spending cuts beyond this could not be agreed.

The two coalition parties have different positions about what to do once the cyclically adjusted current budget deficit is closed. The Chancellor is committed to achieving an overall budget surplus by 2020 through spending cuts and using this surplus to pay down debt. Nick Clegg has said publicly that once the deficit was closed the Liberal Democrats would seek to increase spending to fund investment in public services.⁴⁸ The Liberal Democrats now have their own fiscal rules: that debt will fall as a proportion of national income each year from 2017-18, and that the budget will be balanced 'over the economic cycle' with the broad exception to allow investment 'in the things that will help our economy grow'.⁴⁹

There are also different options on offer about the balance between increasing taxes and reducing spending. The Conservatives are committed to fiscal consolidation being driven by spending cuts, but the Budget 2014 document noted that – while fiscal consolidation in the next parliament was presented as a reduction in spending – 'it would, of course, be possible to do more of this further consolidation through tax instead'. So this option has been left open.⁵⁰

In January 2014, Ed Balls committed Labour to 'balance the books and deliver a surplus on the current budget and falling national debt in the next Parliament'.⁵¹ Labour would accept the Coalition's spending plans for 2015-16, signalling that many of the cuts made so far would not be reversed. However, he did not elaborate further on the details, and almost certainly won't before the election. Labour have left open the possibility of increasing taxes after the election. Furthermore, his promise of 'no more borrowing for day-to-day spending' implies that borrowing for capital investment may be exempted from his fiscal rules.

But despite these public disagreements about how to use the proceeds of growth and the broad shape of the fiscal consolidation, very little is being said publicly about what specifically any of the major parties would cut in the post-election Spending Review. The 2015 election is likely to be characterised by all sides avoiding the detail, as they did in 2010, and instead scoring points over political dividing lines such as welfare. This should not be seen as an issue confined to modern British politics. It is a common feature of elections in periods of austerity around the world.⁵²

After the election, achieving political consensus for a multi-year spending review may be more difficult to achieve than it was in 2010 before any cuts had bitten. In the run-up to the 2013

⁴⁸ James, W., 'UK's Liberal Democrats plan spending rise once deficit cleared', *Yahoo*, 10 February 2014, retrieved 28 August 2014 from <https://uk.news.yahoo.com/uk-39-liberal-democrats-plan-spending-rise-once-185222842--business.html#IB5I5Dt>

⁴⁹ Liberal Democrats, *Pre-Manifesto 2014: A Stronger Economy and a Fairer Society*, 2014, p.15, retrieved 8 September 2014 from https://d3n8a8pro7vhmx.cloudfront.net/libdems/pages/6272/attachments/original/1409941645/Pre-Manifesto_3_Sep_2014.pdf?1409941645

⁵⁰ The Treasury, *Budget 2014*, Gov.UK website, 2014, retrieved 28 August 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf p.60

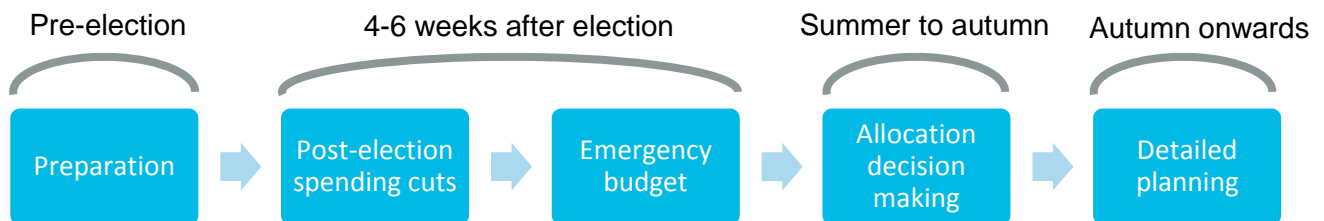
⁵¹ Balls, E., 'Full text: Ed Balls commits Labour to budget surplus – and announces 50p tax rate plan', Labour List website, 25 January 2014, retrieved 28 August 2014 from <http://labourlist.org/2014/01/full-text-ed-balls-commits-labour-to-budget-surplus-and-announces-50p-tax-rate-plan/>

⁵² McCrae, J., Myers, J. and Glatzel, K., *Undertaking a Fiscal Consolidation*, Institute for Government, retrieved 28 August 2014 from <http://www.instituteforgovernment.org.uk/publications/undertaking-fiscal-consolidation>

Spending Round, ministers publicly and robustly defended their budgets. We have begun to see similar behaviour already ahead of the 2015 Review. The now-former Defence Secretary recently argued against further ‘significant reductions’ in the defence budget, for example.⁵³ There may be difficult issues to manage if newly-appointed ministers fundamentally disagree with the case for deeper spending cuts, either to their department or in general.

Learn the lessons of Spending Review 2010

All of these pressures on the sustainability of government spending, public opinion and political support, will come together in the post-election spending review. So how are these pressures likely to be managed? It’s useful to look at the five stages that were involved in making spending decisions in 2010.



Some preparation work was carried out before the last election. This varied across Whitehall. In some cases, for example at the MoJ, a considerable amount of planning was carried out. There were virtually no examples of preparation on a cross-departmental basis.

Eighteen days after the 2010 election, the incoming Coalition government announced £6.2bn of cuts to planned spending in 2010-11. These included small but emblematic cuts, for example banning civil servants from travelling in first class on public transport, taking away dedicated ministerial cars, and freezing non-front-line civil service recruitment.⁵⁴ While the cuts reduced the then deficit of £156bn by just 4%, David Laws, Chief Secretary to the Treasury at the time, described them as a ‘shockwave’ to signal the Government’s seriousness about reducing spending.⁵⁵

This was followed by an ‘emergency budget’ in June 2010, which announced tax changes and fixed the overall envelope for the spending review. The subsequent process determined the allocation, rather than scale, of cuts to prevent departments proposing tax increases as an alternative.

The allocation process started formally on 8 June 2010, and the results were published on 20 October 2010. It was run as a ‘zero-sum’ negotiation. The Treasury negotiated bilaterally with individual departments and threatened recalcitrant ministers with the ‘star chamber’ judgement of an

⁵³ Swinford, S., ‘Philip Hammond warns against deeper cuts to armed forces’, *The Telegraph*, 10 July 2014, retrieved 28 August 2014 from <http://www.telegraph.co.uk/news/uknews/defence/10957746/Philip-Hammond-warns-against-deeper-cuts-to-armed-forces.html>

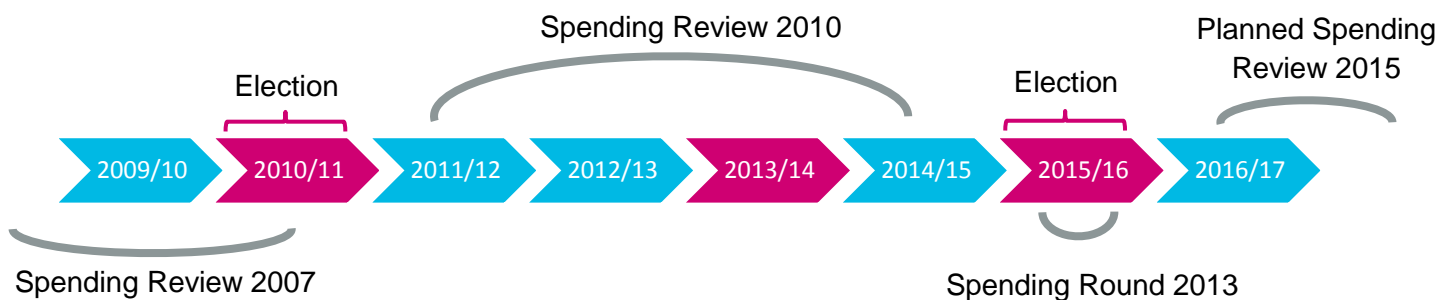
⁵⁴ Staff, ‘Spending cuts: the £6.2bn savings-at-a-glance’, *BBC News Online*, 24 May 2010, retrieved 28 August 2014 from http://news.bbc.co.uk/1/hi/uk_politics/8700342.stm

⁵⁵ Staff, ‘George Osborne outlines detail of £6.2bn spending cuts’, *BBC News Online*, 24 May 2010, retrieved 28 August 2014 from http://news.bbc.co.uk/1/hi/uk_politics/8699522.stm

imposed settlement by their peers.⁵⁶ This meant the process was characterised by almost no collaboration across departmental boundaries.

The 2010 Spending Review covered four years with a further exercise to set budgets for the final year of the fixed five-year parliamentary term (2015-16). By running a review for four years rather than the full five, the Coalition was locked into doing a spending round, whatever the political and economic situation was to be in 2013. Doing a five-year review in 2010 would have given them a choice. Instead, valuable political energy was wasted in 2013 securing agreement on a single year of further cuts, which could have been agreed in 2010.

Figure 8: Timing of spending reviews and elections, 2009-10 to 2016-17



Weaknesses in the 2010 process

The 2010 Spending Review was successful in agreeing spending allocations by the autumn. The Treasury may advise the Chancellor in May 2015 to run the review in a similar way to 2010. However, there were a number of weaknesses in the 2010 process, which need to be addressed, and some new challenges for 2015.

First, there was criticism that some major strategic issues could not be properly addressed in the timescales. Most obviously, both the National Security Strategy and Strategic Defence and Security Review were 'rushed' to fit within the constrained spending review timetable.⁵⁷ There was also little evidence of the new National Security Council reaching its potential to take strategic decisions about the review.⁵⁸

Second, public engagement in the process was inevitably superficial. The Chancellor launched a 'Spending Challenge' website for members of the public to submit ideas for spending cuts.⁵⁹ These ideas were vetted by a joint Treasury and Cabinet Office team, and some were ultimately adopted.⁶⁰ But this process yielded few real savings ideas, and the Government's appetite for crowd-sourcing appears to have declined.

⁵⁶ Rigby, E. and Stacey, K., 'Osborne threatens overspending ministers with 'star chamber'', *Financial Times*, 29 May 2010, retrieved 28 August 2014 from <http://www.ft.com/cms/s/0/2c620ae6-c7bb-11e2-9c52-00144feab7de.html>

⁵⁷ House of Commons Defence Committee, *The Strategic Defence and Security Review and the National Security Strategy*, The Stationery Office, 2011, retrieved 4 September 2014 from <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/761/761.pdf>

⁵⁸ House of Commons Public Administration Select Committee, *Who does UK National Strategy? Further report*, Sixth report of session 2010-11, 25 January 2011, retrieved 28 August 2014 from <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubadm/713/713.pdf>

⁵⁹ UK Government press release, 'The Chancellor launches the Spending Challenge', Gov.UK website, 9 July 2010, retrieved 28 August 2014 from <https://www.gov.uk/government/news/the-chancellor-launches-the-spending-challenge>

⁶⁰ Delib, *Case Study: The Spending Challenge – UK Government uses Dialogue App to save over £500m per year*, Delib website, 2010, retrieved 28 August 2014 from <http://www.delib.net/resources/Spending%20Challenge%20Case%20Study.pdf>

Third, internal challenge of departmental proposals was limited. The Treasury set up an Independent Challenge Group to assess and challenge spending proposals to ‘minimise the impact on public services’.⁶¹ Most of its members were civil servants, almost all of whom were involved in helping their home departments in the allocation process and therefore had limited capacity to challenge other proposals. There were external members, but in such a short process there was limited time to engage properly in testing plans.

The challenges of 2015 are different to those of 2010

Whoever forms the next government will in some respects be facing a tougher situation than the Coalition did in 2010. While progress has been made, there is still a long way to go on fiscal consolidation. Much of the ‘low hanging fruit’ has gone, and so finding further savings will be more difficult.

Our work with Whitehall departments indicates that the Civil Service believes it has gone as far as it can in cutting public spending within departmental silos without more innovative cross-departmental approaches being introduced. This is widely accepted in Whitehall, as our 2012 report on major change in government departments, *Transforming Whitehall Departments*, found:

Despite their shared interests, departmental change programmes have largely been driven in isolation from each other. But leaders in many departments believe they are now approaching the point where internal changes alone will not yield further large savings. As one interviewee said, ‘there’s really nothing left to squeeze’. This means collaborating will be essential, not optional, in future.⁶²

Transformative approaches to delivering public services, and perhaps structuring Whitehall differently, may be needed to deliver substantial further savings. But they require careful planning and development across departmental boundaries.

These issues are widely recognised, and politicians are talking a lot about new ways to run government in the UK. One way of resolving the problem of silos is through greater decentralisation. As we warned in 2009, the centralised nature of Whitehall brings dangers.

Rather than pushing limits down to lower levels of government, we push limits down through expenditure silos, particularly health and education. There is a clear risk that such a process leads public services to retreat to delivering their core services, rather than encouraging the public sector as a whole to innovate better ways of delivering across the piece.⁶³

Decentralising spending power is difficult

Both Coalition parties entered government committed to localism. Recently, the Chancellor gave a major speech calling for a ‘serious devolution of powers and budgets’ for cities prepared to move to a mayoral form of city-region government. He also indicated his willingness to work across political boundaries to make it happen.⁶⁴

⁶¹ The Treasury, ‘Independent Challenge Group membership list’, The National Archives website, 4 August 2010, retrieved 28 August 2014 from http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/spend_icg_members.htm

⁶² Page, J., Pearson, J., Jurgeit, B., and Kidson, M., *Transforming Whitehall Departments*, Institute for Government, p.44, 2012, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/publications/transforming-whitehall-departments-2012>

⁶³ McCrae, J., Myers, J. and Glatzel, K., *Undertaking a Fiscal Consolidation*, Institute for Government, retrieved 28 August 2014 from <http://www.instituteforgovernment.org.uk/publications/undertaking-fiscal-consolidation>

⁶⁴ Randall, J., ‘Building a ‘northern powerhouse’: it may (or may not) work’, *Institute for Government blog*, 24 June 2010, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/blog/8297/building-a-northern-powerhouse-it-may-or-may-not-work/>

Decentralisation has become a motif in Ed Miliband's programme too. In a speech in April 2014 he backed Regional Growth Funds and called for local areas to be able to bid to take over Whitehall functions.⁶⁵

But genuine decentralisation is politically difficult to achieve and, as the Institute's report *Achieving Political Decentralisation* found, there is a mixed record of recent success. Previous efforts to transfer power to local areas, for example to city mayors, have not always succeeded – often because of weak political support, disputes between local and central government, and failure to make reforms meaningful to the public. Spending reviews typically pass budgets but not power to local institutions. This is often accompanied by ring-fencing, strong conditionality and centrally-determined controls.

Conditionality in Australia

Even in historically and constitutionally-federal systems, there can be a strong tendency towards imposing conditionality on funding. In Australia, the most emblematic example of this problem was John Howard's requirement in 2004 that education funding to states was conditional on each school having a 'functioning flagpole and flying the Australian flag'.⁶⁶

Conditionality of funding often results from imbalanced power. Australian fiscal imbalance comes from states being constitutionally responsible for providing most major services (such as education, welfare and transport) while the Commonwealth collects the major revenue sources of income tax, corporation tax, and 'goods and services tax' (which is similar to VAT). The Commonwealth has tended to use 'specific purpose payments', through which a lot of programme funding is transferred, as a bargaining chip to influence state policy.

Conditionality also reflects a fear that there is not enough accountability for spending at the decentralised level. Kevin Rudd set up the Council of Australian Governments' (COAG) Reform Council as a forum for negotiation between states and the Commonwealth and a mechanism for holding states to account for delivering outcomes. However Tony Abbott abolished it. There is now no dedicated mechanism for the Commonwealth to know what states are doing with the money they are given.

Devolution to the nations in the UK has followed a different path, as devolved authorities, especially Scotland, are accepted by Westminster as having political legitimacy and growing institutional maturity. Funds are transferred *en bloc* to the devolved authorities. Irrespective of what happens after the referendum in September 2014, the subject of a forthcoming Institute for Government report, more fiscal powers are already being devolved. The Scotland Act 2012 gave MSPs power from 2016 to set a separate income tax and provides new borrowing powers to the Scottish government.

Successful decentralisation requires both power and money to be passed down. Planning for this in advance will be important if parties really do want more decentralisation.

How to run the post-election spending review differently

The situation suggests the post-election spending review needs to be run quite differently to previous reviews. This is rhetorically accepted by politicians, but actions will determine whether they are serious. The next government needs to build on the 2010 process to address bigger challenges

⁶⁵ Gash, T., 'Ed's local concerns', *Institute for Government blog*, 14 April 2010, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/blog/7716/eds-local-concerns/>

⁶² Fenna, A., 'Commonwealth Fiscal Power and Australian Federalism', *UNSW Law Journal*, Volume 31(2), p.520, 2008

and find savings across government that transform services. While we take the 2010 process as a starting point, there are five changes in the process that could result in a more effective post-election spending review.

In summary, the Government should use the review to:

1. cover a longer period of time, almost certainly five years to cover the full length of the parliament
2. have a longer process for deciding allocations, to enable more rigour and collaboration to maximise the efficiency from finding savings across silos
6. take decentralisation seriously by committing to it in advance and through through a pre-clear support from the prime minister and chancellor
3. plan the next phase of civil service reform to ensure Whitehall will have the people with the right skills to devise and deliver savings
4. prepare for it properly now, with the Civil Service taking their stewardship responsibilities seriously by serving the government both in the short term, and by planning on a longer timescale.

These changes work with the grain of the current process, but would create space for different behaviour to enable more collaboration and planning. This in turn would lead to better decisions about public spending.

1. Set the review to cover a longer period of time

Transformative change takes at least three-to-five years to design and begin implementing, so the planning horizon needs to reflect this. The review therefore needs to cover a long enough period to give leaders across the public sector time to maximise the benefits of this change.

In 2015, agreeing spending allocations for the full five years, to take plans through to the end of the fixed-term parliament, would provide a clear trajectory over the whole term and for the first year of the next. A five-year review would be particularly attractive for a coalition government. It would be easier to hold just one set of negotiations over spending at a point when coalition unity is likely to be at its highest, and political impetus to find agreement at its strongest, rather than re-opening arguments partway through the term. A minority government may find setting budgets for the full parliament more difficult to sustain.

Figure 9: Five-year spending review from 2015-16



There is not a convincing case for setting the review to cover a shorter period since a further spending review could be held later in the parliament if required. Three successive spending reviews in the early-2000s revisited the last year of the previous review. Reviews can be brought forward and held sooner if circumstances demand it, but cannot be delayed longer than planned. An

alternative could be, as suggested by the Fabian Commission on Future Spending Choices, to hold reviews to cover three years with only indicative totals for a further two.⁶⁷

Figure 10: Spending Reviews since 1997

Year of review	Years of spending plans covered	Number of years covered	Overlap with previous review
1997 re-allocations	1997-98 to 1998-99	2	2
1998	1999-00 to 2001-02	3	0
2000	2001-02 to 2003-04	3	1
2002	2003-04 to 2005-06	3	1
2004	2005-06 to 2007-08	3	1
2007	2008-09 to 2010-11	3	0
2010 re-allocations	2010-11 only	1	1
2010	2011-12 to 2014-15	4	0
2013	2015-16 only	1	0

It is within the Chancellor's power to decide how long the review should run for, since the period of time covered by a spending review is fundamentally a political choice. It is not simply to do with the nature of the spending. Some government spend can vary within a spending year, such as the £1bn saved in-year from consultancy, advertising and travel costs after the 2010 election; other spend requires decades-long commitment, such as the building of HS2.

Nor is it to do with comparisons to the private sector where, other than some capital spending, virtually all business spending will be subject to an annual planning round to respond to business conditions and cash flow. The UK has, like other countries, moved away from annual planning rounds. Instead, a spending review can take advantage of the more stable funding environment that the public sector enjoys compared to the private sector, and limit the disruptive uncertainty caused by having a spending round.

Spending reviews consume huge amounts of political energy and civil service time – rightly so if they are serious planning exercises. While the Treasury must always reserve the prerogative to alter spending allocations to adapt to circumstances or changed priorities, setting reviews to cover the full parliamentary term by default would reduce the need for difficult mid-term decisions.

2. Lengthen the allocation process to enable more rigour and collaboration

The departmental allocation part of Spending Review 2010 was constrained to just four months to limit the political uncertainty and competitive energy between ministers and their departments. This can be attractive, but a rushed review causes more problems later. Securing quick agreement to allocations means falling back on the tried-and-tested approach of bilateral negotiation. This pits departments and their secretaries of state against each other in a zero-sum competition for resources.

⁶⁷ Fabian Society, *2030 vision: The final report of the Fabian Commission on Future Spending Choices*, Fabian Society website, 2013, retrieved 4 September 2014 from http://www.fabians.org.uk/wp-content/uploads/2013/10/2030_Vision_web.pdf

Running the allocation process over a longer period could use the Treasury's leverage of not settling with departments to force desired behaviour. There would be three main benefits from lengthening the process.

First, it would provide the time needed to require departments to produce joint plans in some areas before agreeing to the allocation for it. This would depend on the Treasury engaging actively in facilitating these plans and thinking carefully about the areas where joint plans are strategically sensible and might offer more savings than siloed cuts. For example, preventative spend often involves expenditure by one department and results in savings for another, giving the first department little incentive to make the expenditures under the current competitive spending allocation process. If the Treasury wanted to be serious about preventative spend, one way of doing so could be to use a longer allocation process to bring departments together and share the costs and benefits.

One option for structuring this could be running a two-stage allocation process. The first step would set the envelope for given areas, such as a 'justice sector fund', and require departments to work together to develop plans in that area before the final allocation is agreed in the second step.

Justice sector collaboration in New Zealand

New Zealand has developed the concept of the 'criminal justice pipeline'. This covers: identifying the causes of crime and working to prevent it; investigation and resolution; court processes; and then sentencing and rehabilitation.⁶⁸

In 2012, the previously separate six agency budgets were pooled as the 'Justice Sector Fund', which allows money saved in one justice sector agency to be used by another, rather than clawed back by the Treasury as an underspend. The sector is led by a board of the agency chief executives who share accountability (including a sizeable amount of at-risk performance pay) for delivering ambitious targets, such as a 25% drop in re-offending by 2017.

This incentive, combined with structural changes to allow savings to pay for investment in different parts of the sector, demonstrates the kind of transformative approach the UK Treasury could explore facilitating.

This is in the context of a set of agreed government priorities: the 'Better Public Services' programme. This aligns the accountability of both ministers and department heads with achieving the results, and places significant emphasis on joint working between agencies.⁶⁹

A more radical option would involve redesigning completely the spending review to emphasise collaboration rather than non-co-operation. The Canadian 'Program Review' process of the early 1990s did this, and lasted around a year ensuring collective agreement to the whole plan.⁷⁰ Longer allocation processes are possible.

Second, more time would allow more rigorous assessment of department plans for how they would live within the proposed allocation and whether they have the capability to deliver their plans. For

⁶⁸ New Zealand Ministry of Justice, Criminal Justice Pipeline, NZ Ministry of Justice website, retrieved 4 September 2014 from <http://www.justice.govt.nz/justice-sector/images/Criminal%20justice%20pipeline.jpg/view>

⁶⁹ State Services Commission, *Better Public Services*, State Services Commission website, 2014, retrieved 4 September 2014 from <http://www.ssc.govt.nz/better-public-services>

⁷⁰ Bourgon, J., *Program Review: The Government of Canada's experience eliminating the deficit, 1994-99: a Canadian case study*, Institute for Government, 2009, retrieved 01 September 2014 from <http://www.instituteforgovernment.org.uk/publications/program-review>; McCrae, J., Myers, J. and Glatzel, K., *Undertaking a Fiscal Consolidation*, Institute for Government, p. 10, retrieved 28 August 2014 from <http://www.instituteforgovernment.org.uk/publications/undertaking-fiscal-consolidation>

example, including a credible role for external challenge of departmental plans – as the Independent Challenge Group in 2010 was intended to – requires more time for those reviewers to engage seriously with departments. In the next spending round, there could be an enhanced role for the Major Projects Authority (MPA) for reviewing bids involving big projects. In the 2010 Spending Review, economists in departments ‘peer reviewed’ submissions for capital spending from other departments, a process which some felt worked well. This time the MPA could advise on bids, as well as providing advice to the Chancellor and Chief Secretary on the capacity and capability of departments and whole government to deliver the full portfolio of major projects.

There should also be a role for the new What Works centres. Danny Alexander, Chief Secretary to the Treasury, said at their launch that the evidence-gathering role of the centres ‘will further ensure government takes decisions at the [2013] Spending Round and future events on the basis of high-quality research aimed at delivering the best possible outcomes for the public’.⁷¹ There was little evidence of this happening at the spending round last year. A longer allocation process could provide space for the What Works Network to assess independently the evidence base of departmental plans.

Third, more time would also enable government to consider major strategic decisions properly. For example the next Strategic Defence and Security Review and National Security Strategy could be developed without the rush which characterised them in 2010 or creating new clusters of departments or programmes. Existing collective forums could be used more during the review process to consider the impact of spending cuts on major strategic issues. An obvious example would be using the National Security Council – which, as Institute for Government research shows, is seen as a successful case of central co-ordination⁷² – to at least discuss, if not decide, the allocation of a national security budget envelope among the Ministry of Defence (MOD), intelligence agencies and other relevant parts of departments. There is already the National Security Secretariat which could potentially, with additional capacity, play a stronger role in clarifying the trade-offs for ministers between expenditure on different national security priorities. This would sit comfortably with the logic of stronger central co-ordination and the enhanced role of cabinet secretariats since 2010.⁷³

There are further possibilities for using a longer process. For example the Fabian Commission on Future Spending Choices has argued for a multi-stage process which involves publishing a ‘draft’ review for public consultation, parliamentary involvement and a more participative process.⁷⁴ Certainly, more time would mean a more serious attempt at public participation could be made than in 2010. There is some demand for this. Recently, for example, leading health experts called for a ‘national conversation’ on providing services if health budget savings are to be realised.⁷⁵

Departments need some certainty about spending totals at the start of 2016-17, which is one reason for rushing towards an autumn announcement. But areas where spend totals must be guaranteed could be sorted early – for example, as part of an immediate re-allocation following the election –

⁷¹ UK Government press release, ‘New world leading evidence centres to drive better decisions across £200 billion of public services’, Gov.UK website, 4 March 2013, retrieved 4 September 2014 from <https://www.gov.uk/government/news/new-world-leading-evidence-centres-to-drive-better-decisions-across-200bn-of-public-services>

⁷² Harris, J., and Rutter, J., *Centre Forward: Effective Support for the Prime Minister at the Centre of Government*, Institute for Government, 2014, <http://www.instituteforgovernment.org.uk/publications/centre-forward> ; forthcoming paper by Joe Devanny and Josh Harris on the National Security Council.

⁷³ Ibid.

⁷⁴ Fabian Society, *2030 vision: The final report of the Fabian Commission on Future Spending Choices*, Fabian Society website, 2013, retrieved 4 September 2014 from http://www.fabians.org.uk/wp-content/uploads/2013/10/2030_Vision_web.pdf

⁷⁵ Letters to the Editor, ‘We need a proper health policy conversation’, *The Times*, 7 July 2014, retrieved 28 August 2014 from <http://www.thetimes.co.uk/tto/opinion/letters/article4140238.ece>

before finishing the full review later. This would be similar to the £6bn of in-year cuts exercise in 2010-11 and would give much more certainty about direction than a rushed review. It would remove the need to complete the spending review by autumn 2015 as well.

3. Take decentralisation seriously

Decentralisation also requires a different approach to the spending review, and should be built on a more grown-up relationship between central and local government.

First, it is necessary to recognise that decentralisation requires genuine transfers of power – not just money or responsibility. Such recognition can help create the conditions for transforming services at a local level, in a way that simply transferring ring-fenced budgets or statutory responsibilities is less likely to.

Second, there is a need to commit to this transfer of power in advance of the formal spending review – and probably in advance of the election too. Pre-election policy commitments should include clear proposals for decentralisation so that (shadow) ministers are unable to make statements or commitments that clash with the reform.⁷⁶ It is important not to make specific manifesto pledges on policies which are otherwise intended to be decentralised. The whole point of decentralisation is that others will set goals and ways of meeting those goals. But once additional manifesto commitments are made, politicians will feel accountable for delivering them, often leading them to re-centralisation.

Third, it is essential to sustain this decentralisation effort throughout the spending review process itself. Negotiating a spending settlement requires having a voice in the negotiation. Local authorities, local enterprise partnerships, and most other local institutions (including those imagined but not yet created) have no voice at the crucial stages of the process, and no power within it. So there needs to be clear support from the Chancellor and the Prime Minister – and probably an institutional mechanism too – to drive decentralisation. The Department of Communities and Local Government (DCLG) does not have the strength or means within Whitehall to force others to give up powers to decentralise. The Treasury and the Prime Minister could, using their authority to ‘maintain momentum and overrule objections from departments and ministers’.⁷⁷ In the absence of either prime ministerial or chancellor commitment, or a clear manifesto commitment, it is unlikely that further decentralisation will happen in the next spending review.

4. Plan the next phase of civil service reform to ensure Whitehall will have the right skills to devise and deliver savings

Transformative change in how government delivers services, especially if accompanied by genuine decentralisation, requires different skillsets in Whitehall. But the Civil Service is actively trying to reduce its headcount, so this cannot involve simply recruiting more people. The *2012 Civil Service Reform Plan* included a commitment to reduce the number of staff by around 23% to 380,000 full-time equivalents (FTE) by 2015.⁷⁸ Initially, it made fast progress and the Civil Service is now 73,060 FTE or 15.3% smaller since Spending Review 2010.⁷⁹

⁷⁶ Gash, T., Randall, J., and Sims, S., *Achieving Political Decentralisation*, 2014, Institute for Government, p.22, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/publications/achieving-political-decentralisation>

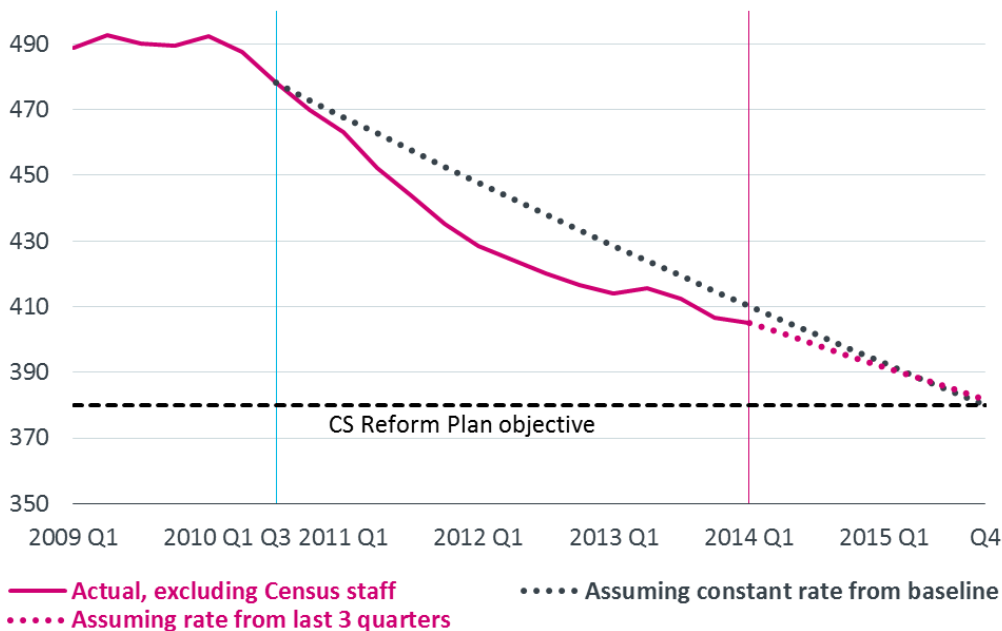
⁷⁷ Ibid.

⁷⁸ HM Government, *Civil Service Reform Plan*, Civil Service website, p.11, 2012, retrieved 4 September 2014 from <http://www.civilservice.gov.uk/wp-content/uploads/2012/06/Civil-Service-Reform-Plan-acc-final.pdf>

⁷⁹ Institute for Government, ‘Civil Service Staff Numbers - Q1 2014’, *Whitehall Monitor*, 11 June 2014, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/our-work/whitehall-monitor/inputs/people-civil-service/civil-service-staff-numbers-q1-2014>

There is an important question about how sustainably this was done and whether the Civil Service can maintain momentum to keep cutting without damaging its capability. But it is clear that the Civil Service is substantially smaller than four years ago, and these plans do not take into account any further cuts that might arise beyond 2015. The trajectory of headcount appears to be clearly downwards.

Figure 11: Actual and projected paths Civil service headcount reductions towards Civil Service Reform Plan objective



Source: ONS Public Sector Employment (table 9) to Q1 2014; projections by the Institute for Government
 Note: excludes census staff

The size and speed of these reductions, and the likelihood of further ones, raises questions about how the Civil Service can ensure it has the right skills to devise and deliver savings after 2015. Many future cuts will be likely to involve complex transformations in how services are delivered. Ensuring the Civil Service is capable of delivering this, must be an essential component of the next stage of civil service reform.

This means building on existing areas of strength to develop capability in other parts of government. For example, the Major Projects Authority has become a valuable institution for providing the centre with assurance about major projects across government. But it is also in a unique position to help develop project management skills across the Civil Service.

In addition, this is in line with seeing both the Spending Review and civil service reform as part of an integrated planning process – one that requires situating the spending review in an ongoing financial management and performance process that provides the analysis and insight needed for rigorous planning. So, for example, the Treasury could more directly support departments in identifying savings across departmental boundaries.

This would be similar to the US, where in 2010, the Administration set up an annual review by the Government Accountability Office (GAO) (the equivalent to the UK's NAO) to identify savings from fragmentation, overlap or duplication in spending. The latest report identified savings of \$17bn in the

Administration's 2015 budget, on top of \$25bn in previous years. The GAO continues to monitor progress by both the Administration and Congress towards making recommended savings.⁸⁰ Some of these are straightforward efficiencies, such as better procurement and shared services. But others eliminate duplicated programme spending, for example, by closing a loophole that allows individuals to claim both full disability and unemployment benefits, which has saved \$10bn, or ending overlapped provision of food aid to vulnerable groups by two different agencies.⁸¹ The UK Treasury could explore the possibility of running an ongoing review to support savings in departments and identify cross-government savings from reducing duplication.

The challenge of identifying and implementing savings from 2015 onwards means that civil service reform cannot be an afterthought to the spending review. The two need to be integrated to ensure the Civil Service has the capabilities needed to deliver the spending review's allocations.

5. Prepare properly now

Prior to the 2013 Spending Round, the Institute for Government said that departments needed to invest there and then in understanding the choices available for further cuts in 2015, and to identify areas where collaboration with other departments or agencies – or even other tiers of government – would enable greater savings to be made. Transformative spending reductions, on the scale needed, will only be possible through collaboration across silos, rather than through the divide-and-conquer competition that spending reviews rely on.

The Institute for Government's 2014 report, *Leading Change in the Civil Service*, found little evidence of the Civil Service leadership, including politicians, providing tangible commitment to finding future spending reductions, yet:

With the pressure firmly on current delivery ahead of the next election, there is very little sign that the Civil Service has permission from ministers, or has taken the space required, to plan ahead for the challenges that will face the next government.

Without political cover, it is very difficult for the Civil Service to do the preparatory work required to be able to advise post-election ministers on the trade-offs and decisions to be made in the 2015 Spending Review. At a minimum, analysis to underpin the potential options needs to be developed. This will build trusted relationships and mutual understanding between departments, which will be a necessary ingredient in any shared plans.

The 'stewardship' role of permanent secretaries is currently underplayed compared to other Westminster systems. While it is natural for ministers to focus on the relative short-term, permanent secretaries are responsible for 'planning for longer-term issues that might stretch beyond the tenure of either minister or the permanent secretary themselves'.⁸²

If secretaries of state really do want to forbid their permanent secretaries from fulfilling their stewardship role by preparing analysis now, particularly on a cross-departmental basis ahead of the challenges of 2015, they should do so on grounds they would be prepared to defend publicly. If they are not willing to do so publicly, they should not do so at all. It is unfortunate, if understandable, that the civil service leadership appears to have quietly accepted the limitations on their freedom to

⁸⁰ White House, *Creating a 21st Century Government: Enhancing Productivity and Achieving Cost Savings by Reducing Fragmentation, Duplication, and Overlap*, White House website, 2014, retrieved 4 September 2014 from http://www.whitehouse.gov/sites/default/files/omb/reports/fact_sheet_gao_duplication.pdf

⁸¹ Ibid.

⁸² Paun, A., and Harris, J., *Accountability at the Top: Supporting effective leadership in Whitehall*, 2013, retrieved 4 September 2014 from <http://www.instituteforgovernment.org.uk/publications/accountability-top>

prepare now for the next spending review, while secretaries of state have so far remained publicly silent about it.

At the same time, ministers and would-be ministers need to be careful about what they do say publicly. Ringfences around spending, such as the NHS, are probably politically impossible to avoid announcing in the run up to the election. But politicians need to be careful to ensure any ringfences they announce are credible. As the pressures facing the NHS demonstrate, a ringfence does not in reality mean protection from difficult choices and cuts to services. Politicians therefore need to acknowledge the reality of what ringfences actually achieve, and be wary of overpromising what ringfences – or any kind of promise – can do in the run up to the Spending Review.