TRL Insight

Representation to

Spending Review 2025

About TRL Insight

TRL Insight is the trading name of Tom Lawrence. Tom has provided policy advice, analysis and other services to the public sector for over 20 years. Some of this has been delivered under the TRL Insight brand; some through associate and core staff posts, in a range of organisations in and supporting local authorities and schools and their partners. The contents of this response represent the views of TRL Insight only.

This policy advice and analysis has included reports, case studies, briefings, guides, magazine/journal articles and training sessions.

More information about TRL Insight can be found on my website, including the services that TRL Insight can provide, links to TRL Insight's outputs and more information about them on the About and Feeds pages and in TRL insight's May 2023 newsletter.

Introduction

In launching this Spending Review, the Chancellor has stated that “Every pound spent will deliver the Plan for Change”. The government is prudent to set out its priorities in the six missions of the Plan for Change and to set milestones for them. These missions seem appropriate ones and the general thrusts of the Government's policies since taking office are in helpful directions. As I approach 50, this gives me cause to be hopeful that the current government may turn out to be the most progressive in my lifetime, with the policies that most closely correspond to what the UK needs.

However, in these plans, there are some weaknesses and gaps:

- It appears from the press release launching the spending review that it will be focused on finding savings and efficiencies – this misses the enormous returns that can be found from prudent public sector investment;

- Too many policies seem to be concerned with doing things to citizens, rather than doing things with citizens – far less putting citizens in charge;

- In some cases, the government is not making use of the full range of tools available to solve problems, particularly where these involve the ambitions of citizens or of local authorities.

These themes run throughout this response.

In addition, this government has a huge parliamentary majority. The history of the last 50 years shows that with a majority of this scale, it is extremely likely that the government will receive a second term in office. That would mean that it will oversee a second five-year spending review, taking effect in 2030. This representation considers ways of preparing for it over the course of this parliament which could result in a public finance structure more suited to a modern UK, to provide a framework for the 2030 spending review.

Content

Return on investment

The main purpose of any government, national or local, is to improve quality of life for its citizens. To do this, it needs to spend money on public services, which comes directly or indirectly from raising taxes. The more extensive its programme for change, the more it will need to increase tax yields to pay for it. As explained in TRL Insight's recent report Tax Receipts and Government Spending, if this is to be done without increasing the burden (in the everyday sense of the word) on taxpayers, tax bases need to be increased. The report shows how "prosperity pays for public services".

Policy choices can influence the prosperity of the nation, increasing tax receipts and reducing the volume of demand for public services and benefits. Such policy choices, where they entail an initial expenditure of public money, therefore provide a return on investment.

As explained below, the current Government seems to understand this point instinctively, yet it still uses the phraseology it has inherited.

The Treasury, OBR and IFS tend to use "investment" as a synonym for "capital expenditure" – that is, spend which increases the value of physical or financial assets. This reflects the fact that under previous Governments, long-term budgeting by the Government has tended to be limited to capital spend on infrastructure projects.

But this isn't what's generally understood by the term. If you were to ask someone from the financial services what "investment" means, they would say something like "making a payment which provides a future income which is greater than the initial outlay in real terms". This would be more-or-less what the general public would understand by the term.

On occasion, HM Treasury has cited statistics that capital expenditure produces a far higher return on investment (ROI) than current (revenue) spending or welfare payments – as though all capital spend results in the same ROI and all revenue spending has the same ROI. But this far from the case. There may be many cases where Government spend on an asset does not provide any future tax receipts or significant savings for the public purse; they do it because it's the right thing to do to improve citizens' quality of life.

Conversely, not all investments are capital expenditure. There are many possible interventions where a relatively modest revenue investment by the public sector would produce considerable savings or increases in tax revenue downstream. (These are often investments in some form of prevention or early intervention, and it is encouraging to see that the Government has recognised a need to focus on these.)

This principle of return on revenue investment for the public finances is implicit in, for example, the policy of hiring new HMRC staff to improve tax collection.

And while the *Get Britain Working* agenda delivers direct improvements to quality of life, it also delivers a revenue return on investment – for example, through the eight place-based trailblazers for reducing economic inactivity announced in the Budget and described in the White Paper. This is clear from the Executive Summary of the White Paper:

> *"A key part of this government's mission* ***to kick-start growth*** *is our commitment to building an inclusive and thriving labour market where everyone has the opportunity of good work, and the chance to get on at work. This will improve living standards* ***and ensure we can fund vital public services****."* [Our emphasis]

This example also highlights the other two principles mentioned in the Introduction above. To get the full benefit from this programme, the Government should ensure that a) it is collaborating fully with local authorities, many of which are already carrying out such work, but struggle with the funding for it, b) avoid the language of compulsion, which citizens interpret as having things done to them, rather than with them. Both of these points are explored in my LinkedIn article *Helping people to realise the benefits of work*. (For context, this was completed on the day that the White Paper was published, but it had been in development for months before that.)

Other examples of policies which could provide a return on revenue investment are given below. There is also a section on unlocking local capital investment for growth.

If the Government wants its Plan for Change to be most effective, it must be fully resourced. For this to happen, it needs to be more systematic about identifying interventions which will provide a return on investment. Structures are now in place and analysis is being done which will allow such interventions to be identified far more readily. This has become possible largely because of greater collection of data and the growth of technology to analyse it.

Such structures and advances include:

- Setting up the Office of Budget Responsibility (OBR), and staffing it with those who have skills in long-term projection and an understanding of public policy in the round – alongside the Treasury Select Committee, the OBR can provide robust stress-testing and critical challenge to financial planning;

- Setting up the What Works Centres and the analysis they have carried out;

- Tools for calculating the cost-benefit ratios and returns on investment from policy measures. These include the Cost Benefit Analysis (CBA) model developed by the Greater Manchester Combined Authority (GMCA), the Social Value Engine developed by Rose Regeneration and a series of tools developed by Public Health England (PHE);

- Related work on Social Value and Social Return on Investment (SROI), for example techniques for measuring SROI developed by the New Economics Foundation (NEF), complementary work by the Centre for Local Economic Studies (CLES), and support from Social Value UK for the development of analysis;

- Publishing the Aqua Book and improvements to the Green Book, particularly around social value.

On this last point, the concept of social value embodied in the Green Book seems to be about achieving best value with money being spent from a fixed budget. While it is currently missing is a sense of return on investment, some of the associated work provides a sense of a way forward.

In particular, the supplementary guidance "The economic and social costs of crime" groups the costs of crime into three categories: "costs in anticipation of crime", "costs as a consequence of crime" and "costs in response to crime". These categories are described on p.13, where they are split into sub-categories, as shown in Table 1 on p.15-16. From the description of these sub-categories, it seems clear that some relate predominantly to costs to the public sector – "health services", "police costs", "other CJS costs" and part of "victim services", while the rest relate predominantly to costs to businesses and to private individuals.

There doesn't appear to be anything in this guidance that suggests the costs are being grouped by which sector they impact on. But it should in theory be possible to work out the financial impact on the public finances per crime committed, composed of:

- direct costs to the public sector – health, police, CJS, public sector victim services
- net indirect costs – net losses to tax yields as a result of private spend being diverted to insurance, “defensive expenditure” (alarms etc), replacing stolen items; plus the impact of lost output and physical and emotional harm.

Another example, this time from a think tank and in relation to capital investment, is the return to the Treasury from investing in social rented housing.

TRL Insight therefore urges the Government to do the following. Firstly, review the existing tools for analysing the return on investment from policy interventions. Secondly, adapt them where necessary to make them suitable for use in its own procedures on the appraisal of policies, projects and programmes – or develop its own tools which will do the same – consulting with the OBR to ensure their robustness. Thirdly, explore the interventions contained in these tools and other policy proposals made in other Spending Review and Budget representations and ensure that there is a route by which these can be considered as options in departmental policy-making.

An option to help identify and assess policies for their return on investment would be to bring in experts who have already worked on this, such as from Rose Regeneration, NEF, CLES, the What Works Centres and the teams behind the GMCA’s CBA model and the PHE tools. They could either sit on the challenge panels of external experts scrutinising departmental budgets or provide advice to these panels.

Investment in social care and public health

As I wrote in my June 2024 LinkedIn article *Why putting money into fixing the NHS is wrong*,

> *“If you're in a boat with a leak, continually taking in water, you're daft if you devote all your effort and resources into bailing out the water. The boat will continue to take in more water while you're doing so. You'd be much wiser to spend your effort on plugging the leak, to stop water coming in.”*

Fixing the NHS requires facing up to this and taking measures further upstream to

- reduce the number of people arriving at hospital, and

- ensure that people can be safely discharged as soon as their need to stay in hospital has ended.

Figures released just this week show that one in seven people in hospital beds last week were fit to be discharged.

The importance of treating health conditions early, before they have become acute or chronic, is well known. Early intervention makes it easier to tackle both physical and mental health issues – and these are often deeply intertwined. It is far better – and cheaper – for an individual to have their health and care issues addressed in primary care and social care settings than when they have become serious enough to require hospital treatment.

TRL Insight agrees with Norman Phillips, who cared for his wife until lack of respite care made him too unwell himself to continue to provide that care:

> *"Fixing the NHS isn't the answer. They've got to face up that they need to fix social care"*.

Indeed, many problems can be solved by investment even further upstream, by investing in respite care, as I describe in the LinkedIn article, and in public health interventions. The latter can help to prevent people becoming ill in the first place, reducing the overall cost to the public sector even further. The nature of these can vary very widely, from sexual health policies, to treating drug and alcohol abuse, to improving air quality, to improving leisure facilities, parks and other public amenities, to improving housing quality and providing employment support (see below).

Policies to reduce offending and reoffending

In the Plan for Change, the Safer Streets mission is all about policing, changing laws in relation to violence and cracking down on criminality. There is nothing about preventing individuals getting drawn into a life of crime and getting trapped in a cycle of reoffending. This is far more important If the government wishes to cut to the incidents of crime and tackle the huge problem of overcrowding in our prisons.

However, the fundamentals for addressing this are already there in other missions in the Plan for Change.

Once an individual has developed patterns of behaviour, this can last for decades – and is often passed on to succeeding generations. Such patterns of behaviour are usually developed in childhood. Thus, investments for a few years in a person's childhood, to ensure they start out on a successful path through life, can produce a very significant return. These issues are tackled in the Break Down Barriers to Opportunity mission.

Similarly, for those that have already left school or are about to do so, ensuring that they have access to gainful improved employment is important – and this is tackled in the Kickstarting Economic Growth mission.

However, the dots just aren't being joined up. This suggests a lack of coordination between the Home Office, the Department for Education and the Department of Work and Pensions.

Where an individual does engage in criminal behaviour, it is vital to break the cycle of offending before it becomes entrenched. For those sent to prison, policies to facilitate this may relate to their time in prison, the time around their release, or to their life after prison – or very possibly, this timeline as a whole. Relatively small outlays could prove of great value to society and to the public purse. In developing policies in this area, it is important not to focus on whether the policies are "tough" or "soft" on criminals, but on what works. It is not in society's interest to treat offenders in a way that leads to more frequent re-offending. As long as they are accorded basic human rights, policies should be acceptable to the public but also, crucially, evidence-based.

TRL Insight urges the Government to build up an evidence base on which interventions are successful in reducing reoffending, and to build policy from this foundation.

A toolkit for carbon reduction

While government policy and announcements have, in the past, tended to focus on large-scale wind, solar and nuclear power, a whole toolkit will be needed to reach net zero. This can include:

- Tidal power. Generators are not only barrages (such as the Rance Tidal Power Station in Brittany), but also include turbines such as Orbital's O2 turbine in Orkney, SAE Renewables' MeyGen in the Pentland Firth and the now decommissioned SeaGen in Strangford Narrows (it is worth noting that electricity generation is not dependent on wind speed or sunshine at surface level);

- Biogas/biofuel production, such as anaerobic digestion. This can generate large amounts of electricity from waste products, such as the

BSB Bioservis, Benesov plant in the Czech Republic (again, not dependent on weather conditions);

- Small-scale renewable generation, such as rooftop solar and turbines on tall buildings;
- Retrofit and other energy efficiency measures;
- Improved electricity grid infrastructure;
- Energy storage solutions, such as the ElectroSelf and SRFC self-recharging fuel cells and SAE's battery storage projects.

The Government should be mindful of this need for a balanced toolkit and reflect this in their policy announcements. It should also consider how it can support UK companies which provide renewable energy solutions and other carbon reduction technologies overseas – this could stimulate growth in UK firms, while cutting greenhouse gas emissions, which affect the UK wherever in the world they occur.

Putting people in charge

In 2023, Sir Keir Starmer said that a "take back control bill" would be a centre piece of a Labour government's first King's Speech, spreading out control from Westminster and devolving new powers to communities.

However, in the English Devolution White Paper, once the introductory section "Facing the Future" is out the way, the text launches into a discussion about structures for strategic authorities. These are still very remote from neighbourhoods and households. Devolution to communities does not make an appearance until Chapter 4, and then the practical proposals are limited to a few small measures in one section of the chapter, mainly concerned with taking ownership of assets or renting them when vacant. This does not appear to be a people-centred or community-centred devolution package.

Similarly, the Government's planning reforms, rather than putting people in charge, have taken yet more control away from them. As New Local's publication *Constructing Consensus: The case for community-powered development and regeneration* points out, the planning system already usually functions in a way that means that the only way for existing residents of an area to get involved in planning decisions is to object. It should therefore be of little surprise that this is what they do. The case studies in this publication show that if communities are in charge of developments, they act in a highly constructive way, resulting in well-designed developments with popular support. This makes such development far less divisive and reduces community tensions.

Returning to the English Devolution White Paper, it has many strengths, particularly re-establishing tier of governance at a sub-regional level which is capable of carrying out strategic planning. I will discuss this in TRL Insight's forthcoming report for APSE, *Unlocking capital investment in local economic development*.

However, proposals for local government reorganisation are not amongst its strengths. The arguments used for its proposals for unitarization seem to be mainly based on cost savings. But a Freedom of Information request has shown the lack of independent evidence for these. The argument seems to imply that savings will be made by reducing the number of politicians. However, a simple argument shows that this could well be a false economy. If we were to apply this principle to the UK's governance indiscriminately and repeatedly, we would end up with a position where only one person was ever elected, to run the whole of the country. Such an elective monocracy would be highly undemocratic, with that one person being very remote from most citizens. Similarly, holding elections less frequently – say every ten or twenty years – would generate huge savings on elections budgets but would be far less democratic. Either way, the consequence would be a far more divided, unsatisfied population with unresponsive, unrepresentative governance. This would cause societal problems which would end up costing far more to fix.

While the local government structures in England are complex and somewhat messy, this results from a country which is extremely diverse and non-uniform. Trying to force a consistency and uniformity on it by abolishing lower-tier authorities does not represent devolution – it takes the power to make certain decisions *away* from neighbourhoods and local communities and makes power structures more remote. This would be a false economy.

In the absence of the White Paper, there may still be some tensions over unitarisation, with some authorities in an area favouring it, while others do not. But the Government has shown that it cannot be a neutral arbiter on this matter. Putting people in charge means giving them the ultimate say on this – after all, it is a question of how services are provided for their benefit.

Local authority finances and property taxes

Unlocking local capital investment to build sustainable communities – the role of Tax Increment Financing

APSE will soon be publishing TRL Insight's report Unlocking local capital investment for *Unlocking capital investment in local economic development*. This will spell out what reforms are necessary to unlock local authority capital investment in the infrastructure necessary to build sustainable communities.

Most of these reforms do not have public spending implications, beyond what is envisaged in the current consultation *Local authority funding reform: objectives and principles*. However, there are some specific points that TRL Insight would like to raise here. In relation to Tax Increment Financing, we will be calling for the following:

- Create a fresh round of agreements similar to New Development Deals. These would relate to specific geographic areas to be regenerated. Within these areas, councils retain all growth in business rates, council tax or both, for an agreed period, at least until an agreed level of initial borrowing is paid off. The additional receipts should be excluded from redistribution at Business Rate Retention resets and from any other changes to the business rates, council tax and local government funding systems;

- The Government should consult with local authorities, including those who have been involved in Tax Increment Financing to date, to determine appropriate criteria for agreeing these deals, based on ensuring the following:

    - That the schemes are viable, through providing sufficient certainty that borrowing can be repaid to schedule;

    - That the local tax receipts are, for the most part, additional to what would be generated without the mechanism;

    - Evidence for meeting the criteria is simple to provide (not overly onerous) and not such that schemes are artificially limited (for example, there should not be a 'but for' test which is difficult to meet);

    - Capital investment can be unlocked in many locations across England;

- There should be no national cap on the combined total of the sums borrowed.

The need for a broader tax base for local authorities

There is a tension between the Government's desire for greater devolution to local levels and the entire tax base of local authorities being property taxes. Councils will only be free to make decisions independently and unleash the potential of their communities when they have sufficient financial autonomy to do so. This means raising funding locally and within the local government sector and having a range of levers they can pull to do this.

However, the two main sources of local funding, business rates and council tax, are not well suited to a flexible fiscal policy, being continuing ownership of property, rather than any ability to pay. This makes it very difficult to change the rates at which they are charged without putting unsustainable pressure on taxpayers.

Council Tax, for example, places a high burden on those who are "asset rich, cash poor", making it politically difficult to raise rates. The unpopularity of increasing this tax has led to the Government introducing various measures over the years to limit its rise – capping, referenda and the Council Tax Freeze Grant. The revaluation of Council Tax properties in Wales made this procedure so unpopular that it has never occurred in England or Scotland, where council tax bands are still based on 1991 values. This has led to Council Tax becoming discredited as a reasonable basis for taxation.

Similarly, Business Rates are especially onerous for businesses which depend upon having high Rateable Value properties, while completely exempting businesses which operate entirely online. The financial pressure placed on small businesses by Business Rates has led to the Government introducing new discounts and reliefs on a regular basis.

Taxes which reflect ability to pay need to be considered as part of the funding mix for local government. These could be new taxes or supplements to existing national taxes; they could be based on levels of profit (such as stamp duty and corporation tax) or on income (such as income tax). The LGA's proposals for a "basket of taxes" are worth considering in this context. The precise funding mix used in a given locality should be a matter for local discretion, but a common basis for equalisation between local authority areas is needed.

The yield from such taxes will fluctuate with the economic cycle. If they are a small part of the mix, local authorities may be able to manage these fluctuations in income. However, if they form a significant proportion of the mix, there will need to be mechanisms to handle the fluctuations in yield, which should be developed through a partnership between local and central government.

TRL Insight urges the Government to begin to develop options immediately and to commit to introducing at least one such tax power before the end of the Parliament.

Savings generated for central government by local government

It is clear from many of the issues raised above – such as spend on social care and public health – that often a policy executed by one part of the public sector will result in financial benefits for another part of the sector. In particular, many of the measures that could save money or bring in increased tax revenues for central government fall within the responsibilities of local government.

TRL Insight urges the Government to explore these with local authorities, inviting them to co-design and implement appropriate policies in a genuine and engaged partnership.

This could involve an arrangement in which the tax revenues or savings are shared with the local authorities (as happens with the 30-year investment funds provided to Mayoral Combined Authorities).

The difficulty for local authorities, however, in investing in prevention and early intervention is that, unlike central government, they are unable to borrow for revenue purposes. The one instance in recent years in which local authorities could use capital funding for revenue purposes was the provision of capitalisation directions for major service transformation projects; even then, they had to be funded from capital receipts, rather than borrowing.

To unleash the full power of local government to generate savings and tax revenues for central government, two components are needed. One is a structure for making arrangements to share these savings and revenues, and the other is the extension of the prudential system to cover councils' revenue expenditure on invest-to-save projects. TRL Insight urges the Government to make these changes, with the extension of the prudential system to cover invest-to-save project which generate savings or income for any part of the public sector.

Public finance reforms and metrics for improvement

Working towards a system of public finance accounting that reflects a vision of a modern UK

The Autumn Budget 2024 revised the fiscal framework and brought in two new fiscal rules. The Investment Rule used a measure of debt which has not been used in fiscal rules before. The government needed to make this change quickly, in order to be ready for this Budget. They therefore used an “off-the-peg” option of a debt measure that the Treasury already calculated. But as I have argued in an article in September 2024 on LinkedIn, *How to "recognise the benefits of investment" and unlock local growth*, the Government can do far better than this, if it:

- Start from an honest acknowledgement of the current relationship between the various parts of the public sector and how the Government would like to see these develop;

- Consider Treasury and OBR procedures and their analysis and presentation of the public finances in the round;

- Works logically from the diagnosis of the problem to the course of action for reform.

Looking ahead to the Spending Review in 2030, it now has the time to do this, rationally and comprehensively, to ensure that it ends up with a system of public finance accounting that recognises financial autonomy for local government and the concept of revenue investment.

This latter point is explored in depth in TRL Insight’s report 2020 Building Freedom. This explains that there is a long-standing related issue about how the public sector accounting regime may be improved to unlock greater investment in capital projects for local growth. It starts from the following observation. If a local authority spends money on a capital project which is financed by borrowing from a bank, or raising bonds through the UK Municipal Bonds Agency (UKMBA), this expenditure is included in the Government’s fiscal documents in a way which makes it appear as though it is the Government’s own spending. This seems preposterous and is a presentation peculiar to the UK.

But it has real consequences. This strange presentation led to a severe limitation on England’s only brief experiment with Tax Increment Financing. It meant that it took seven years and the shortage in housing to reach crisis proportions for the cap on Housing Revenue Account borrowing to be lifted. It also meant that capitalisation, which allowed councils to treat one-off revenue costs that were otherwise unaffordable and incurred for reasons beyond the authority’s control as capital costs, was first subject to a national limit, then docked from council funding, then ended altogether.

The report examines other countries’ measures of deficit and debt, such as Denmark, Sweden and Canada, but also the wider context for these, such as the presentation of fiscal documents and the country's local government finance system.

It recommends that:

- Spending Review and Budget documents should be reformed to reflect the financial autonomy of local government:
  - These documents should focus primarily on the finances of central government and bodies which are answerable to it (such as the NHS and Non-Departmental Public Bodies);
  - Corresponding statistics should be presented for expenditure, income, in-year balance and debt – excluding local government;
  - Financial and fiscal data estimates or projections relating to local government should only be included in these documents in a separate section providing a reconciliation for the whole public sector. These should be agreed through consultation with representatives of local government;
- The Government should immediately set up a panel of experts, as described in this report, to consult on the details of these changes. As part of their deliberations, they should consider the presentation of public finances in other countries.
- In future, the Government should not impose any constraints on borrowing or investment on local government other than those contained within the prudential system. Neither should the Government reduce revenue funding for local government as a "cost" of greater borrowing or investment by local authorities.

The report concludes that

> *"to grow local economies and help them thrive in the long run, investment is needed in local authority assets. With the current accounting system, these will have to be on the public sector balance sheet if a re-run of the misuse of PFI is to be avoided. Any mechanisms developed to increase investment during times of difficulty for the UK economy will be hampered by limits put in to prevent the public sector deficit increasing. Therefore reforms to the public sector accounting system itself are necessary to grow sustainable communities"*

TRL Insight therefore urges the Government to commence this process immediately and operate to a timetable of being able to implement them in the next Spending Review at latest.

Metrics

TRL Insight welcomes the fact that in its milestone of higher living standards in every part of the United Kingdom by the end of the Parliament, the Government will measure Real Disposable Household Income as well as GDP per capita. There are considerable problems with the GDP measure, especially for public sector output. It would be preferable in future to supplement these economic metrics with a measure of quality of life/satisfaction, based on polling, as has been done in London in the past.