National Audit Office

Report
by the Comptroller
and Auditor General

HM Treasury and Cabinet Office

Improving government's planning and spending framework

HC 1679 SESSION 2017–2019 26 NOVEMBER 2018

Key facts

2015	£4tn	15
the year single departmental plans were introduced	allocated at Spending Review 2015 for total public spending for the five years to 2020-21	of 17 government departments had an approved 2018-19 single departmental plan by September 2018

Three to five number of years usually covered by allocations at spending reviews

One-fifth HM Treasury staff work in spending teams

24 costing projects carried out to date by HM Treasury and departments to identify and understand cost drivers and potential efficiencies in specific areas of spending

Of the officials involved in business planning and spending who responded to our survey:

92% agreed that HM Treasury spending teams actively seek to build a constructive and transparent relationship with them

75% said that their department's single departmental plan had clear and agreed objectives

53% told us their 2018-19 single departmental plans aligned proposed deliveries with actual capability and capacity

33% agreed that HM Treasury spending teams provided mechanisms to support and encourage departments to work together

Summary

1 The way central government plans and allocates resources is critical to improving the efficiency and effectiveness of public spending. To deliver value for money over the medium to longer term, government needs an integrated planning and spending framework which provides: robust realistic plans, with clear priorities; long-term clarity on funding that supports organisations to work together across government and protect value for money; good understanding of outcomes and monitoring of performance against them in-year; and the ability to identify new priorities and reshape plans systematically in light of events or performance.

2 The roles and responsibilities in central government's planning and spending framework are threefold:

- Departments, led by accounting officers, plan and deliver their objectives and they are accountable for their delegated budgets.
- HM Treasury is responsible for allocating and controlling public spending; scrutinising and approving project and programme spending outside of departments' delegated limits and novel and contentious proposals, with the aim of delivering value for money.[1] It delegates budgets to departments; and sets rules for government financial management. Its 20 spending teams advise HM Treasury ministers on decisions at spending reviews; review and approve submissions for new spending on projects and programmes; and monitor departments' budgets and spending risks.
- The Cabinet Office monitors delivery of departments' objectives and government policy priorities and oversees departmental business planning.

3 In March 2018, the Chancellor announced that HM Treasury would carry out a spending review in 2019. A spending review usually sets spending limits for departments over approximately three to five years, subject to fiscal forecasts. HM Treasury introduced multi-year budgets in 1998, and can grant departments flexibility to move funding between years, which can help with medium-term financial planning and management, as most objectives straddle financial years. Between spending reviews, HM Treasury allocates money including at annual budgets, monitors spending risks, scrutinises value for money of new proposals, and authorises in-year adjustments.

1 HM Treasury, *Managing Public Money*, July 2013 with annexes revised as at March 2018; HM Treasury, *The Green Book - Central government guidance on appraisal and evaluation*, 2018; and, HM Treasury, *Treasury approvals process for programmes and projects*, November 2016.

4 Since 2015, each department has been required to prepare an annual internal business plan, known as a single departmental plan (SDP). It sets out how the department intends to implement its objectives and government manifesto commitments, and deliver public services within its spending limit. The first SDPs did not inform the 2015 Spending Review as they were not finalised until after it was completed.

5 This report reviews government's progress in improving the planning and spending framework since we last reported in July 2016,[2] and the way in which HM Treasury and the Cabinet Office have sought to address the systemic issues around planning and spending decisions that we have identified in our work across government. We set out:

- the current planning and spending framework and the approach to long-term planning (Part One);
- the evolution of medium-term business planning (Part Two);
- the evolution of HM Treasury's approach to managing spending in the short term (Part Three); and
- the challenges for the 2019 Spending Review and beyond (Part Four).

6 We aim to inform the continued development of departmental planning and future spending reviews. Our evaluative criteria and methods are included in Appendices One and Two. Appendix Three sets out the Committee of Public Accounts' previous recommendations and government's responses on this topic.

Key findings

7 In 2016 we found improvements in the way central government handled spending reviews and managed performance. But we highlighted the absence of an overarching strategic framework for achieving government's objectives and balancing short-term priorities with long-term value for money. We urged government to retain and further develop the new SDP regime to improve the rigour of business planning and prioritisation, particularly in light of the challenges of preparing for the UK's exit from the European Union (EU).

2 Comptroller and Auditor General, *Government's management of its performance: progress with single departmental plans*, Session 2016-17, HC 872, National Audit Office, July 2016; Comptroller and Auditor General, *Spending Review 2015*, Session 2016-17, HC 571, National Audit Office, July 2016

8 The way in which spending of taxpayers' money is budgeted, approved by Parliament and allocated by HM Treasury to departments, is well established and effectively controlled. This system has enabled HM Treasury, through its oversight of departments, to keep spending close to forecasts in the short term, and work towards fiscal targets to reduce government borrowing and debt, as reported by the Office for Budget Responsibility. HM Treasury scrutinises the deliverability and value for money of new proposals for projects and programmes, but ongoing monitoring of benefits is more variable. It is now considering how it can better embed the concept of public value into its scrutiny, and commissioned a review from Sir Michael Barber about how government understands and measures the public value that is delivered with public spending.[3,4] The Chief Secretary to the Treasury noted in the review that government needed to track how it turns public money into results for citizens, and prioritise to ensure that resources are allocated to where they will be most effective. HM Treasury has not yet decided how best to implement the findings of the review. At the same time, the Cabinet Office – through SDPs – is helping to improve departments' business planning. The two departments are still working on how these developments will be used in the next Spending Review.

9 We welcome the move towards better understanding and measuring of public value and expect HM Treasury to take this work forward at pace. Following government's commitment to retain and build on the SDP regime, we would urge HM Treasury and the Cabinet Office to work closely together to support government's business planning into the future. In our view, the benefits of bringing these and other improvements together, to create a more integrated planning and spending framework, are self-evident. Such a framework would allow government to adopt a consistent and coherent approach when overseeing the delivery of projects and programmes, with enough checks and balances to ensure correction if things go awry. Without such a framework, there is a real risk that the system is vulnerable to short-term thinking, which often leads to poor outcomes for those relying on public services and jeopardises value for money.

3 HM Treasury, *Delivering better outcomes for citizens: practical steps for unlocking public value*, led by Sir Michael Barber, November 2017.

4 The Barber review defines "public value" as the value created when public money is translated into outputs and outcomes which improve people's lives and economic wellbeing.

10 Our report can help government as it works to put these ideas into practice. In setting out our key findings, we focus on how well integrated business planning and spending management is and the extent to which it supports:

- **achieving long-term value for money:** long-term planning to deliver government policy objectives and sustainable public services; clarity where it is needed about funding beyond the end of the current spending review period; and an understanding of what is being delivered with that funding. To deliver long-term value, plans must be consistent and subject to good policing by HM Treasury, the Cabinet Office and the departments themselves;
- **realistic planning, challenge and prioritisation in the medium term:** robust business plans with clear priorities, linked to the available resources and underpinned by monitoring and reporting on progress and outcomes. HM Treasury spending teams, alongside departments' finance teams, need to defend plans against unrealistic or optimistic assumptions; and
- **short-term spending control and performance management:** a clear view of in-year performance and resource use, and the ability to make changes to plans with an understanding of the impact this will have on medium- and longer-term value for money and without undermining delivery of longer-term goals.

Achieving long-term value for money

11 HM Treasury has begun to focus more on the longer term. The Office for Budget Responsibility now independently assesses fiscal risks alongside its existing role of assessing the long-term sustainability of the public finances, to which HM Treasury responds formally. Established by HM Treasury, the National Infrastructure Commission makes recommendations on long-term infrastructure needs. HM Treasury is providing guaranteed levels of funding in areas such as the NHS – which will receive a real-terms increase over the next five years – to support 10-year planning, and reforming areas of long-term spending such as pensions. It is also increasingly focusing on longer-term fiscal risks through its analysis of the government's balance sheet, which is based on the Whole of Government Accounts and aims to improve management of the government's assets and liabilities (paragraphs 1.14 to 1.19).

12 Yet spending teams' routine monitoring does not focus on long-term risks. We found HM Treasury spending teams' engagement with the balance sheet review varies and this work has yet to make a difference to the way spending teams monitor departments. When monitoring risks for departments, the spending teams are mainly focused on risks to in-year and medium-term budgets rather than long-term risks. Fewer than one-half of departments' finance and planning officials responding to our survey thought that spending teams considered the long-term impact of funding decisions on outcomes. Survey respondents wanted a longer-term view of funding from the centre of government, to support better planning. Departments told us that their attention is directed to staying within budget in the current financial year, rather than the medium or longer term. For example, despite having a 10-year plan since 2012, the Ministry of Defence is still focused on addressing short-term funding gaps. We have reported for a second year that the Equipment Plan is unaffordable. To help close the gap, the Ministry has reduced investment and delayed work programmes, which could increase risks to value for money in the longer-term (paragraphs 1.17, 1.19 and 2.12 and Figures 14, 19 and 22).

13 Long-term funding is not supported by a good understanding of the longer-term value for money of public spending. The removal of Public Service Agreements (PSAs) in 2010 left a vacuum in terms of measuring the long-term performance and value delivered by government spending.[5] Where longer-term funding has been agreed (for example, the housing and NHS settlements), the detailed long-term plans and HM Treasury's role in monitoring delivery are still being developed. HM Treasury's past attempts to improve understanding and management of value have had limited impact and have not been sustained. Following the Barber Review, HM Treasury is now developing an approach to understanding public value which could help inform spending allocations at the 2019 Spending Review. However, the project is at an early stage and HM Treasury is considering how it will make use of the pilot work in future (paragraphs 1.9 to 1.12, 1.19 and Figure 4).

14 HM Treasury's own success measures prioritise spending control over long-term value for money. Spending teams use value for money criteria when scrutinising projects and programmes which exceed departments' delegated limits. Eighty-four per cent of survey respondents agreed that HM Treasury challenges value for money of funding bids. However, spending teams do not routinely monitor departmental performance against an agreed set of objectives. HM Treasury itself has an objective of ensuring value for money and improving outcomes, but the only measures it uses to assess its performance are the reduction in government borrowing and the reduction in government debt. Against these measures, HM Treasury performs strongly, delivering tight spending control. The International Monetary Fund's analysis shows that the UK has been the most successful country in the EU at meeting its spending forecasts in the last 15 years. But the measures can create incentives to favour short-term savings over longer-term value for money – as we have seen in HM Treasury's past decisions on the use of private finance and asset sales (paragraphs 3.4, 3.5, 3.16, 3.18, 4.2 to 4.5 and Figures 18 and 23).

5 In 1998, the then government introduced a framework of PSAs as the primary means to set its key, top priority objectives and measure performance against them. Departments and HM Treasury agreed PSAs as part of the spending review process. In return for funding, departments agreed to deliver key outcomes such as reducing child poverty, tackling climate change and improving healthcare.

Realistic planning, challenge and prioritisation in the medium term

15 **The Cabinet Office is working to make SDPs an enduring basis for improved business planning and spending allocation**. The Cabinet Office has retained and built upon the business planning regime it introduced in 2015, which is based around SDPs. SDPs are intended as comprehensive, costed business plans that departments develop to set out and agree the choices about what must be delivered within their spending limits, manage business and track their performance. The Cabinet Office is working with HM Treasury and the Government Finance Function to support and challenge departments and has asked them to self-assess the maturity of their business planning processes. Other expert cross-government functions are providing support in areas such as project management and contracting (paragraphs 1.7, 2.1, 2.3 to 2.8 and Figures 2 and 7).

16 **SDPs and performance information are not yet central to decision-making in all departments**. Not all departments have aligned their internal decision-making with the SDP they present to the Cabinet Office and HM Treasury. SDPs cannot support better value for money unless they drive day-to-day decisions about how to spend money, and using SDPs for decision-making will help improve their quality. We found that few HM Treasury spending teams we examined refer routinely to SDPs. Together with the Cabinet Office, HM Treasury is working on how to use SDPs to challenge bids and inform allocations at the next Spending Review (paragraphs 2.5, 2.13, 3.14, 3.15 and 4.18).

17 **Departments do not fully integrate delivery planning with financial and workforce planning, and measures of performance and value for money are weak**. Departmental officials in our survey reported improvement against all the key elements of business planning. Departments we spoke to said the SDP approach had helped them clarify objectives and internal accountabilities, and take a more professional approach to planning. However, some departments did not include in their SDPs all the information that was required in the guidance. Some were not able to produce financial and workforce plans for the medium term, or integrate these with the outputs and outcomes they propose to deliver. Departments are still weak on setting out their understanding of the relationship between inputs, outputs and outcomes, and making use of performance data for decision-making. This creates a risk of making unachievable commitments and failing to see when they are off-track (paragraphs 2.1, 2.6, 2.7, 2.10 and 2.11, Figures 9 and 10).

18 Over-optimism and unwillingness to prioritise are entrenched problems. With rising demands and fixed spending limits, departments have had to plan to deliver more with less. Several departments are also attempting to steer complex, long-term programmes of transformation in public services. Moving services online, for example, can offer large efficiency savings in the longer term, but these may fail to materialise without realistic planning and management. Our work shows repeatedly how over-optimistic plans for delivery or savings (such as the efficiency targets set for hospitals) are followed by either failure to deliver, lower service quality, or a need for later funding injections. At the root of this problem lies not only poor data on costs and performance, but also inconsistent challenge, both within departments and by the centre of government. Only one-half of survey respondents told us the proposed deliveries in their SDPs matched actual capability and capacity. Staff involved in business planning say they find it difficult to say no to new ministerial priorities. And while we found examples of departments making tactical adjustments to their programmes to meet the immediate pressures of EU Exit work, there was little sign of strategic reprioritisation or activities being dropped. The Cabinet Office and HM Treasury could do more to use SDPs to challenge departments' costings, and to examine overall affordability, deliverability and risk in government's combined plans (paragraphs 2.6, 2.13 to 2.17, 3.14, 3.15, 4.7 and 4.18 and Figures 6, 15, 16, 17 and 19).

19 Business planning does not help to break down government silos. Many government objectives, from overseas aid to children's mental health services, cut across multiple departments and public bodies. The guidance to departments on SDPs requires them to report on contributions to cross-government objectives. But government's structure of departments, with separate accountabilities, leads to business planning and spending review submissions being created in silos. This can undermine overall value for money, and negatively affect local services, because multiple central government departments take separate, narrow views. Government told us that seven Cabinet-level implementation taskforces and a number of HM Treasury groups are working on various cross-government risks and priorities, including housing, modern slavery and the ageing society. But none of these publish plans and there is no visibility of their impact. HM Treasury considers that its costing projects have helped improve understanding of activities that cut across government and encouraged collaboration – but these are in selected areas only. HM Treasury told us that it is trying to encourage cross-departmental bids and will consider how best to allow for this in the next Spending Review (paragraphs 3.14, 4.8 to 4.11 and Figure 24).

20 There is a demand for greater transparency, both within and outside government, over the basis for spending choices. Spending reviews have previously been characterised by a bilateral deal-making approach between departments and HM Treasury, and a lack of collaboration between departments – this is consistent with an emphasis on controlling individual budgets, but does not encourage a joined-up approach to value for money. SDPs are not formally shared between departments. Departments told us they would like HM Treasury to have open conversations about the spending review process, align it with government's high-level strategic objectives, and incorporate checks to stop 'problem-shifting' between departments (for example the impact of welfare reforms on the increase in homelessness, which had not been fully assessed when we reported in 2017). HM Treasury is discussing planning for the next Spending Review with senior finance staff in departments. Parliament has also made clear that it wants greater visibility of government's spending choices, but traditionally only details of the outcomes have been published, whereas details of how decisions are reached have not (paragraphs 1.6, 4.10, 4.13, 4.16 and 4.17 and Figure 24).

Short-term spending control and performance management

21 Over-optimistic plans which are not aligned to resources create in-year spending pressures and put value for money at risk. Accounting officers are required to plan on an affordable and sustainable path, within their agreed spending limits and in a way that delivers good value for the Exchequer as a whole.[6] However, there are weak incentives to prioritise, make realistic plans and consider longer-term value. We have highlighted previously the effects on local government and health sectors, which have come to rely on using capital funding to pay for day-to-day activities. The Committee of Public Accounts concluded in April 2018 that the system for funding and financially supporting the NHS focuses too much on short-term survival, and that cash injections paper over the cracks in finances rather than achieve lasting improvement (paragraphs 3.6, 4.3, 4.12 and 4.13 and Figures 6 and 19).

22 HM Treasury spending teams have good relationships with departments. The quality of the dialogue between departments and HM Treasury spending teams is crucial, as they provide the day-to-day challenge and support to departments' spending. More than 90% of survey respondents agreed that spending teams actively seek to build a constructive and transparent relationship with them. HM Treasury agreed in 2016 that its spending teams should focus more on information about departments' performance, as well as their spending against budget. Spending teams now have access to support from project management and commercial experts in the government functions, as well as insights from HM Treasury's costing projects and value pilots (paragraphs 1.10 to 1.11, 3.2 to 3.4, 3.7, 3.13 to 3.15 and Figure 20).

6 HM Treasury, *Managing Public Money*, Published July 2013, with annexes revised March 2018.

23 **To deliver a more integrated planning and spending framework which prioritises value for money, HM Treasury will require different skills and more capacity from its spending teams.** Departments rated spending teams' skills and capability most highly on policy and analysis, and least on operational delivery experience. HM Treasury highlights influencing skills as important for staff on spending teams. We found a high proportion of these staff are junior. The median time that these staff had been in their current post was eleven months, although HM Treasury data show that the median time they had been working in HM Treasury was just over two years and in the civil service was just over three years.[7] Yet spending teams can lack operational experience, and an ability to understand the issues facing departments and to provide pragmatic solutions. For example, few spending teams we examined refer routinely to departments' SDPs when assessing performance or making spending decisions. The 2018 Budget announcement stated that the 2019 Spending Review will aim to ensure performance and outcomes are tracked systematically, which means an understanding of planning and performance needs to be more central to spending teams' decision-making (paragraphs 3.9 to 3.11, 3.14, 3.15, 4.15 and Figure 21).

Conclusion

24 HM Treasury has, these many years, demonstrated that it is highly effective at controlling public spending. It has, relatively recently, turned its focus towards a renewed drive to improve value for money. There have been positive developments in this direction, not least the Barber review, the provision of specialist advisers to the spending teams and more. Likewise, the Cabinet Office has been working to improve the maturity of business planning across departments.

25 However, there are occasions when we see value for money being compromised by the needs of short-term spending control. Unrealistic, over-optimistic budgets are kept within the spending envelope by short-term unplanned cuts, which can damage long-term programmes and drive suppliers to distraction.

26 All this turbulence can only be minimised by integrated medium- and short-term planning activity, strongly policed and challenged for realism and deliverability by the HM Treasury spending teams, and supported by the Cabinet Office and the civil service functions. This may require different skills and a significant change in mind-set both at the centre of government and in departments. Without these changes, government will continue to be trapped in a cycle of short-termism, over-optimism and silo decision-making, which creates real risks to value for money.

7 As at March 2018.

Recommendations

On integrating planning and spending to deliver long-term value for money for taxpayers

27 HM Treasury should:

a Reflect its commitment to deliver longer-term value for money more strongly in its systems and processes, including performance management of its teams and staff, and arrangements for monitoring departmental performance and risks.

28 HM Treasury and the Cabinet Office should:

b Develop a joint approach to share with departments, explaining how they will bring together information on costs, cross-government objectives, public value, the balance sheet, performance and risk, to challenge departments' bids, and identify joint funding opportunities. Alongside this, HM Treasury should set out how this will inform allocation decisions at the Spending Review, and establish how spending teams will routinely use this information between spending reviews to scrutinise and challenge departments' projects, programmes and performance.

29 The Cabinet Office, working with the functions and HM Treasury, should:

c Based on its review of departments' SDPs and explicit consideration of affordability, capability and risk, create an aggregate understanding of what government can deliver, and how this contributes to its long-term objectives. It should share this with HM Treasury to inform funding allocation decisions.

30 Departments should:

d Demonstrate how they have worked with other departments to consider joint bids where objectives are shared.

On realistic medium-term planning and prioritisation by departments

31 HM Treasury and the Cabinet Office should:

e Make explicit that accounting officers are accountable for producing medium-term business plans that are deliverable – within their expected capability and resource levels – as part of their general accountability for taxpayers' money under *Managing Public Money*.

32 Accounting officers should:

f Provide positive assurance that the medium-term plans they propose are:

- affordable and can be delivered within expected capability; and
- designed to provide value for money for the Exchequer as a whole, having drawn on related activities or objectives in other departments, and on the expertise of the whole civil service, including the functions and non-executive directors.

33 Departments should:

g Use the results of their business planning maturity self-assessment to agree an improvement plan that integrates strategy, finance and workforce planning, and aligns these with the cross-government SDP process, by the beginning of the 2020-21 business planning round.