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How to run the next multi-year spending review

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About this report

The chancellor has announced that the next multi-year spending review will conclude in spring 2025. Spending reviews are a key vehicle through which the government can deliver its priorities. However, a number of problems have limited their effectiveness in recent years. This report examines these problems, and sets out steps the government should take to reform the spending reviews process.

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Summary

The new government has taken office with a bold set of 'missions'. It has pledged to, for example, secure the highest sustained growth rate in the G7 and deliver zero carbon electricity by 2030. Ambitious targets like these will require a substantial reorientation of government activity, including how and where it spends money. These pledges come on top of a daunting inheritance. Most public services are performing worse now than they were in 2010 or before the pandemic. The indicative spending plans inherited by the new government imply real-terms cuts to departments and mean that most services could be performing worse in 2027/28 than in 2019.[1] The government will need to ensure that every pound spent delivers the greatest possible value.

The chancellor has announced that the next multi-year spending review will conclude in spring 2025. It will be a key vehicle through which the government can embed its 'mission-led' approach, and make some of the trade-offs necessary to navigate the difficult inheritance it faces. But there are clear problems with how the process has worked in recent years: while the Treasury has used reviews effectively to keep controlof overall public spending in the short term, this has often come at the cost of the alignment of spending with government's strategic priorities and long-term value for money.

The government has an opportunity to reform UK spending reviews. In this report we set out the steps the government should take to improve the spending review process and give itself the best chance of delivering on its medium-term ambitions in this difficult context.

Setting priorities for the spending review

1. Define the government's missions – and other priorities – in a 'Priorities for Government' framework, to guide decision making in the spending review and enable the prioritisation of spending.

Setting the scope of the spending review

2. Set multi-year spending plans covering five years, which would be reviewed every three years, to provide certainty.

3. Publish multi-year spending plans at least six months before they come into effect, to avoid the damaging effects of uncertainty over future funding.

4. Provide spending settlements beyond five years for large infrastructure projects and public sector capital programmes that are longer term than the spending reviewperiod.

5. Establish a regular cycle and method for spending reviews by setting out the process in the Charter for Budget Responsibility.

6. Review demand-led spending (annually managed expenditure [AME]) and tax expenditures as well as the usual spending limits (departmental expenditure limits [DELs]), to ensure the next spending review is comprehensive and able to fully reorient activity around government priorities.

7. Avoid early settlements and the 'protection' of individual budgets from the start of the spending review process, where possible, to enable a comprehensive assessment of trade-offs.

Publishing baselines and enabling scrutiny

8. Produce and publish robust multi-year spending baselines for each department at the start of the spending review process, to fully understand and explain the spending challenges it faces, and ultimately tackle them.

9. Task an independent body to scrutinise multi-year spending baselines and plans, to help overcome perennial problems of 'business-case gaming' and unrealistic spending plans.

10. Establish an 'Expenditure Committee' to enhance the scrutiny of spending reviews both during the process and afterwards.

Improving the evidence base

11. Reset and align expectations of how evidence is used in spending review allocations.

12. Enhance the role of the Evaluation Task Force at the next spending review to accelerate progress on improving evaluation.

13. Incorporate a set of 'Dutch-style' interdepartmental reviews of thematic policy areas, including the government's missions, into the spending review to improve the efficiency and strategic alignment of spending as well as to maintain control of totals.

14. Introduce senior specialist roles and make greater use of external expertise in the Treasury and wider centre of government.

Developing spending plans

15. Convene interministerial groups for each government mission, led by a lead secretary of state and supported by central government, to develop joint strategies and spending plans to help overcome Whitehall's natural tendency towards siloed working.

The final stages

16. Finalise the overall DEL envelope ahead of negotiations beginning, but after baselines have been constructed and evidence reviews concluded, so that spending pressures broadly inform the decision.

17. Conduct multilateral 'star chamber' negotiations to ensure that final settlements stand the best chance of addressing cross-cutting priorities and fully use jointly developed evidence reviews and bids.

18. Make allocations to each cross-cutting priority as well as to individual departments, making use of the existing rules on accounting officer responsibility.

19. Use spending plans as the bedrock of a cross-cutting strategy for each mission and an overarching performance framework for government to help delivery and improve accountability after the spending review.

After settlements

20. Aim to avoid changing spending plans to maintain the benefits of certainty, while maintaining flexibility to update them in response to major changes in circumstances that require reprioritisation.

21. Commission ongoing 'Dutch-style' reviews of policy between spending reviews to ensure building the evidence base is a continuous process.

Introduction

In 2022/23, government spending was close to £1.2 trillion – almost half of the UK's gross domestic product (GDP). The politicians and civil servants managing this enormous sum of money typically have three inter-related objectives: making sure that the overall amount of spending is consistent with how much the government is willing to tax and borrow; that the spending is targeted at achieving the elected government's priorities; and that it delivers good value-for-money outcomes.

The UK uses occasional spending reviews, which have previously set government's budgets for anywhere between one and five years, to achieve all three objectives by setting multi-year plans for all predictable government spending (more than £500billion). An overall 'envelope' for government spending is decided based on the Office for Budget Responsibility's (OBR's) fiscal forecast, how much the government iswilling to raise in tax, and its preferences for borrowing and debt (usually expressed in fiscal rules).

UK spending reviews have been effective at managing overall spending, relative to other countries' attempts at planning spending on a multi-year basis.* But this has been less true for the most recent multi-year reviews in 2015 and 2021: the government did not manage to implement spending cuts on the scale planned in 2015, while an inflation shock eroded the (initially relatively generous) settlements agreed in 2021, and subsequent top-ups were required. It has also become more common for spending reviews to only cover single years in response to crises (as in 2020 with the start of the Covid pandemic) or uncertainty over the policy direction of the government (as was the case with Brexit in 2019).

However, the focus on managing overall near-term spending during the 2010s led to poor value-for-money outcomes in some areas, particularly over the longer term. For example, spending moved away from prevention so that acute services could bemaintained, and capital spending was cut quite sharply. This has led to a build-up ofproductivity issues in public services, meaning that many are now more expensive to provide.

Spending reviews have also struggled to (re)prioritise spending to match the government's priorities, particularly those that cut across departments. New Labour's spending reviews, making use of thematic policy reviews to inform budget allocations, were often able to do this better than more recent attempts. Part of the reason for this is the strength of the strategic capacity at the centre of government, which has largely been degraded since the New Labour government. But the fiscal context also matters: spending reviews in the 2000s could fund new initiatives through windfalls from an improving fiscal position, but since 2010 they more often need to be funded through reprioritisation of existing spend – a much more difficult task.

* This is based on analysis of spending forecast errors of EU countries between 2000 and 2015 conducted by the International Monetary Fund. See International Monetary Fund, *United Kingdom – Fiscal Transparency Evaluation*, IMF Country Report No. 16/351, 2016, retrieved 26 July 2024, www.imf.org/en/Publications/CR/Issues/2016/12/31/United-Kingdom-Fiscal-Transparency-Evaluation-44395

On 29 July 2024, the chancellor set out her intention to run a multi-year spending review in the coming months. She said the spending review will help embed an approach to government that is "mission-led" and "reform driven, with a greater focus on prevention and integration of services". Doing this effectively, however, will require the spending review process to be reformed.

It is welcome that there will be a one-year spending review in autumn 2024, and a multi-year spending review run in parallel that concludes in 2025, as we have previously recommended. This will allow more time to run a more comprehensive process, and reform the approach to public spending to ensure it matches the scale of the issues facing the UK and reflects a mission-driven approach to government.

In this report we draw on lessons from the different approaches taken to spending reviews in the UK over the past two and a half decades, as well as the processes thatother countries have used to achieve similar objectives, to draw out why many past spending reviews have failed to achieve their objectives. We set out lessons for how the new government should approach the next multi-year spending review in 2025, and those that will come after.

The report draws on two private roundtables and several dozen interviews with current and former officials and ministers involved in spending reviews in the UK and elsewhere, aswell as academic experts.

Problems with past spending reviews

Government's priorities have not been defined well enough ahead of spending reviews, undermining the ability to make informed decisions and trade-offs

Spending reviews are supposed to align the government's resources with what it is trying to achieve. But to do this the government's priorities need to be clear enough ahead of reviews to enable departments to develop spending plans that meet those priorities, and help central government to scrutinise those plans on the grounds of the contribution they will make to delivering the priorities. A clear sense of prioritisation is integral to making a strong strategic case for spending.

This has not been adequately achieved ahead of recent spending reviews. Earlier in 2024 the Institute for Government's Commission on the Centre of Government found that the centre of government – in Downing Street, the Cabinet Office and the Treasury – "is not strategic and governments fail to define their priorities", particularly at the outset of a parliament.[1] This strategic vacuum means that the centre of government fails to provide a guiding light from which trade-offs can be made in spending reviews.

Previous governments have recognised and tried to address this problem. There have been a range of attempts to define priorities ahead of multi-year spending reviews, with varying degrees of success. Each of these previous models for setting cross-government priorities contains lessons from which this problem can be better addressed in the future.

New Labour used **public service agreements**.[2] These were useful, cross-government and, in some instances, outcomes-focused articulations of departments' priorities. But the first iteration of public service agreements was retrofitted on to already determined budget allocations from the 1998 comprehensive spending review, meaning they did not guide genuine decision making within that specific review. They were also too numerous, initially covering around 600 objectives, suggesting that they would be of limited use in aiding real prioritisation.[3] However, they reduced in number over their lifespan during the 2000s.

The **coalition agreement** was used to guide trade-offs in the early 2010s.[4] This was a politically important set of commitments that helped to guide decisions in the 2010 and 2013 spending reviews. But the agreement was a set of pledges to be ticked off when delivered, not a set of outcomes the government was trying to achieve. This was still helpful during spending reviews, but limited the scope that departments had to iterate and hone their strategies towards key priorities and became increasingly restrictive over the course of the parliament.

The departmental business plans that were also developed for each of the coalition government's departments were also focused heavily on input and output measures, at the expense of outcomes to reflect the government's priorities.[5] Their successors – single departmental plans – failed to account for the cross-cutting nature of most priorities and reflected instead the departmental silos of the day.[6]

More recently, **priority outcomes** have been used to define priorities in each government department and between them, as set out in departments' outcome delivery plans.[7] These have reoriented government's priorities towards societal outcomes. In previous Institute for Government research on priority outcomes, we heard that ministers perceived priority outcomes as secondary to the political negotiations that shaped spending review decisions in 2020 and 2021.[8] This is partly because, as we describe below in relation to levelling up, priority outcomes are often retrofitted on to decisions made at spending reviews. They describe the choices taken, rather than drive them. As argued in previous research, this means that the Treasury drives strategic choices 'by default' through the spending review process.[9]

This retrofitting of outcomes to spending choices also drives a perception among ministers that priority outcomes have not reflected recent government's top priorities,[10] but rather a broad and all-encompassing set of issues, which cover everything a department does, rather than the smaller number of objectives that each department's secretary of state truly feels they are most on the line to deliver.

These historic attempts to define the government's priorities have also focused on *what* ministers aim to achieve, in terms of class sizes, crime rates, hospital waiting times or otherwise. They have focused less on *how* those priorities are to be achieved. Just as spending reviews require a clear sense of the government's priorities, they would benefit from a clearer sense of the principles of the government's approach, from which to scrutinise departments' plans.

This lack of clear priorities at the outset of spending reviews creates several problems for the spending review process that follows. The officials analysing departments' bids, and the ministers making trade-offs between them and ultimately deciding allocations, are doing so without a robust, comprehensive assessment of their potential contribution to the government's overarching strategy. This makes the Treasury's job especially difficult. Treasury civil servants must advise the chancellor on the merits of departments' plans, not least the strategic cases of their bids, without a coherent and consistent framework from which to do so.[11] The chancellor's own priorities, usually skewed towards the Treasury's understandable focus on controlling public spending, then tend to have disproportionate influence over the strategic trade-offs at the heart of spending reviews.

As a result, too often the government's priorities are not fully reflected in the budgets of Whitehall departments. Instead, spending reviews are left to set whole-government strategy by default, rather than reflecting the conscious strategy of the prime minister and full cabinet.

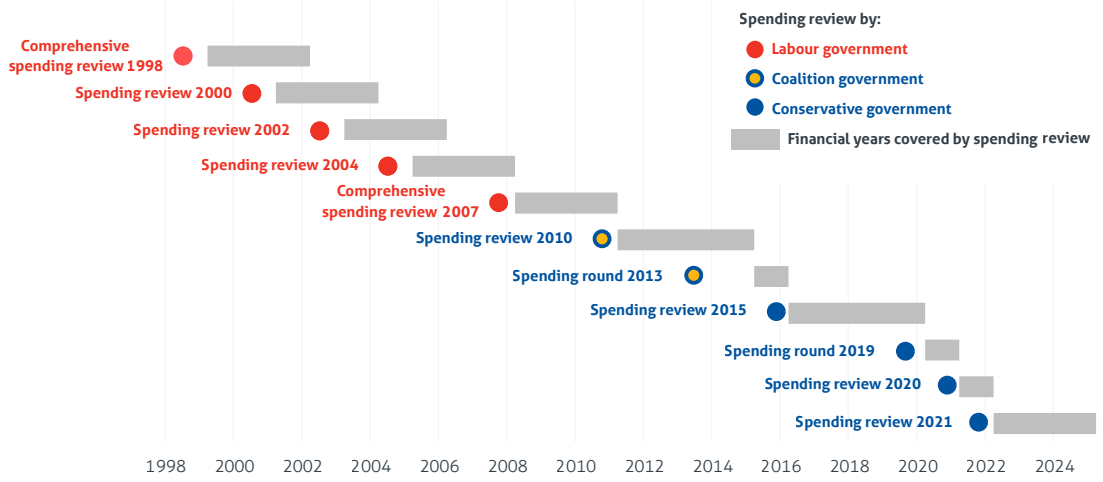
The handling of the levelling up programme under Boris Johnson illustrates these problems. What was meant by 'levelling up' – the outcomes government wanted to achieve – was inadequately defined going into the 2020 and 2021 spending reviews, which meant those processes were left to budget for an ambiguous ambition. And when the eventual white paper was published in 2022, it was left having to reflect the budgetary allocations already made across government.[12] This limited the potential to reorient government's resources towards a serious set of priorities aimed at tackling regional disparity, and disempowered the political and official leaders trying to flesh out and enact the prime minister's top domestic priority.

Variation in spending review timing and processes has led to uncertainty

Providing certainty through setting multi-year spending plans can help impose more effective aggregate spending control and enable public organisations to plan ahead and allocate resources more effectively.[13,14,15] But, too often, UK spending reviews have failed to provide enough certainty.

First, the period over which spending reviews have provided certainty has varied. The last Labour government set three-year spending plans, but since 2010 there has been arange of one-, three- and four-year settlements – and five-year settlements for capital budgets in 2015. Setting only one-year spending plans is far from ideal, but has been justifiable in cases where there has been political or economic uncertainty, or there has not been enough time to run a more comprehensive process such as during the Covid pandemic, which hit in 2020. A one-year settlement is most appropriate in 2024 too, given the change in government and short time remaining to run a spending review, as discussed below. But as a general rule, spending reviews should set multi-year plans to provide certainty. Figure 1 presents a timeline of spending reviews since 1998.

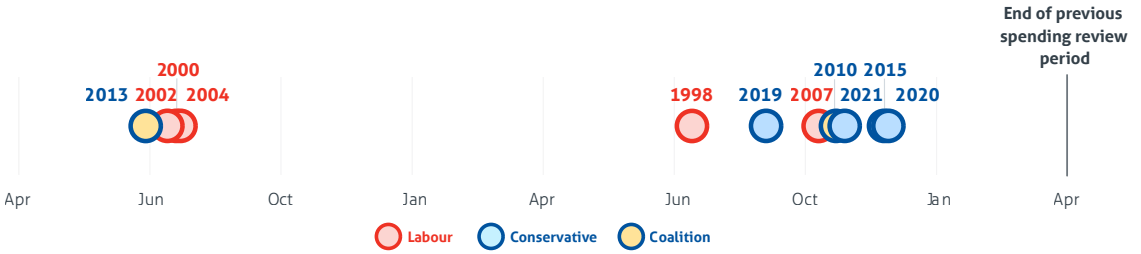
Figure 1 **Timeline of spending reviews since 1998**



Source: Institute for Government analysis of various HM Treasury spending review documents.

Second, the timing of spending review settlement announcements has also varied over time (see Figure 2), creating further uncertainty for public organisations waiting for their settlements. In recent years, spending reviews have been set during the final year of the previous settlements and announced four to six months before existing departmental settlements expire. With current spending plans set to expire at the end of March 2025, this is the situation the new government faces in 2024.

Figure 2 Timing of final spending review settlement announcements, 1998–2021



Source: Institute for Government analysis of various HM Treasury spending review documents.

The closer public organisations get to the point at which budgets expire, the greater the negative consequences of this uncertainty. For example, given the time it takes to turn a total spending allocation into individual project budgets, and then go through the relevant commissioning or procurement processes, a late spending review can mean that projects do not get up and running until the second half of the first year of the settlement or later.[16]

In the past, a number of spending reviews were completed while there was still a year of spending plans in place, reducing this uncertainty. In some cases, the new spending review settlements replaced that final year of the previous plans, as the 2000 and 2002 spending reviews did.[17] Others left the final year of existing spending plans unchanged, with new settlements beginning after that – such as the 2013 spending review, which set plans for 2015/16 almost 18 months in advance, without changing plans for 2014/15, the final year of existing settlements.

Third, the variability in the frequency and timing of spending reviews is itself another source of uncertainty. Interviewees who had worked in the Treasury and other parts of government told us that large amounts of time are wasted on debating or anticipating exactly when the next spending review will be. Not knowing when the negotiations will take place or when the next funding settlement will be announced prevents organisations from effectively preparing for both the process and the ways in which they allocate their next settlement. Spending reviews and their timing have no statutory basis, and a government can easily chop and change them in response to more short-term incentives, which can add to instability.

Spending reviews have not been comprehensive enough

For a spending review to align government activity with priorities, it must be 'comprehensive'. But this descriptor is used differently in different contexts. Internationally, a spending review described as 'comprehensive' would typically examine a wide breadth of government spending, rather than a limited number of policy reviews. Despite most UK spending reviews covering a relatively wide *breadth* of spending – setting top-down budgets for most, if not all, departments – the Treasury has only labelled two as 'comprehensive': 1998 and 2007. This is because in the UK the term 'comprehensive' has more commonly been used to refer to spending reviews that aim to include in-depth reviews of specific policy areas that then inform allocative decisions by reviewing and justifying (or otherwise) *existing* policies rather than just marginal changes in budgets.

These two different ways in which the term 'comprehensive' is used show that it has two dimensions: breadth and depth. A spending review that aims to align spending with the government's strategic direction should ensure it is comprehensive in both the breadth of government spending that is included and the depth with which policy is reviewed. The comprehensiveness of the spending review is also important in a fiscally constrained environment, when a government is looking to drive improvements in value for money or the strategic alignment of spending through the reprioritisation of existing resources rather than through expansion.

Although UK spending reviews have set budgets for most, or all, departments, most have only reviewed predictable elements of spending (set through departmental expenditure limits or DELs), not demand-led spending (known as annually managed expenditure or AME), which accounts for around half of all government spending.

AME includes large categories of spending (such as social security benefits) that often have similar objectives to DELs – for example, reducing child poverty or supporting access to suitable housing – but are not reviewed alongside DELs in the spending review process.

The National Audit Office defines tax expenditures as tax reliefs that support specific government economic or social objectives (and are therefore referred to as 'non-structural').[*,18] They result in a reduction in revenue and are accounted for in the tax system. They are also not typically reviewed in the spending review process, despite aiming to achieve similar objectives to spending. There are 341 tax expenditures. HMRC provides costings for 256 of these, which have been estimated to reduce revenue by a combined total of £204bn.[19] But they are subject to much less scrutiny than public expenditure, despite the International Monetary Fund (IMF) recommending that their controls receive the same amount of attention.[20] There have been some recent improvements in oversight of tax expenditures, but it remains the case that frequently the objectives are not clearly defined, and evidence for their effectiveness in achieving them is often limited.[21]

* 'Structural' tax reliefs, on the other hand, have purposes specific to the tax system, such as defining the scope of a tax or calculating income or profits correctly. See HMRC, 'Quality and methodology information: tax relief statistics (December 2023)', 2023, retrieved 22 July 2024, www.gov.uk/government/statistics/background-quality-report-tax-relief-statistics/quality-and-methodology-information-report-december-2023

Limiting the breadth of the spending review to just DELs, and not including AME or tax expenditures, reduces the range of potential policy measures reviewed and traded off against each other in pursuit of achieving the government's objectives.

Despite UK spending reviews often being effective at setting top-down spending ceilings for departments,[22] most have not included in-depth reviews of the evidence for policy – the other dimension of comprehensiveness. This has limited the role that evidence has played in allocations, and the ability of the process to drive improvements in value for money.

Publicly available and robust spending baselines have not been produced ahead of the spending review

The first step in an effective multi-year budgeting process should be to establish spending baselines – estimates of future spending on the assumption that current policies remain unchanged. The IMF and the Organisation for Economic Co-operation and Development (OECD) make the case that baselines are an important tool for multi-year budgeting and policy making.[23,24] It is important to have consensus around robust estimates of ongoing spending as the basis on which negotiations should take place. They should not be a negotiation tool themselves.

The UK approach to producing baselines appears to be quite crude, opaque and unsystematic relative to practices in other countries. The Treasury makes a judgment on which policies are 'ongoing' versus which are 'time limited', often by negotiating with departments. This process can often run alongside negotiations on any new policies. The cost of those policies deemed to be ongoing is then used to establish what each department's 'baseline' is for the year preceding the spending review settlement (for example, the baseline at the 2021 spending review, which set budgets from 2022/23 onwards, established baselines for 2021/22 spending).*

Not producing published detailed forecasts of the cost of maintaining existing policies over a multi-year period leads to suboptimal decision making and poor accountability. With the current approach, there is a temptation to agree budgets that are over-optimistic to enable more new projects to be started, with money spread too thinly across too many commitments. The National Audit Office said in a 2018 report that "over-optimistic plans for delivery or savings... are followed by either failure to deliver, lower service quality, or later funding injections". It attributes this partly to poor analysis of costs and performance.[25]

One example of this in practice is the 4% efficiency targets set for NHS trusts in the 2010s, which were clearly misaligned with the costs of maintaining the services promised. They ultimately damaged trusts' financial positions and had to be halved to2% in 2016–17 when it belatedly became apparent that they were undeliverable.[26] The Department of Health and Social Care then, in 2016/17, used money that had

* Departments are given 'planning assumptions' for how much their baseline (calculated only for the base year) will grow or shrink over the course of the spending review period when the Treasury sends letters to departments at the start of the process. Crucially, these planning assumptions are *not* an estimate of the cost of maintaining existing policies over the spending review period: they might be informed by some analysis of future spending pressures or a forecast of economy-wide inflation, but also by pre-existing commitments on which areas of spending are protected and the amount of fiscal space.

beenearmarked for improving and developing services to address trusts' deficits.[27] A clear view of cost pressures and their probable trajectory would likely have led to adifferent initial decision, or at least greater scrutiny from parliament and elsewhere of that decision.

Evidence has not been optimally used to inform spending decisions

That policy decisions should be underpinned by strong supporting evidence is generally a shared principle and is at the core of the stated standards expected of policy professionals in government.[28] When this principle collides with the reality of decision making processes – where time can be short, information limited and political imperatives strong – evidence is not always optimally used.

In a process that aims to allocate substantial yet limited amounts of resource as effectively as possible, evidence should be used to inform the assessment of baseline spending, the justification for existing spend continuing and the case for new spending or a change from current policy. Those involved in past spending reviews reflected in interviews for this research that often evidence does not play as central a role in decisions about new spending, cuts or the continuation of existing policy as it ought to. There are four main reasons for this.

1. **The evidence has been weak or does not exist** – for instance, due to ineffective monitoring and evaluation of current and past policies. In 2019, the Prime Minister's Implementation Unit concluded that government had far too little information on the performance of large projects: only 8% of the £432bn spend on projects in the Government Major Projects Portfolio had robust evaluation plans in place.[29] Recent steps including establishing the Evaluation Task Force[30] and ensuring a greater focus on evaluation in the 2021 spending review[31] are welcome. But the Evaluation Task Force is too small to support evaluation across the breadth of government activity, and funding for evaluation is often the first to go when cuts are made. Also, resources have been lost in some areas recently, such as with the closure of the What Works Centre for Wellbeing.

   In other cases, evidence will not be available because policies are novel and therefore it is difficult to verify their effectiveness so early on. This is partly because government has not been good at looking at the evidence for policies it has not yet implemented, particularly those that do not fall neatly into existing departmental boundaries. Examples provided to us by interviewees of the rare cases in which this had happened and led to effective policy include Sure Start[32] and the Drug Interventions Programme,[33] both of which were motivated by reviews of the international evidence on the effectiveness of early years programmes and drug treatment in the criminal justice system, respectively. In cases where evidence for a novel approach genuinely does not exist, this does not necessarily mean that it should not be tried and tested. Some innovations such as the Shared Outcomes Fund incentivise and encourage experimentation to build evidence on novel approaches, but their scale is very small.

2. **The evidence has been disputed.** This could be due to weak or limited direct evidence for a policy, but could also be because of a lack of consensus about what constitutes good evidence. For example, interviews carried out for this research showed that spending departments expect the Treasury to make decisions primarily based on the economic rather than strategic case for a proposal, despite the Treasury's recent efforts to counteract this. Evidence has also been disputed because of how it is used and presented. Incentives may lead to evidence being used in a biased way – departments may, for example, be susceptible to 'business-case gaming' where they report the highest plausible impact for a policy, rather than the most likely outcome. This leads, perhaps rationally, to a high degree of scepticism among Treasury spending teams, who themselves are incentivised to control spending to meet short-term fiscal targets.

3. **A strong focus on top-down spending control has been at the expense of evidence informing decisions.** This has meant that even where relevant evidence may have existed, the in-depth reviews to ensure spending is delivering government priorities and value for money did not take place to inform past spending reviews. And even where officials reviewed evidence and presented it to decision makers, it may not have played as strong a role in decisions. While it is right that political priorities – such as aggregate spending control – play a fundamental role in allocative decisions, the top-down spending controls on departments have at times led to poor value-for-money outcomes.[34]

4. **There has often not been enough time to incorporate the best available evidence** into bids or scrutinise the business cases presented. This was particularly the case in 2019, where decisions were made on a very compressed timetable. This meant that the Treasury only requested very short bids from departments, which did not provide them with an opportunity to communicate the full extent of supporting evidence. In any case, spending teams did not have the time to digest the information before having to provide advice to ministers ahead of negotiationsbeginning.

Spending reviews have not been set up to align spending with cross-cutting priorities

The biggest challenges facing government – including climate change, regional inequality, public safety, economic growth and population health – do not fit neatly into the institutional boundaries of government departments and services.[35] For this reason, the new government has set out five 'missions' that aim to span multiple Whitehall departments, tiers of government, public services and other sectors. Spending reviews, however, have tended to re-enforce silos rather than facilitate cross-cutting planning between departments.

Managing Public Money – which sets out the standards by which accounting officers must handle public money – allows for various forms of joint working, and joint budgeting, across departments within the government's existing accountability framework.[36] Joint bids have been allowed, and even encouraged, at past spending reviews.[37] But most spending bids have been submitted, and allocations made, on departmental lines rather than reflecting the cross-departmental nature of the most important policy priorities. There are a number of reasons for this.

First, the spending review process has not been directed consistently by a set of cross-cutting objectives that encourage cross-departmental working.

Second, as outlined above, a lack of clearly articulated priorities against which spending plans will be judged leads to departmental budgets that do not reflect the government's priorities.

Third, spending reviews have not tended to include in-depth, thematic reviews of cross-cutting policies. This lack of comprehensiveness, described earlier in this chapter, is a particular problem for cross-cutting priorities. Budgeting for these issues can require a deeper reprioritisation of resources away from departmental lines and around interdepartmental activity. More in-depth reviews of policy would enable collaboration between departments to identify policy changes that would stand a better chance of achieving the government's cross-cutting priorities.

And fourth, final spending review allocations have been largely negotiated bilaterally between central government and individual departments, especially in the four most recent reviews since 2015. This is a problem when departments should plan for policy areas that affect, in either their funding or their impact, multiple departments – for example, policy on drugs, criminal convictions or social care. The result has been contradictory policies, with significant gaps, which do not add up to a coherent whole-government strategy.

These problems are not unique to the UK or to the current fiscal context. Past UK governments have made efforts to use spending reviews to budget for cross-cutting priorities, such as through 15 cross-departmental reviews of key challenges undertaken in support of the 2000 spending review.[38] Some of these drew on the work of cross-cutting processes set up ahead of the spending review, while others established a process within the spending review that departments worked within to create new cross-cutting programmes. Similarly, other countries have tried to overcome the inherent risk of departmental silos dominating equivalent budgetary process, whether through France's mission-based budgeting, or New Zealand's wellbeing and cluster budgets.[39,40,41,42] There are lessons that the UK can draw from these and other examples.

There is limited scrutiny of the spending review process and plans by parliament and the wider public

Parliament and the wider public should have a vital role in holding the government to account for the decisions it makes on public spending and how those decisions are then implemented. While the National Audit Office provides important scrutiny of departments' spending and performance retrospectively, there is far less systematic scrutiny of the spending review process and the plans set from it.

The limited scrutiny of public spending that does take place is somewhat divorced from the spending review process. The government lays out its financial plans for the year in the annual budget (although the spending plans will usually broadly align with the allocations made at the preceding spending review). Parliament then approves these spending plans through the 'supply estimates' process,[43] with the Treasury presenting the supply estimates to parliament to gain formal approval. Parliament's role in authorising spending through this process is, according to previous Institute for Government research,[44] the Procedure Committee[45] and the OECD,[46] too weak. Typically only two days of debate are devoted to the estimates – far fewer than for the finance bill (which sets out tax policy). Select committees also struggle to scrutinise the supply estimate documents effectively – they are very complex and dense, and the information is presented at a level that is not clearly linked to specific projects or programmes. This lack of scrutiny gives ministers in the UK far more discretion than those in comparable countries when implementing spending.[47]

Since the most significant spending decisions are now taken through spending reviews, scrutiny of annual departmental spending plans through the estimates process is not directly aligned with actual decision making. This means meaningful scrutiny of public spending through the estimates process is limited. The Treasury Select Committee has conducted inquiries into the spending review process in the past,[48,49] but these have tended to focus on a limited number of specific policies or aspects of the process. The 2021 inquiry, for example, focused almost entirely on tax and welfare measures set at the concurrent budget, with very little attention paid to the departmental spending limits set through the spending review.

What little scrutiny there is of the spending review process is after the event; there is essentially no scrutiny beforehand and therefore no scope for parliament to influence the process as it happens. The UK is an outlier in this respect: it is unique among OECD countries for not involving specialised committees in a systematic way during the process of approving the government's annual spending plans.[50]

There could also be much greater transparency in the information presented to the public about the spending review process. The spending review document does provide a lot of helpful information. The 2021 document, for example, tells us each department's baseline (although, as described above, the current approach means this is not particularly informative) and the total amount of resource departmental expenditure limit (RDEL) and capital departmental expenditure limit (CDEL) it was expected to spend over the spending review period, as well as some specific details on money allocated to particular projects.[51] But in reality the spending review process

agrees spending at a more granular level than is revealed in the document, typically at a programme level. This does not come through in the document, nor is there a clear link between the allocations and outcomes (outcomes are simply listed at the bottom of each departmental settlement). A separate document outlining priority outcomes and metrics was also published, although this was only a summary list of indicators,[52] and the separation of outcomes from allocations means that it is hard to discern exactly how settlements have been reached and why. This information is important forgovernment accountability.

Beyond parliament, external experts and the wider public have a minimal role in the spending review process. Those we spoke to for this project and earlier research on the role of the Treasury highlighted a lack of policy expertise in spending teams as a factor that undermines effective decision making in spending processes.[53] This critique can be overplayed: it is unreasonable to expect the spending team to have the necessary expertise in a department's policies as well as across functional areas such as project delivery and commercial activity that it might require to make decisions. But there is more that could be done to ensure that the relevant expertise is brought to bear on the big decisions made in spending reviews.

Recommendations for improving the next multi-year spending review

In this chapter we set out 21 steps the government could take to reform the spending review process.

Setting priorities for the spending review

1. **Define the government's missions – and other priorities – in a 'Priorities for Government' framework, to guide decision making in the spending review and enable the prioritisation of spending.**

The government should draw up a Priorities for Government framework, the purpose of which would be to define the government's top priorities ahead of the multi-year spending review. In doing so, the government should learn from similar models that have been used in other governments and countries, such as New Zealand's wellbeing budget, the Welsh and Scottish programmes for government and the Canadian government's use of mandate letters.[1,2,3,4]

The value of adopting a Priorities for Government framework ahead of the spending review would be in setting out the government's ultimate, measurable goals before the strategic trade-offs that must be made in the review. Departments' plans and bids could be judged on the grounds of the contributions they would make towards these outcomes over the course of the spending cycle with specified budget allocations. This would help civil servants and ministers in the centre of government to judge the merit of these plans and, ultimately, make difficult trade-offs in the allocation of resources.

The process of developing the framework should be undertaken in the early weeks of any new parliament.[5] The work should be led by No. 10 and the Cabinet Office but would require meaningful collaboration with the Treasury, relevant departments and experts and partners outside UK government. And ultimately the cabinet should give agreement to the framework.

The Priorities for Government framework should comprise two main components:

- **A small number of often long-term, measurable outcomes**

The priorities should be formed around a small number of outcomes the government is ultimately trying to achieve. The outcomes should mirror the government's missions and other key priorities as expressed in its election manifesto, such as on defence and foreign policy.*

The targets against each of these outcomes should span the timeframe that makes most sense for the issue at hand and reflect the government's ambition, rather than be tied to the parliament or spending cycle – for example, Labour's aim to achieve zero-carbon energy provision by 2030, or to halve levels of violence against women and girls within a decade. How much progress can be made against the targets over the course of the spending review cycle would then be determined through the strategic trade-offs in the spending review process.

- **Principles to describe the government's approach**

These outcomes should be accompanied by a set of underlying principles that describe the new government's mission-driven approach and how it intends to work and make decisions, including over the allocation of public spending. For example, this could include:

- the government defining its understanding of and approach to prioritising prevention
- the government's approach to progressing devolution
- providing long-term certainty over budgets
- explicitly taking a long-term view of policy impacts (beyond the usual five-year forecast horizon)
- changing funding delivery models, for example the government setting out the extent to which it wants to make use of competitive funding pots
- the government's approach to public–private partnerships.

Many of these points have already been described by the government as integral to achieving its missions, so making clear that these considerations will guide spending decisions will incentivise departments to shift their approach accordingly.[6] Providing a sense of *approach* to go alongside the government's priorities would help departments considering their strategies towards these outcomes, and their

* For example, reflecting Labour's five missions: economic growth, using metrics such as GDP, GDP per head of population and regional productivity; clean energy, using the proportion of low-carbon and renewable energy in the grid; and opportunity, using metrics such as educational attainment, child poverty and access to child care.

corresponding spending plans. In the same way, it would help central government, including Treasury officials, to scrutinise those plans, to assist ministers when making strategic trade-offs to reflect the government's governing philosophy.

Once set, the Priorities for Government framework should be expected to last the length of the parliament, although it should be able to be tweaked on an annual basis when absolutely necessary to reflect changing circumstances. A new Priorities for Government framework could then be set at the beginning of each new parliament, either adapting an incumbent government's approach over time or reflecting a new government's change of priorities.

Setting the scope of the spending review

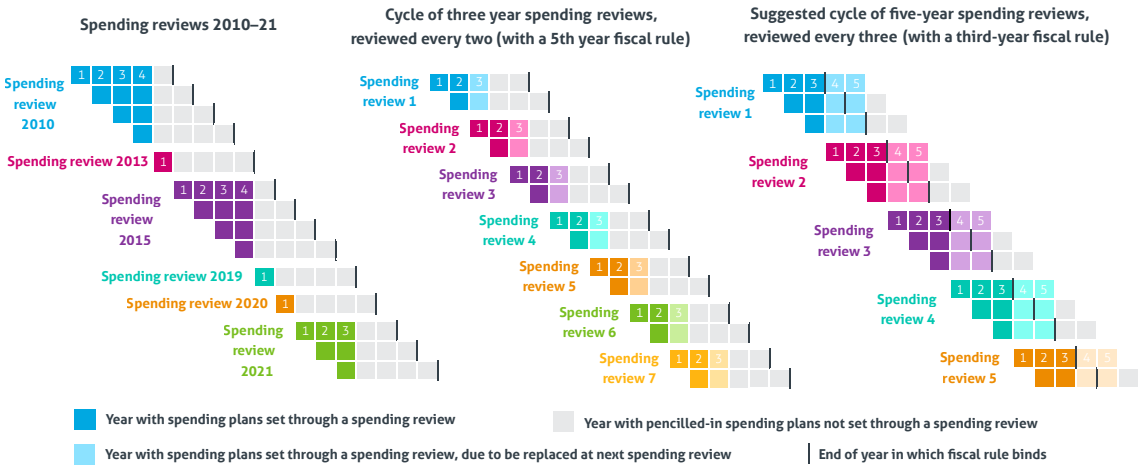
2. Set multi-year spending plans covering five years, which would be reviewed every three years, to provide certainty.

The spending period covered, and the frequency with which spending plans are reviewed, must balance the benefits of providing meaningful multi-year certainty against the need to periodically reprioritise. The chancellor has outlined plans to establish a regular cycle of three-year spending plans, that are reviewed every two years.[7] This is welcome, and will provide much needed certainty to departments. However, five-year spending plans, reviewed every three years, would provide further benefits from longer term certainty while balancing the need for flexibility.

Under a cycle of five-year settlements, there would be three years of spending plans with high levels of certainty, followed by two years of indicative plans that would be replaced by new five-year settlements after the third year of the cycle. A rolling cycle is used in a number of other countries,[8] and the last Labour government used a similar rolling system with three-year spending reviews from 1998 to 2004. It is inevitable that the final two years in such a five-year rolling cycle would have less certainty than the first three, given the expectation that they would be updated at the next spending review. But having at least indicative plans that have been set through a spending review process would give departments a basis on which to plan, and reduce the negative effects of uncertainty.

A rolling cycle in which the two final years' plans are replaced by the next spending review would risk unrealistically tight plans being put in place to ensure fiscal rules are met. But this is a feature of any system with fiscal rules that bind at a point beyond which firm spending plans are set out. In 2024, this has led to implausibly tight spending plans from April 2025, beyond the end of the current spending review period, to meet a debt rule that binds in 2028/29. While the suggested five-year settlements, reviewed every three years, would still be open to gaming, they would provide two further years of spending plans, set through a formal process, which would be less easily gamed with unrealistic spending plans. If combined with a previous Institute for Government recommendation of bringing forward the time horizon for fiscal rules to three years, this would further reduce the risk of gaming (see Figure 3).[9]

Figure 3 **Spending reviews 2010–21 and suggested spending review cycles**



Source: Institute for Government analysis of various HM Treasury spending review documents, 2010–21.
Notes: Suggested spending review cycles cover 14 years to match the period covered by spending reviews 2010–21. Years refer to financial years.

3. Publish multi-year spending plans at least six months before they come into effect, to avoid the damaging effects of uncertainty over future funding.

Since the start of modern spending reviews in 1998, no government has set departmental budgets any later in the year than late November – four months before they come into force in April. This is for good reason: this is a cliff edge beyond which the downsides of uncertainty rapidly escalate.[10] Departments, local and devolved administrations and arm's length bodies need time after receiving their settlements to complete internal allocations to specific projects and set in motion procurement processes, which are dependent on the confirmation of funding. Receiving settlements any later than this late-November cliff edge can lead to delays in approving programmes and require the reallocation of resources to contingency planning for funding potentially being stopped.[11]

Having a rolling cycle of five-year spending plans reviewed every three years would mean that this cliff-edge point at which budgets completely expire is always at least two years away – avoiding the particularly damaging cliff edge we have seen in recent years. However, even if this cliff edge is not reached under a rolling cycle, public organisations would still benefit from having certainty about their new settlements in enough time to allow them to plan their spending for the year, and years, ahead.

Spending reviews should therefore conclude a minimum of six months before they come into force. This would mean that a comprehensive multi-year spending review that sets spending plans from 2026/27 should conclude by the end of September 2025, although in practice settlements would likely be agreed ahead of the summer parliamentary recess and the chancellor has said multi-year statements will be announced in spring 2025.[12] This would ensure there are at least six months before spending plans come into force in April 2026 – enough time for departments, the

devolved administrations and arm's length bodies to plan for the year ahead and complete internal allocations. It would also enable the provisional Local Government Finance Settlement to be published further in advance, enabling local authorities to plan their budgets more effectively.[13]

In exceptional circumstances where the government cannot feasibly set spending plans six months in advance, settlements should still be announced no later than four months before they come into force. For example, given the timing of the July 2024 general election and the transition of government, it would be difficult to complete a one-year spending round in 2024 before September. And compressing it into this timeframe could well compromise its effectiveness. It is welcome that the chancellor has announced this one-year spending review will conclude in October, in advance of the end of November cliff edge.

4. **Provide spending settlements beyond five years for large infrastructure projects and public sector capital programmes that are longer term than the spending review period.**

The current allocation to infrastructure projects has been criticised for being "too often short term and volatile, leading to stop-start and underinvestment in infrastructure maintenance and renewal".[14] Credible five-year spending review settlements would go a long way towards improving this. If organisations had the confidence in spending plans to be able to plan on this basis, it would lead to more effective use of funding, and in some cases would be able to crowd in private investment more effectively.[15]

Five years should be the standard period covered by the vast majority of settlements, but many large infrastructure and public service capital programmes will require funding beyond this period. The government should reflect this by giving some large infrastructure projects longer term certainty beyond the five-year period. Providing these projects with their own spending lines separate from settlements for individual departments or missions, flexibility to move spending between years and indicative spending allocations beyond the five-year period covered by the spending review would also enable more effective management of spending.[16] It would also more transparently reflect the true situation: if government has said it is going to deliver on a large project such as High Speed 2 (HS2), then it has effectively already earmarked future capital and resource budget for that, but does not currently properly spell it out.

Some public sector capital programmes may also benefit from longer-term certainty.[17] For example, many hospital, school and prison building and maintenance programmes are not particularly politically contentious, and predicting the need for capital spending is relatively straightforward. If schools need to be built to accommodate higher projected pupil numbers, then spending should be committed over the longer term, for instance. Providing these programmes with longer term settlements would enable more effective management of the relevant estates.[18]

5. **Establish a regular cycle and method for spending reviews by setting out the process in the Charter for Budget Responsibility.**

Spending reviews have no statutory basis or formalised standard process they must follow. This has led to substantial variation in the format and timing of previous spending reviews. This creates disruption, as public organisations find it more difficult to plan for both the spending review process, and the programmes they intend to fund afterwards. The UK is unusual in this respect. Even as far back as 2014, half of OECD countries had enshrined their equivalent 'medium-term expenditure framework' in law, and most of the rest established the framework in a published policy or strategy.[19]

To provide further certainty, the government should set out its approach to spending reviews in the Charter for Budget Responsibility ahead of commencing its first multi-year spending review. It is welcome that the chancellor has said the charter will be updated to provide further information on the spending review process.[20] This will include the regular cycle of setting spending plans and should also set out the requirement for plans tobe published at least six months before they come into force. It could also include the governance of targeted policy reviews (see the 'Improving the evidence base' section later in this chapter), the set-up of negotiations and how long the process should run for.

A public statement of intent in this form, as has been done for fiscal rules, would not be legally binding but would further help embed the norm for the spending review to follow a standard process. This would improve stability and steer governments towards undertaking spending reviews well, allowing enough time and agreeing multi-year settlements where appropriate (which was not the case, for example, in 2019).

A further option would be to pass primary legislation that requires the Charter for Budget Responsibility to contain this information. However, setting out the details of this approach in a charter, but without passing primary legislation, would still provide stability while also giving the government an appropriate degree of flexibility to deviate from the standardised process where necessary; for example, in the case of crises, as was done in 2020 when the Covid pandemic hit.

6. **Review demand-led spending (annually managed expenditure [AME]) and tax expenditures, as well as the usual spending limits (departmental expenditure limits [DELs]), to ensure the next spending review is comprehensive and able to fully reorient activity and spending around government priorities.**

Reviewing annually managed expenditure (AME, the demand-led and therefore unpredictable elements of public spending) and tax expenditures alongside continuing to review and set departmental expenditure limits (DELs, which capture the predictable parts of budgets)[21] would allow a broader, more comprehensive assessment of policy options at the spending review, which would feed into more effective resource allocation.

AME

AME is more unpredictable than DELs, and has therefore not been subject to the same firm limits during each year of the spending review period. But during the spending review process, a forecast for AME could be used to set an envelope for the purposes of planning spending that covers both DELs and AME (although subsequent spending control processes would maintain the usual distinction). In this way, trade-offs could be made, with policy changes that lead to savings in AME allowing the DEL envelope to increase. This process was followed in the 2010[22] and 2013[23] spending reviews under the coalition government.[24]

The process for reviewing AME should be similar to that for DELs, with spending reviewed as part of individual departmental spending plans or in plans for cross-cutting priorities. One important difference from DELs, however, is that the majority of government AME is in one department, in the form of welfare spending under the Department for Work and Pensions (DWP). Given this asymmetry, and the fact that the objectives of welfare spending are often cross-cutting with the impact of policy changes felt across different departments,[*,25] it is particularly important that welfare spending is reviewed as part of cross-departmental bids where relevant. For example, some benefits for those living with a health condition or disability, such as Personal Independence Payments, could be reviewed as part of spending plans for the government's health mission.

Tax expenditures

Government categorises tax reliefs into 'structural reliefs', which are considered to form integral parts of the tax base, and 'non-structural reliefs' (tax expenditures), which are designed to encourage particular activities to achieve economic or social objectives. For example, research and development (R&D) tax reliefs from corporation tax are deemed to be 'non-structural' because their purpose is to encourage companies to pursue R&D. On the other hand, the personal allowance, which sets the amount of income someone can earn without paying income tax, is 'structural' because it defines the scope of the tax system.[26] But many reliefs, such as capital allowances, have both structural and non-structural characteristics, and the Treasury has said that the distinction between the two categories is "not always straightforward".[27]

Tax expenditures are often direct substitutes for spending programmes and, if given as grants, would be set, managed and reviewed as part of departmental spending plans, but currently they are introduced through the budget process. To date, scrutiny of tax expenditures has been weaker than for spending.[28] To take a comprehensive view, the government should bring tax expenditures into the scope of the spending review so that they are reviewed alongside public spending. Any changes to tax expenditures could then be implemented at the next fiscal event.

* Two out of the DWP's four priority outcomes were cross-departmental, as set out in HM Treasury, *Spending Review 2021: Priority outcomes and metrics*, GOV.UK, 2021, https://assets.publishing.service.gov.uk/media/61798994e90e07197867ec3f/Supplementary_Document_on_Outcomes_Metrics.pdf

The Treasury sets tax expenditures and HMRC implements them. One option for including tax expenditures in the spending review would be for the Treasury and HMRC to lead a review of them. This would have the advantage of the officials with the most experience of and expertise in tax policy leading these reviews. But a key disadvantage is that it would maintain the separation between these reviews of tax expenditures and those of public spending, led by spending departments – somewhat negating the benefits of reviewing policies on a thematic basis.

An alternative approach would see tax expenditures allocated to the most relevant department based on the objective they are aiming to achieve. The tax expenditure would then be reviewed by that department as part of the bidding process, either in a departmental spending plan or as part of interdepartmental plans for cross-cutting priorities. Departments and cross-departmental review teams would work closely with the Treasury and HMRC to conduct these reviews as part of interministerial groups. This approach would enable tax expenditures and public spending to be traded off more closely by the teams responsible for delivering those priorities – maximising the benefits of a broad, comprehensive approach to the spending review in improving allocative efficiency.

Ministers have frequently found it difficult to remove or reduce tax reliefs.[29] The next spending review must incorporate incentives for potential improvements to and savings from tax expenditures. A key mechanism for this could be ensuring that all, or at least a substantial proportion, of the savings generated by changes to tax expenditures accrue to the relevant department or cross-cutting priority in the form of an increase in their own DEL envelope.* If the link between changes to tax relief and spending on a particular priority was closer, with a scaled back tax relief tied – at least in theory – to an increase in spending, which was better value for money on that priority, then changes to suboptimal tax expenditures would be politically easier.

There is also a case to be made for including some tax reliefs that are classified as 'structural' in the spending review, given many of them also have social or economic objectives. Where the Treasury or HMRC identifies structural tax reliefs that would be particularly appropriate to review in the spending review process, these should also be included in the manner described above. Capital allowances would be one example. One 'structural' tax relief the government has already committed to changing is the exemption of private schools from paying VAT.[30]

7. Avoid early settlements and the 'protection' of individual budgets from the start of the spending review process, where possible, to enable a comprehensive assessment of trade-offs.

The spending review is an opportunity to review the breadth of policy and ensure it aligns with the government's priorities. But many previous spending reviews have seen some departments' budgets 'protected' – ring-fenced from the start of the

* The reduction from revenue from tax expenditures is not easily predictable or controllable like DELs, and therefore would not be subject to an envelope in the same way as DELs. But a forecast for the cost of tax expenditures could be used, and the impact of policy changes modelled, in such a way that – as for AME – savings from a reduction or removal of tax expenditures could lead to an increase in the DEL envelope.

process and therefore taken off the table for review or negotiation. For example, budgets protected from cuts at the 2010 spending review included health spending and international development, as well as some benefits for pensioners such as the state pension and winter fuel allowance.[31] Some spending reviews have even seen early settlements for certain departments – sometimes as early as 18 months in advance of the spending review concluding.[32]

The practice of protecting certain budgets from the start of the process has been criticised for "limiting the scope for political decisions"[33] and creating "allocative problems across government", since doing so reduces the ability of the spending review to make trade-offs simultaneously across the breadth of government activity[34] – a core benefit of running a broad spending review process.

Where possible, the government should avoid protecting budgets at the start of the process and make it clear that settlements will be announced together at its conclusion to make the spending review as comprehensive as possible. But there are some areas where other reasons for the protection of budgets at the start could outweigh this major advantage. For example, a ring-fence for defence spending may have an important strategic role geopolitically. But where spending is protected in this way, it should still be subject to the same in-depth review as other areas of policy to ensure spending is aligned with the desired outcomes and is delivering good value for money.

Publishing baselines and enabling scrutiny

8. **Produce and publish robust multi-year spending baselines for each department at the start of the spending review process, to fully understand and explain the spending challenges it faces, and ultimately tackle them.**

The current baselining process can be consumed by lengthy negotiations about what should be included within the baseline as 'ongoing' policy and what should be excluded as 'time limited', with these discussions happening alongside negotiations on new policies. Baselining is often not a particularly objective exercise, with the proportion of policies deemed to be time limited acting more as a negotiation tool for the Treasury. It might be the case, for example, that top-ups to NHS funding in recent years have been categorised as time limited when they reflect ongoing increases in costs such as wages. Only very clearly time-limited spend should be excluded from the baseline; examples from the IMF include the cost of elections, and spending related to natural disasters or on an IT infrastructure upgrade.[35]

Once the set of policies is agreed and their cost established in the base year (which could be the current budget year, the previous one, or some combination of both for different policies as appropriate), another major departure from the current approach should be to project these costs across the spending review period to construct multi-year baselines for programmes. This will involve programme-level estimates of prices, demand and productivity to provide the government's best reasonable guess of what the cost of maintaining existing policies will be.

Like all forecasts, these will inevitably turn out to be wrong to some degree. But errors will improve the accuracy of subsequent attempts. Moreover, the most useful function of forecasts is often in interpreting why they were wrong. If it is clear that the costs of a programme have run over because of changes in prices or demand that are outside the government's control, that has different implications for how the Treasury should respond relative to overruns driven by the mismanagement of a programme.

The Treasury should work with departments and a new independent scrutiny function (discussed below) to determine departments' baselines. These should be based on programme-level projections of cost, demand and productivity, not a blanket application of the GDP deflator (a measure of inflation).

After scrutiny and approval from an independent body, baselines should be published early in the spending review process, before spending plan development begins. The combination of these baselines, the overall envelope and the government's strategic objectives should then form the basis on which bids are developed and negotiations take place.

This would clarify whether a department's over- or under-spending was due to factors beyond the department's control, such as cost and demand pressures different from those used to forecast the baseline. This would limit the extent to which allocations can be over-ambitious and provide key information to parliament and others when holding departments to account for their management of public spending.

In announcing reforms to the fiscal framework this week, the chancellor provided the OBR with the formal power to forecast overspend against departmental expenditure limits based on potential spending pressures, which should go some way to improving the accuracy of Treasury costing and spending forecasts.[36] Going further by announcing the type of comprehensive baselining process we describe above would further guarantee the quality of these forecasts, be a more helpful input to spending review decisions, and substantially enhance transparency and scrutiny of public spending.

9. Task an independent body to scrutinise multi-year spending baselines and plans, to help overcome perennial problems of 'business-case gaming' and unrealistic spending plans.

Departments clearly have incentives to maximise the size of their baseline and to make the strongest possible case for any additional interventions that they are bidding for. That bidders want to argue their case is, of course, a feature and not a bug of the spending review process. But debate and negotiation about prioritisation should take place based on the best available evidence.

Reforming the process for establishing baselines and allowing enough time for careful use of evidence in the development and scrutiny of spending review bids should incentivise more systematic use of evidence in the process. But there will still be incentives for departments to deploy evidence in partial or biased ways.

A common theme from our interviews for this research was the issue of 'business-case gaming', whereby departments' bids to the Treasury selectively use evidence to make the predicted outcomes of an intervention appear better than what a neutral assessment of the evidence would suggest. This is particularly the case for 'invest to save' projects, which have short-run costs but long-term benefits.[37] Over-optimism on behalf of departments then generates rational scepticism in Treasury spending teams, which means that later proposals (even if based on more realistic assumptions) will be treated with suspicion and be less likely to receive approval.[38] The incentives therefore create a problem of mutual distrust.

Similar incentives affecting the use of evidence led to macroeconomic forecasts and the scrutiny of tax and welfare costings being handed over to the independent Office for Budget Responsibility (OBR) in 2010. Departmental baselines and spending review bids should be subject to a similar style of independent and objective scrutiny.

The Treasury and departments would be responsible for generating the assumptions and projections necessary for developing baselines and new spending proposals (much like HMRC and DWP analysts are responsible for much of the analytical work that goes into producing tax and welfare costings, respectively). But these should be scrutinised by an independent body, which should be able to challenge assumptions and ask for them to be iterated until the independent body is satisfied to sign them off.

As with tax and welfare policies, the Treasury could disagree with the independent body and use its own assessment in the official budget document and scorecard, but the independent body would publish its own assessment and explain the disagreement transparently. The independent costing should also be the one the OBR uses to construct the public finance forecast.[39]

Scrutinising spending baselines and costings for new policies would be a similar process to that currently used for tax and welfare.[40] The strength of evidence underlying new policies should also be scrutinised, and an independent assessment published, as suggested by former chief secretary to the Treasury, David Gauke.[41] This assessment would provide a view on the extent to which spending plans show that proposed policies will have the predicted effect on outcomes. This would make ministers and civil servants more accountable for decisions taken at spending reviews and provide the basis for subsequent scrutiny. It should also provide incentives to improve the evidence base in future.

There are legitimate reasons why the evidence base for a particular intervention could be weak; for instance, if it is novel and untested. This does not mean this course of action should not be chosen, but the government should explain why the intervention has been funded, and what it is doing to improve the evidence base (perhaps by making use of pilots and evaluations).

There are a number of different models available for providing such scrutiny:

- It could be carried out by a civil service unit, likely jointly owned by the Treasury and the Cabinet Office, absorbing or expanding the existing responsibilities of the Evaluation Task Force. This would be the least radical change but also the least likely to fully address the incentive issues described above.

- It could be a new function within the OBR. This would be less time-consuming and costly than establishing a new institution, and would mean that the new function could draw on expertise that is already within the OBR.

- An entirely new organisation could be established to carry out this task. Labour had previously discussed the idea of an Office for Value for Money, for example.[42]

The chancellor announced this week the creation of an Office for Value for Money. Though its exact responsibilities are unclear, it could perform the kind of function we describe here. However, making it an internal Treasury team rather than an independent body limits the extent to which it might overcome the incentive problem we describe. It is also only intended to be temporary, but this scrutiny needs to be applied on an ongoing basis.[43]

We favour the scrutiny function being given to the OBR. First, an organisation that is independent from government, such as the OBR, stands the best chance of being able to solve the incentive problems described. Second, giving this responsibility to the OBR would be preferable to establishing a new body because the expertise required for scrutinising the evidence needed to cost public spending is complementary to that required for scrutiny of tax and welfare, and because the costings would be relevant for the OBR's fiscal (and possibly macroeconomic) projections. The chancellor has announced new powers for the OBR to scrutinise DEL spending, though this only appears to apply for the current and following year and in aggregate, so exactly how much scrutiny OBR can provide will depend on the detail of these proposals, which have yet to be finalised.[44]

Some of the most respected independent fiscal institutions internationally, such as the Congressional Budget Office in the US and the CPB in the Netherlands, have this role of costing and scrutinising government spending and could be used as models for how the OBR could adapt to this new responsibility.[45] For the OBR to fulfil this function, however, it would require significantly more resources at working level and a larger Budget Responsibility Committee.

10. Establish an 'Expenditure Committee' to enhance the scrutiny of spending reviews both during the process and afterwards.

There is minimal scrutiny of the spending review process and settlements in the UK. Scrutiny could be significantly improved by establishing a new Expenditure Committee in the House of Commons, in line with previous Institute for Government and House of Commons Procedure Committee recommendations.[46,47] The main task of

the committee would be to scrutinise the spending review process and outcomes. It would explore the effectiveness of the methods used to ensure that allocations reflect government priorities and incentivise value-for-money outcomes, leveraging the additional information provided through recommendations for enhanced transparency set out elsewhere in this report. As we have previously outlined,[48] the committee would improve the scrutiny of public spending processes in important ways.

The committee would take a holistic view of spending across government. It would be able to examine how well the features of the process had performed across all settlements, including the estimation of the baseline, use of performance management frameworks and usefulness of targeted policy reviews.

It would also have a specialist focus on the scrutiny of spending and performance plans, mirroring the Public Accounts Committee's focus on looking retrospectively at value for money and performance. A new specialist committee could be expected to provide much more considered advice about the topics for debates over the government's 'estimates', remedying the weaknesses in current arrangements identified above, and set out in more detail in the Procedure Committee's 2017 report on steps to more effective scrutiny.[49]

Improving the evidence base

11. Reset and align expectations of how evidence is used in spending review allocations.

Our interviews revealed that there is not complete consensus on what constitutes good evidence. The Treasury's *Green Book Review* highlighted that, in a departure from the department's emphasis on cost benefit ratios in the early 2010s,[50] it wanted bidding departments to focus on developing the strategic case for bids.[51] This is a welcome move, and one that we have suggested would improve decision making in many areas, including transport,[52] energy[53] and capital spending in public services.[54]

However, the Treasury and wider centre of government should do more to communicate clearly what it expects of both departments and Treasury officials judging bids at the next spending review. Spending departments still expect the Treasury to make decisions according to relative cost benefit ratios rather than the strategic case. This can lead to bias against policies where the benefits are transformative in nature or difficult to monetise (and therefore not adequately captured by cost benefit analysis). Interviewees acknowledged a cultural practice of spending teams being drawn to a specific number – the cost benefit ratio – in assessing submissions, particularly when the time to assess and advise on bids is short.

Embedding recommendations from the *Green Book Review* will require a more concerted effort to lead a cultural change in the approach to evidence. This will include the Treasury enhancing its work to communicate how it will assess evidence in the spending review and to train practitioners, both those assessing bids and those writing

them. It will also require clear messaging from ministers, in particular the chancellor, about what central government considers important for departments to do in drawing together the evidence behind their submissions.

12. Enhance the role of the Evaluation Task Force at the next spending review to accelerate progress on improving evaluation.

Robust evaluation is integral to improving the government's understanding of what works. It is also important to support the iterative learning approach to policy intended by Labour's ambitions for mission-driven government. Progress has been made to improve the capacity for and standards of evaluation in government in recent years, including through the creation of the Evaluation Task Force, the settlement conditions for evaluation attached to the 2021 spending review[55] and the soon-to-be-public Evaluation Registry.[56] But this progress needs to be built on if the government wants to evaluate a meaningful proportion of government activity over the course of the next parliament (or two) and there remains insufficient resources dedicated to evaluation.

Evaluation needs to be protected and bolstered in the next multi-year spending review. The Evaluation Task Force needs enough resources to support departments' evaluation plans. Conditions around evaluation in settlements need to be monitored to check that departments are undertaking robust evaluations on key policy areas, learning from them and taking those lessons into account in policy development.

Increasing accountability for the use of evidence in the process (through independent scrutiny and greater transparency) should provide departments with more incentives to undertake robust evaluations to support future bids, reducing the extent to which departments reprioritise spending away from monitoring and evaluation. Even so, spending set aside for evaluation should be protected and departments should be subject to a greater level of scrutiny than usual for any reprioritisation decision that reduces the total amount of funding committed to monitoring and evaluation.

13. Incorporate a set of 'Dutch-style' interdepartmental reviews of thematic policy areas, including the government's missions, into the spending review to improve the efficiency and strategic alignment of spending as well as to maintain control of totals.

The way in which UK spending reviews differ most from international comparators is the depth at which policy is reviewed and spending allocated on that basis. Conducting a more thorough interrogation of existing spend, and new spending being proposed, would help improve value for money.

Once cross-cutting priorities have been defined in the Priorities for Government framework, as recommended above, it is important for the government to improve its understanding of how resources are already being used in support of a given policy area – what is providing good value for money, and where resources and activity could be marshalled more efficiently and effectively. This should include reviewing the interactions between programmes in that area, and the effectiveness of both capital and resource spending together.

These interdepartmental reviews would be particularly important for cross-cutting priorities, such as within the government's five missions. Analytical teams from the relevant departments should undertake these reviews, with input and support from the centre of government, including the Treasury and external experts. The outputs should be published and should focus on how resources and activity can be most effectively and efficiently deployed, to inform subsequent strategy and spending plan development within the review process.

It is helpful to distinguish here between what 'spending review' means in the UK versus what it means in other countries, where the term often refers to specific, targeted reviews of areas of spending, often ones that cut across departments.[57] While the UK approach of looking at planned spending across the board is helpful (and often effective) in managing total levels of spending, targeted reviews are often more about assessing the extent to which spending in a whole sector achieves good value for money and is aligned with government's strategic priorities.

To undertake the interdepartmental reviews, we recommend that the UK replicates the Dutch model of 'spending reviews'. These take the form of interdepartmental analytical reviews, which look at a specific, often cross-cutting, area of policy to recommend how activity and spending could be deployed more effectively and efficiently.

The UK has, on occasion, run this sort of thematic review of a policy area:

- Strategic policy reviews were much more commonplace under New Labour, particularly early on in that government. The 2000 spending review, for example, was informed by a series of cross-cutting policy reviews, which were the basis on which it allocated some new funding.[58]

- After then chancellor George Osborne's commitment at the 2015 spending review, a dedicated team in the Treasury undertook 'cost reviews' of specific areas of policy.[59]

- There have occasionally been one-off reviews of policy, such as the independent review of drugs leg by Professor Dame Carol Black.[60]

- The Cabinet Office has recently commissioned a series of reviews of key 'systems challenges' across government.

It will be important for the new government's first multi-year review to be comprehensive, given that it wants to reprioritise spending to achieve an ambitious setof missions within a challenging fiscal environment. It should therefore **commission two sets of these targeted reviews to inform the choices made at thatmulti-year review:**

- One set of reviews should be on policy areas that are relevant to achieving the government's strategic priorities. A mission to boost economic growth, for example, might be supported by reviews of key areas of policy such as infrastructure and planning, R&D, innovation and knowledge diffusion. The remit of these reviews

would be to identify ways in which spending could be reprioritised to better achieve priority outcomes. They would support the development of joint bids by interministerial groups (described in recommendation 16).

- Another set of reviews should focus on areas that do not fit neatly within the missions or priorities identified by government but where policy makers think a different approach should be taken to deliver better outcomes or greater efficiency. This could include policy areas where government thinks the balance could be shifted further to prevention, or wants to review different service delivery models.

We heard from interviewees that the UK's experience of attempting 'cost reviews' in the past was mixed because the process struggled to gain input from all parties (particularly those who thought they were likely to 'lose out') and they did not lead to much action. To ensure that future attempts are more successful, lessons from other countries are as follows:

- The process needs **political leadership and support**, particularly in determining the objectives and scope of reviews and making final decisions on recommendations.[61]

- The reviews need to have a **clear governance structure** that involves representatives from all departments and public bodies relevant to the area being reviewed, and includes a balance of knowledge and skills (across policy, delivery, finance, analysis and communication).

- **Everyone needs to be incentivised to take part in the reviews.** It is important, for example, that all participants in the review are able to influence the final output and that no participant has excessive power. The Netherlands, for example, recruits independent chairs (usually former senior civil servants) who will not be incentivised to push the agenda of a particular department and ensures no participant (including the finance ministry) has veto power over what goes into the final product.[62]

- **Enough time must be allocated to the reviews and they should conclude well before spending plans are finalised.** For these reviews to be done well, they will probably need to be conducted over the course of several months. Targeted reviews in the Netherlands typically take six to eight months. This is one of the key reasons why we do not think an effective multi-year spending review could be concluded by November 2024. An illustrative timetable is set out in the Annex of this report.

14. Introduce senior specialist roles and make greater use of external expertise in the Treasury and wider centre of government.

There is scope to improve the level of expertise within the teams at the centre of government that scrutinise and challenge spending plans. We have previously called for senior specialist roles to be more commonplace in the civil service[63] and the Treasury in particular.[64] This would allow subject experts to take roles in spending teams in the Treasury based on their expertise, getting the pay and level of seniority they deserve, without necessarily having to take on management responsibilities.

While we argued above that it is unreasonable to expect Treasury spending teams to have enough expertise to match the depth of expertise of each spending department, it would be beneficial to have some officials with greater levels of policy area expertise who are better able to, for example, draw on external networks. Also, officials from spending departments working with the Treasury felt that they could do with more operational delivery and commercial and contracting skills when the National Audit Office spoke to them for its 2018 report on spending.[65]

There is also much to be done to reduce churn in the civil service, and the Treasury in particular.[66] If spending teams rely on those elsewhere – within or outside government – for the functional or subject-matter expertise relevant to spending decisions, those relationships are often undermined by high turnover within the teams. Complaints about turnover were extremely common among both public sector and academic experts we spoke to who do engage with the Treasury or have in the past: they felt that having to start from scratch with a new official every year or two was highly inefficient.

External expertise can also be leveraged in a more systematic way. Targeted evidence reviews present an opportunity to involve outside expertise in the important process of reviewing the effectiveness of existing policies, which can be used to inform the process of developing bids. The process of reviewing bids could also involve a more diverse range of people than a panel of chief economists, as argued in our report on capital spending in public services.[67]

Developing spending plans

15. Convene interministerial groups for each government mission, led by a lead secretary of state and supported by central government, to develop joint strategies and spending plans to help overcome Whitehall's natural tendency towards siloed working.

To rectify the departmentally siloed nature of most spending review plans and allocations, a single, joint spending plan should be developed for each of the new government's cross-cutting missions, as well as any other interdepartmental priorities the government has defined.

When commencing the spending review process, central government should provide the lead secretary of state for each mission with instructions that include a baseline for current activity being undertaken in that mission, as well as planning assumptions for the likely budget scenarios. To work up these spending plans, lead secretaries of state should convene interministerial groups, which bring together all departments contributing to the mission in question.* These groups should consider the analysis the interdepartmental thematic reviews, described above, provided.

The end result should be a joint strategy for how those groups of ministers believe they can best contribute to the mission as defined in the Priorities for Government framework, and a coherent, joint spending plan to go with that strategy. These should

* These could be a structure already established for each mission, such as 'mission boards'.

be submitted to central government alongside departmental bids. The spending plans should include a combination of work undertaken (and budgets managed) by individual departments alone, as well as work delivered jointly in some instances.*

Developing joint spending plans would require co-ordination from central government. To enable this, ministers and civil servants from the Treasury and Cabinet Office should be included in each interministerial group. Treasury spending teams should work in a way that reflects the missions; for example, through cross-cutting spending teams comprised of officials from the relevant departmental spending teams. Central government will also have to referee which work and budgets are expected as part of joint spending plans and what should form departments' own, separate plans.

The final stages

16. Finalise the overall DEL envelope ahead of negotiations beginning, but after baselines have been constructed and evidence reviews concluded, so that spending pressures broadly inform the decision.

The spending review envelope should be set in advance of the spending review process concluding, most likely at the preceding fiscal event.

Some previous spending reviews have had a 'moving envelope', whereby the final envelope is announced at a fiscal event alongside final settlements.** This has meant the final overall DEL envelope is unknown during much of the negotiations, and instead discussions must be based on forecasts that are changing right up to the end of the process.

A moving envelope incentivises government to compress much decision making into the final few weeks of the process, when the OBR submits the draft fiscal forecast (the key determinant of the overall envelope) to the Treasury. To make matters worse, decisions over policy then feed through into changes in later 'rounds' of the fiscal forecast (because they will affect the economy and therefore have effects on government revenues and spending). This makes the final few weeks of the simultaneous negotiation and forecasting process particularly chaotic and suboptimal.

For the next multi-year spending review, the envelope for DEL spending could be set at the fiscal event preceding the negotiations beginning. Having a fixed envelope for the spending review negotiations would be important for forcing trade-offs between different priorities. In the suggested timeline we have set out in the Annex of this report, finalising the envelope would happen after analysis to construct departmental baselines and the conclusion of the targeted policy reviews, meaning that ministers can take account of this information when deciding the broad direction in which public spending (and therefore tax) should go to match their ambitions.

* This is made possible by the models for cross-cutting working already described in *Managing Public Money* and does not require fundamental reform to the accountability model (see HM Treasury, *Managing Public Money*, GOV.UK, 2022, last updated 2023, retrieved 22 July 2024, www.gov.uk/government/publications/managing-public-money). But it will have implications for how that accountability is managed between departments regarding missions, which is described in more detail in recommendation 19.

** The spending review was announced alongside a fiscal event in 2007, 2015 and 2021.

17. Conduct multilateral 'star chamber' negotiations to ensure that final settlements stand the best chance of addressing cross-cutting priorities and fully use jointly developed evidence reviews and bids.

To overcome the limitations of bilateral negotiations and hone the strategies and spending plans that the interdepartmental groups, described above, will have developed, most negotiations should be replaced with multilateral 'star chamber' discussions. Groups of relevant ministers should be convened to discuss joint spending plans, including for each mission.* These should be led by the chief secretary to the Treasury and a relevant Cabinet Office minister, such as the chancellor of the Duchy of Lancaster. They should include the lead secretaries of state for each mission as is relevant, and other ministers depending on the spending plans to be discussed.

Multilateral negotiations have been tried before. Usually, this has entailed multiple actors on the 'assessor' side of the table, as with Margaret Thatcher's 'star chambers', John Major's EDX and the coalition government's 'quad', who were involved in spending review negotiations.** But New Labour's equivalent group negotiations over public service agreements were, at least partially, multilateral on the 'bidder' side of the table too.[68] We recommend that these discussions are multilateral in both senses.

Running 'star chamber' negotiations to set the majority of both mission-based and departmental settlements would create a forum in which cabinet ministers can engage in meaningful discussions of trade-offs. While there may be a risk of gaming – whereby a secretary of state promotes their department's interests over others' – the format would more effectively highlight tensions and trade-offs that may not be considered under bilateral negotiations. But they will not completely replace the need for bilateral discussions between central government and individual departments. Multilateral negotiations may not provide space for more detailed negotiation over specific spending proposals that sit more firmly within a department's responsibilities alone.

18. Make allocations to each cross-cutting priority as well as to individual departments, making use of the existing rules on accounting officer responsibility.

After developing joint plans and holding multilateral negotiations, the logical conclusion of this process will be for spending allocations to be made along the lines of cross-cutting priorities, as well as to individual departments. This will allow the government to identify a cross-cutting 'budget' for each mission, better aligning its resources with its priorities.

* Take, for example, negotiations over spending plans for a cross-cutting health mission. Discussions about social care policy would include ministers from both the Department of Health and Social Care and the Department for Levelling Up, Housing and Communities. And discussions about public health prevention could include ministers from domestic policy departments as relevant.

** The star chamber was an ad-hoc cabinet sub-committee appointed by Margaret Thatcher in 1984, which consisted of senior ministers in non-spending departments and adjudicated on disputes that the Treasury and departments could not resolve bilaterally. Major developed this into the EDX, a permanent committee that enabled a more 'top-down' approach to managing spending through strict controls on overall spending that EDX would impose. The 'quad' was a more informal grouping made up of then prime minister David Cameron, deputy prime minister Nick Clegg, chancellor George Osborne and Treasury chief secretary Danny Alexander.

These cross-cutting budgets would comprise various parts of departments' own budgets, where work pertains to one of the missions. They would be overseen by the interministerial groups formed to devise the joint strategies and spending plans (or the mission boards, as planned by the current government), led by the lead secretary of state and senior official in each instance.

This form of cross-departmental working would be possible in the existing accounting officer model as set out in *Managing Public Money*.[69] These rules would allow overall responsibility for each mission and associated budget to lie with the lead secretary of state and accounting officer for the relevant department. But where funding for a programme came from a department other than the lead department, the authority of the accounting officers for spend under their responsibility would be respected.

This system would require the reprioritisation of spending to be collaborated on and agreed between departments and, where necessary, brokered and agreed by central government. Where changes to a mission's budget would lead to a change in a departmental budget, and vice versa, discussion and agreement within the interministerial group – including the lead secretary of state, central government and other relevant ministers – would be required. And where agreement could not be reached, or it is deemed important enough, the centre of government could require its agreement be sought.

For example, if the Ministry of Housing, Communities and Local Government wished tomove money assigned to its role in the health mission out of that cross-cutting budget and into a different aspect of funding for local government, it would have to negotiate that with the health secretary as the lead minister and the wider interministerial group, including representatives of the centre of government. If agreement could not be reached or if the suggestion was of enough political or budgetary significance, the Treasury may choose to require that the ministry seeks agreement from the centre of government.

Previous spending reviews have only published settlements at the departmental level, except for a few specific programmes, in the final spending review documents. This is despite allocations typically being made at a programme level during the bidding process. Making cross-cutting allocations at the spending review, however, would require it to be clear which programmes in a departmental budget also sit within a given cross-cutting priority budget.

The next multi-year spending review should therefore include published programme-level allocations to enable accountability for these spending plans, and foster trust between departments. It would also be easier to compare allocations to programme-level baselines.

This need not mean a less flexible or iterative approach to public spending. Making more detailed spending allocations would not prevent spending being moved betweenprogrammes with a given department or cross-cutting priority budget – subject to the existing spending controls – but would ensure that decision makers are held to account for why funding has been reprioritised, which in many cases may be perfectly justifiable.

19. Use spending plans as the bedrock of a cross-cutting strategy for each mission and an overarching performance framework for government to help delivery and improve accountability after the spending review.

Another advantage of the process we recommend is that the interministerial groups – such as the mission boards Keir Starmer has indicated will be established – charged with developing a joint spending plan for each mission will, by necessity, need to agree a theory of change for that mission. This should form the basis of a single strategy for each cross-cutting priority, developed as part of the spending review process and agreed at the point of settlement, to reflect both the strategic direction of the government and the resources available to be used.

These strategies should be incorporated into whatever performance framework the government adopts, building on the existing system of outcome delivery plans and drawing lessons from older systems such as public service agreements. Together, these should form the basis of a single performance framework for government by which progress can be understood, which sets out:

- long-term outcomes (from the Priorities for Government framework)
- short- and medium-term plans towards those outcomes, including relevant input and output targets (from strategies)
- the alignment of the government's resources (from spending review allocations).

This framework should be transparent and iterative, in line with the principles of mission-driven government.

After settlements

20. Aim to avoid changing spending plans to maintain the benefits of certainty, while maintaining flexibility to update them in response to major changes in circumstances that require reprioritisation.

The government should aim to avoid changing spending plans between spending review cycles to maintain the benefits of multi-year certainty, which is a key strength of the UK's process. The constraint of multi-year settlements is a feature, rather than a bug, and points to the importance of setting strategic priorities from the outset, as outlined above. Frequent updating of budgets and short-term funding allocations seen in recent years has been damaging, and should be avoided.[70,71,72]

The benefits of certainty must be traded off against the need to maintain flexibility. There will be a limited number of areas where reprioritising spending between spending reviews is necessary and desirable. The government must be able to respond to unexpected major external events (for example, a pandemic or a large geopolitical conflict) or changes in costs or demand (for example, due to high inflation) that require spending plans to be updated. And where an annual targeted policy review (as outlined below) recommends value-for-money savings or strategic realignment within a specific area – having involved the relevant departments and centre of government in that review – the government should be able to implement those recommendations through the annual budget process if it wishes. Nor should certainty over overall budgets prevent the government from making greater use of iterative approaches to policy, using R&D and other means of budgeting for experimentation.

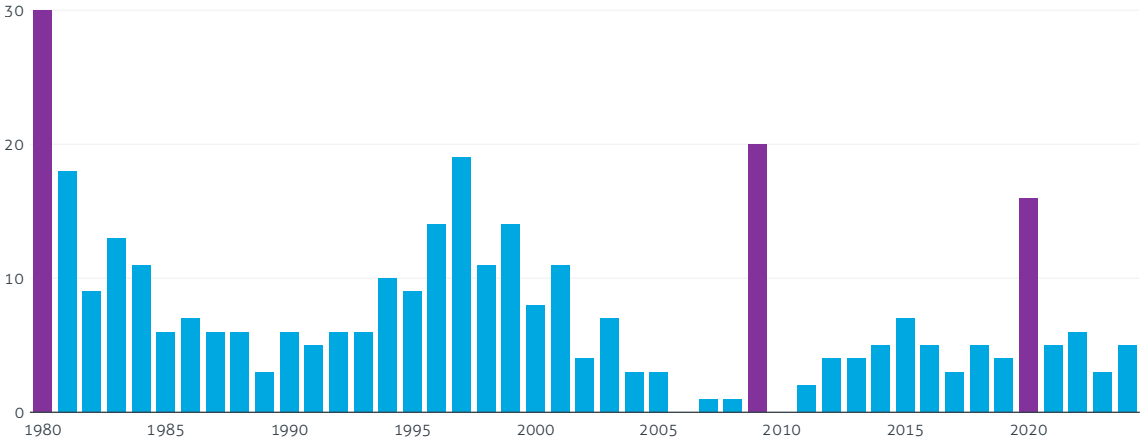
To ensure the government can respond to changes in circumstances or specific policy changes outside the spending review, the Treasury should continue allocating funding to the reserve. Between £14bn and £16bn a year was allocated to the reserve at the last spending review.[73] Interviewees told us that the reserve acts as an important source of flexibility for the Treasury to respond to changing circumstances through updating budgets, without having to move funding from other areas of spending – therefore disrupting funding that has already been strategically allocated.

The spending review process must also be able to respond to the electoral cycle, and in particular changes in government. The UK electoral cycle is unpredictable – a parliament must last no longer than five years, but beyond this constraint the timing of general elections lies in the hands of the prime minister.[74] Since spending reviews are a strategic moment to align spending with priorities, a new government should be able to run a new spending review on coming into office if it wishes to, regardless of how many years there are remaining of current settlements. Provisions for this should be included in any updates to the Charter for Budget Responsibility.

21. Commission ongoing 'Dutch-style' reviews of policy between spending reviews to ensure building the evidence base is a continuous process.

Government should make systematic use of the thematic interdepartmental reviews described in recommendation 14 in between multi-year spending reviews. This could broadly follow the process developed in the Netherlands, which in recent years has conducted reviews of around five areas of policy a year, and on occasion conducts more than 15 in a given year as part of a 'comprehensive' review of spending (see Figure 4).[75,76] Establishing this annual process would help to counter the tendency for evaluation to be deprioritised, helping to improve the evidence base available to inform decisions at subsequent spending reviews.

Figure 4 **Number of targeted 'spending reviews' conducted annually in the Netherlands**



Source: De Jager F, 'Spending review in the Netherlands: conference on spending reviews for the Western Balkans April 3 2024', 3 April 2024, retrieved 22 July 2024, https://isimulate.worldbank.org/mfm_admin/Mission/ViennaWorkshop/6_Spending_reviews_Netherlands.pptx. Notes: Purple bars indicate 'comprehensive' spendingreviews.

Conclusion

On her first day as chancellor, Rachel Reeves said she was "under no illusions about thescale of the challenges that we face".[1] A new government that is serious about tackling these challenges and achieving Labour's missions and other objectives will need an effective spending framework. Our research shows that the one it has inherited is not up to the job. The next multi-year spending review provides an opportunity for the government to reset its approach and embed more effective ways of managing public spending.

Annex: Timeline of spending reviews over the next year

Table A1 **Suggested timeline for the spending review process, incorporating the recommendations as set out above**

	2024 one-year spending round	2025 multi-year comprehensive spending review
July–August	A Priorities for Government framework is announced Interministerial groups are formed around missions Reforms are made to the baselining process	
	Internal Treasury analysis on the expected spending envelope takes place The 2024 spending round is launched Baselines are published, signed off by the chair of the independent scrutiny body Departments and interministerial groups write spending plans	Interdepartmental reviews of thematic policy areas are commissioned
September	Initial spending plans are submitted to the Treasury An independent body scrutinises the one-year spending plans Multilateral negotiations begin, based on revised spending plans	
October	2024 spending round settlements are announced	
November	Parliamentary scrutiny of 2024 spending round settlements by the Expenditure Committee takes place	Interdepartmental reviews conclude and are published The approach is set out for joint, mission spending plans Baselines are published, after scrutiny by an independent body

December–March		Development of departmental and missions spending plans (and strategies)
April–July		Spending plans are submitted to the Treasury An independent body scrutinises the multi-year spending plans Negotiations take place Departmental and mission settlements are announced Parliamentary scrutiny of settlements takes place

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Conclusion

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